



LARA EXPLORATION LTD.

(An Exploration Stage Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Six Months Ended June 30, 2011 and 2010

(Expressed in Canadian Dollars)

NOTICE TO READER

The accompanying unaudited condensed consolidated interim financial statements of Lara Exploration Ltd. for the six months ended June 30, 2011 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Expressed in Canadian Dollars)

	June 30, 2011	December 31, 2010	January 1, 2010
ASSETS		(Note 15)	(Note 15)
Current			
Cash and cash equivalents (Note 3)	\$ 3,568,151	\$ 1,438,137	\$ 2,375,295
Receivables (Note 4)	156,247	36,493	454,424
Current income tax receivable	45,984	45,984	189,838
Prepaid expenses (Note 4)	86,935	149,509	71,232
	<u>3,857,317</u>	<u>1,670,123</u>	<u>3,090,789</u>
Non-current			
Equipment (Note 6)	96,849	102,447	164,512
Long-term investments (Notes 5 & 13)	1,889,095	4,812,647	4,804,591
Mineral properties (Note 7)	3,347,056	3,239,416	4,287,245
	<u>5,679,050</u>	<u>8,154,510</u>	<u>9,256,358</u>
TOTAL ASSETS	<u>\$ 9,190,317</u>	<u>\$ 9,824,633</u>	<u>\$ 12,347,137</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities (Note 13)	\$ 536,401	\$ 489,493	\$ 850,649
Non-current			
Deferred income tax liability	22,034	92,303	18,560
	<u>558,435</u>	<u>581,796</u>	<u>869,209</u>
EQUITY			
Non-controlling interest	-	-	113,186
Share capital (Note 8)	14,718,975	13,502,669	13,260,499
Contributed surplus	7,554,421	7,817,934	7,399,060
Accumulated other comprehensive income	139,149	569,956	111,375
Deficit	(13,780,663)	(12,647,722)	(9,406,192)
TOTAL EQUITY	<u>8,631,882</u>	<u>9,242,837</u>	<u>11,477,928</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 9,190,317</u>	<u>\$ 9,824,633</u>	<u>\$ 12,347,137</u>

Nature of operations (Note 1)

Subsequent events (Note 14)

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

Approved on behalf of the Board

"Narinder Nagra" Director"Miles Thompson" Director

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited – Expressed in Canadian Dollars)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
EXPLORATION EXPENDITURES (Note 7)	\$ 675,162	\$ 489,760	\$ 1,146,724	\$ 920,347
		(Note 15)		(Note 15)
GENERAL & ADMINISTRATIVE EXPENSES				
Depreciation	3,634	2,947	7,952	7,019
Management fees	45,000	45,000	90,000	90,000
Directors fees	12,000	10,000	24,000	10,000
Office, rent and administrative services	107,721	92,461	305,474	224,846
Professional fees	28,019	36,251	67,730	99,923
Shareholder information and investor relations	18,939	37,494	61,394	70,901
Share-based payments	85,033	380,567	137,593	380,567
Transfer agent and filing fees	22,644	16,869	43,129	62,801
Travel and related costs	41,293	43,459	94,177	87,518
	403,478	665,049	870,644	1,033,575
Loss before other items	(1,039,445)	(1,154,809)	(1,978,173)	(1,953,922)
OTHER EXPENSE (INCOME)				
Change in FV of derivative (Note 5)	902	705	1,638	(11,907)
Foreign exchange loss (gain)	(55,163)	79	6,769	24,699
Interest income	(432)	(854)	(565)	(3,386)
Other income	(19,574)	(90,545)	(51,142)	(90,545)
Realized gain on sale of long-term investments	(342,341)	-	(742,450)	-
Write-off of mineral property costs	83,223	-	83,223	-
Option payments received	-	-	(142,500)	-
Loss on sale of equipment	-	1,425	-	261
	(333,385)	(89,190)	(845,027)	(80,878)
Net loss before income taxes	(706,060)	(1,065,619)	(1,133,146)	(1,873,044)
Current income tax recovery	-	-	-	54,839
Future income tax recovery (expense)	113	89	205	(1,488)
Net loss for the period	\$ (705,947)	\$ (1,065,530)	\$ (1,132,941)	\$ (1,819,693)
Other comprehensive income (loss)				
Net loss for the period	\$ (705,947)	\$ (1,065,530)	\$ (1,132,941)	\$ (1,819,693)
Change in fair value of financial instruments (Note 5)	(859,296)	(893,205)	(500,871)	(98,470)
Future income tax expense	107,413	111,607	70,064	12,309
Comprehensive income (loss)	\$ (1,457,830)	\$ (1,847,128)	\$ (1,563,748)	\$ (1,905,854)
Basic and diluted loss per share	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.07)
Weighted average number of common shares outstanding	25,893,778	24,905,072	25,794,901	24,905,071

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration-Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
CASH FLOWS FROM (TO)		(Note 15)		(Note 15)
OPERATIONS				
Net loss for the period	\$ (705,947)	\$ (1,065,530)	\$ (1,132,941)	\$ (1,819,693)
Items not affecting cash:				
Depreciation	3,634	11,561	7,952	23,725
Share-based payments	85,033	380,567	137,593	380,567
Loss on sale of equipment	-	1,425	-	261
Gain on sale of long-term investments	(342,341)	-	(722,450)	-
Option payments received	-	-	(142,500)	-
Change in FV of derivative	902	705	1,638	(11,907)
Write-off of mineral property costs	83,223	-	83,223	-
Future income tax recovery	(112)	(89)	(205)	1,488
Changes in non-cash working capital items:				
Receivables	(70,795)	(4,491)	(119,754)	336,142
Prepaid expenses and deposits	43,481	(3,191)	62,574	(40,104)
Accounts payable and accrued liabilities	95,474	(110,236)	46,908	(232,286)
Exploration advances	-	(83,788)	-	-
	(807,448)	(873,067)	(1,777,962)	(1,361,807)
INVESTING				
Mineral property acquisition costs	(160,380)	(121,668)	(214,763)	(152,083)
Recovery of mineral property costs	23,900	201,084	23,900	201,084
Purchase of equipment	(1,948)	(1,364)	(2,354)	(1,364)
Proceeds on sale of equipment	-	200	-	4,480
Proceeds on sale of long-term investments	1,563,821	-	3,285,993	-
	1,425,393	78,252	3,092,776	52,117
FINANCING				
Exercise of options	3,350	-	815,200	-
	3,350	-	815,200	-
Change in cash and cash equivalents	621,295	(794,815)	2,130,014	(1,309,690)
Cash and cash equivalents, beginning of period	2,946,856	1,860,420	1,438,137	2,375,295
Cash and cash equivalents, end of period	\$ 3,568,151	\$ 1,065,605	\$ 3,568,151	\$ 1,065,605
Supplementary cash flow information (Note 11)				
Interest received	\$ 432	\$ 1,164	\$ 133	\$ 3,680
Income taxes paid	-	-	-	-

Supplemental disclosure with respect to cash flows (Note 11)

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration-Stage Company)

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

	Number of shares	Stated amount	Contributed surplus	Accumulated OCI	Non- Controlling Interest	Deficit	Total
Balance, January 1, 2010	24,905,067	\$ 13,260,499	\$ 7,399,060	\$ 11,375	\$ 113,186	\$ (9,406,192)	\$ 11,477,928
Issue shares for Maxy acquisition	5	6	-	-	-	-	6
Stock-based compensation	-	-	380,567	-	-	-	380,567
Change in FV of investments	-	-	-	(86,160)	-	-	(86,160)
Net loss for the period	-	-	-	-	-	(1,819,693)	(1,819,693)
Balance, June 30, 2010	<u>24,905,072</u>	<u>\$ 13,260,505</u>	<u>\$ 7,779,627</u>	<u>\$ 25,215</u>	<u>\$ 113,186</u>	<u>\$ (11,225,885)</u>	<u>\$ 9,952,648</u>
Balance, December 31, 2010	25,217,572	13,502,669	7,817,934	569,956	-	(12,647,722)	9,242,837
Stock-based compensation	-	-	137,593	-	-	-	52,560
Cancellation of treasury shares	(6,016)	(3,221)	3,221	-	-	-	-
Shares issued on exercise of options	682,500	815,200	-	-	-	-	815,200
Re-allocation of reserve - Options	-	404,327	(404,327)	-	-	-	-
Sales of investments	-	-	-	(678,493)	-	-	(678,493)
Change in FV of investments	-	-	-	247,686	-	-	247,686
Net loss for the period	-	-	-	-	-	(1,132,941)	(1,098,042)
Balance, June 30, 2011	<u>25,894,056</u>	<u>\$ 14,718,975</u>	<u>\$ 7,554,421</u>	<u>\$ 139,149</u>	<u>\$ -</u>	<u>\$ (13,780,663)</u>	<u>\$ 8,581,748</u>

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration-Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

1. NATURE OF OPERATIONS

Lara Exploration Ltd. (the “Company” or “Lara”) 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 South America, currently with properties in Brazil, Peru and Colombia. Through the acquisition of Maxy Gold Corp. in December 2009, the Company also acquired two projects in China, one of which has since been sold. The address of the Company’s head office is #501 – 543 Granville Street, Vancouver, BC, Canada V6C 1X8. The consolidated financial statements of the Company as at and for the period ended June 30, 2011 comprise the Company and its subsidiaries. Lara is the ultimate parent.

The Company is in the process of exploring its mineral properties and has not yet determined whether they contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their exploration and development, confirmation of the Company’s interest in the underlying claims and leases, obtaining the necessary permits to mine and future profitable production or proceeds from the disposition of the mineral properties.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Adoption of International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Some of the comparative figures have been reclassified to conform to the current format.

The accounting policies followed in these interim financial statements are the same as those applied in the Company’s interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. The impact of the transition to IFRS on the Company’s reported equity as at June 30, 2010, and comprehensive income for the three and six months ended June 30, 2010, is provided in note 15. This note also includes the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of August 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011, could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Company’s interim financial statements for the quarter ended March 31, 2011, prepared in accordance with IFRS applicable to interim financial statements.

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Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future accounting changes

On May 12, 2011, the IASB issued the following statements:

- i. IFRS 10 *Consolidation* (“IFRS 10”) (see further details below)
- ii. IFRS 11 *Joint Venture* (“IFRS 11”) (see further details below)
- iii. IFRS 12 *Disclosures of Involvement with Other Entities* (“IFRS 12”) (see further details below)
- iv. IAS 27 *Separate Financial Statement* (revised 2011) (“IAS 27”), has been amended for issuance of IFRS 10 while maintaining the current guidance for separate financial statements
- v. IAS 28 *Investments in Associates and Joint Ventures* (revised 2011) (“IAS 28”), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of these standards has an effective date for annual periods beginning on or after January 1, 2013. Early adoption of any of these standards is permitted only if the other standards are also adopted early.

- i. IFRS 10 establishes control as the single basis for consolidation of entities, regardless of the nature of the investee. An entity has control over an investee when it has power over it; it is exposed, or has the rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect those returns. IFRS 10 replaces IAS 27’s guidance that addresses when and how an investor should prepare consolidated financial statements and replaces all of SIC-12. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.
- ii. IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and the obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The determination whether a joint arrangement constitutes a joint operation or a joint venture is based on the parties’ rights and responsibilities under the arrangement and thus the existence of a separate legal vehicle is no longer the main factor in making such determination. Joint ventures will be accounted for using the equity method of accounting thereby eliminating the option available under existing IFRS to use either the proportionate consolidation method or the equity method. Joint operations are accounted for by a venture by recognizing its share of the assets, liabilities, revenues and expenses of the joint operation. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.
- iii. IFRS 12 sets out the required disclosures relating to an entity’s interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that enables users of its financial statements to assess the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial statements. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13 *Fair Value Measurement* (“IFRS 13”) was issued on May 12, 2011, and establishes a single framework for measuring fair value where it is required by other standards. IFRS 13 applies to all transactions (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 *Share-based Payment* and leasing transactions within the scope of IAS 12 *Leases*, and measurements that have some similarities to fair value but are not fair value such as net realizable value under IAS 2 *Inventories* or value in use under IAS 36 *Impairment of assets*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price).

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Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

3. CASH AND CASH EQUIVALENTS

	June 30, 2011	December 31, 2010	January 1, 2010
Cash	\$ 3,522,151	\$ 1,409,387	\$ 2,346,545
Short-term bank deposits	46,000	28,750	28,750
	\$ 3,568,151	\$ 1,438,137	\$ 2,375,295

4. TRADE AND OTHER RECEIVABLES

	June 30, 2011	December 31, 2010	January 1, 2010
Current			
Accounts receivable	\$ 156,247	\$ 36,493	\$ 454,424
Prepaid expenses	86,935	149,509	71,232
	\$ 243,182	\$ 186,002	\$ 525,656

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	June 30, 2011	December 31, 2010	January 1, 2010
Currency			
Canadian dollar	\$ 63,976	\$ 31,737	\$ 421,776
US dollar	70,473	-	-
Other	21,798	4,756	32,648
	\$ 156,247	\$ 36,493	\$ 454,424

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Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

5. LONG-TERM INVESTMENTS

	June 30, 2011		
	Cost	Fair value	Accumulated Unrealized Gain (Loss)
Available-for-sale investments	\$ 1,701,746	\$ 1,879,170	\$ 177,426
Held for trading investments	11,076	9,925	(1,151)
	\$ 1,712,822	\$ 1,889,095	\$ 176,275

	December 31, 2010		
	Cost	Fair value	Accumulated Unrealized Gain (Loss)
Available-for-sale investments	\$ 4,122,788	\$ 4,801,085	\$ 678,297
Held for trading investments	11,076	11,562	486
	\$ 4,133,864	\$ 4,812,647	\$ 678,783

The Company has investments in the common shares of a company which trades on the Toronto Stock Exchange and investments in the common shares and warrants of companies that trade on the TSX Venture Exchange. The warrants have been classified as held for trading and have been valued using the Black-Scholes option pricing model.

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Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

6. EQUIPMENT

	Office	Computer	Vehicles	Computer software	Field equipment	Total
Costs						
As at January 1, 2010	\$ 103,820	\$ 31,343	\$ 86,669	\$ -	\$ 2,940	\$ 224,772
Additions	7,826	3,000	-	-	-	10,826
Disposals	(18,047)	(2,894)	-	-	-	(20,941)
As at December 31, 2010	93,599	31,449	86,669	-	2,940	214,657
Additions	406	-	-	1,948	-	2,354
Disposals	-	-	-	-	-	-
As at June 30, 2011	94,005	31,449	86,669	1,948	2,940	217,011
Accumulated depreciation						
As at January 1, 2010	20,697	12,961	26,098	-	504	60,260
Additions	18,672	10,548	23,544	-	455	53,219
Disposals	-	(1,269)	-	-	-	(1,269)
As at December 31, 2010	39,369	22,240	49,642	-	959	112,210
Additions	2,354	1,535	3,703	162	198	7,952
Disposals	-	-	-	-	-	-
As at June 30, 2011	41,723	23,775	53,345	162	1,157	120,162
Net book value						
As at January 1, 2010	83,123	18,382	60,571	-	2,436	164,512
As at December 31, 2010	54,230	9,209	37,027	-	1,981	102,447
As at June 30, 2011	\$ 52,282	\$ 7,675	\$ 33,324	\$ 1,786	\$ 1,783	\$ 96,850

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Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

7. MINERAL PROPERTIES

	June 30, 2011	December 31, 2010	January 1, 2010
Midu – China	\$ -	\$ -	\$ 1,000,000
Condorama – Peru	946,347	946,347	946,347
Chocos – Peru	946,347	946,347	946,347
Sumaq / Sami – Peru	473,173	473,173	473,173
Corina – Peru	273,254	273,254	473,173
Picha – Peru	133,824	157,724	157,724
Other minor properties – Peru	157,730	157,730	157,724
São Lourenço – Brazil	134,330	79,947	49,532
Campos Verdes – Brazil	1	83,224	83,224
Curionópolis – Brazil	282,049	121,669	-
Minas Dixon – Peru	1	1	1
Balance	\$ 3,347,056	\$ 3,239,416	\$ 4,287,245

Brazil

Canabrava VMS Project

The Canabrava VMS Project comprises 19 exploration licenses covering a total of 28,048 hectares in Goiás and Tocantins states, registered by the Company between 2006 and 2008. In May 2008, the Company signed a letter of intent with Votorantim Metais Zinco S.A. (Votorantim Metais”) whereby Votorantim Metais may earn up to a 75% interest in the Company’s Canabrava VMS Project by funding further exploration and development work on the project. Votorantim Metais can earn an initial 55% interest in the project by funding \$2.5 million of exploration expenditures over a three-year period. It may then elect to increase its interest to 70% by delivering a feasibility study within a further two years. Subject to agreement by the Company and a decision to construct a mine at Canabrava, Votorantim Metais may raise its interest to 75% by funding the Company’s equity cost of the mine development, on terms substantially the same as those of the debt financing. Votorantim Metais has also contributed 17 mineral rights to the joint venture, such that the total holdings are now 40,628 hectares. The effective date of the agreement is May 16, 2008 with Votorantim Metais obliged to incur \$2.5 million of exploration expenditures on or before the third anniversary of the agreement (May 16, 2011) to maintain its option. On September 10, 2010 an amendment was signed extending the expenditure obligation through May 16, 2012.

Curionópolis Copper-Gold Project

This project comprises 16,452 hectares of mineral rights in the Carajás District of Northern Brazil, part claimed by the Company and part acquired from Redrock Exploration Ltd. (“Redrock”) for US\$630,000 in cash and US\$2.7 million in exploration expenditures over a three-year period. Redrock and its Brazilian subsidiaries are companies wholly-owned and controlled by the Company’s CEO. In June of 2010, Lara made a payment of US\$115,000 to Redrock Exploration (BVI) Ltd. (“Redrock”). The payment was the first cash payment required under the option agreement Lara has with Redrock. In May of 2011 Lara made an additional option payment of US\$165,000 to Redrock.

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For the six months ended June 30, 2011 and 2010

7. MINERAL PROPERTIES (continued...)

In November 2010 Lara signed an Agreement whereby Codelco do Brasil Mineração Ltda. (“Codelco”) can earn up to a 75% interest in the Company’s Curionópolis Copper-Gold Project, in the Carajás District of northern Brazil, which includes the rights to explore for and develop copper and gold within the area ceded to Vertical (see below). Under the terms of the Agreement, Codelco may earn an initial 51% interest in the Curionópolis property by investing US\$3.0 million in exploration over a four-year period, of which the first US\$400,000 is committed, and by assuming responsibility for the remaining option payments due to Redrock. Codelco may then elect to earn a further 9% interest (60% total) in the property by sole-funding such additional exploration work as necessary to define a minimum resource of at least 500,000 tons of copper equivalent, independently reported under National Instrument 43-101 guidelines. Codelco may then elect to earn a further 15% interest (75% total) in the property by sole-funding such additional exploration and development works as are necessary to complete a Bankable Feasibility Study on the Project.

Curionópolis Iron Project

The Company has completed an agreement whereby Vertical Mineração Ltda. (“Vertical”), a special purpose company owned by a group of Brazilian pig iron producers will acquire the iron ore targets within the Property for cash payments, exploration work commitments and royalties. Under the terms of the Vertical agreement, Lara has ceded approximately 1,365 hectares of the property, covering a ridge of banded-massive iron formations, to Vertical in exchange for US\$1.4 million in cash payable over two years, US\$3 million in exploration expenditures over a three year period and a \$3/tonne to \$4/tonne royalty payment on any lump iron ore production and a \$1.50/tonne royalty payment on any finer-grained iron ore production. Lara is entitled to 50% of the cash and royalty payments paid by Vertical and will be the operator during the exploration phase of the project and Redrock which is owned by the CEO is entitled to the other 50%.

Liberdade Copper Project

This project comprises a single exploration license covering 6,969 hectares in area, located in the Municipality of São Felix do Xingu, Pará State, at the western end of the Carajás District. On September 30, 2010 the Company completed an Agreement with Codelco to earn up to a 75% interest in the project. Under the terms of the Agreement, Codelco may earn an initial 51% interest in the property by investing US\$3.8 million in exploration over a four-year period, with a minimum expenditure of US\$400,000 in year one, of which US\$300,000 is a work commitment. Codelco may then elect to earn a further 24% interest in the property by sole-funding such additional exploration works as are necessary to define a minimum resource of at least 500,000 tons of copper equivalent, independently reported under National Instrument 43-101 guidelines.

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 was required to make approximately US\$73,500 (US\$48,000 paid) in staged lease payments over three years and make a one-time payment of US\$1 million by January 2010 to exercise its option to acquire the mineral rights. Subsequent to December 31, 2008, the Company agreed to an amendment, whereby it could extend its option for an additional two years by making payments of US\$15,000, US\$30,000 and US\$55,000 in January 2009, January 2010 and January 2011 respectively, and by making a one-time payment of US\$1 million by May 2012. Lara has made the payments for January 2009, 2010 and 2011. The São Lourenço mine lies within the frontier zone and will thus be subject to certain foreign ownership restrictions at transfer and, accordingly, the Company does not expect to be able to directly own a majority interest in the mine at that time.

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7. MINERAL PROPERTIES (continued...)

Peru

Lara and Tingo Este Copper Projects

The Company owns a 100% interest in three mining properties of the Lara Copper Project comprising 1,800 hectares through its wholly-owned subsidiary, Minas Dixon S.A. (“Minas Dixon”). Under the terms of the original purchase agreement, 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. On February 12, 2010, Lara entered into an option agreement with Redzone Resources Ltd. (“Redzone”) whereby Redzone may earn up to a 75% interest in the Company’s Lara and the nearby Tingo Este projects in the southern Peruvian coastal belt. Redzone may earn an initial 55% interest in the projects by spending US\$2.5 million in exploration and issuing 850,000 common shares of Redzone to Lara over a three-year term. Redzone may then elect to earn an additional 20% interest in the projects by completing a bankable feasibility study and making a one-time cash payment to Lara of US\$1.5 million on or before January 28, 2015. Lara retains a 1% net smelter royalty on all production from the projects. The minimum first year exploration expenditure is US\$500,000. Lara has received the first 100,000 common shares from Redzone as part of the option agreement. The Company acquired Tingo Este from Tinka Resources Ltd., (“Tinka”) and there is an obligation to pay Tinka a 1% net smelter return royalty on any production from the property.

Corina

In May of 2010 Lara entered into an option agreement with Consorcio Minero Horizonte S.A. (“Horizonte”) by granting them an option to acquire up to an 80% interest in the Corina Gold Property (the “Corina Property”) by paying Lara US\$700,000 in cash (US\$200,000 paid), completing US\$8,500,000 of exploration and feasibility work and paying Lara a sliding-scale royalty. Horizonte is a Peruvian based privately-owned gold producer. Horizonte will have a first option to earn a 65% interest in the Corina Property by making cash payments of US\$7,000,000 to Lara and completing not less than US\$1,500,000 (US\$500,000 committed) in exploration expenditures over a three-year period, with at least US\$300,000 of the Phase 1 program and US\$500,000 of the Phase 2 program being spent on drilling.

Subject to completion of the first option, Horizonte would have 60 days in which to elect to invest a further US\$7,000,000 over five years on feasibility work to earn an additional 15% interest (for an aggregate 80%) in the Corina Property. Lara will retain the right to a sliding scale Net Smelter Return Royalty (“NSR Royalty”) on all gold and silver produced in excess of 1.5 million ounces equivalent.

Picha

In April 2011 Lara signed a letter of intent (“LOI”) with Network Exploration Ltd. (“Network”) whereby Network could acquire up to a 75% interest in the Picha project. The letter is non-binding and the final terms will be subject to TSX Venture Exchange approval and the execution of a mutually acceptable definitive agreement. Upon the signing of the LOI, Network paid Lara a deposit of US\$50,000, half of which is non-refundable. The non-refundable portion amounting to US\$25,000 has been credited against the capitalized acquisition costs of the Picha property.

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For the three months ended March 31, 2011 and 2010

7. MINERAL PROPERTIES (continued...)

Exploration expenditures incurred during the six months ended June 30, 2011 were as follows:

	Goiás Gold	Caraias	Other	Total Brazil	Chocos	Samaq / Sami	Lara / Tingo Este	Other	Total Peru	Total
Assays	\$ 3,001	\$ 4,992	\$ 246	\$ 8,240	\$ 61,104	\$ 12,374	\$ 40,527	\$ 24,858	\$ 138,863	\$ 147,103
Field costs	38,949	5,187	-	78,264	13,836	310	78,264	20,642	113,052	157,187
Office and administrative	83,496	25,569	6,724	119,756	16,998	2,927	119,756	58,454	198,135	313,923
Property maintenance costs	49,713	19,188	3,931	64,054	40,576	100,179	64,054	117,487	322,296	395,128
Salaries and consultants	195,080	60,928	16,022	339,689	2,135	1,410	339,689	108,970	452,204	724,234
Telecommunications	992	211	55	1,530	361	54	1,530	10,612	12,557	13,816
Travel and related costs	3,600	944	3,806	8,400	2,219	-	29,909	15,401	46,629	55,029
Trenching	-	-	-	-	-	-	-	-	-	-
	374,831	117,069	30,784	522,684	137,229	117,254	672,829	356,424	1,283,736	1,806,421
Recoveries	-	-	-	-	-	-	(659,697)	-	(659,697)	(659,697)
	\$ 374,831	\$ 117,069	\$ 30,784	\$ 522,684	\$ 137,229	\$ 117,254	\$ 13,132	\$ 356,424	\$ 624,039	\$ 1,146,724

Exploration expenditures incurred during the six months ended June 30, 2010 were as follows:

	Campos Verdes	Araguaia	Goiás Gold	Caraias	Other	Other	Total Brazil	Peru	Colombia	Total
Assays	\$ 76	\$ 82	\$ 7,758	\$ 3,575	\$ 4,900	\$ 298	\$ 16,689	\$ -	\$ -	\$ 16,689
Field costs	36	62	61,190	14,696	3,051	8,121	87,156	-	1,584	88,740
Office and administrative	976	1,038	61,303	18,802	64,112	3,788	150,019	72,198	9,219	231,436
Property maintenance costs	1,590	527	2,055	236	136,879	-	141,287	-	-	141,287
Salaries and consultants	861	914	55,796	17,654	56,513	3,394	135,132	313,954	17,342	466,428
Telecommunications	227	-	2,454	408	37	-	3,126	5,402	-	8,528
Travel and related costs	336	1,755	20,321	7,135	3,204	367	33,118	12,893	5,016	51,027
Trenching	-	-	-	-	-	-	-	-	-	-
	4,102	4,378	210,877	62,506	268,696	15,968	566,527	404,447	33,161	1,004,135
Recoveries	-	-	-	-	-	-	-	(83,788)	-	(83,788)
	\$ 4,102	\$ 4,378	\$ 210,877	\$ 62,506	\$ 268,696	\$ 15,968	\$ 566,527	\$ 320,659	\$ 33,161	\$ 920,347

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8. EQUITY

a) Share capital

Authorized share capital consists of an unlimited number of common shares without par value.

b) Share options

The Company adopted a share option plan (“the Plan”) pursuant to the policies of the TSX Venture Exchange (“the Exchange”). The maximum aggregate number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Company. The maximum term of the options is five years and the vesting requirements are determined at the time of each grant. The Plan has been approved by the Exchange and is approved by the shareholders of the Company each year at its annual general meeting.

The continuity of share purchase options for the period ended June 30, 2011 is as follows:

Expiry Date	Exercise Price	Balance, December 31 2010	Granted	Exercised	Expired / Cancelled	Balance, June 30 2011
Mar 16 2011	1.35	565,000	-	495,000	70,000	-
Jul 10 2011	1.10	250,000	-	-	-	250,000
Nov 9 2011	1.03	25,000	-	25,000	-	-
Oct 3 2012	1.22	10,000	-	-	-	10,000
Jun 18 2013	0.80	340,000	-	100,000	-	240,000
Oct 29 2013	0.32	15,000	-	-	-	15,000
May 21 2014	0.40	37,500	-	2,500	-	35,000
Feb 21 2013	3.20	36,875	-	-	-	36,875
May 27 2015	0.67	887,500	-	60,000	-	827,500
May 27 2015	1.02	100,000	-	-	-	100,000
May 27 2015	1.23	75,000	-	-	-	75,000
Feb 21 2016	1.76	-	50,000	-	-	50,000
Jun 24 2016	1.18	-	125,000	-	-	125,000
Total		2,341,875	175,000	682,500	70,000	1,764,375
Weighted average						
Exercise price		\$0.97	\$1.35	\$1.19	\$1.35	\$0.91

c) Share based payments

During the quarter ended June 30, 2011, the Company granted 125,000 options with an exercise price of \$1.18 to certain directors. The options were fully vested on the date of grant. The stock options were recorded at fair value using the Black-Scholes option pricing model with the following assumptions: a stock price of \$1.18, an option life of 5 years, a risk free interest rate of 2.04% and a volatility of 68%. The Company recorded share based compensation of \$85,033 for these options with the offsetting amount credited to contributed surplus.

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For the six months ended June 30, 2011 and 2010

8. EQUITY (continued...)

d) Loss Per Share

The calculation of basic and diluted loss per share for the three months and six months ended June 30, 2011 was based on the loss attributable to common shareholders of \$705,947 (2010 - \$1,065,530) and \$1,132,941 (2010 - \$1,819,693) respectively, and a weighted average number of common shares outstanding of 25,893,778 (2010 - 24,905,072) and 25,794,901 (2010 - 24,905,071). The diluted loss per share did not include the effect of the 1,764,375 share purchase options outstanding because they were anti-dilutive.

9. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties.

10. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

For the six months ended June 30, 2011	Salary or Fees	Termination Benefits	Share-based Payments	Total
Miles Thompson, Chief Executive Officer	\$ 48,000	\$ -	\$ -	\$ 48,000
Andre Gauthier, President	42,000	-	-	42,000
Chris MacIntyre, Vice President, Corporate Development	24,000	-	52,560	76,560
Michael Bennell, Vice President, Exploration	64,500	-	-	64,500
	\$ 178,500	\$ -	\$ 52,560	\$ 231,060

For the six months ended June 30, 2010	Salary or Fees	Termination Benefits	Share-based Payments	Total
Miles Thompson, Chief Executive Officer	\$ 48,000	\$ -	\$ -	48,000
Andre Gauthier, President	42,000	-	-	42,000
Chris MacIntyre, Vice President, Corporate Development	24,000	-	-	24,000
Michael Bennell, Vice President, Exploration	59,500	-	-	59,500
	\$ 173,500	\$ -	\$ -	\$173,500

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Notes to the Condensed Consolidated Interim Financial Statements

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For the six months ended June 30, 2011 and 2010

10. RELATED PARTY TRANSACTIONS (continued...)

Related party assets and liabilities	Service or item	June 30, 2011	December 31, 2010	January 1, 2010
Amounts due to:				
Miles Thompson	Management fees	\$ 504	\$ -	\$ -
Andre Gauthier	Management fees	21,874	-	-
Chris MacIntyre	Admin services	1,225	-	-
Inca Pacific Resources	Expense recovery	9,940	-	8,068
Amounts due from:				
Reservoir Capital Corp.	Expense reimbursement	\$ -	\$ 7,741	\$ -
Seabord Services	Deposit for acting services	10,000	10,000	10,000

Seabord Services Corp., (“Seabord”) is a management services company controlled by a director. Seabord provides a chief financial officer, a corporate secretary, accounting staff, administration staff and office space to Lara. The Chief Financial Officer is an employee of Seabord and is not paid directly by Lara.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the six month period ended June 30, 2011, the Company:

- re-allocated contributed surplus of \$404,327 to share capital for exercise of options, and;
- cancelled 6,016 common shares of the Company valued at \$3,221.

During the six months ended June 30, 2010, the Company did not have any significant non-cash investing and financing activities.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT

a) Financial Risk Management

The Company’s financial instruments are exposed to certain financial risks, which include currency risk, credit risk, liquidity risk and interest rate risk.

Currency Risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States, Brazil and Peru. The Company funds cash calls to its subsidiary companies outside of Canada in US dollars and a portion of its expenditures are also in the local currencies. The risk is that there could be a significant change in the exchange rate of the Canadian dollars relative to the US dollars, the Brazilian reals and the Peruvian sols. A significant change in these rates could have an adverse effect on the Company’s results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

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12. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued...)

As at June 30, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars, Brazilian reals and Peruvian sols:

	US dollar	Brazilian reals	Peruvian sols
Cash and cash equivalents	\$ 1,430,352	\$ 563,110	\$ 41,073
Receivables	72,169	9,536	44,932
Accounts payable and accrued liabilities	(16,779)	(97,902)	(5,591)
Net exposure	1,485,742	474,744	80,414
Canadian dollar equivalent	\$ 1,450,827	\$ 295,576	\$ 28,386

Based on the above net exposures as at June 30, 2011 and assuming that all other variables remain constant, a 10% change in the value of the Canadian dollars against the above foreign currencies would result in an increase / decrease of approximately \$177,479 to loss from operations.

Credit Risk

The Company's cash and cash equivalents are mainly held through large Canadian or US financial institutions and at June 30, 2011 are mainly held in savings accounts and accordingly, credit risk is minimized.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital resources as outlined in note 12 (b).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's cash is held mainly in term deposits and therefore there is currently minimal interest rate risk.

b) Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties. Lara relies mainly on equity issuances to raise new capital and on entering into joint venture agreements on certain properties which enables it to conserve capital and to reduce risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash. The Company prepares annual estimates of exploration and administrative expenditures and monitors actual expenditures compared to the estimates to ensure that there is sufficient capital on hand to meet ongoing obligations. The Company's investment policy is to invest its cash in savings accounts or highly liquid short-term deposits with terms of one year or less and which can be liquidated after thirty days without interest penalty. The Company currently has sufficient capital to fund its exploration programs and to cover its administrative costs for the next twelve months.

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13. FINANCIAL INSTRUMENTS

The Company has classified its financial assets as follows:

					June 30, 2011			
Financial assets		Loans-and-receivables		Held for trading		Available-for-sales		
Cash and cash equivalents	\$	-	\$	3,568,151	\$	-		
Receivables		156,247		-		-		
Long-term investments		-		9,925		1,879,170		
	\$	156,247	\$	3,575,076	\$	1,879,170		

					December 31, 2010			
Financial assets		Loans-and-receivables		Held for trading		Available-for-sales		
Cash and cash equivalents	\$	-	\$	1,438,137	\$	-		
Receivables		36,493		-		-		
Long-term investments		-		11,562		4,801,085		
	\$	36,493	\$	1,449,699	\$	4,801,085		

					January 1, 2010			
Financial assets		Loans-and-receivables		Held for trading		Available-for-sales		
Cash and cash equivalents	\$	-	\$	2,375,295	\$	-		
Receivables		454,424		-		-		
Long-term investments		-		13,868		4,790,723		
	\$	454,424	\$	2,389,163	\$	4,790,723		

The carrying value of its financial assets approximates their fair value as at June 30, 2011 due to their short term maturity. The Company classifies its only financial liability, accounts payable and accrued liabilities as other financial liabilities. The total other liabilities outstanding at June 30, 2011 was \$536,401 (December 31, 2010 - \$489,493; January 1, 2010 - \$850,649). The carrying value of its financial liabilities approximates their fair value as at June 30, 2011 due to their short term maturity. All of the Company's financial assets and liabilities are classified as level 1.

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13. FINANCIAL INSTRUMENTS (continued...)

Fair value levels for financial assets and liabilities are as follows:

June 30, 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Investments	1,879,170	9,925	-	\$ 1,889,095
December 31, 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Investments	4,801,085	11,562	-	\$ 4,812,647
January 1, 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Investments	4,790,723	13,868	-	\$ 4,804,591

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the Company:

- issued 83,331 common shares as bonus shares, valued at \$1.46 per share, and
- issued 100,000 common shares for exercise of options at \$1.10 per share.
- completed the sale of its Vila Oito and Floresta nickel laterite projects in northern Brazil to London and TSX Venture Exchange-listed Horizonte Minerals plc ("Horizonte"). Under the terms of the agreement Horizonte will issue 8.5 million new shares to Lara at a value of approximately \$2 million. These shares will be subject to a twelve month hold period.

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15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

As stated in Note 2, these are Lara’s consolidated interim financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 2 have been applied in preparing the consolidated interim financial statements for the three months and six months ended June 30, 2011, the comparative information for the three months and six months ended June 30, 2010, the financial statements for the year ended December 31, 2010 and the preparation of an opening IFRS statement of financial position on the Transition Date, January 1, 2010.

In preparing its opening IFRS statement of financial position, comparative information for the three months and six months ended June 30, 2010 and the year ended December 31, 2010 the Company has adjusted amounts previously reported in financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

The guidance for the first time adoption of IFRS is set in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for the first time adopters of IFRS. Lara elected to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date.

A reconciliation of Statement of Financial Positions and Statements of Operations and Comprehensive Loss for the periods noted below.

- Consolidated Statement of Financial Position as at the transition date of January 1, 2010
- Consolidated Statement of Financial Position as at the transition date of December 31, 2010
- Consolidated Statement of Financial Position as at the transition date of June 30, 2010
- Consolidated Statement of Comprehensive Loss for the year ended December 31, 2010
- Consolidated Statement of Comprehensive Loss for the three-month period ended June 30, 2010
- Consolidated Statement of Cash Flows for the three-month period ended June 30, 2010
- Consolidated Statement of Comprehensive Loss for the six-month period ended June 30, 2010
- Consolidated Statement of Cash Flows for the six-month period ended June 30, 2010

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15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued...)**Consolidated Statement of Financial Position as at the transition date of January 1, 2010:**

	GAAP	IFRS Adjustments	Notes	IFRS
Assets				
Current				
Cash	\$ 2,375,295	\$ -		\$ 2,375,295
Receivables	454,424	-		454,424
Current income tax receivable	189,838	-		189,838
Prepaid expenses and deposits	71,232	-		71,232
	3,090,789	-		3,090,789
Furniture and equipment	164,512	-		164,512
Long-term investments	4,804,591	-		4,804,591
Mineral properties	5,142,245	(855,000)	(a)	4,287,245
	\$ 13,202,137	\$ (855,000)		\$ 12,347,137
Liabilities				
Current				
Accounts payable and accrued liabilities	\$ 850,649			\$ 850,649
Future income tax liability	873,560	(855,000)	(a)	18,560
Non-controlling interest	113,186	(113,186)		-
	1,837,395	(855,000)		869,209
Shareholders' Equity				
Non-controlling interest	-	113,186		113,186
Share capital	13,260,499	-		13,260,499
Contributed Surplus	7,399,060	-		7,399,060
Accumulated other comprehensive income	111,375	-		111,375
Deficit	(9,406,192)	-		(9,406,192)
	11,364,742	-		11,364,742
	\$ 13,202,137	\$ (855,000)		\$ 12,347,137

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15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued...)**Consolidated Statement of Financial Position as at December 31, 2010:**

	GAAP	IFRS Adjustments	Notes	IFRS
Assets				
Current				
Cash	\$ 1,438,137	\$ -		\$ 1,438,137
Receivables	36,493	-		36,493
Current income tax receivable	45,984	-		45,984
Prepaid expenses and deposits	149,509	-		149,509
	1,670,123	-		1,670,123
Furniture and equipment	102,447	-		102,447
Long-term investments	4,812,647	-		4,812,647
Mineral properties	4,094,416	(855,000)	(a)	3,239,416
	\$ 10,679,633	\$ (855,000)		\$ 9,824,633
Liabilities				
Current				
Accounts payable and accrued liabilities	\$ 489,493	\$ -		\$ 489,493
	489,493	-		489,493
Future income tax liability	544,243	(451,940)	(a)	92,303
	1,033,736	(451,940)		581,796
Shareholders' Equity				
Share capital	13,502,669	-		13,502,669
Contributed Surplus	7,817,934	-		7,817,934
Accumulated other comprehensive income	569,956	-		569,956
Deficit	(12,244,662)	(403,060)		(12,647,722)
	9,645,897	(403,060)		9,242,837
	\$ 10,679,633	\$ (855,000)		\$ 9,824,633

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15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued...)**Consolidated Statement of Financial Position as at June 30, 2010:**

	GAAP	IFRS Adjustments	Notes	IFRS
Assets				
Current				
Cash	\$ 1,065,605	\$ -		\$ 1,065,605
Receivables	63,443	-		63,443
Current income tax receivable	244,677	-		244,677
Prepaid expenses and deposits	111,336	-		111,336
	1,485,061	-		1,485,061
Furniture and equipment	137,410	-		137,410
Long-term investments	4,718,028	-		4,718,028
Mineral properties	5,093,251	(855,000)	(a)	4,238,251
	\$ 11,433,750	\$ (855,000)		\$ 10,578,750
Liabilities				
Current				
Accounts payable and accrued liabilities	\$ 618,363	\$ -		\$ 618,363
Future income tax liability	862,739	(855,000)	(a)	7,739
Non-controlling interest	113,183	-		113,183
	1,594,288	(855,000)		739,288
Shareholders' Equity				
Share capital	13,260,505	-		13,260,505
Contributed Surplus	7,779,627	-		7,779,627
Accumulated other comprehensive income	25,215	-		25,215
Deficit	(11,225,885)	(403,060)		(11,225,885)
	9,839,462	(403,060)		9,839,462
	\$ 11,433,750	\$ (855,000)		\$ 10,578,750

LARA EXPLORATION LTD.

(An Exploration-Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued...)**Consolidated Statement of Comprehensive Loss for the year ended December 31, 2010:**

	GAAP	IFRS Adjustments	Notes	IFRS
EXPLORATION EXPENSES	\$ 1,919,691	\$ -		\$ 1,919,691
GENERAL AND ADMINISTRATIVE EXPENSES				
Depreciation	11,523	-		11,523
Directors’ fees	32,000	-		32,000
Management fees	180,000	-		180,000
Office, rent and administrative services	419,104	-		419,104
Professional fees	149,832	-		149,832
Shareholder information and Investor relations	155,912	-		155,912
Share-based compensation	495,762	-		495,762
Transfer agent and regulatory fees	69,567	-		69,567
Travel and related costs	180,012	-		180,012
	1,693,712	-		1,693,712
OTHER EXPENSE (INCOME)				
Change in fair value of derivative financial instruments	2,306	-		2,306
Foreign exchange loss	19,652	-		19,652
Interest income	(3,741)	-		(3,741)
Gain on sale of investments	(70,997)	-		(70,997)
Gain on sale of subsidiary	(4,108)	-		(4,108)
Loss on sale of equipment	261	-		261
Other income	(260,119)	-		(260,119)
	(316,746)	-		(316,746)
LOSS BEFORE INCOME TAXES	(3,296,657)	-		(3,296,657)
INCOME TAX EXPENSE (RECOVERY)				
Current	(54,839)	-		(54,839)
Future	(403,348)	403,060	(a)	(288)
	(458,187)	403,060		(55,127)
NET LOSS FOR THE YEAR	\$ (2,838,470)	\$ (403,060)		\$ (3,241,530)
OTHER COMPREHENSIVE INCOME (LOSS)				
Net loss for the year	\$ (2,838,470)			\$ (3,241,530)
Change in fair value of investments	556,362			556,362
Future income tax expense	(74,031)			(74,031)
Transfer on sale of investments	(23,750)			(23,750)
COMPREHENSIVE LOSS	\$ (2,379,889)	\$ (403,060)		\$ (2,782,949)
Basic and diluted loss per share	\$ (0.11)	\$ (0.02)		\$ (0.13)
Weighted average number of shares outstanding, basic and diluted	24,967,215			24,967,215

LARA EXPLORATION LTD.

(An Exploration-Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued...)**Consolidated Statement of Comprehensive Loss for the three months ended June 30, 2010:**

	GAAP	IFRS Adjustments	Notes	IFRS
EXPLORATION EXPENSES	\$ 489,760	\$ -		\$ 489,760
GENERAL AND ADMINISTRATIVE EXPENSES				
Depreciation	2,947	-		2,947
Directors’ fees	10,000	-		10,000
Management fees	45,000	-		45,000
Office, rent and administrative services	92,462	-		92,462
Professional fees	36,251	-		36,251
Shareholder information and Investor relations	37,494	-		37,494
Share-based compensation	380,567	-		380,567
Transfer agent and regulatory fees	16,869	-		16,869
Travel and related costs	43,459	-		43,459
	665,049	-		665,049
OTHER EXPENSE (INCOME)				
Change in fair value of derivative financial instruments	705	-		705
Foreign exchange loss	79	-		79
Interest income	(854)	-		(854)
Other Income	(90,545)	-		(90,545)
Loss on sale of equipment	1,425	-		1,425
	(89,190)	-		(89,190)
LOSS BEFORE INCOME TAXES	1,065,619	-		1,065,619
INCOME TAX EXPENSE (RECOVERY)				
Current	-	-		-
Future	(89)	-		(89)
	(89)	-		(89)
NET LOSS FOR THE YEAR	\$ (1,065,530)	\$ -		\$ (1,065,530)
OTHER COMPREHENSIVE INCOME (LOSS)				
Net loss for the year	(1,065,530)	-		(1,065,530)
Change in fair value of investments	(893,205)	-		(893,205)
Future income tax expense	111,607	-		111,607
Transfer on sale of investments	-	-		-
COMPREHENSIVE LOSS	\$ (1,847,128)	-		\$ (1,847,128)
Basic and diluted loss per share	(0.04)	\$ -		(0.04)
Weighted average number of shares outstanding, basic and diluted	24,905,072			24,905,072

LARA EXPLORATION LTD.

(An Exploration-Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued...)

Consolidated Statement of Cash Flows for the three months ended June 30, 2010:

	GAAP	IFRS Adjustments	Notes	IFRS
CASH FLOWS FROM (TO)				
OPERATIONS				
Net loss for the period	\$ (1,065,530)	\$ -		\$ (1,065,530)
Items not affecting cash:				
Depreciation	11,561	-		11,561
Stock-based compensation	380,567	-		380,567
Gain on sale of equipment	(1,425)	-		(1,425)
Future income tax recovery	(89)	-		(89)
Change in FV of derivatives	705	-		705
Changes in non-cash working capital items:				
Receivables	(4,491)	-		(4,491)
Prepaid expenses	(3,191)	-		(3,191)
Accounts payable and accrued Liabilities	(110,236)	-		(110,236)
Exploration advances	(87,788)	-		(87,788)
	(873,067)	-		(873,067)
INVESTING				
Recovery of mineral property costs	201,084	-		201,084
Mineral properties	(121,668)	-		(121,668)
Proceeds on sale of equipment	200	-		200
Equipment	(1,364)	-		(1,364)
	(33,212)	-		(33,212)
Change in cash and cash equivalents	(794,815)	-		(794,815)
Cash and cash equivalents, beginning of period	1,860,420	-		1,860,420
Cash and cash equivalents, end of period	\$ 1,065,605	\$ -		\$ 1,065,605

LARA EXPLORATION LTD.

(An Exploration-Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued...)

Consolidated Statement of Comprehensive Loss for the six-month period ended June 30, 2010:

	GAAP	IFRS Adjustments	Notes	IFRS
EXPLORATION EXPENSES	\$ 920,347	\$ -		\$ 920,347
GENERAL AND ADMINISTRATIVE EXPENSES				
Depreciation	7,019	-		7,019
Directors’ fees	10,000	-		10,000
Management fees	90,000	-		90,000
Office, rent and administrative services	224,846	-		224,846
Professional fees	99,923	-		99,923
Shareholder information and Investor relations	70,901	-		70,901
Share-based compensation	380,567	-		380,567
Transfer agent and regulatory fees	62,801	-		62,801
Travel and related costs	87,518	-		87,518
	1,033,575	-		1,033,575
OTHER EXPENSE (INCOME)				
Change in fair value of derivative financial instruments	(11,907)	-		(11,907)
Foreign exchange loss	24,699	-		24,699
Interest income	(3,386)	-		(3,386)
Other Income	(90,545)	-		(90,545)
Loss on sale of equipment	261	-		261
	(80,878)	-		(80,878)
LOSS BEFORE INCOME TAXES	1,873,044	-		1,873,044
INCOME TAX EXPENSE (RECOVERY)				
Current	(54,839)	-		(54,839)
Future	1,488	-		1,488
	(53,351)	-		(53,351)
NET LOSS FOR THE YEAR	\$ (1,819,693)	\$ -		\$ (1,819,693)
OTHER COMPREHENSIVE INCOME (LOSS)				
Net loss for the year	\$ (1,819,693)	-	(a)	\$ (1,819,693)
Change in fair value of investments	(98,470)	-		(98,470)
Future income tax expense	12,309	-		12,309
Transfer on sale of investments	-	-		-
COMPREHENSIVE LOSS	\$ (1,905,854)	-		\$ (1,905,854)
Basic and diluted loss per share	\$ (0.07)	\$ -		\$ (0.07)
Weighted average number of shares outstanding, basic and diluted	24,905,071			24,905,071

LARA EXPLORATION LTD.

(An Exploration-Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Expressed in Canadian Dollars)

For the six months ended June 30, 2011 and 2010

15. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued...)

Consolidated Statement of Cash Flows for the three months ended June 30, 2010:

	GAAP	IFRS Adjustments	Notes	IFRS
CASH FLOWS FROM (TO)				
OPERATIONS				
Net loss for the period	\$(1,819,693)	\$ -		\$(1,819,693)
Items not affecting cash:				
Depreciation	23,725	-		23,725
Stock-based compensation	380,567	-		380,567
Gain on sale of equipment	261	-		261
Future income tax recovery	1,488	-		1,488
Change in FV of derivatives	(11,907)	-		(11,907)
Changes in non-cash working capital items:				
Receivables	336,142	-		336,142
Prepaid expenses	(40,104)	-		(40,104)
Accounts payable and accrued Liabilities	(232,286)	-		(232,286)
Exploration advances	-	-		0
	(1,361,807)	-		(1,361,807)
INVESTING				
Recovery of mineral property costs	201,084	-		201,084
Mineral properties	(152,083)	-		(152,083)
Proceeds on sale of equipment	4,480	-		4,480
Equipment	(1,364)	-		(1,364)
	52,117	-		52,117
Change in cash and cash equivalents	(1,309,690)	-		(1,309,690)
Cash and cash equivalents, beginning of period	2,375,295	-		2,375,295
Cash and cash equivalents, end of period	\$ 1,065,605	\$ -		\$ 1,065,605

a) Deferred Tax on Mineral Properties

Under GAAP Lara recognized a future income tax liability on the acquisition of Maxy Gold Corp. where the fair value of some of the mineral properties acquired exceeded their tax values in a transaction which was not a business combination and affected neither accounting profit or loss nor taxable profit or loss. IFRS does not permit the recognition of deferred taxes on such transactions.