

Lara Exploration Ltd.

(An Exploration Stage Company)

Consolidated Financial Statements
Years Ended December 31, 2008 and 2007
(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Lara Exploration Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate preparation of financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.

"Miles Thompson"

Miles Thompson
President

March 13, 2009

"Michael Sadhra"

Michael Sadhra
Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF LARA EXPLORATION LTD.

We have audited the consolidated balance sheets of Lara Exploration Ltd. as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive income, deficit and accumulated other comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
March 13, 2009

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Balance Sheets
As at December 31

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 3,428,859	\$ 4,734,297
Receivables	368,638	88,723
Prepaid expenses and deposits	43,019	28,048
	3,840,516	4,851,068
Furniture and equipment (Note 5)	136,958	78,188
Long-term investments (Note 6)	3,328,206	100,956
Mineral properties (Note 7)	114,442	128,633
Future income tax assets (Note 11)	220,100	-
	\$ 7,640,222	\$ 5,158,845
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 145,721	\$ 271,979
Current income taxes payable	254,795	-
Exploration advances (Note 7)	-	129,309
	400,516	401,288
Shareholders' equity		
Share capital (Note 9)	8,852,146	7,790,896
Contributed surplus (Note 9)	7,331,391	7,164,642
Accumulated other comprehensive income (loss)	(1,114,596)	42,076
Deficit	(7,829,235)	(10,240,057)
	7,239,706	4,757,557
	\$ 7,640,222	\$ 5,158,845

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.

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Consolidated Statements of Operations and Comprehensive Income
Years ended December 31

	2008	2007
		(Note 4)
Exploration expenditures (Note 8)	\$ 1,370,984	\$ 1,264,662
General and administrative expenses		
Amortization	1,275	2,052
Management fees	96,839	100,000
Office, rent and administrative services	185,622	169,931
Professional fees	78,863	81,529
Shareholder information and investor relations	76,376	77,841
Stock-based compensation	166,749	176,628
Transfer agent and filing fees	35,993	32,528
Travel and related costs	66,889	77,433
	708,606	717,942
Other expenses (income)		
Change in fair value of derivative financial instruments (Note 6)	35,192	(25,880)
Foreign exchange loss (gain)	(10,594)	7,911
Interest income	(133,582)	(159,443)
Gain on sale of mineral property (Note 7)	(4,623,114)	-
Write-off of mineral properties	34,191	-
Other Income	(31,200)	-
	(4,729,107)	(177,412)
Income (loss) before income taxes	2,649,517	(1,805,192)
Income tax expense (recovery)		
Current	254,795	-
Future	(16,100)	-
	238,695	-
Net income (loss) for the year	\$ 2,410,822	\$ (1,805,192)
Other comprehensive income (loss)		
Net income (loss) for the year	\$ 2,410,822	\$ (1,805,192)
Change in fair value of financial instruments (Note 6)	(1,360,672)	42,076
Future income tax recovery	204,000	-
Comprehensive income (loss)	\$ 1,254,150	\$ (1,763,116)
Basic and diluted earnings (loss) per share (Note 16)	\$ 0.13	\$ (0.11)
Weighted average number of common shares outstanding		
Basic	19,153,304	16,163,984
Diluted	19,211,534	16,163,984

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Deficit and Accumulated Other Comprehensive Loss
Years ended December 31

	2008	2007
Deficit, beginning of year	\$ (10,240,057)	\$ (8,434,865)
Net income (loss) for the year	2,410,822	(1,805,192)
Deficit, end of year	\$ (7,829,235)	\$ (10,240,057)
Accumulated other comprehensive income (loss), beginning of year	\$ 42,076	\$ -
Change in fair value of financial instruments, net of future income taxes	(1,156,672)	42,076
Accumulated other comprehensive income (loss), end of year	\$ (1,114,596)	\$ 42,076

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Consolidated Statements of Cash Flows
Years ended December 31

	2008	2007
		(Note 4)
Cash flows from (used in) operating activities		
Net income (loss) for the year	\$ 2,410,822	\$ (1,805,192)
Items not affecting cash		
Amortization	1,275	2,052
Amortization included in exploration expenses	17,205	7,871
Gain on sale of mineral property	(4,623,114)	-
Stock-based compensation	166,749	176,628
Change in fair value of derivative financial instruments	35,192	(25,880)
Future income tax recovery	(16,100)	-
Write-off of mineral properties	34,191	-
Changes in non-cash working capital items		
Receivables	(279,915)	18,719
Prepaid expenses and deposits	(14,971)	1,538
Accounts payable and accrued liabilities	(126,258)	206,880
Current income taxes payable	254,795	-
Exploration advances	(129,309)	129,309
	(2,269,438)	(1,288,075)
Cash flows from (used in) investing activities		
Mineral property acquisition costs	(20,000)	(65,408)
Mineral property option payments received	-	182,174
Purchase of furniture and equipment	(77,250)	(20,861)
Redemption of short-term investments	-	3,638,001
Purchase of long-term investments	-	(33,000)
	(97,250)	3,700,906
Cash flows from financing activities		
Issuance of shares for cash	1,061,250	1,900,500
Increase (decrease) in cash and cash equivalents	(1,305,438)	4,313,331
Cash and cash equivalents – beginning of year	4,734,297	420,966
Cash and cash equivalents – end of year	\$ 3,428,859	\$ 4,734,297
Supplemental cash flow information		
Interest received	\$ 77,730	\$ 254,306
Interest paid	\$ -	\$ -
Income tax paid	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 13)

See accompanying notes to the consolidated financial statements.

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Notes to the Consolidated Financial Statements
Years ended December 31, 2008 and 2007

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 acquisition, exploration and development of mineral exploration properties in South America, currently with properties in Brazil, Peru and Colombia. The Company's continuing operations and ability to meet its mineral property commitments are dependent upon the Company's ability to raise additional financing when required.

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 exploration and development of its mineral properties and upon establishing future profitable production or proceeds from the sale of the mineral properties.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiaries, Pan Brazilian Mineração Ltda. ("Pan Brazilian"), Nova Fronteira Mineração Ltda., T'Gold Mineração Ltda. ("T'Gold") and Minas Dixon S.A. ("Minas Dixon"). All significant intercompany transactions and balances have been eliminated.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Significant areas requiring use of management estimates include the determination of impairment of mineral properties, and furniture and equipment; amounts of reclamation and environmental obligations; amortization rates for furniture and equipment; fair value of investments, valuation allowance for future income tax assets; and determination of the assumptions used in calculating fair value of stock-based compensation. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities of three months or less.

Furniture and equipment

Furniture and equipment is recorded at cost and amortized over the estimated useful lives using the declining balance method at rates from 10% to 20% per annum.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mineral properties and exploration expenditures

Acquisition costs for mineral properties, 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 charged to operations as incurred. After a property is determined by management to be commercially feasible, exploration and development expenditures on the property will be capitalized. When there is little prospect of further work on a property being carried out by the Company or its partners, 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 costs related to a property from which there is production, together with the costs of production equipment, will be depleted and amortized using the unit-of-production method.

A mineral property acquired under an option agreement where payments are made at the sole discretion of the Company, is 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 operations. Option payments are at the discretion of the optionee and, accordingly, are accounted for when receipt is reasonably assured.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfer and may be affected by undetected defects.

The amounts shown for mineral properties represent acquisition costs incurred to date, less recoveries and write-downs, and are not intended to reflect present or future values.

Asset retirement obligations

The Company recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (loss) per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollar equivalents using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the appropriate transaction date rates, except for amortization, which is translated at the same rate as the related asset. Translation gains and losses are reflected in the statements of operations.

Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to share capital.

Revenue recognition

Interest income is recorded as earned at the stated rate of interest of the term deposit over the term to maturity.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted, prospectively, the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under the following Handbook guidelines:

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.

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3. CHANGES IN ACCOUNTING POLICIES (Continued)

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. This information is disclosed in Note 15.

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 performance, 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. Management's objectives, policies and procedures for managing such risks are disclosed in Note 14.

Recent Accounting Pronouncements

Goodwill and Intangible Assets

The CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2009. Management is currently assessing the impact of this new accounting standard on its consolidated financial statements.

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.

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3. CHANGES IN ACCOUNTING POLICIES (Continued)

Business Combinations, Consolidated Financial Statements and Non-Controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements (January 2008).

Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

4. COMPARATIVE FIGURES

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

5. FURNITURE AND EQUIPMENT

	2008		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 83,600	\$ 22,652	\$ 60,948
Field equipment	86,670	10,660	76,010
	<u>\$ 170,270</u>	<u>\$ 33,312</u>	<u>\$ 136,958</u>

	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>

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6. LONG-TERM INVESTMENTS

In June 2008, the Company received 1,180,872 common shares of Sprott Resource Corp. ("Sprott") as consideration for 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 Sprott common shares have been designated as available-for-sale.

				2008
	Cost	Fair Value		Cumulative Unrealized Gain (Loss)
CCT – 200,000 common shares	\$ 21,924	\$ 20,000	\$	(1,924)
CCT – 200,000 share purchase warrants	11,076	1,764		(9,312)
Sprott – 1,180,872 common shares	4,623,114	3,306,442		(1,316,672)
	\$ 4,656,114	\$ 3,328,206	\$	(1,327,908)

				2007
	Cost	Fair Value		Cumulative 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

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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
Write-off of mineral properties		(34,191)		-		(34,191)
Balance, December 31, 2008	\$	114,441	\$	1	\$	114,442

Brazil

Araguaia Nickel Project

The Araguaia Nickel Project, acquired as part of the Pan Brazilian acquisition in 2006, comprised six exploration claims covering 43,000 hectares located in Pará State. In 2005, Pan Brazilian optioned these mineral rights to Xstrata plc ("Xstrata"), whereby Xstrata had the right to earn a 70% interest in the Araguaia mineral rights by paying US\$110,000 (US\$40,000 received) to the Company and by incurring at least US\$3.89 million of exploration expenditures by June 2009. In parallel with the Xstrata joint venture, the Company acquired additional claims and conducted regional exploration in the same district. In March 2007, Xstrata relinquished its option over the original claim blocks and the resulting combined property comprised claims and exploration licenses covering approximately 310,000 hectares.

In September 2007, the Company entered into an option and joint venture agreement (the "Teck Agreement") with Teck Cominco Limited's Brazilian subsidiary, Teck Cominco Brasil S.A. ("Teck Cominco"). Under the terms of the Teck Agreement, Teck Cominco had the option to earn a 60% interest in the Araguaia Nickel Project by funding exploration expenditures of US\$4,000,000 over a 36-month period. Teck Cominco paid the Company US\$100,000 upon signing the Teck Agreement and was required to pay US\$500,000 upon completion of the US\$4,000,000 of exploration expenditures in order to vest its 60% interest.

Upon earning its 60% interest, Teck Cominco had a one-time option to increase its interest to 75% by solely funding the next US\$4,000,000 of exploration expenditures over a maximum two-year period. If Teck Cominco had vested its interest, each party would have been obliged to fund its share of costs on a pro-rata basis in accordance with its ownership interest. In the event that either party's interest diluted below 10%, their interest would have converted to a 1% net smelter return royalty.

In November 2008, Teck Cominco in accordance with the Teck Agreement forfeited all rights, title and interest in and to the Araguaia Nickel Project in favour of the Company.

Subsequent to December 31, 2008, the Company reduced its land holdings to 45,000 hectares and continues to hold six exploration licenses.

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7. MINERAL PROPERTIES (Continued)

Campos Verdes Gold Project

The Campos Verdes Gold Project comprised 19 exploration licenses covering a total of 32,900 hectares located in Goiás State. Ten of the licenses were acquired pursuant to an option agreement entered into by Pan Brazilian dated April 5, 2005. During 2006, the Company made a payment of US\$10,000 against this agreement. The Company must pay to the optionor a further US\$98,500 for each licensed property that is put into production on a commercial scale. The remaining licenses were acquired by the Company in 2006 and 2007.

On February 27, 2007, the Company signed a property option and joint venture agreement with CCT whereby CCT may have earned a 70% interest in the Company's Campos Verdes Gold Project by paying US\$50,000 on signing (received) and incurring exploration expenditures of US\$2,000,000 by the third anniversary.

Under the terms of the agreement, CCT was required to advance funds to the Company, as the operator of the exploration programs, for agreed-upon exploration programs. During the year ended December 31, 2007, the Company had advances of \$129,309 from CCT, which had not yet been expended on the Campos Verdes Project.

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

Subsequent to December 31, 2008, the Company reduced its land holdings to 25,000 hectares and continues to hold six exploration licenses.

Canabrava VMS Project

The Canabrava VMS Project comprises 19 exploration licenses covering a total of 28,500 hectares in Goiás and Tocantins states. The licenses have been registered by the Company from 2006 to 2008.

In May 2008, the Company signed a letter of intent with Votorantim Metais Zinco S.A. (Votorantim Metais") whereby Votorantim Metais may earn up to a 75% interest in the Company's Canabrava VMS Project by funding further exploration and development work on the project. Votorantim Metais can earn an initial 55% interest in the project by funding \$2.5 million of exploration expenditures over a three-year period, with \$0.5 million committed in year one. It may then elect to increase its interest to 70% by delivering a feasibility study within a further two years. Subject to agreement by the Company and a decision to construct a mine at Canabrava, Votorantim Metais may raise its interest to 75% by funding the Company's equity cost of the mine development, on terms substantially the same as those of the debt financing. Votorantim Metais has also contributed mineral rights to the joint venture, such that the total holdings are now 53,704 hectares.

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7. MINERAL PROPERTIES (Continued)

Colorado do Oeste

Pursuant to an option agreement entered into by Pan Brazilian dated July 6, 2005, the Company was granted an option to acquire certain properties located in Rondônia State, comprising two areas covering 10,000 hectares each. In order to exercise its option, the Company was required to pay the optionor a total of US\$170,000 (US\$10,000 paid) and incur a minimum of US\$310,000 in exploration expenditures within the three-year license renewal period.

In July 2008, the Company terminated its option and forfeited all rights, title and interest in the properties.

Concord kimberlites

On February 16, 2007, the Company signed an option agreement to acquire 100% of the Concord 1 and Concord 2 ("Concord") kimberlite pipes in Rondônia State comprising 8,850 hectares. In order to exercise its option, the Company was required to pay the optionor a total of \$230,000 (\$22,000 paid) and a 1% production royalty. The Company had the option to purchase the 1% production royalty for US\$500,000.

Subsequent to December 31, 2008, the Company terminated its option and forfeited all rights, title and interest on the properties and, accordingly, wrote-off the mineral property acquisition costs.

Curionópolis

In January 2008, the Company signed an option agreement to acquire a 100% interest in the Curionópolis Property located in Pará State, Brazil whereby the Company has the option to acquire 100% of the Curionópolis Property from Redrock Exploration (BVI) Ltd. ("Redrock") and its Brazilian subsidiaries for US\$630,000 in cash payments, US\$2,700,000 in exploration expenditures staged over three years and royalties. The royalties comprise a payment of 50% of net income on income derived from the sale of iron or iron mining rights and a 2% net smelter return royalty on any other metals produced. The Company has the option to acquire half of the net smelter royalty for US\$1,500,000. The option agreement is subject to publication of the exploration license covering the property and regulatory approval. Regulatory approval has been received; publication of the license is still pending.

Redrock and its Brazilian subsidiaries are companies wholly-owned and controlled by the Company's President and an employee of the Company.

Fortuna

On January 30, 2007, the Company signed an agreement to option out its Fortuna property, which was acquired as part of the Pan Brazilian acquisition, to HSAK Mineração Ltda. ("HSAK"). Under the terms of the agreement, HSAK paid the Company US\$20,000 and has agreed to fund all further exploration through to a production decision, in exchange for an 80% interest in the property. Once a production decision is made, the Company may elect to fund its share of mine development or dilute to a 2% net smelter royalty.

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7. MINERAL PROPERTIES (Continued)

São Lourenço Tin Mine

On January 29, 2007, the Company signed a lease with an option to purchase agreement with Mineração Céu Azul Ltda. (which currently leases the mine), Companhia de Mineração São Lourenço Ltda. (titleholder of the mineral rights) and Companhia Industrial Amazonense (owner of preferential purchase rights of tin production). Under the terms of this agreement, the Company was required to make approximately US\$73,500 (US\$48,000 paid) in staged lease payments over three years and make a one-time payment of US\$1 million by January 2010 to exercise its option to acquire the mineral rights. Subsequent to December 31, 2008, the Company agreed to an amendment, whereby it could extend its option for an additional two years by making payments of US\$15,000 (paid), US\$30,000 and US\$55,000 in January 2009, January 2010 and January 2011, respectively, and by making a one-time payment of US\$1 million by May 2012. The São Lourenço mine lies within the frontier zone and will thus be subject to certain foreign ownership restrictions at transfer and, accordingly, the Company does not expect to be able to directly own a majority interest in the mine at that time.

Serra Azul

On March 15, 2007, the Company entered into an option agreement to purchase three mineral licenses in Rondônia State covering 11,608 hectares. In order to exercise the option, the Company was required to make cash payments of US\$5,000 for the transfer of each license (US\$10,000 paid) and a success fee of US\$100,000 for each license that is converted into a mining license and put into production. In the event that any of the licenses produce either diamonds or tin (and related minerals), a 0.5% royalty would have applied in each case for each license. Each of these royalties may have been purchased for US\$500,000.

Subsequent to December 31, 2008, the Company terminated its option and forfeited all rights, title and interest on the properties and, accordingly, wrote-off the mineral property acquisition costs.

Tapajós Gold Joint Venture

On April 19, 2007, the Company signed a letter of intent where a new company, T'Gold, which was formed as a joint venture vehicle to acquire properties and explore in the Tapajós District of Brazil. T'Gold is 50% owned by the Company and 50% owned by two individuals. The Company contributed seed capital of US\$300,000 and the two individuals contributed the initial property portfolio of 44,800 hectares of exploration claims covering the Santa Felicidade, Santa Cecilia, Castelo, Colibri, Caic-1 and Caic-2 garimpeiro gold workings.

T'Gold will pay a 1.5% net smelter royalty on any gold production from the Santa Felicidade, Santa Cecilia, Castelo and Colibri areas, but may buy back half of the net smelter royalty for US\$750,000.

Peru

Lara Prospect

The Company owns a 100% interest in three mining properties comprising 1,800 hectares through its wholly-owned subsidiary, Minas Dixon S.A. ("Minas Dixon"). Pursuant to an underlying finder's fee agreement dated October 5, 1994, Minas Dixon agreed to make staged cash payments to an unrelated third party (the "Vendor") in the aggregate amount of US\$55,000 over a period of four years (paid). The Company is also obligated to pay the Vendor a further US\$500,000 on commencement of commercial production from any mineral deposits within the claim area.

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7. MINERAL PROPERTIES (Continued)

During the year ended December 31, 2005, the Company signed a binding letter of intent with Solid Resources Ltd. ("Solid"), which granted Solid the right to earn an initial 55% interest in the Lara Prospect. Under the agreement, Solid was required over a three-year period to make staged cash payments to the Company totaling \$500,000 (\$200,000 received), complete exploration expenditures of \$2,000,000 and a minimum of 8,000 meters of drilling by November 1, 2008, which included 1,500 metres of diamond and reverse circulation drilling before the first anniversary of the issue of a drill permit by the Peruvian mining authorities. Solid did not complete this work commitment, therefore, the agreement was terminated.

Mantaro Project

The Company was part of the Mantaro Group, an unincorporated joint venture that held the rights to the Mantaro Project in Peru. On November 15, 2007, the Mantaro Group signed an exploration and option agreement with Sprott, a company related by virtue of a common director. Sprott had the option to acquire a 100% interest in the Mantaro Project by funding exploration and technical studies, making certain cash payments and issuing shares in a new project company to the Mantaro Group. If Sprott exercised its purchase option, the Company would have been issued shares in the new listed vehicle equivalent to 10% of the outstanding shares at the time. The Company would also have been entitled to a 0.5% royalty on any production from the Mantaro Project. Sprott would have had the option to purchase the royalty for the equivalent in cash of 0.5% of the net present value of the project upon completion of a bankable feasibility study.

In June 2008, the Company sold its interest in the Mantaro Project to Sprott for 1,180,872 common shares, which had an estimated fair value of \$4,623,114. The Company retains its right to a 0.5% royalty on any production from the Mantaro Project. The royalty can still be purchased for the equivalent in cash of 0.5% of the net present value of the Project upon completion of a bankable feasibility study.

Brazil and Colombia

Strategic Alliance

In November 2008, the Company signed a definitive agreement (the "Alliance Agreement") with Sprott to form a strategic alliance (the "Alliance") to acquire phosphate, potash and other fertilizer feedstock mineral projects.

Under the terms of the Alliance Agreement, the initial interest of the Company and Sprott is 50% each in a newly incorporated company, Lara Alliance (BVI) Ltd. (the "Venture"). In the first year, the Company will have a deemed initial contribution of US\$500,000 and Sprott will contribute US\$500,000 cash for their respective 50% interests in the Venture. Sprott may at its election invest a further US\$2,500,000 over the following two-year period to earn up to a 63% interest in the Venture, subject to the Company's option to contribute funds to maintain a 50% interest in the Venture. At December 31, 2008, Sprott has expended \$317,224 for exploration expenditures of the Venture.

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8. EXPLORATION EXPENDITURES

Exploration expenditures incurred during the year ended December 31, 2008 were as follows:

	Campos Verdes	Curionoplis	Sao Lourenco	T'Gold	Other	Total Brazil	Peru	Colombia	Total
Salaries and consultants	\$ 31,471	\$ 150,004	\$ 105,524	\$ 42,804	\$ 319,544	\$ 649,347	\$ 50,177	\$ 23,051	\$ 722,575
Office and administrative	11,687	155,842	22,414	2,955	158,476	351,374	6,758	7,419	365,551
Drilling	71,828	-	-	-	-	71,828	-	-	71,828
Field costs	114,762	90,086	71,663	14,513	15,427	306,451	-	-	306,451
Travel and related costs	1,523	43,714	17,176	13,580	76,349	152,342	64	-	152,406
Assays	35,352	2,043	32,918	14,995	6,287	91,595	8,540	-	100,135
Property maintenance costs	22,468	1,428	3,991	39	105,189	133,115	-	-	133,115
Telecommunications	1,388	7,558	1,163	755	2,414	13,278	-	-	13,278
Vehicle	-	-	-	-	-	-	405	-	405
Trenching	905	10,770	15,436	-	-	27,111	-	-	27,111
	291,384	461,445	270,285	89,641	683,686	1,796,441	65,944	30,470	1,892,855
Recoveries	(248,746)	-	-	-	(242,655)	(491,401)	-	(30,470)	(521,871)
	\$ 42,638	\$ 461,445	\$ 270,285	\$ 89,641	\$ 441,031	\$ 1,305,040	\$ 65,944	\$ -	\$ 1,370,984

Exploration expenditures incurred during the year ended December 31, 2007 were as follows:

	Araguaia Generative	Campos Verdes	Sao Lourenco	T'Gold	Other (Note 4)	Total Brazil	Peru	Total
Salaries and consultants	\$ 62,189	\$ 99,074	\$ 24,958	\$ 121,215	\$ 193,043	\$ 500,479	\$ 48,099	\$ 548,578
Office and administrative	31,708	47,080	2,887	37,657	168,081	287,413	5,038	292,451
Drilling	-	115,046	-	31,847	22,687	169,580	-	169,580
Field costs	9,167	60,442	5,645	43,784	21,046	140,084	28,994	169,078
Travel and related costs	15,563	30,257	8,780	20,805	77,663	153,068	1,749	154,817
Assays	4,888	13,966	17,621	31,578	46,366	114,419	1,106	115,525
Property maintenance costs	-	22,635	-	121	61,465	84,221	509	84,730
Telecommunications	135	527	20	316	16,348	17,346	-	17,346
Vehicle	-	-	5,193	-	3,096	8,289	-	8,289
Trenching	-	353	-	-	321	674	-	674
	123,650	389,380	65,104	287,323	610,116	1,475,573	85,495	1,561,068
Recoveries	-	(296,406)	-	-	-	(296,406)	-	(296,406)
	\$ 123,650	\$ 92,974	\$ 65,104	\$ 287,323	\$ 610,116	\$ 1,179,167	\$ 85,495	\$ 1,264,662

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9. SHARE CAPITAL

Authorized

Unlimited common shares without par value
Unlimited first preferred shares without par value
Unlimited second preferred shares without par value

Issued and outstanding

	Number of Shares	Amount	Common Shares 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	-	-	166,749
Balance, December 31, 2008	19,246,501	\$ 8,852,146	\$ 7,331,391

Private placements

On September 28, 2007, the Company closed a private placement and issued an aggregate of 1,500,000 units at a price of \$0.85 per unit for gross proceeds of \$1,275,000. Each unit consisted of one common share and one non-transferable, common share purchase warrant. Each warrant entitled the holder to acquire an additional common share at a price of \$1.20 per share to September 28, 2009. In connection with this private placement, the Company issued 97,500 units as a finder's fee, with an estimated fair value of \$39,916, which have the same terms outlined above.

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	(1,175,000)	\$ 0.76
Balance, December 31, 2008	1,597,500	\$ 1.20

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9. SHARE CAPITAL (Continued)

Share purchase warrants outstanding as at December 31, 2008 and 2007 are as follows:

Expiry Date	Exercise Price	2008	2007
		Number of Warrants	Number of Warrants
February 15, 2008	\$ 0.75	-	2,575,000
November 17, 2008	\$ 1.30	-	15,000
September 28, 2009	\$ 1.20	1,597,500	1,597,500
	\$ 1.20	1,597,500	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
Forfeited	(50,000)	\$ 1.35
Balance, December 31, 2007	1,590,000	\$ 1.15
Granted	425,000	\$ 0.78
Forfeited	(170,000)	\$ 1.21
Balance, December 31, 2008	1,845,000	\$ 1.06

The following table summarizes the stock options outstanding and exercisable at December 31, 2008, with a weighted average life of 2.94 years:

	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	150,000	October 3, 2012
June 18, 2008	410,000	\$ 0.80	205,000	June 18, 2013
October 29, 2008	15,000	\$ 0.32	15,000	October 29, 2013
	1,845,000	\$ 1.06	1,615,000	

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9. SHARE CAPITAL (Continued)

The following table summarizes the stock options outstanding and exercisable at December 31, 2007, with a weighted average life of 3.60 years:

	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
January 11, 2006	250,000	\$ 0.51	250,000	January 11, 2011
March 16, 2006	665,000	\$ 1.35	665,000	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	25,000	May 14, 2012
October 3, 2007	150,000	\$ 1.22	75,000	October 3, 2012
October 16, 2007	150,000	\$ 1.19	75,000	October 16, 2012
	1,590,000	\$ 1.15	1,390,000	

Stock-based compensation and contributed surplus

During the year ended December 31, 2008, the Company granted a further 425,000 options to certain employees, directors and consultants. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value. As well, the options granted to consultants that have not vested were revalued at the end of each quarter using the Black-Scholes option pricing model. The Company recorded a charge to operations of \$166,749 (2007 - \$176,628), with the offsetting amount recorded as contributed surplus. The following weighted average assumptions were used for the valuation of stock options:

	2008	2007
Risk-free interest rate	2.9%	4.3%
Expected dividend yield	-	-
Expected stock price volatility	64%	63%
Expected life of warrants/options in years	2/5	2/5

10. RELATED PARTY TRANSACTIONS

The Company did not have any related party transactions, other than noted in Note 7 (see Curionópolis and Strategic Alliance), during the year ended December 31, 2008. For the year ended December 31, 2007, the Company paid Quest Capital Corp. ("Quest"), a company related by virtue of a director in common and an officer of Quest who is a director of the Company, for office rent and supplies. Quest charged the Company \$16,959 for office rent and supplies. These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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11. INCOME TAXES

The recovery of income taxes differs from the amount that would have resulted by applying the Canadian federal and provincial statutory tax rates of 31.00% (2007 – 34.12%) to pre-tax income (losses) as a result of the following:

	2008	2007
Income (loss) before taxes	\$ 2,649,517	\$ (1,805,192)
Expected income tax expense (recovery)	\$ 821,350	\$ (615,932)
Non-taxable portion of capital gain	(716,583)	-
Utilization of prior year losses	(305,032)	-
Unrecognized tax losses	458,235	561,797
Permanent differences	51,692	60,265
Other	(70,967)	(6,130)
Income tax expense (recovery)	\$ 238,695	\$ -
	2008	2007
Future income tax assets:		
Non-capital loss carry-forwards	\$ 1,298,097	\$ 1,136,753
Investments	205,826	-
Other	13,669	13,480
	1,517,592	1,150,233
Valuation allowance	(1,297,492)	(1,150,233)
Net future income tax assets	\$ 220,100	\$ -

As at December 31, 2008, the Company has unused tax loss carry-forwards that are available to reduce future taxable income of \$Nil (2007 - \$1,100,000) and \$3,700,000 (2007 - \$2,400,000) in Canada and Brazil, respectively. The tax loss carry-forwards are available indefinitely in Brazil. The valuation allowance reflects the Company's estimate that the tax assets will likely not be realized and, consequently, have not been recorded in these financial statements.

12. 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, Peru and Colombia (see Note 7), the equipment is located in Brazil and substantially all of the exploration expenditures are incurred in Brazil (see Note 8).

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2008, the Company received 1,180,872 common shares of Spratt, with an estimated fair value of \$4,623,114, for the sale of the Company's interest in the Mantaro Project (Note 7).

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

The Company has classified its financial instruments as follows:

- Cash and cash equivalents – as held-for-trading
- Receivables – as loans and receivables
- Long-term investments – as available-for-sale securities
- Accounts payable and accrued liabilities – as other liabilities.

The fair values of cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The Company's long-term investments are carried at quoted market values.

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 financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Brazil, Peru and Colombia, although currently there is limited activity in Peru and Colombia, 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 December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in Brazilian reals.

Cash and cash equivalents	198,037
Receivables	42,102
Accounts payable and accrued liabilities	(182,475)
Net exposure	57,664
Canadian dollar equivalent	\$ 30,148

Based on the above net exposure as at December 31, 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 \$3,015 in the Company's pre-tax earnings (loss).

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 minimal.

15. 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.

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16. EARNINGS (LOSS) PER SHARE

The following is a reconciliation of the number of shares used in the calculation of basic earnings (loss) per share and diluted earnings (loss) per share for the years ended December 31, 2008 and 2007:

	2008	2007
Net income (loss) for the year	\$ 2,410,822	\$ (1,805,192)
Weighted average number of common shares outstanding	19,153,304	16,163,984
Effect of dilutive securities:		
Options to purchase common shares	58,230	-
Dilutive potential common shares	19,211,534	16,163,984
Earnings (loss) per share		
Basic	\$ 0.13	\$ (0.11)
Diluted	\$ 0.13	\$ (0.11)