

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**

**Consolidated Financial Statements**  
**December 31, 2006 and 2005**

<b><u>Index</u></b>	<b><u>Page</u></b>
<b>Auditors' Report to the Shareholders</b>	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-18

## AUDITORS' REPORT

### **TO THE SHAREHOLDERS OF LARA EXPLORATION LTD. (An Exploration Stage Company)**

We have audited the consolidated balance sheet of Lara Exploration Ltd. (an Exploration Stage Company) as at December 31, 2006 and the consolidated statements of operations and deficit and cash flows for the year 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 audit.

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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2005 and for the year then ended were audited by another firm of auditors who expressed an opinion without reservation on those financial statements in their report dated April 21, 2006.

*"Smythe Ratcliffe LLP" (signed)*

Chartered Accountants

Vancouver, British Columbia  
April 13, 2007

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheets**  
**December 31**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 420,966	\$ 51,287
Short-term investments	3,638,001	625,000
Receivables	107,442	5,083
Prepaid expenses and advances	29,586	5,250
	4,195,995	686,620
<b>Furniture and Equipment</b> (Note 4)	67,250	0
<b>Mineral Properties</b> (Note 5)	915,753	373,300
<b>Deferred Acquisition Costs</b>	0	13,000
	\$ 5,178,998	\$ 1,072,920
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 65,099	\$ 45,407
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (Note 6)	5,916,738	796,892
<b>Contributed Surplus</b> (Note 6)	6,961,672	6,123,232
<b>Deficit</b>	(7,764,511)	(5,892,611)
	5,113,899	1,027,513
	\$ 5,178,998	\$ 1,072,920

Subsequent events (Note 10)

Approved on behalf of the Board:

*"Miles F. Thompson"*

.....  
Miles F. Thompson

*"Michael D. Winn"*

.....  
Michael D. Winn

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Operations and Deficit**  
**Years Ended December 31**

	<b>2006</b>	<b>2005</b>
<b>Expenses</b>		
Amortization	\$ 4,909	\$ 0
Consultants (Note 6(e))	154,293	71,243
Directors' remuneration (Note 6(e))	191,411	82,951
Management fees (Note 6(e))	261,995	0
Office, rent and administrative services (Note 6(e))	375,092	41,468
Professional fees	163,343	29,394
Shareholder information	93,205	2,307
Transfer agent and filing fees	56,673	7,409
Travel and related costs	92,384	5,972
<b>Loss Before Other Items</b>	<b>(1,393,305)</b>	<b>(240,744)</b>
<b>Other Items</b>		
Non-compete contract (Note 3)	(116,324)	0
Exploration expenses (Note 5(c))	(493,564)	(16,218)
Foreign exchange gain (loss)	1,514	(2,272)
Interest income	129,779	8,363
	<b>(478,595)</b>	<b>(10,127)</b>
<b>Loss for the Year</b>	<b>(1,871,900)</b>	<b>(250,871)</b>
<b>Deficit, Beginning of Year</b>	<b>(5,892,611)</b>	<b>(5,641,740)</b>
<b>Deficit, End of Year</b>	<b>\$ (7,764,511)</b>	<b>\$ (5,892,611)</b>
<b>Basic and Diluted Loss Per Share</b>	<b>\$ (0.14)</b>	<b>\$ (0.05)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>13,315,425</b>	<b>5,224,001</b>

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31**

	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Loss for the year	\$ (1,871,900)	\$ (250,871)
Items not involving cash		
Stock-based compensation	629,436	128,650
Amortization	4,909	0
Non-compete contract	116,324	0
Non-cash exploration expense	15,000	1,302
Changes in non-cash working capital		
Receivables	(102,162)	(3,272)
Prepaid expenses	(18,411)	(5,250)
Accounts payable and accrued liabilities	14,371	24,280
<b>Cash Used in Operating Activities</b>	<b>(1,212,433)</b>	<b>(105,161)</b>
<b>Investing Activities</b>		
Purchase of short-term investments	(3,638,001)	(625,000)
Redemption of short-term investments	625,000	0
Mineral property expenditures	(279,454)	50,000
Deferred acquisition costs	0	(13,000)
Purchase of furniture and equipment	(72,159)	0
<b>Cash Used in Investing Activities</b>	<b>(3,364,614)</b>	<b>(588,000)</b>
<b>Financing Activities</b>		
Repayment to related party	(17,125)	0
Issuance of shares for cash	4,963,850	621,456
<b>Cash Provided by Financing Activities</b>	<b>4,946,725</b>	<b>621,456</b>
<b>Cash Acquired Upon Consolidation</b>	<b>1</b>	<b>0</b>
<b>Inflow (Outflow) of Cash</b>	<b>369,679</b>	<b>(71,705)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>51,287</b>	<b>122,992</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 420,966</b>	<b>\$ 51,287</b>
<b>Supplemental Cash Information</b>		
Interest received	\$ 38,316	\$ 669
Non-cash financing and investing activities		
Shares issued for geological database	\$ 15,000	\$ 0
Shares issued as financing fees	\$ 0	\$ 16,000
Warrants issued as financing fees	\$ 0	\$ 25,890

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

---

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Lara Exploration Ltd. (the "Company") was incorporated under the *Company Act of 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's principal business is mineral exploration in South America with properties in Peru and Brazil.

**2. SIGNIFICANT ACCOUNTING POLICIES**

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiaries, Minas Dixon and Pan Brazilian Mineração Ltda. All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents

Cash includes cash and short-term deposits that are readily convertible into known amounts of cash maturing within 90 days of the original acquisition.

(c) Short-term investments

Short-term investments include investments in Canadian dollar term deposits held at major financial institutions that have original maturity dates greater than 90 days. Interest on short-term investments is recorded on an accrual basis at the stated rate of interest, and included as receivables.

(d) Mineral properties and deferred costs

Mineral property acquisition and exploration 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 and exploration costs that do not relate to any specific property and property costs relating to an inactive property are expensed as incurred.

On a quarterly basis, management reviews the carrying values of capitalized mineral property 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.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(e) Foreign currency translation

The Company's foreign subsidiaries comprise a direct and integral extension of the Company's operations. These subsidiaries are also entirely reliant on the Company to provide financing to continue their activities. Consequently, the functional currency of the subsidiaries is considered by management to be the Canadian dollar and, accordingly, exchange gains and losses are included in operations. 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 amortization, which is translated at the same rate as the related assets. Gains and losses on translation are included in operations.

(f) Asset retirement obligations

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 and the resulting costs are depleted on a rational basis. The liability is accreted over time through periodic charges to earnings. 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 it currently has no asset retirement obligations.

(g) Stock-based compensation

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense in the period the stock-based payments are vested or the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value previously recorded is transferred from contributed surplus to capital stock.

(h) Loss per share

Basic loss per share is calculated using the weighted average number of common 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 when the effect of outstanding options and warrants on basic loss per share would be anti-dilutive. Shares subject to escrow restrictions are excluded from the weighted average number of common shares unless their release is subject only to the passage of time.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(i) Use of 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 properties and equipment, amounts of reclamation and environmental obligations, amortization rates for furniture and equipment, valuation allowance for future income tax assets and determination of the assumptions used in calculating the fair value of stock-based compensation. Financial results as determined by actual events may differ from these estimates.

(j) Amortization

Amortization of furniture and equipment is calculated on a declining-balance basis at rates of 10%-30% per annum.

(k) Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term maturity and capacity for prompt liquidation. As all of the Company's exploration activities are located in emerging nations, the Company may be affected by currency fluctuations and the ultimate recovery of its investments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments.

**3. ACQUISITION OF PAN BRAZILIAN MINERAÇÃO LTDA.**

On February 15, 2006, the Company completed the acquisition of all the issued and outstanding shares of Pan Brazilian Mineração Ltda. ("Pan Brazilian"), a private Brazilian company that holds the rights to nine properties in Brazil. In return for assigning Pan Brazilian to the Company, Pan Brazilian's former shareholders received \$1 from the Company and 3,000,000 escrow shares of the Company that were previously held by Quest Capital Corp. ("Quest"), a related company by virtue of two directors in common. These shares have been valued at \$350,000 using the Black-Scholes option pricing model. Ancillary to this acquisition were non-compete agreements, including one between the Company and the current president of the Company, valued at \$116,324. The value of this non-compete agreement was expensed during 2006.

The share consideration given by Quest has been determined at fair value effective February 15, 2006. The ongoing activities of Pan Brazilian have been consolidated in the accounts of the Company from the date of acquisition.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**3. ACQUISITION OF PAN BRAZILIAN MINERAÇÃO LTDA.** (Continued)

The allocation of the purchase price is summarized in the table below:

	<b>2006</b>
Purchase price	
3,000,000 escrowed common shares	\$ 350,000
Cash	1
	<b>\$ 350,001</b>
Net assets acquired	
Cash	\$ 1
Receivables	197
Prepaid expenses	5,925
Mineral properties	250,000
Non-compete contract	116,324
Accounts payable	(5,321)
Due to related party	(17,125)
	<b>\$ 350,001</b>

**4. FURNITURE AND EQUIPMENT**

	<b>2006</b>		
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 72,159	\$ 4,909	\$ 67,250

**5. MINERAL PROPERTIES**

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Mineral exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**5. MINERAL PROPERTIES (Continued)**

	Brazil	Peru	Total
<b>Acquisition costs</b>			
Balance, December 31, 2004	\$ 0	\$ 423,300	\$ 423,300
Option payments received	0	(50,000)	(50,000)
Balance, December 31, 2005	0	373,300	373,300
Acquisition of Pan Brazilian	267,417	0	267,417
Option payments received	(22,019)	(150,000)	(172,019)
Balance, December 31, 2006	245,398	223,300	468,698
<b>Deferred exploration costs</b>			
Balance, December 31, 2004 and 2005	0	0	0
Assays	17,716	0	17,716
Field costs	3,356	0	3,356
Geological studies	284,418	0	284,418
Office and administrative	45,355	0	45,355
Property tax	2,079	0	2,079
Telecommunications	2,368	0	2,368
Travel and related costs	56,958	0	56,958
Trenching	1,799	0	1,799
Vehicle	33,006	0	33,006
Balance, December 31, 2006	447,055	0	447,055
<b>Total mineral property costs</b>	<b>\$ 692,453</b>	<b>\$ 223,300</b>	<b>\$ 915,753</b>

(a) Brazil

(i) Campos Verdes

Campos Verdes comprises fifteen exploration licenses covering a total of 26,000 hectares located in Goiás State. Ten of the properties were acquired pursuant to an option agreement 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 property that is put into production on a commercial scale. Three of these licenses will be subject to renewal in June 2007, while the remaining seven licenses will be subject to renewal in September 2009. Expenditures incurred to December 31, 2006 total \$311,207. Subsequent to December 31, 2006, the Company entered into an option and joint venture agreement (Note 10(b)).

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

---

**5. MINERAL PROPERTIES (Continued)**

(a) Brazil (Continued)

(ii) Colorado do Oeste

Pursuant to an option agreement 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 must pay the optionor a total of US \$170,000 (US \$10,000 paid to date) as follows:

- \$5,000 within 30 days of signing agreement;
- \$5,000 upon transfer and renewal of exploration licenses;
- \$20,000 on first anniversary of renewed;
- \$20,000 on second anniversary of renewed;
- \$20,000 on third anniversary of renewed;

and must incur a minimum of US \$310,000 in exploration expenditures (\$135,848 incurred to December 31, 2006).

(iii) Pará Nickel Project (formerly Araguaia)

The Pará Nickel Project comprises six exploration claims covering 43,000 hectares located in Pará State. These mineral rights had been optioned to a Brazilian subsidiary of Falconbridge Ltd. (now part of Xstrata plc ("Xstrata")) whereby the optionee had the right to earn a 70% interest in the Araguaia mineral rights by paying US \$110,000 (US \$40,000 paid to date) to the Company and by incurring at least US \$3.89 million of exploration expenditures by June 2009. Subsequent to December 31, 2006, Xstrata relinquished its option.

(b) Peru

Lara Prospect

The Company indirectly owns a 100% interest in three mining properties 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 (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.

During the year ended December 31, 2005, 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 to the Company totaling \$500,000 and complete exploration expenditures of \$2,000,000, including a minimum of 8,000 meters of drilling to earn its initial interest by November 1, 2008. The cash payments are due as follows:

- Nov 1, 2005 - \$25,000 (received);
- Dec 30, 2005 - \$25,000 (received);
- July 10, 2006 - \$50,000 (received);
- Nov 1, 2006 - \$100,000 (received);
- Nov 1, 2007 - \$100,000; and
- Nov 1, 2008 - \$200,000.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**5. MINERAL PROPERTIES (Continued)**

(b) Peru (Continued)

Subsequent to earning a 55% interest, Solid Resources can then elect to earn a further 20% interest by producing a bankable feasibility study and by paying \$1,500,000 to the Company by November 1, 2010.

(c) Exploration expenses

				<b>2006</b>		
				Brazil	Peru	Total
Assays	\$	5,049	\$	0	\$	5,049
Field costs		7,304		0		7,304
Geological database (Note 6(b))		15,000		0		15,000
Geological studies		205,038		0		205,038
Office and administrative		63,504		0		63,504
Property maintenance costs		38,708		37,714		76,422
Telecommunications		8,751		0		8,751
Travel and related costs		88,060		0		88,060
Vehicle costs		24,436		0		24,436
				\$ 455,850	\$ 37,714	\$ 493,564
				<b>2005</b>		
				Brazil	Peru	Total
Property maintenance costs	\$	0	\$	16,218	\$	16,218

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**6. CAPITAL STOCK**

- (a) Authorized  
 Unlimited common shares without par value  
 Unlimited first preferred shares without par value  
 Unlimited second preferred shares without par value
- (b) Issued and outstanding

	Common Shares		
	Number of Shares	Amount	Contributed Surplus
Balance, December 31, 2004	4,000,001	\$ 201,356	\$ 5,968,662
Issued on initial public offering	2,000,000	800,000	0
Issued as payment for financing fee	40,000	16,000	0
Stock-based compensation	0	0	128,650
Costs of issuance including financing fee	0	(220,464)	25,920
Balance, December 31, 2005	6,040,001	796,892	6,123,232
Issued on private placement	5,000,000	2,500,000	0
Issued as payment for finder's fee	127,500	0	0
Issued on exercise of share purchase	3,815,000	2,311,250	0
Issued on exercise of stock options	381,500	152,600	0
Issued as payment for geological database	15,000	15,000	0
Reclassified on exercise of warrants	0	25,920	(25,920)
Reclassified on exercise of stock options	0	115,076	(115,076)
Stock-based compensation	0	0	629,436
Pan Brazilian acquisition	0	0	350,000
Balance, December 31, 2006	15,379,001	\$ 5,916,738	\$ 6,961,672

During the year ended December 31, 2006, the Company completed a non-brokered private placement by issuing a total of 5,000,000 units at a price of \$0.50 per unit. Each unit consists of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.75 per share until February 15, 2008. A commission of 127,500 common shares was paid as a finder's fee.

Under the terms of a letter agreement signed on November 1, 2006, the Company issued 15,000 common shares and 15,000 share purchase warrants to Falconbridge Ltd., in exchange for access to proprietary exploration data in Brazil. The 15,000 share purchase warrants will be convertible into the same number of common shares at a price of \$1.30 for a period of two years

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**6. CAPITAL STOCK (Continued)**

(b) Issued and outstanding (Continued)

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 consisted of one common share and one transferable share purchase warrant. Each warrant entitled 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 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) Share purchase warrants outstanding as at December 31, 2006 and 2005 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2004		
Issued	2,200,000	\$ 0.50
Balance, December 31, 2005	2,200,000	\$ 0.50
Issued	5,015,000	\$ 0.75
Exercised	(3,815,000)	\$ 0.61
Balance, December 31, 2006	3,400,000	\$ 0.75
	Exercise Price	Number of Warrants
Expiry Date		
February 15, 2008	\$ 0.75	3,385,000
November 17, 2008	\$1.30	15,000

(d) Stock options

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. 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.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**6. CAPITAL STOCK (Continued)**

(d) Stock options (Continued)

During the years ended December 31, 2006 and 2005, the change in stock options outstanding was as follows:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2004		
Granted	426,500	\$ 0.40
Balance, December 31, 2005	426,500	\$ 0.40
Granted	1,265,000	\$ 1.13
Exercised	(381,500)	\$ 0.40
Balance, December 31, 2006	1,310,000	\$ 1.10
Options exercisable	1,235,000	\$ 1.10

The following table summarizes stock options outstanding and exercisable at December 31, 2006, with a weighted average life of 4.25 years:

Date Granted	Number Outstanding	Exercise Price	Number Vested	Expiry Date
August 19, 2004	45,000	\$ 0.40	45,000	May 30, 2010
January 11, 2006	250,000	\$ 0.51	250,000	January 11, 2011
March 16, 2006	715,000	\$ 1.35	715,000	March 16, 2011
July 10, 2006	250,000	\$ 1.10	175,000	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
	1,310,000		1,235,000	

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**6. CAPITAL STOCK (Continued)**

(e) Stock-based compensation and contributed surplus

Using the fair value method for stock-based compensation, the Company recorded a charge to earnings of \$629,436 (2005 - \$128,650), with the offsetting amount recorded as contributed surplus. This amount was determined using the Black-Scholes option pricing model using the following terms:

	2006	2005
Weighted average		
Risk-free interest rate	4.2%	2.75%
Expected dividend yield	0	0
Expected stock price volatility	86%	100%
Expected life of warrants/options in year	0/3	5/1

Stock-based compensation expense relates to the following expense categories:

Administrative	\$ 192,728	\$ 0
Consultants	121,839	45,699
Directors' remuneration	191,411	82,951
Management fees	123,458	0
	<b>\$ 629,436</b>	<b>\$ 128,650</b>

(f) Escrow shares

At December 31, 2006, a total of 1,800,001 of the Company's issued common shares were held in escrow. These escrowed shares will be released evenly every six months to April 30, 2008.

**7. RELATED PARTY TRANSACTIONS**

Commencing April 1, 2006, the Company pays Quest Management Corp. ("Quest Management"), a subsidiary of Quest, a company related by virtue of two directors in common, \$1,250 per month for rent. The Company had an outstanding payable of \$1,250 to Quest Management at December 31, 2006 (2005 - \$3,500).

The Company had an outstanding payable of \$1,326 to Quest Management at December 31, 2006 (2005 - \$3,500).

During 2006, the Company entered into a Consulting Services Agreement with the president of the Company, whereby the Company must pay a management fee of \$10,000 per month. During the year ended December 31, 2006, the Company was charged \$120,000 (2005 - \$Nil) by the president of the Company, of which \$Nil (2005 - \$Nil) was included in accounts payable as at December 31, 2006.

Amounts due to a related party include amounts payable to a company related by virtue of having one common director, are payable upon demand and non-interest bearing.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**8. INCOME TAX LOSSES**

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<b>2006</b>	<b>2005</b>
Income tax benefit computed at Canadian statutory rates 34.12% (2005 – 34.86%)	\$ (638,000)	\$ (87,000)
Non-deductible share-based compensation	215,000	45,000
Share issuance costs	(12,000)	(12,000)
Exploration expenses	168,000	6,000
Unrecognized tax losses	267,000	48,000
	<b>\$ 0</b>	<b>\$ 0</b>

The Company has operating losses that may be carried forward to apply against future years' income for Canadian income tax purposes. These losses expire as follows:

2014	\$ 93,000
2015	121,000
2026	504,000
	<b>\$ 718,000</b>

Future income taxes reflect the tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The applicable tax rate to be expected is 34.12%. The components of future income tax assets at December 31, 2006 and 2005 are as follows:

	<b>2006</b>	<b>2005</b>
Future income tax assets		
Non-capital loss carry-forwards	\$ 718,000	\$ 214,000
Tax value of mineral properties in excess of book value	514,000	16,000
Share issue costs	60,000	75,000
	<b>1,292,000</b>	<b>305,000</b>
Tax rates	34.12%	34.86%
	<b>441,000</b>	<b>106,000</b>
Valuation allowance	(441,000)	(106,000)
	<b>\$ 0</b>	<b>\$ 0</b>
Net future income tax assets	<b>\$ 0</b>	<b>\$ 0</b>

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**9. SEGMENTED INFORMATION**

The Company operates in one reportable operating segment, being exploration and development of mineral properties.

Summarized financial information for the geographic segments the Company operates in are as follows:

	Brazil and Peru	North America	Total
December 31, 2006			
Interest income	\$ 4,030	\$ 125,749	\$ 129,779
Loss for the year	\$ (658,799)	\$ (1,213,101)	\$ (1,871,900)
Total assets	\$ 1,110,760	\$ 4,068,238	\$ 5,178,998
Capital expenditures	\$ 522,503	\$ 14,129	\$ 536,632
December 31, 2005			
Interest income	\$ 0	\$ 8,363	\$ 8,363
Loss for the year	\$ (16,218)	\$ (234,653)	\$ (250,871)
Total assets	\$ 423,300	\$ 649,620	\$ 1,072,920
Capital expenditures	\$ 0	\$ 0	\$ 0

**10. SUBSEQUENT EVENTS**

Subsequent to December 31, 2006, the Company entered into the following transactions:

- (a) Issued 205,000 common shares pursuant to the exercise of share purchase warrants for proceeds totaling \$153,750; and
- (b) Signed a property option and joint venture agreement with CCT Capital Ltd. ("CCT"), whereby CCT may earn a 70% interest in the Company's Campos Verdes gold project by paying US \$50,000 to the Company on signing (received) and incurring a total of US \$2 million of expenditures on the property within a three-year period as follows:
  - US \$500,000 on or before the first anniversary of the effective date (February 27, 2008);
  - US \$700,000 on or before the second anniversary of the effective date (February 27, 2009); and
  - US \$800,000 on or before the third anniversary of the effective date (February 27, 2010).

The Company will be the project operator during the option period.

The agreement is conditional upon receipt of TSX Venture Exchange approval by June 30, 2007 and CCT having exploration funds of at least US\$500,000 at that time. It is further conditional upon CCT completing a private placement of which a total of 200,000 common shares of CCT are made available for purchase by the Company at a price of \$0.165 per share, together with warrants to purchase a further 200,000 shares at a price of \$0.33 per share, for a period of two years.

**LARA EXPLORATION LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2006 and 2005**

---

**10. SUBSEQUENT EVENTS** (Continued)

- (c) Signed a property option agreement with a privately owned Brazilian company, HSAK Mineração Ltda. ("HSAK"), whereby HSAK may earn an 80% interest in the Company's Fortuna Gold Project in Northeast Brazil by paying \$20,000 (\$10,000 received) and fulfilling certain work commitments. The Company may exchange its residual share for a 2% NSR royalty.
- (d) Signed an option to agreement to acquire the São Lourenço Tin Mine in Rondônia State, Northwest Brazil. Under the terms of the option, the Company must pay the owners US\$75,000 (US\$12,500 paid) over three years and may, within that period, acquire the property outright for US\$1 million.