

Consolidated Financial Statements
(Expressed in Canadian Dollars)
(Prepared in accordance with Canadian GAAP)

LARA EXPLORATION LTD.
(an exploration stage company)

Years ended December 31, 2005 and 2004

Auditors' Report
To the Shareholders of Lara Exploration Ltd.

We have audited the consolidated balance sheets of Lara Exploration Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit 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 audit 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
April 21, 2006

LARA EXPLORATION LTD.

(an exploration stage company)

Consolidated Balance Sheets

	December 31, 2005	December 31, 2004
ASSETS		
Cash and cash equivalents	\$ 51,287	\$ 122,992
Short-term investments	625,000	-
Receivables	5,083	3,113
Prepaid expenses	5,250	-
	<hr/> 686,620	<hr/> 126,105
Deferred acquisition costs (Note 9)	13,000	-
Mineral Properties (Note 4)	373,300	423,300
	<hr/>	<hr/>
	\$ 1,072,920	\$ 549,405
LIABILITIES		
Accounts payable and accrued liabilities	\$ 45,407	\$ 21,127
	<hr/>	<hr/>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)	796,892	201,356
Contributed surplus (Note 5)	6,123,232	5,968,662
Deficit	(5,892,611)	(5,641,740)
	<hr/> 1,027,513	<hr/> 528,278
	<hr/>	<hr/>
	\$ 1,072,920	\$ 549,405

Subsequent events (Note 9)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"Miles F. Thompson"

Director

"Michael D. Winn"

Director

LARA EXPLORATION LTD.

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Consolidated Statements of Operations and Deficit
Year ended December 31,

	2005	2004
Expenses		
Consultants	\$ 25,544	\$ 11,384
Filing and transfer agent fees	7,409	500
Interest and bank charges	1,474	844
Property maintenance costs	16,218	23,116
Office rent and services	39,994	5,950
Professional fees	29,394	53,522
Shareholder information	2,307	-
Stock-based compensation	128,650	-
Travel and related costs	5,972	-
Loss before other items	256,962	95,316
Other items		
Foreign exchange loss	(2,272)	(276)
Interest and other income	8,363	587
Gain on sale of assets	-	1,886
Loss for the year	(250,871)	(93,119)
Deficit, beginning of year	5,641,740	5,548,621
Deficit, ending of year	\$ 5,892,611	\$ 5,641,740
Basic and diluted loss per share (Note 2 (g))	\$ (0.05)	\$ (0.02)
Weighted average number of common shares outstanding (Note 2 (g))	5,224,001	3,756,832

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Consolidated Statements of Cash Flows

Year ended December 31,

	2005	2004
Cash provided by (used for):		
Operating activities		
Loss for the year	\$ (250,871)	\$ (93,119)
Non-cash general exploration costs	1,302	1,506
Stock-based compensation	128,650	-
Unrealized foreign exchange gain	-	(3,393)
Changes in non-cash working capital items:		
Receivables	(3,272)	(1,196)
Prepaid expenses	(5,250)	-
Accounts payable and accrued liabilities	24,280	10,260
	(105,161)	(85,942)
Financing activities:		
Contributed capital	30	6,224
Share issuance (net of expenses)	621,426	200,000
	621,456	206,224
Investing activities:		
Proceeds from the disposition of fixed assets	-	1,886
Cost recovery from mineral property	50,000	-
Short term investments	(625,000)	-
Deferred acquisition costs	(13,000)	-
	(588,000)	1,886
Increase (decrease) in cash and cash equivalents during the year	(71,705)	122,168
Cash and cash equivalents, beginning of year	122,992	824
Cash and cash equivalents, ending of year	\$ 51,287	\$ 122,992
Supplemental cash flow information:		
Non-cash financing and investing activities:		
Shares issued for shares and intercompany debt of Minas Dixon	\$ -	\$ 600,000
Shares issued as financing fee	16,000	-
Warrants issued as financing fee	25,890	-

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

1. Nature of operations:

Lara Exploration Ltd. ("Lara" or the "Company") was incorporated under the Company Act (British Columbia) (now the Business Corporations Act (British Columbia)) on March 31, 2003. On May 6, 2003, the Company changed its name to "666943 B.C. Ltd." and on December 4, 2003, the Company changed its name back to "Lara Exploration Ltd."

The Company was incorporated to acquire from its parent, Quest Capital Corporation ("Quest") all of the issued and outstanding securities of Minas Dixon S.A. ("Minas Dixon"), a private Peruvian corporation which holds a group of mineral claims called the Lara property in southern coastal Peru. The Company's principal business is mineral exploration in South America with properties in Peru and Brazil.

2. Significant accounting policies:

(a) Basis of Consolidation

The Company was incorporated by Quest as a wholly owned subsidiary for the purpose of acquiring a Peruvian company, Minas Dixon, which was also a wholly owned subsidiary of Quest. These consolidated financial statements have accounted for the acquisition of Minas Dixon's assets and liabilities at their carrying values and include operations since Minas Dixon's incorporation.

(b) Cash Equivalents

Cash includes cash and short-term deposits maturing within 90 days of the original acquisition.

(c) Short-term Investments

Short-term investments include Canadian dollar investments in term deposits with major financial institutions that have maturity dates of less than one year. Short-term investments are stated at the lower of cost and net realizable value.

(d) Mineral Properties and Deferred Costs

Mineral property costs and exploration and field support costs directly relating to active investigations of mineral properties are deferred until the property to which they relate is placed into production, sold or abandoned. The deferred costs will be amortized over the life of the ore body following commencement of production, or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property and property costs relating to an inactive property are expensed as incurred.

On a periodic basis, management reviews the carrying values of deferred mineral property acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value. In the event that resources are estimated to be insufficient to recover the carrying value of any property, the carrying value will be written down to fair value or written off, as appropriate.

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Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

2. Significant accounting policies (cont.)

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

(e) Foreign Currency Translation

The Company's foreign subsidiary comprises a direct and integral extension of the Company's operations. This subsidiary is also entirely reliant on the Company to provide financing to continue its activities. Consequently, the functional currency of this subsidiary is considered by management to be the Canadian dollar and accordingly, exchange gains and losses are included in net income. Monetary assets and liabilities are translated into Canadian dollars at the balance sheet date rate of exchange and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates except for depreciation and amortization, which are translated at historical rates. Gains and losses on translation are included in net income.

(f) Asset Retirement Obligation

The Company recognizes the estimated fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of fair value can be made. The fair value of the estimated ARO is recorded as a liability with a corresponding increase in the carrying amount of the related asset. The obligations are measured initially at fair value (using present value methodology) and the resulting costs are capitalized into the carrying amount of the related asset. The liability is accreted over time through periodic charges to mineral properties. In subsequent periods, the Company adjusts the carrying amounts of the asset and the liability for changes in the estimate of the amount or timing of underlying future cash flows.

The Company has determined that it currently has no asset retirement obligations.

(g) Stock-based compensation

The Company has an incentive stock option plan as described in Note 5. The compensation cost attributable to share options granted is measured at fair value at the grant date using the Black-Scholes option valuation model and is expensed over the option vesting period with a corresponding increase in contributed surplus.

(h) Earnings (Loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period and diluted loss per share is calculated using the treasury stock method. Diluted loss per share is the same as basic loss per share because the effect on basic loss per share of outstanding options would be anti-dilutive.

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December 31, 2005 and 2004

2. Significant accounting policies (cont.)

(i) Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and reported liabilities at the date of the financial statements and the amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of impairment of mineral property and equipment, valuation allowances for future income tax assets and amounts of reclamation and environmental obligations. Financial results as determined by actual events may differ from these estimates.

3. Acquisition:

The Company, together with Quest, Minas Dixon and Kay Metals Ltd. (a wholly owned subsidiary of Quest) entered into an agreement (the "Acquisition Agreement") dated March 29, 2004, whereby Quest agreed to sell to the Company 100% of the issued and outstanding securities of Minas Dixon, which holds the Lara property, and the outstanding inter-company loans Quest had with Minas Dixon, in exchange for the issuance to Quest by the Company of 3,000,000 Series A Special Warrants (the "Special Warrants") with an estimated fair value of \$600,000.

Since Quest owned 100% of the shares of Lara and indirectly 100% of the shares of Minas Dixon, the purchase was accounted for under Canadian generally accepted accounting principles by combining the assets and liabilities of the two companies at their carrying values and the operations are combined from the first period presented. Therefore, the 3,000,000 Special Warrants issued for the Minas Dixon shares have been shown at the value of the Minas Dixon shares and have been treated as if they were issued from the first period presented in the calculation of earnings (loss) per share.

The loan acquired by the Company on the completion of the acquisition of the Minas Dixon shares has been recorded as contributed capital as if it was acquired from the first period presented.

Each Special Warrant was exercisable by the holder for one common share for no additional consideration until the earlier of (i) 12 months after the date the Issuer has become a reporting issuer or the equivalent under the applicable securities laws of the jurisdiction in which the holder is resident or (ii) the tenth business day after the Issuer's shares have been distributed to the public pursuant to a prospectus (the "Series A Expiry Date"). All unexercised Special Warrants would have been deemed to have been exercised by the holder for one common share for no additional consideration immediately prior to 4:00 pm on the Series A Expiry Date without further notice to or action on the part of the holder. The 3,000,000 Special Warrants were exercised by Quest for 3,000,000 common shares for no additional consideration.

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December 31, 2005 and 2004

4. Mineral Properties and Deferred Costs:

Lara Prospect

Lara indirectly owns a 100% interest in three mining petitions comprising 1,800 hectares through its wholly-owned subsidiary, 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, which amount has been paid. The opening balance for the year ended December 31, 2002 of the acquisition costs and deferred exploration combined costs was \$600,000. A review of the carrying values of the Lara Prospect was undertaken during 2002 and it was determined to write-down the carrying cost by \$176,700, to better reflect management's estimate, at the time, of the recoverable value of the Lara Prospect. 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.

	December 31, 2005	December 31, 2004
Acquisition costs	\$ 92,743	\$ 92,743
Deferred exploration costs	330,557	330,557
Less recovery of costs	(50,000)	-
	<u>\$ 373,300</u>	<u>\$ 423,300</u>

During the current year, the Company signed a binding letter of intent with Solid Resources Ltd. (TSX-V:SRW) ("Solid Resources") which grants Solid Resources the right to earn an initial 55% interest in the Lara Prospect.

Under the agreement, Solid Resources must, over a three year period, make staged cash payments totaling \$500,000 and complete exploration expenditures of \$2 million, including a minimum of 8,000 meters of drilling, to earn its initial interest. The cash payments include \$25,000 on signing (which the Company has received) and up to an additional \$175,000 in the first 12 months from signing (of which the Company has received \$25,000).

Solid Resources can then elect to earn a further 20% interest by producing a bankable feasibility study and by paying \$1.5 million to the Company within a two year period.

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5. Share capital:

(a) Authorized:

Unlimited common shares without par value

Unlimited first preferred shares without par value

Unlimited second preferred shares without par value

Authorized capital was changed from 100,000,000 for each class of shares to unlimited number of shares of each class during the 2004 fiscal year.

(b) Issued and outstanding:

	<u>Common Shares</u>	
	<u>Number</u>	<u>Amount</u>
Balance, December 31, 2003	2,161	\$ 1,355
Issued on exercise of series B special warrants	1,000,000	200,000
Acquisition of Minas Dixon shares	(2,160)	(1,355)
Issued on exercise of series A special warrants	<u>3,000,000</u>	<u>1,355</u>
Balance, December 31, 2004	4,000,001	201,356
Issued on initial public offering	2,000,000	800,000
Issued as payment for financing fee	40,000	16,000
Less : costs of issuance including financing fee		<u>(220,464)</u>
Balance, December 31, 2005	<u>6,040,001</u>	<u>\$ 796,892</u>

The Company completed its Initial Public Offering in 2005 by issuing a total of 2,000,000 units at a price of \$0.40 per unit. Each unit consists of one common share and one transferable share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.50 per share until May 26, 2006. A commission equal to 6% of the gross proceeds of the offering, and a corporate finance fee of 40,000 common shares were paid to the agent. An additional 200,000 non-transferable Agent's warrants entitling the holder to acquire one additional common share at a price of \$0.50 per share until May 26, 2006 were also issued.

(c) Escrow shares:

At December 31, 2005 a total of 3,000,001 of the Company's issued common shares were held in escrow. The escrowed shares will be released as follows:

600,000 April 30, 2006

600,000 November 30, 2006

600,000 April 30, 2007

600,000 November 30, 2007

600,001 April 30, 2008.

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5. Share capital (cont.):

(d) Stock options and share purchase warrants:

	Number of Options / Warrants	Exercise Price	Expiry Date
Options	426,500	\$0.40	May 10, 2010
Warrants	2,200,000	\$0.50	May 26, 2006

All of the options have been granted pursuant to the terms of the stock option plan (the "Stock Option Plan") approved by the Company's shareholders on August 19, 2004 and were all exercisable at December 31, 2005. The Stock Option Plan provides that, subject to the requirements of the TSX Venture Exchange, the aggregate number of securities reserved for issuance, set aside and made available for issuance under the Stock Option Plan will be 10% of the number of common shares of the Company's issued and outstanding shares.

(e) Stock-based compensation:

During the year ended December 31, 2004, the Company granted 426,500 options with an exercise price of \$0.40 per share and an expiry date of May 30, 2010. The Company has adopted the fair value method of accounting for employee stock-based compensation and has applied the method prospectively in accordance with Section 3870 of the CICA handbook. Stock options issued to employees, which are vested, are expensed during the period of granting. Compensation costs of \$128,650 have been recognized on stock options granted to employees during reporting periods as the shares have become publicly traded. In addition, the Company also issued 200,000 warrants with an exercise price of \$0.50 per share and expiry of May 26, 2006 for facilitating the initial public offering (Note (5(b)) and recognized \$25,890 as a cost of issuance of shares.

The following assumptions were used in the Black-Scholes option-pricing model :

Expected dividend yield	0%
Expected stock price volatility	100%
Risk-free interest rate	2.75%
Expected life of options	5 years
Expected life of warrants	1 year
Weighted average fair value of warrants / options	\$ 0.13 / 0.30

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6. Related party transactions:

The Company acquired 100% of the common shares of Minas Dixon S.A. and all outstanding inter-company debt from the Company's parent company Quest. The Company issued 3,000,000 Special Warrants to Quest which were subsequently exercised into 3,000,000 common shares during the year ended December 31, 2004. See Note 3 for further information.

The Company entered into a Services Agreement with Quest Management Corp. ("Quest Management"), a company wholly owned by Quest and related by virtue of two directors and two officers in common, dated February 1, 2005. Under this agreement, the Company must pay to Quest Management a fee of \$3,500 per month for expenses relating to office space, supplies, and accounting services. During the year ended December 31, 2005, the Company was charged \$38,500 (2004 - \$Nil) by Quest Management.

The Company was charged \$10,000 (2004 - \$10,000) by Quest Management for services relating to the Minas Dixon property in 2005 and to the acquisition of Minas Dixon in 2004.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties. In general, the Company conducts these transactions on terms similar to those that would be encountered were the transactions conducted with arm's length parties.

The Company had an outstanding payable of \$14,469 (2004 - \$10,700) with Quest Management at December 31, 2005.

7. Income taxes

The Company's effective tax rate differs from the amount obtained by applying statutory rates due to the following:

	<u>Dec 31, 2005</u>
Recovery of income taxes based on statutory rates of 34.86 %	\$ 87,455
Tax losses for which an income benefit has not been recognized	<u>(87,455)</u>
	\$ -

Future income tax assets arise from the following:

	<u>Dec 31, 2005</u>
Future income tax assets:	
Share issuance costs	\$ 75,200
Loss carry forwards	93,055
Less: Valuation allowance	<u>(168,255)</u>
Future income tax assets, net	\$ -

Loss carry forwards and share issuance costs expire in the periods up to 2014

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8. Segmented information

The Company operates within a single operating segment which is the exploration and development of its mineral properties. As at December 31, 2005, all of the Company's mineral properties are located in Peru.

9. Subsequent events

Subsequent to December 31, 2005, the Company entered into the following transactions:

- a) On February 15, 2006, the Company completed the acquisition of Pan Brazilian Mineracao Ltda. ("Pan Brazilian"), a private Brazilian company that holds the rights to nine prospective gold, copper and nickel properties in Brazil. In return for assigning Pan Brazilian to the Company, Pan Brazilian's shareholders will receive three million escrow shares of Lara held by Quest Capital Corp. (QC-TSX).
- b) Concurrent with the acquisition, Lara completed a private placement and issued five million units at a price of \$0.50 each, for gross proceeds of \$2.5 million. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.75, expiring February 15, 2008. If, at any time after the four-month restricted resale period for the units (and any shares issuable on the exercise of the warrants), the closing price of Lara Exploration's common shares is above \$1.05 for 20 or more days, Lara has the right, on notice to the warrant holders, to accelerate the expiry date of the warrants to 20 business days following the date of such notice. A finder's fee of 127,500 common shares was paid pursuant to the private placement.
- c) The Company issued 311,500 common shares pursuant to the exercise of stock options for proceeds totalling \$124,600.
- d) The Company issued 985,925 common shares pursuant to the exercise of share purchase warrants for proceeds totalling \$492,962.
- e) The Company granted 965,000 stock options with a weighted average exercise price of \$1.13, expiring between January 11 and March 16, 2011.