

Lara Exploration Ltd.
(An Exploration Stage Company)

Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2007
(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 nine months ended September 30, 2007 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 consolidated financial statements have not been reviewed by the Company’s external auditors.

LARA EXPLORATION LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007

BACKGROUND

This management's discussion and analysis of financial position and results of operations is prepared as at November 20, 2007, and should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2007 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, 2006 annual consolidated financial statements and accompanying notes. All dollar amounts included therein and in the following management's discussion and analysis ("MD&A") are expressed in Canadian dollars except where otherwise noted. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com or www.laraexploraion.com.

COMPANY OVERVIEW

Lara Exploration Ltd. is a company dedicated to the identification, acquisition and exploration of gold and base metal projects in South America, currently 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 exploration and project development. By following this strategy, Lara is building a portfolio of projects that will allow it to maximize discovery opportunities while minimizing its funding requirements and risk.

EXPLORATION REVIEW

The Company holds the Lara copper oxide deposit in Peru and a large portfolio of mineral properties in Brazil, with on-going exploration programs for nickel, gold, tin, diamonds and copper mineralization. During the three months ended September 30, 2007, the Company was active on the following projects:

Araguaia Nickel Project

This project comprises 301,000 hectares of 100%-owned mineral rights in northern Brazil targeting nickel laterite and sulphide mineralization in mafic-ultramafic intrusives of the Araguaia Belt in Pará State. Drilling has already encountered significant nickel laterite and silicate mineralization at Vila Oito. Airborne geophysics and surface geochemistry have identified a number of additional targets within Lara's property.

During the period, the Company negotiated and signed an Option and Joint Venture Agreement (the “Agreement”) with Teck Cominco Limited’s Brazilian subsidiary, Teck Cominco Brasil S.A. (“Teck Cominco”). Under the terms of the Agreement, Teck Cominco has the option to earn a 60% interest in the project by funding exploration expenditures of US\$4,000,000 over a 36 month period. Teck Cominco paid the Company US\$100,000 upon signing of the Agreement and will pay US\$500,000 upon completion of the US\$4,000,000 of exploration expenditures to vest its 60% interest.

Upon earning its 60% interest, Teck Cominco shall have a one-time option to increase its interest to 75% by sole funding the next US\$4,000,000 of exploration expenditures over a maximum two-year period. Once Teck Cominco has vested its interest, each party shall be obliged to fund its share of costs on a pro-rata basis in accordance with its ownership interest. In the event that either party’s interest dilutes below 10%, it will convert to a 1% net smelter return royalty.

Campos Verdes Gold Project

This project comprises 32,900 hectares of gold and copper exploration licenses in central Brazil in the Brasília Belt in Goiás State, twenty-five kilometers west of the Chapada gold mine owned by Yamana Gold Inc. During the period, the Company completed soil sampling and geological/regolith mapping along the 12 kilometer João Neves trend. Reconnaissance work was completed on new areas that extend coverage of the João Neves trend for a further 10 kilometers to the northeast. Other targets within the property, identified from Aster satellite images and airborne geophysical surveys, were sampled and mapped.

A drill rig and terrestrial geophysical survey crew were mobilized to the site in early October. An electrical (Induced Potential) survey has been completed over the João Neves trend and in other parts of the property, which has identified several new drill targets. Drilling started to test the depth extensions of high-grade sheeted gold vein stockworks mapped and sampled in the abandoned surface workings at João Neves, with two holes completed to date, with 1,100 metres budgeted.

Exploration work at Campos Verdes is operated by Lara but funded by CCT Capital Ltd., under the terms of a Property Option and Joint Venture Agreement signed on February 27, 2007, which received TSX Venture Exchange Approval during the period, CCT can earn a 70% interest in the Campos Verdes gold project by spending US\$2,000,000 on exploration by February 27, 2010. This Agreement covers 26,000 hectares of the current Project area.

Colorado Gold Project

The Colorado project in northwest Brazil comprises an option to acquire 20,000 hectares of exploration licenses covering greenstones of the Guaporé belt in Rondônia State. The Company has completed surface work and reinterpretation of historical drilling to define new targets and is seeking a joint venture partner to fund drilling.

São Lourenço Tin Project

The São Lourenço tin project comprises an option to acquire 3,549 hectares of mining licenses in northwest Brazil over the abandoned São Lourenço tin mine in Rondônia State. During the period the Company initiated systematic grid sampling of an area of altered granites (greisens) with disseminated tin mineralization identified around the Serra Irene hill. A geophysical survey (radiometric) is planned over the same grid.

Tapajós Gold-Copper Project

The Tapajós project in northern Brazil comprises a joint venture to explore for intrusion-related gold and copper deposits in the Tapajós District of Pará State. Under the terms of the Letter of Intent signed on April 19, 2007, the Company will provide US\$300,000 of seed funding for 50% of the new joint venture company T'Gold Mineração Ltda ("T'Gold") that will initially own 44,800 hectares of exploration claims covering historical garimpos workings at Santa Felicidade, Santa Cecilia, Castelo, Colibri (Beija-Flor), Caic-1 and Caic-2. The Santa Felicidade, Santa Cecilia, Castelo and Colibri claims are subject to a 1.5% NSR royalty, half of which (0.75%) may be purchased by T'Gold for US\$750,000.

During the period the Company completed remote sensing using public domain satellite imagery and airborne geophysics over all the areas of interest. Fieldwork during the period focused mainly on the Santa Felicidade property, where wide-spaced soil sampling grids have been executed over much of the trend that hosts the known gold mineralization. More detailed sampling has been undertaken in the old garimpeiro pits.

Concord Kimberlite Project

The Concord Kimberlite Project comprises an option to purchase 100% of an 8,850 hectare exploration license over two previously identified diamondiferous kimberlites, denominated Concord 1 and 2. Under the terms of the Option Agreement the Company may acquire 100% of the Concord property for \$230,000 and a 1% production royalty. The Company has the option to purchase the royalty at a time of its choosing for the sum of US\$500,000.

During the period the Company completed mineralogical analyses and micro-probe studies of heavy minerals collected from stream sediment samples that confirm the prospectivity of the pipes. Concord 1 has been mapped at surface, but Concord 2 sits under younger sedimentary cover, the limits of both have now been mapped using surface outcrop where possible and a terrestrial geophysical (Magnetic) survey. Ground penetrating radar and auger sampling are planned for the coming period to better outline Concord 2. The Company plans to take larger samples of both bodies to confirm that the bodies are diamondiferous.

Lara Oxide Copper Project

The Lara project comprises 1,800 hectares of exploration licenses over a copper oxide deposit in southwest Peru near the town of Nazca.

Under the terms of a Letter Agreement dated November 1, 2005 between the Company and Solid Resources Ltd. (“Solid”), Solid had to complete 1,500 metres of diamond and reverse circulation drilling before the first anniversary of the issue of a drill permit by the Peruvian mining authorities. As at this anniversary date on October 2, 2007 and an additional one-week extension, Solid had not completed this work commitment. The Company served a notice of Termination of Option to Solid on October 10, 2007 and is in the process of resuming operating control of the project.

RESULTS OF OPERATIONS

For the three months ended September 30, 2007, the Company reported a loss \$410,262 as compared to a loss of \$624,568 in the third quarter of 2006. The decrease is due to lower exploration expenses, recoveries of exploration expenditures from a joint venture partner, lower stock-based compensation expense and income as a result of an increase in the fair value of derivative financial instruments.

For the nine months ended September 30, 2007, the Company reported a loss of \$1,193,391 as compared to a loss of \$1,797,452 for the comparable period of 2006. The decrease is due to lower stock based compensation expense, professional fees and related costs in respect of the acquisition of Pan Brazilian Mineração Ltda., which was completed in 2006. The decrease was offset by increased exploration expenditures, as the prior year activities were only conducted for a portion of the period as the acquisition of Pan Brazilian Mineração Ltda. occurred on February 15, 2006.

SUMMARY OF QUARTERLY RESULTS

	2007	2007	2007	2006
Quarter Ended	Sep 30	Jun. 30	Mar. 31	Dec. 31 ⁽¹⁾
Exploration expenditures	\$295,720	\$278,376	\$231,401	\$300,671
Stock based compensation	58,130	34,634	-	32,887
Loss for the period	(410,262)	(432,231)	(350,898)	(414,246)
Loss per Share (Basic and Diluted)	(0.03)	(0.03)	(0.02)	(0.03)

	2006	2006	2006	2005
Quarter Ended	Sept. 30 ⁽¹⁾	Jun. 30 ⁽¹⁾	Mar. 31 ⁽¹⁾⁽²⁾	Dec. 31 ⁽¹⁾
Exploration expenditures	\$372,653	\$145,284	\$122,011	\$7,405
Stock based compensation	110,120	-	486,429	-
Loss for the period	(624,568)	(274,708)	(898,176)	(59,506)
Loss per Share (Basic and Diluted)	(0.04)	(0.02)	(0.10)	(0.01)

(1) The amounts reported for 2006 and 2005 have been restated to reflect the change in the Company’s accounting policy for mineral property exploration costs (see Changes in Accounting Policies).

(2) Includes expenditures related to the acquisition of Pan Brazilian Mineração Ltda.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2007, the Company had working capital of \$4,735,073 as compared to \$4,130,896 at December 31, 2006. The increase in working capital during the nine months ended September 30, 2007 was mainly due to net proceeds from capital stock issued for cash totaling approximately \$1,650,000 and option payments net of acquisition costs of approximately \$150,000. The increase was offset by net exploration expenditures and net general and administrative expenses of approximately \$1,200,000.

The Company does not currently own or have an interest in any producing mineral properties and does not derive any revenues from operations. The Company's activities have been funded through equity financing and the Company expects that it will continue to be able to utilize this source of financing until it develops cash flow from operations. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of finance cannot be obtained, then the Company will be forced to curtail its activities to a level for which funding is available and can be obtained. The Company is not invested in any short-term commercial paper or asset backed securities.

In management's opinion the Company has sufficient working capital to meet its commitments for the next 12 months.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in preparation of the Financial Statements are consistent with those set forth in note 2 of the consolidated financial statements for the year ended December 31, 2006, except as described in "Changes in Accounting Policies" below. They are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Mineral Properties

The Company's accounting policy is to capitalize acquisition costs, net of option payments received, until the property to which they relate is placed into production, sold or abandoned. Exploration expenditures are expensed as incurred until such time as the development potential of the property is evidenced by a positive economic analysis. This policy is an acceptable alternative under Canadian GAAP. On a quarterly basis, management reviews the carrying values of acquisition costs with a view to assessing whether there has been any impairment in

value. In the event that resources are estimated to be insufficient to recover the carrying value of any property, the carrying value will be written down to fair value or written-off, as appropriate.

Stock Based Compensation

Another significant estimate relates to accounting for stock-based compensation. From time to time, the Company may grant share purchase options to directors, officers, management and consultants. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model, and other models which are used to value options, require inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the stock-based compensation expense charged in a period.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company changed its accounting policy for mineral properties from deferring exploration costs directly relating 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. The 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 consolidated financial statements have been restated. The effect of this change on the balance sheet is to decrease mineral properties and increase the accumulated deficit by \$670,355 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 by \$205,716 and \$330,388 for the three and nine months ended September 30, 2006 respectively. The loss per share increased by \$0.01 and \$0.02 for the three and nine months ended September 30, 2006 respectively.

Effective January 1, 2007, the Company adopted the provisions of CICA Handbook Sections 3855, Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation, 1530 – Comprehensive Income, and 3865 – Hedging, on which addresses the classification, recognition and measurement of financial instruments in the financial statements and the inclusion of other comprehensive income.

Section 3855 requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income. Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. Section 1530 requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Certain gains and losses that would otherwise be recorded as part of net earnings would now be presented in "other comprehensive income", until it is considered appropriate to recognize into net earnings.

TRANSACTIONS WITH RELATED PARTIES

The Company pays Quest Capital Corp. (“Quest”), 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 the nine months ended September 30, 2007, Quest charged the Company \$12,969 (2006 - \$18,000) for office rent and supplies. The Company has had an outstanding payable of \$1,380 (2006 - \$1,250) to Quest at September 30, 2007.

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. At this time there are no currency hedges in place.

The Company 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.

FORWARD LOOKING INFORMATION

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 November 20, 2007, there were 17,681,501 common shares issued. In addition, there were the following options and warrants outstanding:

- 1,590,000 stock options (1,390,000 fully-vested) with a weighted average exercise price of \$1.15 per share and terms expiring between January 11, 2011 and October 16, 2012.
- 4,337,500 share purchase warrants with a weighted average exercise price of \$0.92 and a terms expiring between February 15 and September 28, 2009.

A total of 1,200,001 of the Company's issued common shares are held in escrow and will be released in equal amounts at regularly scheduled six-month intervals to April 30, 2008.

SUBSEQUENT EVENTS

In October 2007, the Company granted 150,000 stock options exercisable at \$1.19 per share for a period of five years to a new director.

DISCLOSURE CONTROLS & PROCEDURES

The Corporation's management have designed such disclosure controls and procedures, or caused them to be designed under management's supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There has been no change in the Company's internal control over financial reporting during the Company's quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

LIMITATIONS OF CONTROLS AND PROCEDURES

The Company's management, including the CEO and CFO, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Balance Sheets
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)
Three and Nine Months Ended September 30, 2007

	September 30, 2007	December 31, 2006
Assets		<i>(Restated – Note 2b)</i>
Current assets		
Cash and cash equivalents	\$ 4,568,049	\$ 420,966
Restricted cash (Note 4)	148,636	-
Short-term investments	-	3,638,001
Receivables	167,384	107,442
Prepaid expenses and deposits	40,566	29,586
	<u>4,924,635</u>	<u>4,195,995</u>
Furniture and equipment	67,018	67,250
Long-term investments (Note 5)	114,206	-
Mineral properties (Note 6)	127,697	245,398
	<u>5,233,556</u>	<u>4,508,643</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	40,926	65,099
Exploration advances (Note 4)	148,636	-
	<u>189,562</u>	<u>65,099</u>
Shareholders' equity		
Share capital (Note 8)	7,583,312	5,916,738
Contributed surplus	7,040,863	6,961,672
Accumulated other comprehensive income	48,076	-
Deficit	<u>(9,628,257)</u>	<u>(8,434,866)</u>
	<u>5,043,994</u>	<u>4,443,544</u>
	<u>\$ 5,233,556</u>	<u>\$ 4,508,643</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 interim consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Statements of Loss, Comprehensive Loss, and Deficit
(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)
Three and Nine Months Ended September 30, 2007

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
		<i>(Restated – Note 2b)</i>		<i>(Restated – Note 2b)</i>
Exploration Expenditures (Note 7)	\$ 316,992	\$ 372,653	\$ 826,769	\$ 639,948
Less: recoveries	(21,272)	-	(21,272)	-
	295,720	372,653	805,497	639,948
General & Administrative Expenses				
Amortization	2,457	29,470	7,504	73,564
Consultants	-	17,219	9,890	43,704
Management fees	24,000	30,000	76,000	90,000
Office, rent and administrative services	26,919	35,867	108,474	145,357
Professional fees	24,441	1,526	82,397	130,426
Shareholder information and investor relations	16,293	18,428	58,906	24,791
Stock-based compensation	58,130	110,120	92,764	596,549
Transfer agent and filing fees	8,827	7,181	29,784	55,913
Travel and related costs	19,411	14,911	47,926	69,638
	180,478	264,722	513,645	1,229,942
Loss before other items	(476,198)	(637,375)	(1,319,142)	(1,869,890)
Other income (expenses)				
Change in fair value of derivative financial instruments (Note 5)	33,130	-	33,130	-
Foreign exchange loss	(3,462)	(28,433)	(19,996)	(15,148)
Interest income	36,268	41,240	112,617	87,586
	65,936	12,807	125,751	72,438
Loss for the period	\$ (410,262)	\$ (624,568)	\$ (1,193,391)	\$ (1,797,452)
Other comprehensive income				
Loss for the period	\$ (410,262)	\$ (624,568)	\$ (1,193,391)	\$ (1,797,452)
Change in fair value of financial instruments (Note 5)	48,076	-	48,076	-
Comprehensive loss	\$ (362,186)	\$ (624,568)	\$ (1,145,315)	\$ (1,797,452)
Deficit – Beginning of period				
As previously reported	\$ (9,217,995)	\$ (6,940,823)	\$ (7,764,511)	\$ (5,892,611)
Change in accounting for exploration expenses (Note 2b)	-	(455,229)	(670,355)	(330,557)
As restated	(9,217,995)	(7,396,052)	(8,434,866)	(6,223,168)
Loss for the period	(410,262)	(624,568)	(1,193,391)	(1,797,452)
Deficit – End of period	\$ (9,628,257)	\$ (8,020,620)	\$ (9,628,257)	\$ (8,020,620)
Basic and diluted loss per share	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ (0.14)
Weighted average number of common shares outstanding	15,702,478	15,145,197	15,533,538	12,655,832

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, unless otherwise stated)
Three and Nine Months Ended September 30, 2007

	Three months ended September 30,		Nine month ended September 30,	
	2007	2006	2007	2006
		<i>(Restated – Note 2b)</i>		<i>(Restated – Note 2b)</i>
Cash flows from operating activities				
Loss for the period	\$ (410,262)	\$ (624,568)	\$ (1,193,391)	\$ (1,797,452)
Items not affecting cash				
Amortization	2,439	29,179	7,486	73,273
Stock-based compensation	58,130	110,120	79,191	596,549
Change in fair value of derivative financial instruments	(33,130)	-	(33,130)	-
Changes in non-cash working capital items				
Receivables	(119,905)	(35,190)	(59,942)	(73,509)
Prepaid expenses and deposits	14,146	(34,705)	(10,980)	(55,632)
Accounts payable and accrued liabilities	(5,141)	(5,619)	(24,173)	(8,884)
	(493,723)	(560,783)	(1,234,939)	(1,140,983)
Cash flows from investing activities				
Deferred acquisition costs	-	-	-	13,000
Mineral property acquisition costs	-	-	(64,473)	-
Minerals property option payments received	101,340	-	182,174	22,019
Purchase of furniture and equipment	(1,629)	(13,107)	(7,254)	(48,030)
Purchase of short-term investments	-	(100,996)	-	(3,612,496)
Redemption of short-term investments	3,111,500	-	3,638,001	625,000
Purchase of long-term investments	(33,000)	-	(33,000)	-
	3,178,211	(114,103)	3,715,448	(3,125,179)
Cash flows from financing activities				
Advances from related party	-	(70,849)	-	(17,125)
Issuance of shares for cash	1,293,750	178,750	1,666,574	4,880,100
	1,293,750	107,901	1,666,574	4,862,975
Increase (decrease) in cash and cash equivalents	3,978,238	(566,985)	4,147,083	596,813
Cash and cash equivalents – Beginning of period	589,811	1,215,085	420,966	51,287
Cash and cash equivalents – End of period	\$ 4,568,049	\$ 648,100	\$ 4,568,049	\$ 648,100
Supplemental cash flow information				
Interest received	\$ 61,014	\$ 5,070	\$ 207,622	\$ 38,357

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, unless otherwise stated)
Three and Nine Months Ended September 30, 2007

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 nine months ended September 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 annual 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. Refer to Note 5 for impact for nine months ended September 30, 2007.

- 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

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2. BASIS OF PRESENTATION CONTINUED

sheet is to decrease mineral properties and increase the accumulated deficit by \$670,355 as at December 31, 2006 (December 31, 2005 - \$330,557). The effect of this change on the statement of loss and comprehensive loss is to increase exploration expenses, loss and comprehensive loss by \$205,716 and \$330,388 for the three and nine months ended September 30, 2006 respectively. The loss per share increased by \$0.01 and \$0.02 for the three and nine months ended September 30, 2006 respectively.

3. COMPARATIVE FIGURES

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

4. RESTRICTED CASH AND EXPLORATION ADVANCES

Under the terms of the Mineral Property Option Agreement between the Company and CCT Capital Inc. ("CCT"), CCT is required to advance funds to the Company, as the operator of the exploration programs, for agreed-upon budgeted exploration programs. The balance of funds received but not yet spent at September 30, 2007 was \$148,636.

5. LONG-TERM INVESTMENTS

On August 8, 2007, the Company purchased 200,000 units offered by CCT at a price of \$0.165 per unit. Each unit consists 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 has determined that the share purchase warrants are derivative financial instruments and any change in fair value is included in earnings for the period. The common shares have been designated as available-for-sale and any change in fair value is included in other comprehensive income, until such time as the common shares are sold or otherwise disposed of at which time any gains or losses will be included in earnings for the period.

	As at September 30, 2007		
	Cost	Fair Value	Unrealized Gain
CCT – 200,000 common shares	\$ 21,924	\$ 70,000	\$ 48,076
CCT – 200,000 share purchase warrants	11,076	44,206	33,130
	\$ 33,000	\$ 114,206	\$ 81,206

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6. MINERAL PROPERTIES

	Brazil		Peru		Total
Balance, December 31, 2005	\$	-	\$	42,743	\$ 42,743
Acquisition costs		267,417		-	267,417
Option payments received		(22,019)		(42,743)	(64,762)
Balance, December 31, 2006		245,398		-	245,398
Acquisition costs		64,473		-	64,473
Option payments received		(182,174)		-	(182,174)
Balance, September 30, 2007	\$	127,697	\$	-	\$ 127,697

On September 20, 2007, the Company entered into an Option and Joint Venture Agreement (the "Agreement") with Teck Cominco Limited's Brazilian subsidiary, Teck Cominco Brasil S.A. ("Teck Cominco"). Under the terms of the Agreement, Teck Cominco has the option to earn a 60% interest in the Araguaia project by funding exploration expenditures of US\$4,000,000 over a 36 month period. Teck Cominco paid the Company US\$100,000 upon signing of the Agreement and will pay US\$500,000 upon completion of the US\$4,000,000 of exploration expenditures to vest its 60% interest.

Upon earning its 60% interest, Teck Cominco shall have a one-time option to increase its interest to 75% by sole funding the next US\$4,000,000 of exploration expenditures over a maximum two-year period. Once Teck Cominco has vested its interest, each party shall be obliged to fund its share of costs on a pro-rata basis in accordance with its ownership interest. In the event that either party's interest dilutes below 10%, their interest will convert to a 1% net smelter return royalty.

7. EXPLORATION EXPENSES

	Nine Months Ended September 30, 2007				
	Brazil		Peru		Total
Assays	\$	36,906	\$	-	\$ 36,906
Field costs		35,205		-	35,205
Geological studies		435,975		10,611	446,586
Office and administrative		134,311		4,064	138,375
Property maintenance costs		53,392		509	53,901
Telecommunications		12,625		-	12,625
Travel and related costs		101,807		1,364	103,171
		810,221		16,548	826,769
Recoveries		(21,272)		-	(21,272)
	\$	788,949	\$	16,548	\$ 805,497

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7. EXPLORATION EXPENSES CONTINUED

	Nine Months Ended September 30, 2006		
	Brazil	Peru	Total
Exploration expenditures	\$ 607,985	\$ 31,963	\$ 639,948
	\$ 607,985	\$ 31,963	\$ 639,948

8. 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 of Shares	Amount	Contributed Surplus
Balance, December 31, 2005	6,040,001	\$ 796,892	\$ 6,123,232
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	3,815,000	2,311,250	-
Issued on exercise of stock options	381,500	152,600	-
Issued as payment for geological database	15,000	15,000	-
Reclassified on exercise of warrants	-	25,920	(25,920)
Reclassified on exercise of stock options	-	115,076	(115,076)
Stock-based compensation	-	-	629,436
Pan Brazilian acquisition	-	-	350,000
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 payment for finders fee	97,500	-	-
Issued on exercise of share purchase warrants	480,000	360,000	-
Issued on exercise of stock options	45,000	18,000	-
Reclassified on exercise of stock options	-	13,574	(13,574)
Stock-based compensation	-	-	92,764
Balance, September 30, 2007	17,501,501	\$ 7,583,312	\$ 7,040,862

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8. CAPITAL STOCK CONTINUED

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

The continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2005	2,200,000	\$ 0.50
Issued	5,015,000	0.75
Exercised	(3,815,000)	0.61
Balance, December 31, 2006	3,400,000	0.75
Issued	1,597,500	1.20
Exercised	(480,000)	0.75
Balance, September 30, 2007	4,517,500	\$ 0.91

Expiry Date	Number of Warrants	Exercise Price
February 15, 2008	2,905,000	\$ 0.75
November 17, 2008	15,000	1.30
September 28, 2009	1,597,500	1.20
	4,517,500	\$ 0.91

d) Stock options

The Company adopted a stock option plan pursuant to the policies for 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, 2005	426,500	\$ 0.40
Granted	1,265,000	1.13
Exercised	(381,500)	0.40
Balance, December 31, 2006	1,310,000	1.10
Granted	75,000	1.32
Exercised	(45,000)	0.40
Cancelled	(50,000)	1.35
Balance, September 30, 2007	1,290,000	\$ 1.13

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8. CAPITAL STOCK CONTINUED

The following table summarizes the stock options outstanding and exercisable at September 30, 2007, with a weighted average life of 3.75 years:

	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
January 11, 2006	250,000	\$ 0.51	250,000	January 11, 2011
March 16, 2006	665,000	1.35	665,000	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
	1,290,000	\$1.13	1,240,000	

e) Escrow shares

At September 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.

f) Private Placement

On September 28, 2007, the Company closed a private placement and issued an aggregate of 1,500,000 units at a price of \$0.85 per unit for aggregate gross proceeds of \$1,275,000. Each unit consists of one common share (a "Share") and one non-transferable, common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to acquire an additional Share at a price of \$1.20 per share for a period of two years from the closing of the private placement. In connection with this private placement, the Company issued 97,500 units as a finder's fee. The estimated fair value of the finder's fee of \$82,875 is included in share issue costs.

All Shares, Warrants and any Shares issued upon exercise of the warrants including Shares, Warrants and any Shares issued upon exercise of the warrants to the finder's, are subject to a regulatory hold period of four months expiring on January 29, 2008.

9. 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 nine months ended September 30, 2007, Quest charged the Company \$12,969 (2006 - \$18,000) for office rent and supplies. The Company had an outstanding payable of \$1,380 (2006 - \$1,250) to Quest at September 30, 2007.

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10. 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, the equipment is located in Brazil and substantially all of the exploration expenditures are incurred in Brazil.

11. SUBSEQUENT EVENTS

In October 2007, the Company granted 150,000 stock options exercisable at \$1.19 per share for a period of five years to a new director.