

# **Lara Exploration Ltd.**

## **Management Discussion and Analysis**

### **Six Month Period Ended June 30, 2006**

#### **Background**

This discussion and analysis of financial position and results of operations is prepared as at August 17, 2006, and should be read in conjunction with the unaudited interim consolidated financial statements for the six month period ended June 30, 2006 of Lara Exploration Ltd. (the “Company” or “Lara”) and the related notes thereto. Those interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, as a result, do not contain all disclosure required under generally accepted accounting principles for annual financial statements. Accordingly, readers may want to refer to the Company’s December 31, 2005 and 2004 annual consolidated financial statements and accompanying notes. All dollar amounts included therein and in the following management discussion and analysis (“MD&A”) are expressed in Canadian dollars except where noted.

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company’s management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. Additional information relevant to the Company’s activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Company Overview**

The Company is an exploration company dedicated to the identification, acquisition and exploration of gold and base metals in South America with properties in Brazil and Peru. The Company’s strategy is to advance its projects through prospecting and early-stage exploration and to seek partners through joint-ventures or other associations to fund continued project development. By following this strategy, Lara plans to build a portfolio of projects that will allow it to maximize discovery opportunities while minimizing its funding requirements and risk.

During the year ended December 31, 2005, the Company completed its initial public offering and became publicly listed on May 30, 2005.

On February 15, 2006, the Company completed the acquisition 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.

Concurrent with this acquisition, the Company completed a private placement of 5 million units at a price of \$0.50 per unit for gross proceeds totaling \$2.5 million (details are discussed in the Liquidity section below).

## **Brazil Properties**

Pan Brazilian held roughly 100,000 hectares of exploration licenses and claims in nine distinct project areas at the time of its acquisition by Lara on February 15, 2006. Since then, the Company has acquired additional claims and licenses such that it now holds some 400,000 hectares, spread over 14 distinct project areas. Most of these properties are still at reconnaissance stage and part of Lara's on-going generative efforts. Lara or its partners were active on the following projects during the quarter:

**The Pará Nickel Project** (previously called the Araguaia Project) comprises 43,000 hectares of exploration claims over mafic-ultramafic intrusives that are optioned to a Brazilian subsidiary of Falconbridge Ltd. Under the option agreement, Falconbridge can earn a 70% interest in the project by making cash payments of 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 (approximately US\$280,000 incurred to date). During the quarter, Falconbridge completed 19 diamond drillholes for a total of 661m resulting in the discovery of a lateritic nickel mineralized zone measuring 1km by 1.4km at Vila Oito.

The **Campos Verdes Project** comprises 26,000 hectares of exploration licenses covering part of the Santa Terezinha greenstone belt in Goiás State. The property lies some 40km from Yamana Gold's Chapada copper-gold project due to start producing in 2007 and the Crixás gold mine owned equally by AngloGold Ashanti and Kinross. During the quarter, the Company undertook soil sampling, channel sampling, geological mapping and trenching, with the best results reported to date being 5.8m @ 5.9 g/t gold to across the abandoned surface workings at João Neves.

The **Colorado do Oeste** project comprises an option to acquire 20,000 hectares covering greenstones with acid and mafic-ultramafic intrusive rocks of the Guaporé greenstone belt in the southeast of Rondônia State (NW Brazil). The property was the subject of an exploration program in the 1990's that focused on an area of abandoned gold workings known as the Zé Goiano Garimpo. A series of gold-in-soil anomalies were defined and partly drill tested. The target of that work was sub-vertical gold-bearing quartz veins and breccias hosted in shear zones defined by strongly foliated meta-basalts or mafic intrusives. Lara initiated field work in June, 2006 by re-establishing the soil grids and relocating the old trenches and drill hole collar sites. Soil samples have been collected across the main gold-in-soil anomalies and channel samples were cut across the pit walls of the old workings to validate the historical data. 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 (US\$30,000 incurred to date).

The **Pará-Tocantins Generative** program was initiated during the quarter. Lara registered on a 100%-owned basis an additional 326,000 hectares of exploration claims over extensions of the ground in joint venture with Falconbridge (Pará Nickel Project) and other more conceptual targets generated from remote sensing studies in the same district. A reconnaissance team has been in the field reviewing this ground since April, 2006 and has completed reconnaissance work over approximately half of the claims. Several target areas have been identified with anomalous gold

and base metal values and 51,000 hectares have been relinquished to reduce the property holdings to 275,000 hectares in size. First phase recon work will be completed by year end at which point it is anticipated that further ground will be relinquished. Lara intends to initiate follow-up work on the most promising targets in September, 2006.

### **Lara Property**

The Company 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 has made staged cash payments in the aggregate amount of US\$55,000. If the Lara property is put into production, the Vendor will be entitled to receive a final payment of US\$500,000 on commencement of commercial production from any mineral deposits within the claim area.

The Company signed a binding letter of intent (effective November 1, 2005) which allows Solid Resources Ltd. ("Solid") the right to earn an initial 55% interest in the Lara Prospect. Under the agreement, Solid must make staged cash payments to the Company totaling \$500,000 and complete exploration expenditures of \$2 million, including a minimum of 8,000 metres of drilling to earn its initial interest. The cash payments include \$25,000 on signing and up to an additional \$175,000 in the first 12 months from signing. Lara has received \$50,000 under this agreement. Solid can then elect to earn a further 20% interest by producing a bankable feasibility study and paying \$1.5 million to the Company within a two year period.

A drill permit application was submitted in March, 2006, with follow-up information and studies submitted to the authorities in April, June and early August, 2006. A 20-hole drill program will be mobilized once this permit is granted.

### **Results of Operations**

The Company recorded a loss of \$195,596 for the three month period ended June 30, 2006 (2005 - \$164,261). The increase in loss over the prior comparative period results from the fact that the Company acquired Pan Brazilian, resulting in increased exploration activities and related expenses and professional fees. In addition, comparative figures pertain to a period prior to the Company becoming publicly listed. As a result, expenses incurred during the comparative period were minimal.

The Company recorded a loss of \$1,048,212 for the six month period ended June 30, 2006 (2005 - \$178,092). The increase in loss over the prior comparative period partly relates to the recognition of stock-based compensation expense of \$486,429 (2005 - \$128,650) for stock options that were granted during the current period. The remaining increase in the loss results from the fact that the Company's comparative figures pertain to a period prior to the Company becoming publicly listed. As a result, expenses incurred during the comparative period were minimal.

## Exploration Expenditures

The Company incurred exploration expenses of \$66,172 (2005 - \$8,894) during the three month period ended June 30, 2006 and \$142,623 (2005 - \$8,894) for the six months ended June 30, 2006, most of which was incurred in Brazil relating to the Para-Tocantins generative program.

## Liquidity and Capital Resources

The Company had working capital at June 30, 2006 of \$4,681,473 as compared to a working capital position of \$641,213 at December 31, 2005. The increase in working capital of \$4,040,260 was due mainly to the proceeds from a private placement and the exercise of warrants and options which, in total, amounted to approximately \$4.7 million. The proceeds from share issuances were partially offset by the loss for the period, adjusted for items not affecting cash, of \$517,689, investments in mineral properties of approximately \$125,000 and purchase of furniture and equipment of approximately \$35,000. It is planned that these proceeds will be used for work on the Brazil Properties and to fund ongoing operations. Under an option agreement with Solid, the work program on the Lara property will be expanded and will be funded solely by Solid. The Company increased its short-term investment by \$2,886,500 during the current period. The short-term investment is convertible into cash at any time after thirty days without interest penalty.

In February, 2006, in conjunction with the acquisition of Pan Brazilian, the Company 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. The Company currently has sufficient working capital to carry out its 2006 exploration programs and to cover general and administrative costs. However, should the Company make a significant property acquisition or decide to accelerate development on one or more of its properties, the Company may require additional working capital.

## Quarterly Information

	2006	2006	2005	2005
Quarter Ended	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Operating Expenditures	\$ 165,103	\$ 786,832	\$ 65,072	\$ 14,144
Loss for the period	(195,596)	(852,616)	(59,956)	(13,273)
Loss per Share (Basic and Diluted)	(0.01)	(0.10)	(0.01)	-

  

	2005	2005	2004	2004
Quarter Ended	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Operating Expenditures	\$ 163,949	\$ 13,797	\$ 35,257	\$ 15,908
Loss for the period	(164,261)	(13,381)	(30,605)	(16,914)
Loss per Share (Basic and Diluted)	(0.04)	-	(0.01)	-

Expenses incurred during the second quarter of 2006, with the exception of stock-based compensation expense (Q2 - \$Nil; Q1 - \$486,429) were comparable to those of the first quarter. While professional fee expense was significantly lower, there was an increase in general and administrative costs that related to newly-acquired operations in Brazil. Expenses incurred during the first quarter of 2006 were higher than those of the fourth quarter of 2005 due to additional expenses related to stock-based compensation totaling \$486,429, management fees totaling \$30,000 and an increase in exploration expenses and general and administrative costs that related to newly-acquired operations in Brazil. Expenses incurred during the fourth quarter of 2005 were higher due to additional expenses related to the Solid option agreement and applying for drilling permits. The second quarter of 2005 had higher expenses than in previous periods because the Company recognized \$128,650 of stock-based compensation expense, incurred additional costs for becoming a public company and paid maintenance fees for the property in Peru. The fourth quarter of 2004 also had higher expenses. This resulted from accruing the audit fee for years 2002, 2003 and 2004 and recognizing a \$10,000 fee from Quest for assisting with the Minas Dixon acquisition and the Company's initial public offering. In the second quarter of 2004, Lara incurred costs of approximately \$7,000 for title fees and approximately \$14,000 for late filing fees to the government of Peru which resulted in the higher costs in that quarter.

### **Off Balance Sheet Arrangements**

The Company has no off Balance Sheet arrangements.

### **Transactions with Related Parties**

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 was obligated 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. Commencing April 1, 2006, this Services Agreement was terminated and Quest Management subsequently charges the Company \$1,250 per month for rent.

The Company had an outstanding payable of \$1,250 to Quest Management at June 30, 2006 (2005 - \$3,500).

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 six month period ended June 30, 2006, the Company was charged \$60,000 (2005 - \$Nil) by the President of the Company, of which \$Nil (2005 - \$Nil) was payable as at June 30, 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.

### **Subsequent events**

Subsequent to June 30, 2006, the Company entered into the following transactions:

- a) issued 150,000 common shares for proceeds totaling \$112,500 pursuant to the exercise of share purchase warrants; and
- b) Granted stock options enabling the holders to acquire up to 250,000 common shares at a price of \$1.10, expiring July 10, 2001.

### **Risks and Uncertainties**

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that claims and leases are in good standing and obtaining permits for drilling and other exploration activities. The market prices for silver, gold and other metals can be volatile and there is no assurance that a profitable market will exist for a production decision to be made or for the ultimate sale of the metals even if commercial quantities of precious and other metals are discovered.

The Company is operating in countries that currently have varied political environments. Changing political situations may affect the manner in which the Company operates. The Company's equity financings are sourced in Canadian dollars but for the most part it incurs its expenditures in local currencies or in US dollars. At this time there are no currency hedges in place. The Company does not have any employees. All work is carried out through independent consultants and the Company requires that all consultants carry their own insurance to cover any potential liabilities as a result of their work on a project.

Lara is currently earning an interest in certain of its key properties through option agreements and acquisition of title to the properties is only completed when the option conditions have been met. These conditions generally include making property payments, incurring exploration expenditures on the properties and can include the satisfactory completion of pre-feasibility studies. If the Company does not satisfactorily complete these option conditions in the time frame laid out in the option agreements, the Company's title to the related property will not vest and the Company will have to write-down the previously capitalized costs related to that property.

## **Cautionary Statement**

This MD&A may contain “forward looking statements” that reflect the Company’s current expectations and projections about its future results. When used in this MD&A, words such as “estimate”, “intend”, “expect”, “anticipate” and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company’s future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause Lara’s actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and factors may include, but are not limited to: unavailability of financing, failure to identify commercially viable mineral reserves, fluctuations in the market valuation for commodities, difficulties in obtaining required approvals for the development of a mineral project and other factors.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicate herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **Outstanding Share Data**

As at August 17, 2006, there were 15,164,001 common shares issued. In addition, there were the following options and warrants outstanding:

- 1,260,000 fully-vested stock options with a weighted average exercise price of \$1.09 per share and terms expiring between May 30, 2010 and March 16, 2011;
- 3,585,000 warrants with an exercise price of \$0.75 and a term expiring on February 15, 2008.

A total of 2,400,001 of the Company’s issued common shares are held in escrow and will be released in equal amounts at regularly scheduled intervals to April 30, 2008.