

**Lara Exploration Ltd.**  
(An Exploration Stage Company)

**Interim Consolidated Financial Statements**  
**Three and Six Months Ended June 30, 2007**  
(Unaudited – Prepared in accordance with Canadian GAAP)  
(Expressed in Canadian Dollars, unless otherwise stated)

The accompanying unaudited interim consolidated financial statements of Lara Exploration Ltd. (the “Company”) for the three and six months ended June 30, 2007 have been prepared by management and approved by the Board of Directors of the Company. These consolidated financial statements have not been reviewed by the Company’s external auditors.

# LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Balance Sheets  
(Unaudited - Expressed in Canadian Dollars)

	June 30, 2007	December 31, 2006
<b>Assets</b>		<i>(Restated – Note 2b)</i>
<b>Current assets</b>		
Cash and cash equivalents	\$ 589,811	\$ 420,966
Short-term investments	3,111,500	3,638,001
Receivables	47,479	107,442
Prepaid expenses and deposits	54,712	29,586
	<u>3,803,502</u>	<u>4,195,995</u>
<b>Furniture and equipment</b>	67,828	67,250
<b>Mineral properties (Note 4)</b>	<u>452,337</u>	<u>468,698</u>
	\$ 4,323,667	\$ 4,731,943
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 46,067	\$ 65,099
<b>Shareholders' equity</b>		
Share capital (Note 6)	6,289,562	5,916,738
Contributed surplus	6,982,733	6,961,672
Deficit	<u>(8,994,695)</u>	<u>(8,211,566)</u>
	4,277,600	4,666,844
	\$ 4,323,667	\$ 4,731,943

Nature of operations (Note 1)

Approved by the Board of Directors:

Signed: "Narinder Nagra" \_\_\_\_\_ Director      Signed: "Miles Thompson" \_\_\_\_\_ Director

See accompanying notes to the interim consolidated financial statements.

# LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Statements of Loss, Comprehensive Loss and Deficit  
(Unaudited – Expressed in Canadian Dollars)

	Three months ended June 30,		Six month ended June 30,	
	2007	2006	2007	2006
		<i>(Restated – Note 2b)</i>		<i>(Restated – Note 2b)</i>
<b>Expenses</b>				
Amortization	\$ 3,157	\$ 29,214	\$ 5,047	\$ 44,094
Consultants (Note 6e)	2,100	17,525	9,890	68,243
Directors remuneration (Note 6e)	-	-	-	128,485
Management fees (Note 6e)	24,000	30,000	52,000	183,459
Office, rent and administrative services (Note 6e)	69,249	45,710	116,189	302,217
Professional fees	23,907	9,377	57,956	128,900
Shareholder information and investor relations	30,721	3,467	42,613	6,363
Transfer agent and filing fees	13,765	15,543	20,957	48,732
Travel and related costs	11,406	28,012	28,515	54,727
<b>Loss before other items</b>	178,305	178,848	333,167	965,220
<b>Other income (expenses)</b>				
Exploration expenses (Note 5)	(278,376)	(145,284)	(509,777)	(267,295)
Foreign exchange	(13,866)	13,745	(16,534)	13,285
Interest income	38,316	35,679	76,349	46,346
	(253,926)	(95,860)	(449,962)	(207,664)
<b>Loss and comprehensive loss for the period</b>	(432,231)	(274,708)	(783,129)	(1,172,884)
<b>Deficit – Beginning of period</b>				
As previously reported	(8,115,409)	(6,790,787)	(7,764,511)	(5,892,611)
Change in accounting for exploration expenses (Note 2b)	(447,055)	(79,112)	(447,055)	(124,672)
As restated	(8,562,464)	(6,869,899)	(8,211,566)	(6,017,283)
<b>Deficit – End of period</b>	\$ (8,994,695)	\$ (7,144,607)	\$ (8,994,695)	\$ (7,190,167)
<b>Basic and diluted loss per share</b>	\$ (0.03)	\$ (0.02)	\$ (0.05)	\$ (0.10)
<b>Weighted average number of common shares outstanding</b>	15,648,755	13,899,699	15,558,303	11,390,519

See accompanying notes to the interim consolidated financial statements.

# LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows  
(Unaudited – Expressed in Canadian Dollars)

	Three months ended June 30,		Six month ended June 30,	
	2007	2006	2007	2006
		<i>(Restated – Note 2b)</i>		<i>(Restated – Note 2b)</i>
<b>Cash flows from operating activities</b>				
Loss for the period	\$ (432,231)	\$ (274,708)	\$ (783,129)	\$ (1,172,884)
Items not affecting cash				
Amortization	3,157	29,214	5,047	44,094
Stock-based compensation	34,634	-	34,634	486,429
Changes in non-cash working capital items				
Receivables	104,978	(22,139)	59,963	(38,319)
Prepaid expenses and deposits	(10,947)	(7,265)	(25,126)	(20,927)
Accounts payable and accrued liabilities	(46,924)	(34,975)	(19,031)	(3,265)
	(347,333)	(309,873)	(727,642)	(704,872)
<b>Cash flows from investing activities</b>				
Deferred acquisition costs	-	-	-	13,000
Mineral property acquisition costs	65,275	-	16,361	-
Minerals property option payments received	(80,834)	22,019	-	22,019
Purchase of furniture and equipment	(1,449)	(14,505)	(5,625)	(34,923)
Purchase of short-term investments	(3,500,000)	(3,511,500)	(3,500,000)	(3,511,500)
Redemption of short-term investments	3,900,460	525,000	4,026,501	625,000
	383,422	(2,978,986)	537,237	(2,886,404)
<b>Cash flows from financing activities</b>				
Advances from related party	-	3,992	-	53,724
Issuance of shares for cash	231,751	1,733,537	359,250	4,701,350
	231,751	1,737,529	359,250	4,755,074
<b>Increase (decrease) in cash and cash equivalents</b>	267,840	(1,551,330)	168,845	1,163,798
<b>Cash and cash equivalents – Beginning of period</b>	321,971	2,766,415	420,966	51,287
<b>Cash and cash equivalents – End of period</b>	\$ 589,811	\$ 1,215,085	\$ 589,811	\$ 1,215,085
<b>Supplemental cash flow information</b>				
Interest received	\$ 143,875	\$ 14,106	\$ 146,608	\$ 39,917

See accompanying notes to the interim consolidated financial statements.

# LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements  
(Unaudited – Expressed in Canadian Dollars)

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## 1. NATURE 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.

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 annual 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 periods presented. Operating results for the three and six months ended June 30, 2007 are not necessary indicative of the results that may be expected for the year ending December 31, 2007. These interim consolidated financial statements follow the same accounting policies as the annual financial statements of the Company, except as noted below. Accordingly, these financial statements should be read in conjunction with the audited financial statements, and notes thereto, for the year ended December 31, 2006.

### Changes in Accounting Policies

- a) The Company has adopted the following CICA handbook guidelines effective for the Company’s first quarter commencing January 1, 2007:
  - i) Section 1530 – Comprehensive Income. Comprehensive income is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments.
  - ii) Section 3855 – Financial Instruments – Recognition and Measurement. Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. Investments classified as available-for-sale are reported at fair market value (or mark-to-market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as the comprehensive income or loss. Investments subject to significant influence are not adjusted to fair market value.
  - iii) Section 3865 – Hedging. Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed.

The adoption of Sections 1530, 3855 and 3865 does not impact the opening consolidated balance sheet of the Company as at December 31, 2006 or have any impact on the Company’s financial statements for the six months ended June 30, 2007 and 2006.

- b) Effective January 1, 2007, the Company changed its accounting policy for mineral properties from deferring exploration costs directly related to active investigations of mineral properties to expensing such costs until such time as their development potential is evidenced by a positive economic analysis of the project. This change is being made to facilitate consistent accounting policies amongst all of the companies in the consolidated group as the accounting policy for mineral properties in the foreign jurisdictions that the Company operates requires that exploration costs be expensed. This change has been applied retroactively and the comparative figures in the interim consolidated financial statements have been restated. The effect of this change on the balance

# LARA EXPLORATION LTD.

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Notes to the Consolidated Financial Statements  
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## 2. BASIS OF PRESENTATION CONTINUED

sheet is to decrease mineral properties and increase the accumulated deficit by \$447,055 as at December 31, 2006. The effect of this change on the statement of loss and comprehensive loss is to increase exploration expenses, loss and comprehensive loss for the three and six months ended June 30, 2007 by \$71,350 (2006 - \$79,112) and \$117,500 (2006 - \$124,672) respectively. The change to the loss per share for the three and six months ended June 30, 2007 was the loss per share increased by \$0.01 for both periods (2006 - increased the loss per share by \$0.01 for both periods).

## 3. COMPARATIVE FIGURES

Certain comparative figures for the three and six months ended June 30, 2006 have been reclassified to conform with the current period's presentation.

## 4. MINERAL PROPERTIES

	Brazil	Peru	Total
Balance, December 31, 2005	\$ -	\$ 373,300	\$ 373,300
Acquisition costs	267,417	-	267,417
Option payments received	(22,019)	(150,000)	(172,019)
Balance, December 31, 2006	245,398	223,300	468,698
Acquisition costs	64,473	-	-
Option payments received	(80,834)	-	-
Balance, June 30, 2007	\$ 229,037	\$ 223,300	\$ 452,337

## 5. EXPLORATION EXPENSES

	Six Months Ended June 30, 2007		
	Brazil	Peru	Total
Assays	\$ 26,071	\$ -	\$ 26,071
Field costs	27,544	-	27,544
Geological studies	262,937	6,595	269,532
Office and administrative	85,250	2,469	87,719
Property maintenance costs	21,761	4,283	26,044
Telecommunications	8,429	-	8,429
Travel and related costs	63,074	1,364	64,438
	\$ 495,066	\$ 14,711	\$ 509,777

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Notes to the Consolidated Financial Statements  
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## 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	Amount
Balance, December 31, 2006	15,379,001	\$ 5,916,738
Issued on exercise of share purchase warrants	455,000	341,250
Issued on exercise of stock options	45,000	18,000
Reclassify value of stock options exercised from contributed surplus	-	13,574
Balance, June 30, 2007	15,879,001	\$ 6,289,562

- c) Share purchase warrants outstanding as at June 30, 2007 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2006	3,400,000	\$0.75
Exercised	(455,000)	\$0.75
Balance, June 30, 2007	2,945,000	\$0.75

Expiry Date	Number of Warrants	Exercise Price
February 15, 2008	2,930,000	\$0.75
November 17, 2008	15,000	\$1.30
	2,945,000	\$0.75

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## 6. CAPITAL STOCK CONTINUED

### d) Stock options

The following table summarizes the stock options outstanding and exercisable at June 30, 2007, with a weighted average life of 4 years:

	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
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
May 14, 2007	75,000	\$1.32	25,000	May 14, 2012
	1,340,000	\$1.14	1,290,000	

### e) Stock-based compensation and contributed surplus

Using the fair value method for stock-based compensation, the Company recorded a charge to earnings of \$34,634 (2006 - \$486,429) for the six months ended June 30, 2007, 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 volatility of the Company's share price of 194%, an annual risk-free interest of 4.22% with an expected option life of three years.

Stock based compensation relates to the following expense categories.

	2007	2006
Administrative	\$ 34,634	\$ 192,727
Consultants	-	41,758
Directors' remuneration	-	128,785
Management fees	-	123,459
	\$ 34,634	486,429

### f) Escrow shares

At June 30, 2007, a total of 1,200,001 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.

## 7. RELATED PARTY TRANSACTIONS

The Company pays Quest Capital Corp. ("Quest"), a company related by virtue of a Director in common and an officer of Quest who is a Director of the Company for office rent and supplies.

For six months ended June 30, 2007, Quest charged the Company \$9,066 (2006 - \$14,250) for office rent and supplies. The Company had an outstanding payable of \$1,380 (2006 - \$1,250) to Quest at June 30, 2007.