

Lara Exploration Ltd.

(An Exploration Stage Company)

Interim Consolidated Financial Statements

For the Three Month Period ended March 31, 2006

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

The accompanying unaudited interim consolidated financial statements of Lara Exploration Ltd. for the three month period ended March 31, 2006 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These interim consolidated financial statements have not been reviewed by the Company's external auditors.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Balance Sheets
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	March 31, 2006 \$	December 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	2,766,415	51,287
Short-term investments	525,000	625,000
Receivables	21,460	5,083
Prepaid expenses and deposits	24,837	5,250
	<u>3,337,712</u>	<u>686,620</u>
Furniture and equipment (net of amortization of \$340)	20,078	-
Mineral properties (Notes 1 and 4)	668,860	373,300
Non-compete contracts (Note 3)	101,784	-
Deferred acquisition costs	-	13,000
	<u>4,128,434</u>	<u>1,072,920</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	76,955	45,407
Due to related party (Note 6)	74,841	-
	<u>151,796</u>	<u>45,407</u>
Shareholders' Equity		
Share capital (Note 5)	3,853,149	796,892
Contributed Surplus	6,868,716	6,123,232
Deficit	(6,745,227)	(5,892,611)
	<u>3,976,638</u>	<u>1,027,513</u>
	<u>4,128,434</u>	<u>1,072,920</u>

Nature of operations (Note 1)

Subsequent events (Note 9)

Approved by the Board of Directors

Signed: "Andrew Milligan" _____ Director

Signed: "Michael D. Winn" _____ Director

See accompanying notes to the interim consolidated financial statements.

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Consolidated Statements of Operations and Deficit
For the Three Month Period Ended March 31, 2006
(Unaudited – Prepared by Management)
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	Three months ended March 31, 2006 \$	Three months ended March 31, 2005 \$
Expenses		
Administrative services (Note 6)	17,684	7,000
Amortization	14,880	-
Bank charges and interest	1,393	320
Consultants	8,960	2,683
Foreign exchange loss	460	254
Management fees (Note 6)	30,000	-
Office	34,663	1,806
Professional fees	119,523	1,988
Rent	10,040	-
Shareholder information	2,896	-
Stock-based compensation (Note 5)	486,429	-
Transfer agent and filing fees	33,189	-
Travel and related costs	26,715	-
Loss before other items	(786,832)	(14,051)
Other items		
Exploration expenses	(35,189)	-
Interest income	10,667	220
Property maintenance costs	(41,262)	-
Loss for the period	(852,616)	(13,831)
Deficit - Beginning of period	(5,892,611)	(5,641,740)
Deficit - End of period	(6,745,227)	(5,655,571)
Basic and diluted loss per share	(0.10)	-
Weighted average number of common shares outstanding	8,863,571	4,000,001

See accompanying notes to the interim consolidated financial statements.

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(An Exploration Stage Company)

Consolidated Statements of Cash Flows
For the Three Month Period Ended March 31, 2006
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Three months ended March 31, 2006 \$	Three months ended March 31, 2005 \$
Cash flows from operating activities		
Loss for the period	(852,616)	(13,831)
Items not affecting cash		
Amortization	14,880	-
Stock-based compensation	486,429	-
Changes in non-cash working capital items		
Accounts receivable	(16,180)	(3,211)
Prepaid expenses	(13,662)	(15,250)
Accounts payable and accrued liabilities	26,267	38,821
	<u>(354,882)</u>	<u>6,529</u>
Cash flows from investing activities		
Redemption of short-term investments	100,000	-
Mineral property expenditures	(45,560)	-
Deferred acquisition costs	13,000	-
Purchase of furniture and equipment	(20,418)	-
	<u>47,022</u>	<u>-</u>
Cash flows from financing activities		
Advances from related party	57,676	-
Issuance of shares for cash	2,965,312	-
Deferred financing costs	-	(53,230)
	<u>3,022,988</u>	<u>(53,230)</u>
Increase (decrease) in cash and cash equivalents	2,715,128	(46,701)
Cash and cash equivalents - Beginning of period	51,287	122,992
Cash and cash equivalents - End of period	2,766,415	76,291

Supplemental cash flow information (Note 7)

See accompanying notes to the interim consolidated financial statements.

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Notes to the Interim Consolidated Financial Statements
For the Three Month Period Ended March 31, 2006
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

1. Nature and continuance 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. Basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal and recurring adjustments considered necessary for fair presentation of the results for the interim period. Operating results for the three month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These interim consolidated financial statements follow the same accounting policies as the annual financial statements of the Company. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements, and notes thereto, for the year ended December 31, 2005.

3. Acquisition of Pan Brazilian Mineração Ltda.:

On February 15, 2006, the Company completed the acquisition of all of the issued and outstanding shares of Pan Brazilian Mineração 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 former shareholders received \$1 from the Company and three million escrow shares of Lara that were previously held by Quest. These shares have been valued at \$350,000 using a Black-Scholes pricing model. Ancillary to this acquisition were non-compete agreements, including one between the Company and the current President of the Company, valued at a total of \$116,284. The value of this non-compete agreement is being amortized over a twelve month period, being the term of the agreements. During the current period, the Company recorded \$14,540 of amortization expense.

At the time of the acquisition, the operations of Pan Brazilian did not contain all the elements required to constitute a business. Consequently, the acquisition has been accounted for as a purchase of assets and the value of the share consideration given by Quest has been determined effective February 15, 2006. The ongoing activities of Pan Brazilian have been consolidated in the accounts of the Company following the date of the acquisition.

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3. Acquisition of Pan Brazilian Mineracao Ltda. (continued):

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

Purchase price

3,000,000 escrowed common shares	\$	350,000
Cash		1
		<hr/>
	\$	350,001

Net assets acquired

Cash	\$	1
Receivables		197
Prepaid expenses		5,925
Mineral properties		250,000
Non-compete agreements		116,285
Accounts payable		(5,282)
Due to related party		(17,125)
		<hr/>
	\$	350,001

4. Mineral properties

	Peru \$	Brazil \$	Total \$
Balance - December 31, 2005	373,300	-	373,300
Acquisition costs	-	250,000	250,000
Consultants	-	45,560	45,560
		<hr/>	<hr/>
	-	295,560	295,560
Balance - March 31, 2006	373,300	295,560	668,860

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4. Mineral properties (cont'd)

a) Brazil

i) Campos Verdes

Campos Verdes is a gold and copper project comprising ten exploration licenses covering a total 17,898 hectares in Goiás State. The properties were acquired pursuant to an option agreement dated April 5, 2005. Subsequent to March 31, 2006, the Company made its final payment of US\$10,000. The Company must pay to the vendor a further US\$98,500 for each property that is put into production on a commercial scale. Seven of these licenses expire in September, 2006 and renewal requests for a further three year period are being prepared. The remaining three licenses expire in June, 2007.

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 the State of Rondônia, comprised of two areas covering 10,000 hectares. In order to exercise its option, the Company must pay to the optionor a total of US\$170,000 (US\$10,000 paid to date) and must incur a minimum of US\$310,000 in exploration expenditures.

iii) Araguaia

The Araguaia nickel project comprises six exploration claims covering 43,000 hectares located in Pará State. These mineral rights have been optioned to Falconbridge Brasil Ltda, whereby the optionee has the right to earn a 70% interest in the Araguaia mineral rights by paying US\$110,000 (US\$20,000 paid to date) to the Company and by incurring at least US\$3.89 million of exploration expenditures by June, 2009.

b) Peru

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 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 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. 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	Amount
Balance, December 31, 2005	6,040,001	\$ 796,892
Issued on private placement	5,000,000	2,500,000
Issued as payment for finder's fee	127,500	-
Issued on exercise of share purchase warrants	689,425	344,712
Issued on exercise of stock options	301,500	120,600
Reclassified on exercise of stock options	-	90,945
Balance, March 31, 2006	12,158,426	\$ 3,853,149

During the three month period ended March 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 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.

c) Share purchase warrants outstanding as at March 31, 2006 are as follows:

	Number of Warrants	Exercise Price	Expiry Date
	1,480,575	\$0.50	May 26, 2006
	5,000,000	\$0.75	February 15, 2008
	6,480,575	\$0.69	Weighted average exercise price

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5. Capital stock (continued)

d) Stock options

On January 11, 2006, the Company granted 250,000 stock options (50% vested on grant date and 50% will vest one year thereafter) with an exercise price of \$0.51 and an expiry date of January 11, 2011 and on March 16, 2006, the Company granted 715,000 fully vested stock options with an exercise price of \$1.35 and an expiry date of March 16, 2011.

Stock options outstanding as at March 31, 2006 are as follows:

Date Granted	Number of Options	Exercise Price	Expiry Date
August 19, 2004	125,000	\$ 0.40	May 30, 2010
January 11, 2006	250,000	\$ 0.51	January 11, 2011
March 16, 2006	715,000	\$ 1.35	March 16, 2011
Total	1,090,000	\$ 1.05	Weighted Average exercise price

e) Stock-based compensation and contributed surplus

Using the fair value method for stock-based compensation, the Company recorded a charge to earnings of \$486,429, with the offsetting amount recorded as contributed surplus. This amount was determined using the Black-Scholes option pricing model, assuming no dividends were paid, and based on a weighted average volatility of the Company's share price of 75%, an annual risk-free interest rate of 3.5% with an expected option life of two years.

f) Escrow shares

At March 31, 2006, a total of 2,400,001 of the Company's issued common shares were held in escrow. The remaining escrowed shares will be released evenly every six months to April 30, 2008.

6. Related party transactions

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 former directors and two former 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 three month period ended March 31, 2006, the Company was charged \$10,500 (2005 - \$7,000) by Quest Management.

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6. Related party transactions (continued)

The Company had an outstanding payable of \$3,500 to Quest Management at March 31, 2006 (2005 - \$10,500).

During the current period, 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 three month period ended March 31, 2006, the Company was charged \$30,000 (2005 - \$Nil) by the President of the Company, of which \$20,000 (2005 - \$Nil) was included in accounts payable as at March 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 are non-interest bearing.

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.

7. Supplementary cash flow information

	Three months ended March 31, 2006 \$	Three months ended March 31, 2005 \$
Cash received for interest	10,667	220

8. Segmented information

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

9. Subsequent events

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

- a) The Company issued 10,000 common shares pursuant to the exercise of stock options for proceeds totaling \$4,000.
- b) The Company issued 1,392,875 common shares for proceeds totaling \$696,437 and 1,100,000 common shares for proceeds totaling \$825,000 pursuant to the exercise of share purchase warrants.