

Lara Exploration Ltd.

(An Exploration Stage Company)

Consolidated Financial Statements
Years Ended December 31, 2007 and 2006
(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Lara Exploration Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate preparation of financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.

"Miles Thompson"

Miles Thompson
President

March 17, 2008

"Michael Sadhra"

Michael Sadhra
Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF LARA EXPLORATION LTD.

We have audited the consolidated balance sheets of Lara Exploration Ltd. as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive loss, deficit and accumulated other comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
March 17, 2008

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Balance Sheets
As at December 31

	2007	2006
		<i>(Restated – Note 3)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 4,734,297	\$ 420,966
Short-term investments	-	3,638,001
Receivables	88,723	107,442
Prepaid expenses and deposits	28,048	29,586
	4,851,068	4,195,995
Furniture and equipment (Note 8)	78,188	67,250
Long-term investments (Note 9)	100,956	-
Mineral properties (Note 10)	128,633	245,399
	\$ 5,158,845	\$ 4,508,644
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 271,979	\$ 65,099
Exploration advances (Note 7)	129,309	-
	401,288	65,099
Shareholders' equity		
Share capital (Note 12)	7,790,896	5,916,738
Contributed surplus (Note 12)	7,164,642	6,961,672
Accumulated other comprehensive income	42,076	-
Deficit	(10,240,057)	(8,434,865)
	4,757,557	4,443,545
	\$ 5,158,845	\$ 4,508,644

Nature of operations (Note 1)

Subsequent events (Note 16)

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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Consolidated Statements of Operations and Comprehensive Loss
Years ended December 31

	2007	2006
		<i>(Restated – Notes 3 and 4)</i>
Exploration expenditures (Note 11)	\$ 1,264,662	\$ 940,619
General and administrative expenses		
Amortization	2,052	4,909
Consultants	9,890	32,454
Management fees	100,000	138,536
Office, rent and administrative services	160,041	182,364
Professional fees	81,529	163,344
Shareholder information and investor relations	77,841	93,205
Stock-based compensation	176,628	629,436
Transfer agent and filing fees	32,528	56,673
Travel and related costs	77,433	92,384
	717,942	1,393,305
Loss before other items	(1,982,604)	(2,333,924)
Other income (expenses)		
Change in fair value of derivative financial instruments (Note 9)	25,880	-
Foreign exchange gain (loss)	(7,911)	1,514
Interest income	159,443	129,779
Non-compete contract (Note 6)	-	(116,324)
Other income	-	107,258
	177,412	122,227
Net loss for the year	\$ (1,805,192)	\$ (2,211,697)
Basic and diluted loss per share	\$ (0.11)	\$ (0.17)
Weighted average number of common shares outstanding	16,163,984	13,315,425
Other comprehensive income (loss)		
Net loss for the year	\$ (1,805,192)	\$ (2,211,697)
Change in fair value of financial instruments (Note 9)	42,076	-
Comprehensive loss	\$ (1,763,116)	\$ (2,211,697)

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Consolidated Statements of Deficit and Accumulated Other Comprehensive Income
Years ended December 31

	2007	2006
		<i>(Restated – Note 3)</i>
Deficit, beginning of year		
As previously reported	\$ (7,764,511)	\$ (5,892,611)
Adjustment on change of accounting policy (Note 3)	(670,354)	(330,557)
As restated	(8,434,865)	(6,223,168)
Net loss for the year	(1,805,192)	(2,211,697)
Deficit, end of year	\$ (10,240,057)	\$ (8,434,865)
Accumulated other comprehensive income, beginning of year	\$ -	\$ -
Unrealized gain on available-for-sale financial assets	42,076	-
Accumulated other comprehensive income, end of year	\$ 42,076	\$ -

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Consolidated Statements of Cash Flows
Years ended December 31

	2007	2006
		<i>(Restated – Note 3)</i>
Cash flows from (used in) operating activities		
Net loss for the year	\$ (1,805,192)	\$ (2,211,697)
Items not affecting cash		
Amortization	9,923	4,909
Non-compete contract	-	116,324
Non-cash exploration expenses	-	15,000
Stock-based compensation	176,628	629,436
Change in fair value of derivative financial instruments	(25,880)	-
Changes in non-cash working capital items		
Receivables	18,719	(102,162)
Prepaid expenses and deposits	1,538	(18,411)
Accounts payable and accrued liabilities	206,880	14,369
Exploration advances	129,309	-
	<u>(1,288,075)</u>	<u>(1,552,232)</u>
Cash flows from (used in) investing activities		
Deferred acquisition costs	-	13,000
Mineral property acquisition costs	(65,408)	(17,417)
Mineral property option payments received	182,174	64,762
Purchase of furniture and equipment	(20,861)	(72,159)
Purchase of short-term investments	-	(3,638,001)
Redemption of short-term investments	3,638,001	625,000
Purchase of long-term investments	(33,000)	-
	<u>3,700,906</u>	<u>(3,024,815)</u>
Cash flows from (used in) financing activities		
Repayment of advances from related party	-	(17,125)
Issuance of shares for cash	1,900,500	4,963,850
	<u>1,900,500</u>	<u>4,946,725</u>
Increase in cash and cash equivalents	4,313,331	369,678
Cash and cash equivalents – beginning of year	420,966	51,288
Cash and cash equivalents – end of year	\$ 4,734,297	\$ 420,966
Supplemental cash flow information		
Interest received	\$ 254,306	\$ 38,357
Income tax paid	\$ -	\$ -
Common shares issued for payment of geological database	\$ -	\$ 15,000

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

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 dependent upon the support of 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. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiaries, Pan Brazilian Mineração Ltda. ("Pan Brazilian"), Nova Fronteira Mineração Ltda., Estrela Verde Mineração Ltda., T'Gold Mineração Ltda. ("T'Gold"), Mineração Colorado do Oeste Ltda. and Minas Dixon S.A. ("Minas Dixon"). All significant intercompany transactions and balances have been eliminated.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Significant areas requiring use of management estimates include the determination of impairment of mineral properties and equipment, amounts of reclamation and environmental obligations, amortization rates for furniture and equipment, fair value of investments, valuation allowance for future income tax assets and determination of the assumptions used in calculating fair value of stock-based compensation. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities of three months or less.

Furniture and equipment

Furniture and equipment is recorded at cost and amortized over its estimated useful lives using the declining balance method at rates from 10 to 20% per annum.

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Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mineral properties and exploration expenditures

Acquisition costs for mineral properties, net of recoveries, are capitalized on a property-by-property basis. Acquisition costs include cash consideration and the value of common shares, based on recent issue prices, issued for mineral properties pursuant to the terms of the agreement. Exploration expenditures, net of recoveries, are charged to operations as incurred. After a property is determined by management to be commercially feasible, exploration and development expenditures on the property will be capitalized. When there is little prospect of further work on a property being carried out by the Company or its partners, when a property is abandoned, or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount. The costs related to a property from which there is production, together with the costs of production equipment, will be depleted and amortized using the unit-of-production method.

A mineral property acquired under an option agreement where payments are made at the sole discretion of the Company, is capitalized at the time of payment. Option payments received are treated as a reduction of the carrying value of the related acquisition cost for the mineral property until the payments are in excess of acquisition costs, at which time they are then credited to operations. Option payments are at the discretion of the optionee and, accordingly, are accounted for when receipt is reasonably assured.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfer and may be affected by undetected defects.

The amounts shown for mineral properties represent acquisition costs incurred to date, less recoveries and write-downs, and are not intended to reflect present or future values.

Asset retirement obligations

The Company recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

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Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per share

Basic loss per share is calculated based on the weighted average number of common shares issued and outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollar equivalents using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the appropriate transaction date rates, except for amortization, which is translated at the same rate as the related asset. Translation gains and losses are reflected in net loss for the year.

Stock-based compensation

The Company has a stock option plan that is described in Note 12. The Company accounts for all grants of options to employees, non-employees and directors in accordance with the fair value method for accounting for stock-based compensation as defined by accounting principles generally accepted in Canada. Stock-based compensation awards are calculated using the Black-Scholes option pricing method. Under this method, stock-based payments are recorded as an expense over the vesting period or when awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

3. CHANGES IN ACCOUNTING POLICIES

Mineral property exploration costs

Effective January 1, 2007, the Company changed its accounting policy for mineral properties from deferring exploration costs incurred during the exploration stage to expensing such costs in the year incurred. 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 consolidated balance sheets is to decrease mineral properties and increase the December 31, 2006 accumulated deficit by \$670,354 (2005 - \$330,557). The effect of this change on the consolidated statements of operations is to increase exploration expenses, other income and net loss by \$447,055, \$107,258 and \$339,798, respectively, for the year ended December 31, 2006. The loss per share increased by \$0.03 for the year ended December 31, 2006 from \$0.14 per share to \$0.17 per share.

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3. CHANGES IN ACCOUNTING POLICIES (Continued)

New pronouncements effective for fiscal 2007

Effective January 1, 2007, the Company adopted, prospectively, the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under the following Handbook guidelines:

Financial Instruments – Recognition and Measurement

Handbook Section 3855, "Financial Instruments – Recognition and Measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Company classifies its debt and investments into held-to-maturity, trading or available-for-sale categories. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet based on the contractual maturity date and are stated at amortized cost. Investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings.

Debt and investments not classified as held-to-maturity or as trading are classified as available-for-sale and carried at fair value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

The adjustment to the fair value of shares held for investment that are classified as available-for-sale is included as other comprehensive income (loss) based on quoted market prices. The fair value of warrants held by the Company as an investment is determined using the Black-Scholes option pricing model. Warrants are a derivative instrument, therefore, the fair market value adjustment is recognized in operations. Gains or losses on securities sold are based on the specific identification method.

At January 1, 2007, the Company had no available-for-sale securities or warrants and, accordingly, no adjustment was required to the opening balance of accumulated other comprehensive income or deficit.

Comprehensive Income

Handbook Section 1530, "Comprehensive Income", establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period.

Accordingly, these financial statements now include a statement of operations and comprehensive loss, and a statement of deficit and accumulated other comprehensive income, and "Accumulated Other Comprehensive Income" account in the shareholders' equity section of the consolidated balance sheets.

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3. CHANGES IN ACCOUNTING POLICIES (Continued)

New pronouncements effective for fiscal 2008

Effective January 1, 2008, the Company will be adopting the new recommendations of the CICA under the following Handbook guidelines:

Going-concern

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of Company's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going-concern.

The new section is effective for years beginning on or after January 1, 2008. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

Capital disclosures

In February 2007, 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. The new section is effective for years beginning on or after October 1, 2007. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

Financial instruments

In February 2007, the CICA issued two new standards, Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation". These sections will 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. The new sections are effective for years beginning on or after October 1, 2007. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

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 year's presentation.

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5. FINANCIAL INSTRUMENTS

Fair value

Prior to the adoption of CICA Handbook Section 3855, the Company was required to disclose information on the fair value of its financial instruments. For prior years, the carrying values of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and exploration advances approximate their fair values because of the short-term maturity of these instruments.

Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term maturity of its monetary assets and liabilities.

Credit risk

The Company is exposed to credit risk with respect to its accounts receivable, which consists largely of tax credits receivable. Cash and cash equivalents have been placed with a major Canadian financial institution.

Currency risk

The Company is exposed to foreign currency fluctuations to the extent that mineral property expenditures incurred by the Company and expenditure commitments in property agreements are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

6. ACQUISITION OF PAN BRAZILIAN MINERACAO LTDA.

On February 15, 2006, the Company completed the acquisition of all the issued and outstanding shares of Pan Brazilian, a private Brazilian company that holds the rights to nine mineral properties in Brazil. In return for assigning Pan Brazilian to the Company, Pan Brazilian's former shareholders received \$1 from the Company and 3,000,000 escrow shares of the Company that were previously held by Quest Capital Corp. ("Quest"), a company related by virtue of two directors in common. These shares have been valued at \$350,000 using the Black-Scholes option pricing model. Ancillary to this acquisition were non-compete agreements, including an agreement between the Company and the current president of the Company, valued at \$116,324. The assigned value of this non-compete agreement was expensed during 2006.

The share consideration given by Quest has been determined at fair value effective February 15, 2006. The ongoing activities of Pan Brazilian have been consolidated in the accounts of the Company from the date of acquisition.

The allocation of the purchase price is summarized in the table below:

	2006
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 contract	116,324
Accounts payable	(5,321)
Due to related party	(17,125)
	\$ 350,001

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7. EXPLORATION ADVANCES

Under the terms of the mineral property option agreement between the Company and CCT Capital Inc. ("CCT") on the Campos Verdes mineral property (Note 8), CCT is required to advance funds to the Company, as the operator of the exploration programs, for agreed-upon exploration programs. During the year ended December 31, 2007, the Company received \$425,715 of exploration advances from CCT, of which \$129,309 has not yet been expended on the Campos Verdes property.

8. FURNITURE AND EQUIPMENT

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

	2006		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 52,240	\$ 4,909	\$ 47,331
Field equipment	19,919	-	19,919
	\$ 72,159	\$ 4,909	\$ 67,250

9. LONG-TERM INVESTMENTS

On August 8, 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 share purchase warrants are derivative financial instruments and the common shares have been designated as available-for-sale.

	As at December 31, 2007		
	Cost	Fair Value	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

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10. MINERAL PROPERTIES

	Brazil		Peru		Total
					(Restated – Note 3)
Balance, December 31, 2005	\$	-	\$	42,743	\$ 42,743
Acquisition costs		267,417		-	267,417
Option payments received		(22,019)		(42,742)	(64,761)
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

Brazil

Araguaia Nickel Project

The Araguaia Nickel Project, acquired as part of the Pan Brazilian acquisition (Note 6), comprised six exploration claims covering 43,000 hectares located in Pará State. In 2005, Pan Brazilian optioned these mineral rights to a Brazilian subsidiary of Falconbridge Ltd., now part of Xstrata plc (“Xstrata”), whereby Xstrata had the right to earn a 70% interest in the Araguaia mineral rights by paying US\$110,000 (US\$40,000 received) to the Company and by incurring at least US\$3.89 million of exploration expenditures by June 2009. In parallel with the Xstrata joint venture, the Company acquired additional claims and conducted regional exploration in the same district. Xstrata relinquished its option over the original claim blocks in March 2007 and the resulting combined property now comprises claims and explorations licenses covering approximately 310,000 hectares. On September 20, 2007, the Company entered into an option and joint venture agreement (the “Teck Agreement”) with Teck Cominco Limited’s Brazilian subsidiary, Teck Cominco Brasil S.A. (“Teck Cominco”). Under the terms of the Teck Agreement, Teck Cominco has the option to earn a 60% interest in the Araguaia Nickel 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 the Teck Agreement and is required to pay US\$500,000 upon completion of the US\$4,000,000 of exploration expenditures in order 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 solely 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.

Campos Verdes Gold Project

The Campos Verdes Gold Project comprises 19 exploration licenses covering a total of 32,900 hectares located in Goiás State. Ten of the licenses were acquired pursuant to an option agreement entered into by Pan Brazilian dated April 5, 2005. During 2006, the Company made a payment of US\$10,000 against this agreement. The Company must pay to the optionor a further US\$98,500 for each licensed property that is put into production on a commercial scale. The remaining licenses were acquired by the Company in 2006 and 2007.

On February 27, 2007, the Company signed a property option and joint venture agreement with CCT whereby CCT may earn a 70% interest in the Company’s Campos Verdes Gold Project by paying US\$50,000 on signing (received) and incurring exploration expenditures of US\$500,000, US\$700,000 and US\$800,000, respectively, on or before the first, second and third anniversaries of the effective date.

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10. MINERAL PROPERTIES (Continued)

Colorado do Oeste

Pursuant to an option agreement entered into by Pan Brazilian 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 the optionor a total of US \$170,000 as follows:

- US\$5,000 within 30 days of signing agreement (paid);
- US\$5,000 upon transfer and renewal of exploration licenses (paid);
- US\$20,000 on the first anniversary of the license renewals (due July 2008);
- US\$20,000 on the second anniversary of the license renewal (due July 2009);
- US\$20,000 on the third anniversary of the license renewal (due July 2010); and
- US\$100,000 upon issue of a Mining License; and must incur a minimum of US\$310,000 in exploration expenditures within the three-year license renewal period (\$218,223 incurred to December 31, 2007).

Concord kimberlites

On February 16, 2007, the Company signed an option agreement to acquire 100% of the Concord 1 and Concord 2 ("Concord") kimberlite pipes in Rondônia State comprising 8,850 hectares. In order to exercise its option, the Company must pay the optionor a total of \$230,000 and a 1% production royalty. A total of \$22,000 was paid at the time of signing, \$33,000 is payable 10 days from the date of proof of existence of diamonds in the kimberlitic rock and \$175,000 is payable 30 days from the date on which the mining permit is granted by the Ministry of Mines and Energy in Brazil. The Company has the option to purchase the 1% production royalty for US\$500,000.

Fortuna

On January 30, 2007, the Company signed an agreement to option out its Fortuna property, which was acquired as part of the Pan Brazilian acquisition, to HSAK Mineração Ltda. ("HSAK"). Under the terms of the agreement, HSAK paid the Company US\$20,000 and has agreed to fund all further exploration through to a production decision, in exchange for an 80% interest in the property. Once a production decision is made, the Company may elect to fund its share of mine development or dilute to a 2% net smelter royalty.

São Lourenço Tin Mine

On January 29, 2007, the Company signed a lease with an option to purchase agreement with Mineração Céu Azul Ltda. (which currently leases the mine), Companhia de Mineração São Lourenço Ltda. (titleholder of the mineral rights) and Companhia Industrial Amazonense (owner of preferential purchase rights of tin production). Under the terms of this agreement, the Company must make approximately US\$73,500 (US\$23,500 paid) in staged lease payments over three years. The Company has to January 29, 2010 to exercise its option to acquire the mineral rights by making a one-time payment of US\$1 million. The São Lourenço mine lies within the frontier zone and will thus be subject to certain foreign ownership restrictions at transfer and the Company does not expect to be able to directly own a majority interest in the mine at that time.

Serra Azul

On March 15, 2007, the Company entered into an option agreement to purchase three mineral licenses in Rondônia State covering 11,608 hectares. In order to exercise the option, the Company must make cash payments of US\$5,000 for the transfer of each license (US\$10,000 paid) and a success fee of US\$100,000 for each license that is converted into a mining license and put into production. In the event that any of the licenses produce either diamonds or tin (and related minerals), a 0.5% royalty will apply in each case for each license. Each of these royalties may be purchased for US\$500,000.

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10. MINERAL PROPERTIES (Continued)

Tapajós Gold Joint Venture

On April 19, 2007, the Company signed a letter of intent where a new company, T'Gold, will be formed as a joint venture vehicle to acquire properties and explore in the Tapajós District of Brazil. T'Gold will be 50% owned by the Company, which will contribute up to US\$300,000 of seed capital in 2007 and 2008 (\$287,323 contributed), and 50% owned by two individuals who are contributing the initial property portfolio of 44,800 hectares of exploration claims covering the Santa Felicidade, Santa Cecilia, Castelo, Colibri, Caic-1 and Caic-2 garimpeiro gold workings.

T'Gold will pay a 1.5% net smelter royalty on any gold production from the Santa Felicidade, Santa Cecilia, Castelo and Colibri areas, but may buy back half of the net smelter royalty for US\$750,000.

Peru

Lara Prospect

The Company owns a 100% interest in three mining properties comprising 1,800 hectares through its wholly-owned subsidiary, Minas Dixon S.A. ("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 (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. ("Solid"), which granted Solid the right to earn an initial 55% interest in the Lara Prospect. Under the agreement, Solid was required over a three-year period to make staged cash payments to the Company totaling \$500,000 (\$200,000 received), complete exploration expenditures of \$2,000,000 and a minimum of 8,000 meters of drilling by November 1, 2008, which included 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. Solid did not complete this work commitment; therefore, the agreement was terminated.

Mantaro Project

The Company is part of the Mantaro Group, an unincorporated joint venture that holds the rights to the Mantaro Phosphate Project in Peru. On November 15, 2007, the Mantaro Group signed an exploration and option agreement with Sprott Resource Corporation ("Sprott"), a company related by virtue of a director in common. Sprott has the option to acquire a 100% interest in the Mantaro Phosphate Project by funding exploration and technical studies, making certain cash payments and issuing shares in a new project company to the Mantaro Group. If Sprott exercises its purchase option, the Company will be issued shares in the new listed vehicle equivalent to 10% of the outstanding shares at the time. The Company will also be entitled to a 0.5% royalty on any production from the Mantaro Phosphate Project. Sprott will have the option to purchase this royalty for the equivalent in cash of 0.5% of the net present value of the project upon completion of a bankable feasibility study.

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11. EXPLORATION EXPENDITURES

	2007								
	T'Gold	Campos Verdes	Araguaia Generative	Sao Lourenco	Colorado de Oeste	Other	Total Brazil	Total Peru	Total
Salaries and consultants	\$ 121,215	\$ 99,074	\$ 62,189	\$ 24,958	\$ 18,487	\$ 174,556	\$ 500,479	\$ 48,099	\$ 548,578
Office and administrative	37,657	47,080	31,708	2,887	6,360	161,721	287,413	5,038	292,451
Drilling	31,847	115,046	-	-	-	22,687	169,580	-	169,580
Field costs	43,784	60,442	9,167	5,645	2,732	18,314	140,084	28,994	169,078
Travel and related costs	20,805	30,257	15,563	8,780	14,059	63,604	153,068	1,749	154,817
Assays	31,578	13,966	4,888	17,621	384	45,982	114,419	1,106	115,525
Property maintenance costs	121	22,635	-	-	5,103	56,362	84,221	509	84,730
Telecommunications	316	527	135	20	-	16,348	17,346	-	17,346
Vehicle	-	-	-	5,193	-	3,096	8,289	-	8,289
Trenching	-	353	-	-	321	-	674	-	674
	287,323	389,380	123,650	65,104	47,446	562,670	1,475,573	85,495	1,561,068
Recoveries	-	(296,406)	-	-	-	-	(296,406)	-	(296,406)
	\$ 287,323	\$ 92,974	\$ 123,650	\$ 65,104	\$ 47,446	\$ 562,670	\$ 1,179,167	\$ 85,495	\$ 1,264,662

	2006					
	Campos Verdes	Colorado de Oeste	Other	Total Brazil	Total Peru	Total
Assays						
Salaries and consultants	\$ 128,149	\$ 93,107	\$ 226,655	\$ 447,911	\$ -	\$ 447,911
Office and administrative	50,331	38,948	73,985	163,264	-	163,264
Travel and related costs	17,635	15,433	73,911	106,979	-	106,979
Property maintenance costs	21,382	13,608	19,369	54,359	37,713	92,072
Geophysics	36,963	99	20,767	57,829	-	57,829
Vehicle	4,277	8,392	27,086	39,755	-	39,755
Field costs	5,565	1,190	10,714	17,469	-	17,469
Telecommunications	166	-	10,926	11,092	-	11,092
Trenching	3,876	-	372	4,248	-	4,248
	\$ 268,344	\$ 170,777	\$ 463,785	\$ 902,906	\$ 37,713	\$ 940,619

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12. SHARE CAPITAL

Authorized

Unlimited common shares without par value
Unlimited first preferred shares without par value
Unlimited second preferred shares without par value

Issued and outstanding

	Number of Shares	Amount	Common Shares 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 finder's fee	127,500	-	-
Issued as payment for geological database	15,000	15,000	-
Issued on exercise of share purchase warrants	3,815,000	2,311,250	-
Issued on exercise of stock options	381,500	152,600	-
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 (Note 4)	-	-	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 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

Private placements

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 gross proceeds of \$1,275,000. Each unit consists of one common share and one non-transferable, common share purchase warrant. Each warrant will entitle the holder to acquire an additional common share at a price of \$1.20 per share to September 28, 2009. In connection with this private placement, the Company issued 97,500 units as a finder's fee, with an estimated fair value of \$39,916, which have the same terms outlined above.

During the year ended December 31, 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 non-transferable common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.75 per share to February 15, 2008. A commission of 127,500 common shares was issued as a finder's fee.

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12. SHARE CAPITAL (Continued)

Issued and outstanding (Continued)

Shares and warrants issued for a geological database

Under the terms of a letter agreement signed on November 1, 2006, the Company issued 15,000 common shares and 15,000 share purchase warrants to Falconbridge Ltd. (now part of Xstrata) in exchange for access to proprietary exploration data in Brazil. The 15,000 share purchase warrants are exercisable into the same number of common shares at a price of \$1.30 to November 17, 2008.

Share purchase warrants

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	(810,000)	\$ 0.75
Balance, December 31, 2007	4,187,500	\$ 0.92

Share purchase warrants outstanding as at December 31, 2007 are as follows:

		2007	2006
Expiry Date	Exercise Price	Number of Warrants	Number of Warrants
February 15, 2008	\$ 0.75	2,575,000	3,385,000
November 17, 2008	\$ 1.30	15,000	15,000
September 28, 2009	\$ 1.20	1,597,500	-
	\$ 0.92	4,187,500	3,400,000

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, 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	375,000	1.23
Exercised	(45,000)	0.40
Cancelled	(50,000)	1.35
Balance, December 31, 2007	1,590,000	\$ 1.15

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12. SHARE CAPITAL (Continued)

Stock options (Continued)

The following table summarizes the stock options outstanding and exercisable at December 31, 2007, with a weighted average life of 3.60 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	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	25,000	May 14, 2012
October 3, 2007	150,000	1.22	75,000	October 3, 2012
October 16, 2007	150,000	1.19	75,000	October 16, 2012
	1,590,000	\$ 1.15	1,390,000	

Stock-based compensation and contributed surplus

Using the fair value method for stock-based compensation, the Company recorded a charge to operations of \$176,628 (2006 - \$629,436), with the offsetting amount recorded as contributed surplus. This amount was determined using the Black-Scholes option pricing model using the following terms:

	2007	2006
Weighted average		
Risk-free interest rate	4.3%	4.2%
Expected dividend yield	-	-
Expected stock price volatility	63%	86%
Expected life of warrants/options in years	2/5	2/3

Stock-based compensation expense relates to the following expense categories:

Administrative	\$ 25,631	\$ 192,728
Consultants	43,249	121,839
Directors' remuneration	62,795	191,411
Management fees	44,953	123,458
	\$ 176,628	\$ 629,436

Escrow shares

At December 31, 2007, a total of 600,001 of the Company's issued common shares were held in escrow. The remaining escrowed shares will be released on April 30, 2008.

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13. RELATED PARTY TRANSACTIONS

The Company pays 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 the year ended December 31, 2007, Quest charged the Company \$16,959 (2006 - \$32,208) for office rent and supplies. The Company had an outstanding payable of \$nil (2006 - \$1,326) to Quest at December 31, 2007.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. INCOME TAXES

The recovery of income taxes differs from the amount that would have resulted by applying the Canadian federal and British Columbia statutory tax rates of 34.12% (2006 – 34.12%) to pre-tax losses as a result of the following:

	2007	2006
Loss before taxes	\$ 1,805,192	\$ 2,211,697
Expected income tax recovery	615,932	754,631
Stock-based compensation not deductible	(60,265)	(214,764)
Unrecognized tax losses	(561,797)	(552,151)
Other	6,130	12,284
	\$ -	\$ -

	2007	2006
Future income tax assets:		
Non-capital loss carry-forwards	\$ 1,136,753	\$ 536,316
Other	13,480	20,472
	1,150,233	556,788
Valuation allowance	(1,150,233)	(556,788)
Net future income tax assets	\$ -	\$ -

As at December 31, 2007, the Company has unused tax loss carry-forwards that are available to reduce future taxable income of \$1,100,000 (2006 - \$650,000) and \$2,400,000 (2006 - \$900,000) in Canada and Brazil, respectively. The tax loss carry-forwards expire from 2010 to 2027 in Canada and are available indefinitely in Brazil. The valuation allowance reflects the Company's estimate that the tax assets will likely not be realized and consequently have not been recorded in these financial statements.

15. 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 10), the equipment is located in Brazil and substantially all of the exploration expenditures are incurred in Brazil (see Note 11).

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16. SUBSEQUENT EVENTS

The Company issued 1,415,000 common shares pursuant to the exercise of share purchase warrants for proceeds totaling \$1,061,250, and 1,160,000 warrants expired unexercised.

On January 15, 2008, the Company signed an option agreement to acquire a 100% interest in the Curionópolis Property located in Pará State, Brazil. Under the terms of the option agreement, the Company has the option to acquire 100% of the Curionópolis Property from Redrock Exploration (BVI) Ltd. ("Redrock") and its Brazilian subsidiaries for US\$630,000 in cash payments, US\$2,700,000 in exploration expenditures staged over three years and royalties. The royalties comprise a 50% net profits interest ("NPI") on income derived from the sale of iron or iron mining rights and a 2% net smelter return royalty on any other metals produced. The Company has the option to acquire half of the net smelter return royalty (i.e., 1%) for US\$1,500,000. The option is subject to publication of the exploration license covering the property and regulatory approval.

Redrock and its Brazilian subsidiaries are companies wholly-owned and controlled by the Company's President, Miles Thompson, and Helio Ikeda, an employee of the Company.