

Lara Exploration Ltd.

(An Exploration Stage Company)

Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2008
(Unaudited – Prepared in accordance with Canadian GAAP)
(Expressed in Canadian Dollars, unless otherwise stated)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited interim consolidated financial statements of Lara Exploration Ltd. (the “Company”) for the three and nine months ended September 30, 2008 have been prepared by management and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102, management advises that these interim consolidated financial statements have not been reviewed by the Company’s external auditors.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Balance Sheets

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	September 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 4,076,651	\$ 4,734,297
Receivables	30,148	88,723
Prepaid expenses and deposits	73,404	28,048
	<u>4,180,203</u>	<u>4,851,068</u>
Furniture and equipment (Note 5)	139,440	78,188
Long-term investments (Note 6)	3,406,794	100,956
Mineral properties (Note 7)	148,633	128,633
Future income tax asset	208,600	-
	<u>\$ 8,083,670</u>	<u>\$ 5,158,845</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 166,842	\$ 271,979
Current income taxes payable	238,952	-
Exploration advances	-	129,309
	<u>405,794</u>	<u>401,288</u>
Shareholders' equity		
Share capital (Note 9)	8,852,146	7,790,896
Contributed surplus (Note 9)	7,302,890	7,164,642
Accumulated other comprehensive income	(1,061,170)	42,076
Deficit	(7,415,990)	(10,240,057)
	<u>7,677,876</u>	<u>4,757,557</u>
	<u>\$ 8,083,670</u>	<u>\$ 5,158,845</u>

Nature of operations (Note 1)

Approved by the Board of Directors:

Signed: "*Michael Winn*" _____ Director

Signed: "*Miles Thompson*" _____ Director

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Exploration expenditures (Note 8)	\$ 471,281	\$ 305,494	\$ 1,115,734	\$ 839,780
General & administrative expenses				
Amortization	298	2,457	985	7,504
Management fees	24,381	24,000	72,381	76,000
Office, rent and administrative services	39,585	26,919	129,568	118,364
Professional fees	21,990	14,667	66,811	48,114
Shareholder information and investor relations	16,826	16,293	70,300	58,906
Stock-based compensation	13,075	58,130	138,247	92,764
Transfer agent and filing fees	2,349	8,827	32,102	29,784
Travel and related costs	19,312	19,411	48,687	47,926
	137,816	170,704	559,081	479,362
Loss before other items	(609,097)	(476,198)	(1,674,815)	(1,319,142)
Other income (expenses)				
Unrealized gain (loss) on change in fair value of derivative financial instruments (Note 6)	6,815	33,130	(20,030)	33,130
Foreign exchange gain (loss)	289	(3,462)	14,552	(19,996)
Interest income	28,574	36,268	105,598	112,617
Other income (Note 7)	-	-	4,623,114	-
	35,678	65,936	4,723,234	125,751
Income (loss) before income taxes	(573,419)	(410,262)	3,048,419	(1,193,391)
Current income tax expense	-	-	(238,952)	-
Future income tax recovery	-	-	14,600	-
Net income (loss) for the period	\$ (573,419)	\$ (410,262)	\$ 2,824,067	\$ (1,193,391)
Other comprehensive income (loss)				
Net income (loss) for the period	\$ (573,419)	\$ (410,262)	\$ 2,824,067	\$ (1,193,391)
Change in fair value of financial instruments (Note 6)	(1,501,420)	48,076	(1,297,246)	48,076
Future income tax recovery	226,000	-	194,000	-
Comprehensive income (loss)	\$ (1,848,839)	\$ (362,186)	\$ 1,720,821	\$ (1,145,315)
Basic earnings (loss) per share	\$ (0.03)	\$ (0.03)	\$ 0.15	\$ (0.08)
Diluted earnings (loss) per share	\$ (0.03)	\$ (0.03)	\$ 0.15	\$ (0.08)
Weighted average number of common shares outstanding				
Basic	19,246,501	15,702,478	19,116,848	15,553,538
Diluted	19,246,501	15,702,478	19,116,848	15,553,538

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

LARA EXPLORATION LTD.

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Interim Consolidated Statements of Deficit and Accumulated Other Comprehensive Income
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	September 30, 2008	December 31, 2007
Deficit, beginning of period	\$ (10,240,057)	\$ (8,434,865)
Net income (loss) for the period	2,824,067	(1,805,192)
Deficit, end of period	\$ (7,415,990)	\$ (10,240,057)
Accumulated other comprehensive income, beginning of period	\$ 42,076	\$ -
Change in fair value of financial instruments, net of future income taxes (Note 6)	(1,103,246)	42,076
Accumulated other comprehensive income, end of period	\$ (1,061,170)	\$ 42,076

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Cash flows from (used in) operating activities				
Net income (loss) for the period	\$ (573,419)	\$ (410,262)	\$2,824,067	\$(1,193,391)
Items not affecting cash:				
Amortization	6,332	2,439	11,187	7,486
Stock-based compensation	13,075	58,130	138,247	92,764
Change in fair value of derivative financial instruments	(6,815)	(33,130)	20,030	(33,130)
Other income	-	-	(4,623,114)	-
Future income taxes	-	-	(14,600)	-
Changes in non-cash working capital items:				
Receivables	14,557	(119,905)	58,575	(59,942)
Prepaid expenses and deposits	(32,373)	14,146	(45,356)	(10,980)
Accounts payable and accrued liabilities	88,734	(5,141)	(105,136)	(24,173)
Current income tax payable	-	-	238,952	-
Exploration advances	(37,574)	-	(129,309)	-
Net cash used in operating activities	(527,483)	(493,723)	(1,626,457)	(1,221,366)
Cash flows from (used in) investing activities				
Mineral property acquisition costs	-	-	-	(64,473)
Mineral property option payments received	-	101,340	(20,000)	182,174
Purchase of furniture and equipment	(69,983)	(1,629)	(72,439)	(7,254)
Redemption of short-term investments	-	3,111,500	-	3,638,001
Redemption of long-term investments	-	(33,000)	-	(33,000)
Net cash provided by (used in) investing activities	(69,983)	3,178,211	(92,439)	3,715,448
Cash flows from financing activities				
Issuance of shares for cash	-	1,293,750	1,061,250	1,653,001
Net cash provided by financing activities	-	1,293,750	1,061,250	1,653,001
Increase (decrease) in cash and cash equivalents	(597,466)	3,978,238	(657,646)	4,147,083
Cash and cash equivalents, beginning of period	4,674,117	589,811	4,734,297	420,966
Cash and cash equivalents, end of period	\$4,076,651	\$ 4,568,049	\$4,076,651	\$ 4,568,049
Supplemental cash flow information				
Interest received	\$ 1,071	\$ 61,014	\$ 77,658	\$ 207,622
Income taxes paid	-	-	-	-

Supplemental disclosure with respect to cash flows (Note 11)

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Notes to the Interim Consolidated Financial Statements
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)
Three and Nine Months Ended September 30, 2008

1. NATURE OF OPERATIONS

Lara Exploration Ltd. (the “Company”) was incorporated under the British Columbia *Business Corporations Act* on March 31, 2003.

The Company’s principal business activities are the identification, acquisition, exploration and development of mineral exploration properties in South America, currently with properties in Brazil and Peru. The Company’s continuing operations and ability to meet its mineral property commitments are dependant upon the continued support of existing and future joint venture partners and the ability of the Company to raise additional financing.

The Company is currently exploring its mineral properties and has not yet determined whether its mineral properties contain reserves that are economically recoverable. The recoverability of amounts capitalized for mineral properties is dependent upon the discovery of sufficient economically recoverable ore reserves, confirmation of the Company’s interest in the underlying mineral properties, the ability of the Company to arrange appropriate financing to complete the development of the mineral properties and upon future profitable production or proceeds from the sale of the mineral properties.

2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal and recurring adjustments considered necessary for fair presentation of the results for the interim periods presented. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These interim consolidated financial statements follow the same accounting policies as the annual financial statements of the Company for fiscal 2007, except as noted below. Accordingly, these financial statements should be read in conjunction with the audited annual financial statements, and notes thereto, for the year ended December 31, 2007.

3. CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following CICA handbook guidelines for the Company’s first quarter commencing January 1, 2008:

Going-concern

The CICA amended Handbook Section 1400, “General Standards of Financial Statement Presentation”, which requires management to assess an entity’s ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity’s ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The adoption did not have a material impact on the consolidated financial statements for any of the periods presented.

Capital disclosures

The CICA issued Handbook Section 1535, “Capital Disclosures”, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and procedures for managing capital.

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3. CHANGES IN ACCOUNTING POLICIES (Continued)

Financial instruments

The CICA issued two new standards, Section 3862, "Financial Instruments - Disclosures", and Section 3863, "Financial Instruments - Presentation". These sections replace the existing Section 3861, "Financial Instruments - Disclosure and Presentation". Section 3862 provides users with information to evaluate the significance of the financial instruments of the entity's financial position and performances, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Recent Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

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Notes to the Interim Consolidated Financial Statements
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)
Three and Nine Months Ended September 30, 2008

5. FURNITURE AND EQUIPMENT

	September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 78,789	\$ 19,195	\$ 59,594
Field equipment	86,670	6,824	79,846
	<u>\$ 165,459</u>	<u>\$ 26,019</u>	<u>\$ 139,440</u>

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 73,101	\$ 12,840	\$ 60,261
Field equipment	19,919	1,992	17,927
	<u>\$ 93,020</u>	<u>\$ 14,832</u>	<u>\$ 78,188</u>

6. LONG-TERM INVESTMENTS

In June 2008, the Company received 1,180,872 common shares of Sprott Resource Corp. ("SRC") for the sale of the Company's interest in the Mantaro Phosphate Project ("Mantaro Project") (Note 7).

In August 2007, the Company purchased 200,000 units of a private placement offering by CCT Capital Ltd. ("CCT") at a price of \$0.165 per unit. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share of CCT at a price of \$0.33 per share until August 7, 2009. The Company allocated the cost between the common shares and share purchase warrants based on the estimated fair value at the time of acquisition.

The Company has determined that the CCT share purchase warrants are derivative financial instruments and the CCT and SRC common shares have been designated as available-for-sale.

	As at September 30, 2008		
	Cost	Fair Value	Accumulated Unrealized Gain(Loss)
CCT – 200,000 common shares	\$ 21,924	\$ 48,000	\$ 26,076
CCT – 200,000 share purchase warrants	11,076	16,926	5,850
SRC – 1,180,872 common shares	4,623,114	3,341,868	(1,281,246)
	<u>\$ 4,656,114</u>	<u>\$ 3,406,794</u>	<u>\$ (1,249,320)</u>

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Three and Nine Months Ended September 30, 2008

6. LONG-TERM INVESTMENTS (Continued)

	As at December 31, 2007		
	Cost	Fair Value	Accumulated Unrealized Gain
CCT – 200,000 common shares	\$ 21,924	\$ 64,000	\$ 42,076
CCT – 200,000 share purchase warrants	11,076	36,956	25,880
	\$ 33,000	\$ 100,956	\$ 67,956

7. MINERAL PROPERTIES

	Brazil	Peru	Total
Balance, December 31, 2006	\$ 245,398	\$ 1	\$ 245,399
Acquisition costs	65,408	-	65,408
Option payments received	(182,174)	-	(182,174)
Balance, December 31, 2007	128,632	1	128,633
Acquisition costs	20,000	-	20,000
Balance, September 30, 2008	\$ 148,632	\$ 1	\$ 148,633

In January 2008, the Company made a staged lease payment of US\$20,000 (US\$48,000 paid to date) in respect of the São Lourenço project in Brazil. Under the terms of the agreement the Company will pay US\$73,500 in staged lease payments over three years. The Company has up to January 29, 2010 to exercise its option to acquire the mineral rights by making a one-time payment of US\$1,000,000.

In June 2008, the Company sold its interest in the Mantaro Project in Peru to SRC for 1,180,872 common shares, which have an estimated fair value of \$4,623,114. The sale resulted in a gain, net of taxes, of \$4,384,162. The Company retains its right to a 0.5% royalty on any production from the Mantaro Project.

In September 2008, CCT terminated its option to earn up to a 70% interest in the Company's Campos Verdes Gold Project in Brazil and has forfeited all rights, title and interest in the Project.

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Three and Nine Months Ended September 30, 2008

8. EXPLORATION EXPENDITURES

Three Months Ended September 30, 2008	Campos Verdes	Sao Lourenco	T'Gold	Other	Total Brazil	Peru	Total
Assays	\$ -	\$ 13,727	\$ -	\$ 1,111	\$ 14,838	\$ -	\$ 14,838
Field costs	63,142	28,214	-	27,350	118,706	-	118,706
Salaries and consultants	-	48,541	260	127,132	175,933	15,527	191,460
Office and administrative	8,714	8,444	2,440	62,693	82,291	856	83,147
Property maintenance costs	6,968	3,942	-	37,613	48,523	-	48,523
Telecommunications	113	283	-	4,361	4,757	-	4,757
Travel and related costs	333	2,053	-	34,631	37,017	-	37,017
Trenching	-	6,882	-	3,525	10,407	-	10,407
	79,270	112,086	2,700	298,416	492,472	16,383	508,855
Recoveries	(37,574)	-	-	-	(37,574)	-	(37,574)
	\$ 41,696	\$ 112,086	\$ 2,700	\$ 298,416	\$ 454,898	\$ 16,383	\$471,281

Three Months Ended September 30, 2007	Campos Verdes	Other	Total Brazil	Peru	Total
Assays	\$ -	\$ 10,835	\$ 10,835	\$ -	\$ 10,835
Field costs	1,193	6,052	7,245	-	7,245
Salaries and consultants	24,175	148,862	173,037	4,016	177,053
Office and administrative	16,614	42,221	58,835	1,595	60,430
Property maintenance costs	9,971	21,661	31,632	(3,774)	27,858
Telecommunications	-	4,196	4,196	-	4,196
Travel and related costs	10,905	27,828	38,733	-	38,733
Trenching	67	349	416	-	416
	62,925	262,004	324,929	1,837	326,766
Recoveries	(21,272)	-	(21,272)	-	(21,272)
	\$ 41,653	\$ 262,004	\$ 303,657	\$ 1,837	\$ 305,494

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Notes to the Interim Consolidated Financial Statements
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Three and Nine Months Ended September 30, 2008

8. EXPLORATION EXPENDITURES (Continued)

Nine Months Ended September 30, 2008	Campos Verdes	Sao Lourenco	T'Gold	Other	Total Brazil	Peru	Total
Assays	\$ 35,352	\$ 20,582	\$ 14,995	\$ 2,162	\$ 73,091	\$ 8,540	\$ 81,631
Field costs	113,137	62,315	14,513	37,777	227,742	-	227,742
Salaries and consultants	31,471	91,589	42,803	276,622	442,485	41,047	483,532
Office and administrative	19,086	13,340	2,775	214,934	250,135	6,062	256,197
Property maintenance costs	28,503	3,991	39	89,641	122,174	-	122,174
Telecommunications	930	993	755	7,242	9,920	-	9,920
Travel and related costs	1,523	14,686	13,580	58,735	88,524	64	88,588
Trenching	905	10,788	-	10,770	22,463	-	22,463
Vehicle	-	-	-	-	-	405	405
Drilling	71,828	-	-	-	71,828	-	71,828
	302,735	218,284	89,460	697,883	1,308,362	56,118	1,364,480
Recoveries	(248,746)	-	-	-	(248,746)	-	(248,746)
	\$ 53,989	\$ 218,284	\$ 89,460	\$ 697,883	\$ 1,059,616	\$ 56,118	\$ 1,115,734

Nine Months Ended September 30, 2007	Campos Verdes	T'Gold	Other	Total Brazil	Peru	Total
Assays	\$ -	\$ 1,723	\$ 35,183	\$ 36,906	\$ -	\$ 36,906
Field costs	9,202	-	25,235	34,437	-	34,437
Salaries and consultants	41,619	85,328	285,888	412,835	10,611	423,446
Office and administrative	30,122	4,153	134,318	168,593	4,064	172,657
Property maintenance costs	22,636	122	53,775	76,533	509	77,042
Telecommunications	527	316	11,782	12,625	-	12,625
Travel and related costs	21,221	6,264	74,322	101,807	1,364	103,171
Trenching	419	-	349	768	-	768
	125,746	97,906	620,852	844,504	16,548	861,052
Recoveries	(21,272)	-	-	(21,272)	-	(21,272)
	\$ 104,474	\$ 97,906	\$ 620,852	\$ 823,232	\$ 16,548	\$ 839,780

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Notes to the Interim Consolidated Financial Statements
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Three and Nine Months Ended September 30, 2008

9. SHARE CAPITAL

Issued and outstanding

	Common Shares		
	Number of Shares	Amount	Contributed Surplus
Balance, December 31, 2006	15,379,001	5,916,738	6,961,672
Issued on private placement	1,500,000	1,275,000	-
Issued as finder's fee	97,500	(39,916)	39,916
Issued on exercise of share purchase warrants	810,000	607,500	-
Issued on exercise of stock options	45,000	18,000	-
Reclassified on exercise of stock options	-	13,574	(13,574)
Stock-based compensation	-	-	176,628
Balance, December 31, 2007	17,831,501	\$ 7,790,896	\$ 7,164,642
Issued on exercise of share purchase warrants	1,415,000	1,061,250	-
Stock-based compensation	-	-	138,248
Balance, September 30, 2008	19,246,501	\$ 8,852,146	\$ 7,302,890

Share purchase warrants

The continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2006	3,400,000	\$ 0.75
Issued	1,597,500	\$ 1.20
Exercised	(810,000)	\$ 0.75
Balance, December 31, 2007	4,187,500	\$ 0.92
Exercised	(1,415,000)	\$ 0.75
Expired	(1,160,000)	\$ 0.75
Balance, September 30, 2008	1,612,500	\$ 1.20

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Notes to the Interim Consolidated Financial Statements
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)
Three and Nine Months Ended September 30, 2008

9. SHARE CAPITAL (Continued)

Share purchase warrants outstanding are as follows:

Expiry Date	Exercise Price	September 30, 2008 Number of Warrants	December 31, 2007 Number of Warrants
February 15, 2008	\$ 0.75	-	2,575,000
November 17, 2008	1.30	15,000	15,000
September 28, 2009	1.20	1,597,500	1,597,500
	\$ 1.20	1,612,500	4,187,500

Stock options

The Company adopted a stock option plan pursuant to the policies of the TSX Venture Exchange. The maximum number of shares that may be reserved for issuance under the plan is limited to 10% of the issued common shares of the Company at any time. The vesting terms are determined by the Company's Board of Directors at the time of the grant. The changes in stock options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2006	1,310,000	\$ 1.10
Granted	375,000	1.23
Exercised	(45,000)	0.40
Cancelled	(50,000)	1.35
Balance, December 31, 2007	1,590,000	\$ 1.15
Granted	410,000	0.80
Cancelled	(170,000)	1.27
Balance, September 30, 2008	1,830,000	\$ 1.06

The following table summarizes the stock options outstanding and exercisable at September 30, 2008, with a weighted average life of 3.18 years:

Issue Date	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
January 11, 2006	250,000	\$ 0.51	250,000	January 11, 2011
March 16, 2006	645,000	1.35	645,000	March 16, 2011
July 10, 2006	250,000	1.10	250,000	July 10, 2011
November 9, 2006	25,000	1.03	25,000	November 9, 2011
December 18, 2006	25,000	1.45	25,000	December 18, 2011
May 14, 2007	75,000	1.32	50,000	May 14, 2012
October 3, 2007	150,000	1.22	75,000	October 3, 2012
June 18, 2008	410,000	1.19	205,000	October 16, 2012
	1,830,000	\$ 1.06	1,525,000	

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Three and Nine Months Ended September 30, 2008

9. SHARE CAPITAL (Continued)

During the nine month period ended September 30, 2008, the Company granted 410,000 stock options, of which 205,000 vested immediately and 205,000 are to vest on the first anniversary of the grant date. The Company recorded stock based compensation of \$96,136 with the offsetting amount credited to contributed surplus.

10. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties. Except mineral property interests, equipment and exploration expenditures, substantially all of the Company's assets and expenditures are located and incurred in Canada. The mineral property interests are located in Brazil and Peru (see Note 7), the furniture and equipment is located in Brazil (see Note 5) and substantially all of the exploration expenditures are incurred in Brazil (see Note 8).

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the nine month period ended September 30, 2008, the Company received 1,180,872 common shares of SRC, with an estimated fair value of \$4,623,114, for the sale of the Company's interest in the Mantaro Project (Note 7).

12. FINANCIAL RISK MANAGEMENT

As at September 30, 2008, the Company's financial instruments are comprised of cash and cash equivalents, receivables, long-term investments, accounts payable and accrued liabilities. The fair value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity. The Company's long-term investments are carried at fair value at September 30, 2008.

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

Currency Risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Brazil and Peru, although currently there is limited activity in Peru, and a portion of the Company's expenses are incurred in Brazilian Reals. A significant change in the currency exchange rates between the Canadian dollar relative to the Brazilian Real could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At September 30, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in Brazilian Reals.

	Brazilian Reals
Cash and cash equivalents	33,711
Receivables	43,570
Accounts payable and accrued liabilities	(211,163)
Net exposure	(133,882)
Canadian dollar equivalent	\$ (73,120)

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)
Three and Nine Months Ended September 30, 2008

12. FINANCIAL RISK MANAGEMENT (Continued)

Based on the above net exposure as at September 30, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the Brazilian Real would result in an increase/decrease of approximately \$7,000 in the Company's pre-tax earnings (loss).

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents. The Company limits exposure to credit risk by maintaining its cash and cash equivalents with large financial institutions. The Company does not have cash and cash equivalents that are invested in asset backed commercial paper.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company believes that these sources will be sufficient to cover the likely short and long-term requirements.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash and cash equivalents are currently held in short-term interest-bearing accounts and highly liquid short-term interest bearing investments, management considers the interest rate risk to be limited.

13. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties. In the management of capital, the Company includes the components of shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, option its mineral properties for cash and/or expenditures or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary.

The Company's investment policy is to hold cash in interest bearing bank accounts and highly liquid short-term interest bearing investments with maturities of one year or less and which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. The Company expects its current capital resources will be sufficient to carry its exploration programs and operating costs through its current operating period.