

Lara Exploration Ltd.

(An Exploration Stage Company)

Interim Consolidated Financial Statements

For the Nine Month Period ended September 30, 2006

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

The accompanying unaudited interim consolidated financial statements of Lara Exploration Ltd. for the nine month period ended September 30, 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)

	September 30, 2006 \$	December 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	648,100	51,287
Short-term investments	3,612,496	625,000
Receivables	78,789	5,083
Prepaid expenses and advances	66,807	5,250
	<u>4,406,192</u>	<u>686,620</u>
Furniture and equipment (net of amortization of \$882)	47,439	-
Mineral properties (Notes 1 and 4)	931,669	373,300
Non-compete contracts (Note 3)	43,642	-
Deferred acquisition costs	-	13,000
	<u>5,428,942</u>	<u>1,072,920</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	44,345	45,407
Shareholders' equity		
Share capital (Note 5)	5,789,568	796,892
Contributed surplus	6,954,704	6,123,232
Deficit	(7,359,675)	(5,892,611)
	<u>5,384,597</u>	<u>1,027,513</u>
	<u>5,428,942</u>	<u>1,072,920</u>

Nature of operations (Note 1)

Subsequent events (Note 8)

Approved by the Board of Directors

Signed: "*Miles Thompson*" _____ Director

Signed: "*Michael D. Winn*" _____ Director

See accompanying notes to the interim consolidated financial statements.

LARA EXPLORATION LTD.

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Interim Consolidated Statements of Operations and Deficit
For the Nine Month Period Ended September 30, 2006
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Three months ended Sept 30, 2006 \$	Three months ended Sept 30, 2005 \$	Nine months ended Sept 30, 2006 \$	Nine months ended Sept 30, 2005 \$
Expenses				
Administrative services (Note 6)	21,911	10,500	66,071	28,000
Amortization	29,470	-	73,564	-
Bank charges and interest	377	105	5,009	680
Consultants	17,219	2,397	43,704	7,775
Management fees (Note 6)	30,000	-	90,000	-
Office	9,829	350	56,737	3,448
Professional fees	1,526	(2,106)	130,426	6,572
Rent (Note 6)	3,750	-	17,540	-
Shareholder information	18,428	1,947	24,791	1,947
Stock-based compensation (Note 5(e))	110,120	-	596,549	128,650
Transfer agent and filing fees	7,181	951	55,913	5,924
Travel and related costs	14,911	-	69,638	-
Loss before other items	(264,722)	(14,144)	(1,229,942)	(182,996)
Other items				
Exploration expenses	(166,937)	-	(309,560)	(8,894)
Foreign exchange gain (loss)	(28,433)	817	(15,148)	90
Interest income	41,240	54	87,586	435
Loss for the period	(418,852)	(13,273)	(1,467,064)	(191,365)
Deficit - Beginning of period	(6,940,823)	(5,819,832)	(5,892,611)	(5,641,740)
Deficit - End of period	(7,359,675)	(5,833,105)	(7,359,675)	(5,833,105)
Basic and diluted loss per share	(0.03)	(0.01)	(0.12)	(0.04)
Weighted average number of common shares outstanding	15,145,197	6,040,001	12,655,832	5,070,580

See accompanying notes to the interim consolidated financial statements.

LARA EXPLORATION LTD.

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Interim Consolidated Statements of Cash Flows
For the Nine Month Period Ended September 30, 2006
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Three months ended Sept 30, 2006 \$	Three months ended Sept 30, 2005 \$	Nine months ended Sept 30, 2006 \$	Nine months ended Sept 30, 2005 \$
Cash flows from operating activities				
Loss for the period	(418,852)	(13,273)	(1,467,064)	(191,365)
Items not affecting cash				
Amortization	29,179	-	73,273	-
Stock-based compensation	110,120	-	596,549	128,650
Changes in non-cash working capital items				
Receivables	(35,190)	(1,663)	(73,509)	(4,682)
Prepaid expenses	(34,705)	-	(55,632)	(5,251)
Accounts payable and accrued liabilities	(5,619)	(15,503)	(8,884)	(14,125)
	(355,067)	(30,439)	(935,267)	(86,773)
Cash flows from investing activities				
Redemption of short-term investments	-	-	625,000	-
Purchase of short-term investments	(100,996)	-	(3,612,496)	-
Mineral property expenditures	(205,716)	-	(330,388)	-
Mineral property option payment received	-	-	22,019	-
Deferred acquisition costs	-	-	13,000	-
Purchase of furniture and equipment	(13,107)	-	(48,030)	-
	(319,819)	-	(3,330,895)	-
Cash flows from financing activities				
Advances from related party	(70,849)	-	(17,125)	-
Issuance of shares for cash	178,750	-	4,880,100	621,456
	107,901	-	4,862,975	621,456
Increase (decrease) in cash and cash equivalents	(566,985)	(30,439)	596,813	534,683
Cash and cash equivalents – Beginning of period	1,215,085	688,114	51,287	122,992
Cash and cash equivalents - End of period	648,100	657,675	648,100	657,675

See accompanying notes to the interim consolidated financial statements.

LARA EXPLORATION LTD.

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Notes to the Interim Consolidated Financial Statements
For the Nine Month Period Ended September 30, 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 Corp. (“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 nine month period ended September 30, 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 \$116,324. 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 \$72,682 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
	\$	350,001

Net assets acquired

Cash	\$	1
Receivables		197
Prepaid expenses		5,925
Mineral properties		250,000
Non-compete contracts		116,324
Accounts payable		(5,321)
Due to related party		(17,125)
	\$	350,001

4. Mineral properties

	Brazil	Peru	Total
Balance, December 31, 2005	\$ -	\$ 373,300	\$ 373,300
Acquisition Costs and option payments	250,000	-	250,000
Less: option payment received	(22,019)	-	(22,019)
Exploration and Development:			
Assays	17,717	-	17,717
Geological studies	207,427	-	207,427
Office and administrative	33,927	-	33,927
Property tax	2,079	-	2,079
Telecommunications	1,933	-	1,933
Travel and related costs	40,620	-	40,620
Vehicle costs	26,685	-	26,685
	558,369	-	558,369
Balance, September 30, 2006	\$ 558,369	\$ 373,300	\$ 931,669

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4. Mineral properties (cont'd)

a) Brazil

i) Campos Verdes

Campos Verdes is a gold and copper project comprising fifteen exploration licenses covering a total 26,000 hectares in Goiás State. Ten of the properties were acquired pursuant to an option agreement dated April 5, 2005. During the current period, the Company made a payment of US\$10,000 against this agreement. The Company must pay to the vendor a further US\$98,500 for each property that is put into production on a commercial scale. Three of these licenses expire in June, 2007, while the remaining seven licenses expire in September, 2009. Expenditures incurred to September 30, 2006 total \$180,607.

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 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 (\$101,680 incurred to September 30, 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 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\$40,000 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 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, 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 (received) and an additional \$150,000 in the first 12 months

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4. Mineral properties (cont'd)

from signing (received subsequent to September 30, 2006). 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.

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	3,700,000	2,225,000
Issued on exercise of stock options	381,500	152,600
Reclassified on exercise of stock options	-	115,076
Balance, September 30, 2006	15,249,001	\$ 5,789,568

During the nine month period ended September 30, 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 September 30, 2006 are as follows:

	Number of Warrants	Exercise Price	Expiry Date
	3,500,000	\$0.75	February 15, 2008
Total	3,500,000	\$0.75	Weighted average exercise price

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5. Capital stock (continued)

d) Stock options

During the nine months ended September 30, 2006, the change in stock options outstanding was as follows:

	Number of shares	Weighted average Exercise price
Balance, December 31, 2005	426,500	\$ 0.40
Granted	1,215,000	1.13
Exercised	(381,500)	0.40
Cancelled	-	
Balance, September 30, 2006	1,260,000	\$ 1.10
Options exercisable	1,185,000	\$ 1.10

The following table summarizes information about stock options outstanding and exercisable at September 30, 2006:

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
Total	1,260,000		1,185,000	

e) Stock-based compensation and contributed surplus

Using the fair value method for stock-based compensation, during the current period the Company recorded a charge to earnings of \$596,549, 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 86%, an annual risk-free interest rate of 4.2% with an expected option life of three years.

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5. Capital stock (continued)

f) Escrow shares

At September 30, 2006, a total of 2,400,001 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.

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 one director 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 September 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 nine month period ended September 30, 2006, the Company was charged \$90,000 (2005 - \$Nil) by the President of the Company, of which \$Nil (2005 - \$Nil) was included in accounts payable as at September 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.

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7. Segmented information

The Company operates in one reportable 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
September 30, 2006:			
Revenue	\$ 1,675	\$ 85,911	\$ 87,586
Loss for the period	(417,045)	(1,050,019)	(1,467,064)
Total assets	1,009,837	4,419,105	5,428,942
Capital expenditures	364,289	14,129	378,418
September 30, 2005:			
Revenue	\$ -	\$ 435	\$ 435
Loss for the period	(8,894)	(182,471)	(191,365)
Total assets	423,300	670,721	1,094,021
Capital expenditures	-	-	-

8. Subsequent events

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

- Issued 40,000 common shares pursuant to the exercise of share purchase warrants for proceeds totaling \$30,000;
- Granted stock options enabling the holder to acquire up to 25,000 common shares at a price of \$1.03, expiring November 9, 2011;
- The Company was granted the relevant environmental permits to resume drilling of the Lara property in Peru on October 2, 2006. This, in turn, triggered a payment of \$50,000 from joint venture partner Solid Resources Ltd. Solid then made a further payment of \$100,000 due on the first anniversary of signing of the agreement (Note4(b));
- Under the terms of a letter agreement signed on November 1, 2006, the Company will issue 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.