

Lara Exploration Ltd.

(An Exploration Stage Company)

Interim Consolidated Financial Statements
Three and Six Months Ended June 30, 2008
(Unaudited – Prepared in accordance with Canadian GAAP)
(Expressed in Canadian Dollars, unless otherwise stated)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited interim consolidated financial statements of Lara Exploration Ltd. (the “Company”) for the three and six months ended June 30, 2008 have been prepared by management and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102, management advises that 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 – Expressed in Canadian Dollars, unless otherwise stated)

	June 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 4,674,117	\$ 4,734,297
Receivables	44,705	88,723
Prepaid expenses and deposits	41,031	28,048
	<u>4,759,853</u>	<u>4,851,068</u>
Furniture and equipment (Note 6)	75,789	78,188
Long-term investments (Note 7)	4,901,399	100,956
Mineral properties (Note 8)	148,633	128,633
	<u>\$ 9,885,674</u>	<u>\$ 5,158,845</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 78,108	\$ 271,979
Current income taxes payable	238,952	-
Exploration advances (Note 5)	37,574	129,309
	<u>354,634</u>	<u>401,288</u>
Future income tax liability	17,400	-
	<u>\$ 372,034</u>	<u>\$ 401,288</u>
Shareholders' equity		
Share capital (Note 10)	8,852,146	7,790,896
Contributed surplus (Note 10)	7,289,815	7,164,642
Accumulated other comprehensive income	214,250	42,076
Deficit	<u>(6,842,571)</u>	<u>(10,240,057)</u>
	<u>9,513,640</u>	<u>4,757,557</u>
	<u>\$ 9,885,674</u>	<u>\$ 5,158,845</u>

Nature of operations (Note 1)

Approved by the Board of Directors:

Signed: "Michael Winn"

Director

Signed: "Miles Thompson"

Director

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Exploration expenditures (Note 9)	\$ 272,046	\$ 291,276	\$ 644,453	\$ 534,286
General & administrative expenses				
Amortization	307	3,157	687	5,047
Management fees	23,878	24,000	48,000	52,000
Office, rent and administrative services	41,914	58,449	89,983	101,570
Professional fees	20,968	23,907	44,821	57,956
Shareholder information and investor relations	14,367	30,721	53,474	42,613
Stock-based compensation	113,352	-	125,172	-
Transfer agent and filing fees	16,682	13,765	29,753	20,957
Travel and related costs	17,152	11,406	29,375	28,515
	248,620	165,405	421,265	308,658
Loss before other items	(520,666)	(456,681)	(1,065,718)	(842,944)
Other income (expenses)				
Unrealized (loss) on change in fair value of derivative financial instruments (Note 7)	(21,075)	-	(26,845)	-
Foreign exchange gain (loss)	19,314	(13,866)	14,263	(16,534)
Interest income	32,389	38,316	77,024	76,349
Other income (Note 8)	4,623,114	-	4,623,114	-
	4,653,742	24,450	4,687,556	59,815
Income (loss) before income taxes	4,133,076	(432,231)	3,621,838	(783,129)
Current income tax expense	(238,952)	-	(238,952)	-
Future income tax recovery	14,600	-	14,600	-
Net income (loss) for the period	\$ 3,908,724	\$ (432,231)	\$ 3,397,486	\$ (783,129)
Other comprehensive income (loss)				
Net income (loss) for the period	\$ 3,908,724	\$ (432,231)	\$ 3,397,486	\$ (783,129)
Change in fair value of financial instruments (Note 7)	208,174	-	204,174	-
Future income tax expense	(32,000)	-	(32,000)	-
Comprehensive income (loss)	\$ 4,084,498	\$ (432,231)	\$ 3,569,660	\$ (783,129)
Basic earnings (loss) per share	\$ 0.26	\$ (0.03)	\$ 0.21	\$ (0.05)
Diluted earnings (loss) per share	\$ 0.26	\$ (0.03)	\$ 0.21	\$ (0.05)
Weighted average number of common shares outstanding				
Basic	19,246,501	15,648,755	19,051,309	15,558,303
Diluted	19,337,381	15,648,755	19,146,289	15,558,303

The accompanying notes are an integral part of these consolidated financial statements.

LARA EXPLORATION LTD.

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Interim Consolidated Statements of Deficit and Accumulated Other Comprehensive Income
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	June 30, 2008	December 31, 2007
Deficit, beginning of period	\$ (10,240,057)	\$ (8,434,865)
Net income (loss) for the period	3,397,486	(1,805,192)
Deficit, end of period	\$ (6,842,571)	\$ (10,240,057)
Accumulated other comprehensive income, beginning of period	\$ 42,076	\$ -
Change in fair value of financial instruments, net of future income tax expense (Note 7)	172,174	42,076
Accumulated other comprehensive income, end of period	\$ 214,250	\$ 42,076

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Cash flows from (used in) operating activities				
Income (loss) for the period	\$3,908,724	\$ (432,231)	\$3,397,486	\$ (783,129)
Items not affecting cash:				
Amortization	2,409	3,157	4,855	5,047
Stock-based compensation	113,353	34,634	125,173	34,634
Change in fair value of derivative financial instruments	21,075	-	26,845	-
Other income (Note 8)	(4,623,114)	-	(4,623,114)	-
Future income taxes	(14,600)	-	(14,600)	-
Changes in non-cash working capital items:				
Receivables	(12,085)	104,978	44,018	59,963
Prepaid expenses and deposits	2,534	(10,947)	(12,983)	(25,126)
Accounts payable and accrued liabilities	(20,526)	(46,924)	(193,871)	(19,031)
Current income tax payable	238,952	-	238,952	-
Exploration advances	36,535	-	(91,735)	-
Net cash used in operating activities	(346,743)	(347,333)	(1,098,974)	(727,642)
Cash flows from (used in) investing activities				
Mineral property acquisition costs	-	65,275	-	16,361
Mineral property option payments received	-	(80,864)	(20,000)	-
Purchase of furniture and equipment	(1,927)	(1,449)	(2,456)	(5,625)
Purchase of short-term investments	-	(3,500,000)	-	(3,500,000)
Redemption of short-term investments	-	3,900,460	-	4,026,501
Net cash provided (used) in investing activities	(1,927)	383,422	(22,456)	537,237
Cash flows from (used in) financing activities				
Issuance of shares for cash	-	231,751	1,061,250	359,250
Net cash provided by financing activities	-	231,751	1,061,250	359,250
Increase (decrease) in cash and cash equivalents	(348,670)	267,840	(60,180)	168,845
Cash and cash equivalents, beginning of period	5,022,787	321,971	4,734,297	420,966
Cash and cash equivalents, end of period	\$4,674,117	\$ 589,811	\$4,674,117	\$ 589,811
Supplemental cash flow information				
Interest received	\$ 32,203	\$ 143,875	\$ 76,586	\$ 146,608
Income taxes paid	-	-	-	-

Supplemental disclosure with respect to cash flows (Note 12)

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Notes to the Interim Consolidated Financial Statements
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)
Three and Six Months Ended June 30, 2008

1. NATURE OF OPERATIONS

Lara Exploration Ltd. (the “Company”) was incorporated under the British Columbia *Business Corporations Act* on March 31, 2003.

The Company’s principal business activities are the acquisition, exploration and development of mineral exploration properties in Brazil and Peru. The Company’s continuing operations and ability to meet its mineral property commitments are dependant upon the continued support of existing and future joint venture partners and the ability of the Company to raise additional financing.

The Company is currently exploring its mineral properties and has not yet determined whether its mineral properties contain reserves that are economically recoverable. The recoverability of amounts capitalized for mineral properties is dependent upon the discovery of sufficient economically recoverable ore reserves, confirmation of the Company’s interest in the underlying mineral properties, the ability of the Company to arrange appropriate financing to complete the development of the mineral properties and upon future profitable production or proceeds from the sale of the mineral properties.

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, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These interim consolidated financial statements follow the same accounting policies as the annual financial statements of the Company for fiscal 2007, except as noted below. Accordingly, these financial statements should be read in conjunction with the audited annual financial statements, and notes thereto, for the year ended December 31, 2007.

3. CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following CICA handbook guidelines for the Company’s first quarter commencing January 1, 2008:

Going-concern

The CICA amended Handbook Section 1400, “General Standards of Financial Statement Presentation”, which requires management to assess an entity’s ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity’s ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The adoption did not have a material impact on the consolidated financial statements for any of the periods presented.

Capital disclosures

The CICA issued Handbook Section 1535, “Capital Disclosures”, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and procedures for managing capital.

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Notes to the Interim Consolidated Financial Statements
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3. CHANGES IN ACCOUNTING POLICIES (Continued)

Financial instruments

The CICA issued two new standards, Section 3862, "Financial Instruments - Disclosures", and Section 3863, "Financial Instruments - Presentation". These sections replace the existing Section 3861, "Financial Instruments - Disclosure and Presentation". Section 3862 provides users with information to evaluate the significance of the financial instruments of the entity's financial position and performances, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Recent Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

5. EXPLORATION ADVANCES

Under the terms of the mineral property option agreement between the Company and CCT Capital Inc. ("CCT") on the Company's Campos Verdes mineral property, CCT is required to advance funds to the Company, as the operator of the exploration programs, for agreed-upon exploration programs. To June 30, 2008 the Company has received \$545,152 of exploration advances from CCT, of which \$37,574 has not yet been expended on the Campos Verdes property.

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6. FURNITURE AND EQUIPMENT

	June 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 75,557	\$ 16,699	\$ 58,858
Field equipment	19,919	2,998	16,931
	<u>\$ 95,476</u>	<u>\$ 19,687</u>	<u>\$ 75,789</u>

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 73,101	\$ 12,840	\$ 60,261
Field equipment	19,919	1,992	17,927
	<u>\$ 93,020</u>	<u>\$ 14,832</u>	<u>\$ 78,188</u>

7. LONG-TERM INVESTMENTS

In June 2008, the Company received 1,180,872 common shares of Sprott Resource Corp. ("SRC") for the sale of the Company's interest in the Mantaro Phosphate Project ("Mantaro Project") (Note 8).

In August 2007, the Company purchased 200,000 units of a private placement offering by CCT at a price of \$0.165 per unit. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share of CCT at a price of \$0.33 per share until August 7, 2009. The Company allocated the cost between the common shares and share purchase warrants based on the estimated fair value at the time of acquisition.

The Company has determined that the CCT share purchase warrants are derivative financial instruments and the CCT and SRC common shares have been designated as available-for-sale.

	As at June 30, 2008		
	Cost	Fair Value	Accumulated Unrealized Gain(Loss)
CCT – 200,000 common shares	\$ 21,924	\$ 32,000	\$ 10,076
CCT – 200,000 share purchase warrants	11,076	10,111	(965)
SRC – 1,180,872 common shares	4,623,114	4,859,288	236,174
	<u>\$ 4,656,114</u>	<u>\$ 4,901,399</u>	<u>\$ 245,285</u>

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7. LONG-TERM INVESTMENTS (Continued)

	As at December 31, 2007		
	Cost	Fair Value	Accumulated Unrealized Gain
CCT – 200,000 common shares	\$ 21,924	\$ 64,000	\$ 42,076
CCT – 200,000 share purchase warrants	11,076	36,956	25,880
	\$ 33,000	\$ 100,956	\$ 67,956

8. MINERAL PROPERTIES

	Brazil	Peru	Total
Balance, December 31, 2006	\$ 245,398	\$ 1	\$ 245,399
Acquisition costs	65,408	-	65,408
Option payments received	(182,174)	-	(182,174)
Balance, December 31, 2007	128,632	1	128,633
Acquisition costs	20,000	-	20,000
Balance, June 30, 2008	\$ 148,632	\$ 1	\$ 148,633

In January 2008, the Company made a staged lease payment of US\$20,000 (US\$48,000 paid to date) in respect of the São Lourenço project in Brazil. Under the terms of the agreement the Company will pay US\$73,500 in staged lease payments over three years. The Company has up to January 29, 2010 to exercise its option to acquire the mineral rights by making a one-time payment of US\$1,000,000.

In June 2008, the Company sold its interest in the Mantaro Project in Peru to SRC for 1,180,872 common shares, which have an estimated fair value of \$4,623,114. The sale resulted in a gain, net of taxes, of \$4,384,162. The Company retains its right to a 0.5% royalty on any production from the Mantaro Project.

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Notes to the Interim Consolidated Financial Statements
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Three and Six Months Ended June 30, 2008

9. EXPLORATION EXPENDITURES

Three Months Ended June 30, 2008	Campos Verdes	Sao Lourenco	T'Gold	Other	Total Brazil	Peru	Total
Assays	\$ 29,985	\$ 5,813	\$ 552	\$ 1,051	\$ 37,402	\$ -	\$37,402
Field costs	18,137	21,357	-	2,620	42,114	-	42,114
Salaries and consultants	-	23,172	-	86,260	109,432	11,473	120,905
Office and administrative	5,448	2,221	-	65,138	72,807	1,881	74,688
Property maintenance costs	632	-	-	3,326	3,958	-	3,958
Telecommunications	556	493	570	2,881	4,499	-	4,499
Travel and related costs	481	8,535	1,990	19,827	30,833	-	30,833
Trenching	905	3,906	-	7,245	12,056	-	12,056
Vehicle	-	-	-	-	-	-	-
Drilling	28,492	-	-	-	28,492	-	28,492
	84,636	65,497	3,112	188,349	341,594	13,354	354,948
Recoveries	(82,902)	-	-	-	(82,902)	-	(82,902)
	\$ 1,734	\$ 65,497	\$ 3,112	\$ 188,349	\$ 258,692	\$ 13,354	\$272,046

Three Months Ended June 30, 2007	Campos Verdes	Other	Total Brazil	Peru	Total
Assays	\$ -	\$ 7,987	\$ 7,987	\$ -	\$ 7,987
Field costs	5,321	6,483	11,804	-	11,804
Salaries and consultants	11,533	124,393	135,926	6,595	142,521
Office and administrative	8,183	47,194	55,376	2,469	57,845
Property maintenance costs	4,510	17,251	21,761	2,061	23,822
Telecommunications	527	2,808	3,335	-	3,335
Travel and related costs	7,289	34,975	42,246	1,364	43,610
Trenching	352	-	352	-	352
	\$ 37,715	\$ 241,073	\$ 278,787	\$ 12,489	\$ 291,276

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Three and Six Months Ended June 30, 2008

9. EXPLORATION EXPENDITURES (Continued)

Six Months Ended June 30, 2008	Campos Verdes	Sao Lourenco	T'Gold	Other	Total Brazil	Peru	Total
Assays	\$ 35,352	\$ 6,855	\$ 14,995	\$ 1,051	\$ 58,253	\$ 8,540	\$66,793
Field costs	49,995	34,102	14,513	10,427	109,036	-	109,036
Salaries and consultants	31,471	43,048	42,543	149,490	266,552	25,520	292,072
Office and administrative	10,373	4,896	335	152,241	167,844	5,206	173,050
Property maintenance costs	21,535	49	39	52,028	73,651	-	73,651
Telecommunications	816	710	755	2,881	5,163	-	5,163
Travel and related costs	1,109	12,633	13,580	24,104	51,507	64	51,571
Trenching	905	3,906	-	7,245	12,056	-	12,056
Vehicle	-	-	-	-	-	405	405
Drilling	71,828	-	-	-	71,828	-	71,828
	223,465	106,198	86,760	399,467	815,890	39,735	855,625
Recoveries	(211,172)	-	-	-	(211,172)	-	(211,172)
	\$ 12,293	\$ 106,198	\$ 86,760	\$ 399,467	\$ 604,718	\$ 39,735	\$644,453

Six Months Ended June 30, 2007	Campos Verdes	T'Gold	Other	Total Brazil	Peru	Total
Assays	\$ -	\$ -	\$ 26,071	\$ 26,071	\$ -	\$ 26,071
Field costs	8,009	-	19,183	27,192	-	27,192
Salaries and consultants	17,444	2,089	220,265	239,798	6,595	246,393
Office and administrative	13,508	1,134	95,116	109,758	2,469	112,227
Property maintenance costs	12,665	-	32,236	44,901	4,283	49,184
Telecommunications	527	-	7,902	8,429	-	8,429
Travel and related costs	10,316	1,875	50,883	63,074	1,364	64,438
Trenching	352	-	-	352	-	352
Vehicle	-	-	-	-	-	-
Drilling	-	-	-	-	-	-
	62,821	5,098	451,656	519,575	14,711	534,286
Recoveries	-	-	-	-	-	-
	\$ 62,821	\$ 5,098	\$ 451,656	\$ 519,575	\$ 14,711	\$534,286

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Notes to the Interim Consolidated Financial Statements
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Three and Six Months Ended June 30, 2008

10. SHARE CAPITAL

Issued and outstanding

	Common Shares		
	Number of Shares	Amount	Contributed Surplus
Balance, December 31, 2006	15,379,001	5,916,738	6,961,672
Issued on private placement	1,500,000	1,275,000	-
Issued as finder's fee	97,500	(39,916)	39,916
Issued on exercise of share purchase warrants	810,000	607,500	-
Issued on exercise of stock options	45,000	18,000	-
Reclassified on exercise of stock options	-	13,574	(13,574)
Stock-based compensation	-	-	176,628
Balance, December 31, 2007	17,831,501	\$ 7,790,896	\$ 7,164,642
Issued on exercise of share purchase warrants	1,415,000	1,061,250	-
Stock-based compensation	-	-	125,173
Balance, June 30, 2008	19,246,501	\$ 8,852,146	\$ 7,289,815

Share purchase warrants

The continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2006	3,400,000	\$ 0.75
Issued	1,597,500	\$ 1.20
Exercised	(810,000)	\$ 0.75
Balance, December 31, 2007	4,187,500	\$ 0.92
Exercised	(1,415,000)	\$ 0.75
Expired	(1,160,000)	\$ 0.75
Balance, June 30, 2008	1,612,500	\$ 1.20

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Notes to the Interim Consolidated Financial Statements
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)
Three and Six Months Ended June 30, 2008

10. SHARE CAPITAL (Continued)

Share purchase warrants outstanding are as follows:

Expiry Date	Exercise Price	June 30, 2008 Number of Warrants	December 31, 2007 Number of Warrants
February 15, 2008	\$ 0.75	-	2,575,000
November 17, 2008	1.30	15,000	15,000
September 28, 2009	1.20	1,597,500	1,597,500
	\$ 1.20	1,612,500	4,187,500

Stock options

The Company adopted a stock option plan pursuant to the policies of the TSX Venture Exchange. The maximum number of shares that may be reserved for issuance under the plan is limited to 10% of the issued common shares of the Company at any time. The vesting terms are determined by the Company's Board of Directors at the time of the grant. The changes in stock options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2006	1,310,000	\$ 1.10
Granted	375,000	1.23
Exercised	(45,000)	0.40
Cancelled	(50,000)	1.35
Balance, December 31, 2007	1,590,000	\$ 1.15
Granted	410,000	0.80
Cancelled	(95,000)	1.27
Balance, June 30, 2008	1,905,000	\$ 1.07

The following table summarizes the stock options outstanding and exercisable at June 30, 2008, with a weighted average life of 3.46 years:

Issue Date	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
January 11, 2006	250,000	\$ 0.51	250,000	January 11, 2011
March 16, 2006	645,000	1.35	645,000	March 16, 2011
July 10, 2006	250,000	1.10	250,000	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	50,000	May 14, 2012
October 3, 2007	150,000	1.22	75,000	October 3, 2012
October 16, 2007	75,000	1.19	75,000	October 16, 2012
June 18, 2008	410,000	1.19	205,000	October 16, 2012
	1,905,000	\$ 1.07	1,600,000	

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10. SHARE CAPITAL (Continued)

During the six month period ended June 30, 2008, the Company granted 410,000 stock options, of which 205,000 vested immediately and 205,000 are to vest on the first anniversary of the grant date. The Company recorded stock based compensation of \$96,136 with the offsetting amount credited to contributed surplus.

11. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties. Except mineral property interests, equipment and exploration expenditures, substantially all of the Company's assets and expenditures are located and incurred in Canada. The mineral property interests are located in Brazil and Peru (see Note 8), the equipment is located in Brazil (see Note 6) and substantially all of the exploration expenditures are incurred in Brazil (see Note 9).

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the six month period ended June 30, 2008, the Company received 1,180,872 common shares of SRC, with an estimated fair value of \$4,623,114, for the sale of the Company's interest in the Mantaro Project (Note 8).

13. FINANCIAL RISK MANAGEMENT

As at June 30, 2008, the Company's financial instruments are comprised of cash and cash equivalents, accounts receivable, long-term investments, accounts payable and accrued liabilities. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency Risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Brazil and Peru, although currently there is limited activity in Peru, and a portion of the Company's expenses are incurred in Brazilian Reals. A significant change in the currency exchange rates between the Canadian dollar relative to the Brazilian Real could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At June 30, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in Brazilian Reals.

	Brazilian Reals
Cash and cash equivalents	216,577
Receivables	80,851
Accounts payable and accrued liabilities	(119,096)
Net exposure	178,332
Canadian dollar equivalent	\$ 111,954

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)
Three and Six Months Ended June 30, 2008

13. FINANCIAL RISK MANAGEMENT (Continued)

Based on the above net exposure as at June 30, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the Brazilian Real would result in an increase/decrease of approximately \$11,000 in the Company's pre-tax earnings (loss).

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents. The Company limits exposure to credit risk by maintaining its cash and cash equivalents with large financial institutions. The Company does not have cash and cash equivalents that are invested in asset based commercial paper.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company believes that these sources will be sufficient to cover the likely short and long-term requirements.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest-bearing accounts and highly liquid short-term interest bearing investments; management considers the interest rate risk to be limited.

14. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties. In the management of capital, the Company includes the components of shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, option its mineral properties for cash and/or expenditures or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary.

The Company's investment policy is to hold cash in interest bearing bank accounts and highly liquid short-term interest bearing investments with maturities of one year or less and which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. The Company expects its current capital resources will be sufficient to carry its exploration programs and operating costs through its current operating period.