

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Financial Statements

Six Months Ended June 30, 2009

(Unaudited – Prepared in accordance with Canadian GAAP)

(Expressed in Canadian Dollars, unless otherwise stated)

The accompanying unaudited interim consolidated financial statements of Lara Exploration Ltd. (the “Company”) for the six months ended June 30, 2009 have been prepared by management and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102, management advises that these interim consolidated financial statements have not been reviewed by the Company’s external auditors.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Balance Sheets

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	June 30, 2009	December 31, 2008
ASSETS		
Current		
Cash and cash equivalents	\$ 2,284,124	\$ 3,428,859
Receivables	383,414	368,638
Prepaid expenses and deposits	100,424	43,019
Current income tax receivable	5,205	-
	<u>2,773,167</u>	<u>3,840,516</u>
Furniture and equipment (Note 4)	123,498	136,958
Long-term investments (Note 5)	3,661,086	3,328,206
Mineral properties (Note 6)	132,757	114,442
Future income tax asset	246,671	220,100
	<u>\$ 6,937,179</u>	<u>\$ 7,640,222</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 170,031	\$ 145,721
Current income taxes payable	-	254,795
	<u>170,031</u>	<u>400,516</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	8,852,146	8,852,146
Contributed surplus (Note 8)	7,399,255	7,331,391
Accumulated other comprehensive income	(831,493)	(1,114,596)
Deficit	(8,652,760)	(7,829,235)
	<u>6,767,148</u>	<u>7,239,706</u>
	<u>\$ 6,937,179</u>	<u>\$ 7,640,222</u>

Nature of operations (Note 1)

Approved by the Board of Directors:

Signed: "Michael Winn" _____ Director

Signed: "Miles Thompson" _____ Director

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

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Statements of Operations and Comprehensive Loss

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
EXPLORATION EXPENDITURES (Note 7)	\$ 237,800	\$ 272,046	\$ 571,645	\$ 644,453
GENERAL & ADMINISTRATIVE EXPENSES				
Amortization	360	307	733	687
Management fees	24,404	23,878	49,116	48,000
Office, rent and administrative services	68,252	41,914	121,880	89,983
Professional fees	25,502	20,968	37,781	44,821
Shareholder information and investor relations	35,474	14,367	38,239	53,474
Stock-based compensation	42,046	113,352	67,864	125,172
Transfer agent and filing fees	15,485	16,682	24,788	29,753
Travel and related costs	10,919	17,152	19,998	29,375
	222,442	248,620	360,399	421,265
Loss before other items	(460,242)	(520,666)	(932,044)	(1,065,718)
OTHER ITEMS				
Unrealized loss on change in fair value of derivative financial instruments (Note 5)	-	(21,075)	(1,764)	(26,845)
Foreign exchange gain (loss)	7,540	19,314	16,062	14,263
Interest income	3,857	32,389	6,657	77,024
Other income	3,121	4,623,114	9,452	4,623,114
	14,518	4,653,742	30,407	4,687,556
Net income (loss) before income taxes	(445,724)	4,133,076	(901,637)	3,621,838
Current income tax recovery (expense)	47,367	(238,952)	78,112	(238,952)
Future income tax recovery	-	14,600	-	14,600
Net income (loss) for the period	\$ (398,357)	\$ 3,908,724	\$ (823,525)	\$ 3,397,486
Other comprehensive income (loss)				
Net income (loss) for the period	\$ (398,357)	\$ 3,908,724	\$ (823,525)	\$ 3,397,486
Change in fair value of financial instruments (Note 5)	466,732	208,174	334,644	204,174
Future income tax expense	(55,491)	(32,000)	(51,541)	(32,000)
Comprehensive income (loss)	\$ 12,884	\$ 4,084,898	\$ (540,422)	\$ 3,569,660
Basic and diluted earnings (loss) per share	\$ (0.02)	\$ 0.26	\$ (0.04)	\$ 0.21
Weighted average number of common shares outstanding	19,246,501	19,246,501	19,246,501	19,051,309

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

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(An Exploration Stage Company)

Interim Consolidated Statements of Deficit and Accumulated Other Comprehensive Income

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Three Months ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Deficit, beginning of period	\$ (8,254,403)	\$ (10,751,295)	\$ (7,829,235)	\$ (10,240,057)
Net income (loss) for the period	(398,357)	3,908,724	(823,525)	3,397,486
Deficit, end of period	(8,652,760)	(6,842,571)	(8,652,760)	(6,842,571)
Accumulated other comprehensive income (loss), beginning of period	(1,242,734)	42,076	(1,114,596)	42,076
Change in fair value of financial instruments, net of future income tax	411,241	172,174	283,103	172,174
Accumulated other comprehensive loss, end of period	\$ (831,493)	\$ 214,250	\$ (831,493)	\$ 214,250

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

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Interim Consolidated Statements of Cash Flows

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
CASH FLOWS FROM (TO)				
OPERATIONS				
Net income (loss) for the period	\$ (398,357)	\$ 3,908,724	\$ (823,525)	\$ 3,397,486
Items not affecting cash:				
Amortization	6,724	2,409	13,460	4,855
Stock-based compensation	42,046	113,353	67,864	125,173
Change in fair value of held for trading				
Investments	-	21,075	1,764	26,845
Other income	-	(4,623,114)	-	(4,623,114)
Future income tax recovery	(47,367)	(14,600)	(78,112)	(14,600)
Changes in non-cash working capital items:				
Receivables	(38,859)	(12,085)	(14,776)	44,018
Prepaid expenses and deposits	(41,499)	2,534	(57,404)	(12,983)
Accounts payable and accrued liabilities	20,519	(20,526)	24,309	(193,871)
Current income tax payable	-	238,952	(260,000)	238,952
Exploration advances	-	36,535	-	(91,735)
	(456,793)	(346,743)	(1,126,420)	(1,098,974)
INVESTING				
Mineral property acquisition costs	-	-	(18,315)	(20,000)
Purchase of furniture and equipment	-	(1,927)	-	(2,456)
	-	(1,927)	(18,315)	(22,456)
FINANCING				
Issuance of shares for cash	-	-	-	1,061,250
	-	-	-	1,061,250
Change in cash and cash equivalents	(456,793)	(348,670)	(1,144,735)	(60,180)
Cash and cash equivalents, beginning of period	2,740,917	5,022,787	3,428,859	4,734,297
Cash and cash equivalents, end of period	\$ 2,284,124	\$ 4,674,117	\$ 2,284,124	\$ 4,674,117
Supplementary cash flow information				
Interest received	\$ 4,139	\$32,203	\$ 4,372	\$ 76,586
Cash income taxes paid	-	-	260,000	-

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LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

June 30, 2009

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

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

2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal and recurring adjustments considered necessary for fair presentation of the results for the interim periods presented. Operating results for the six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These interim consolidated financial statements follow the same accounting policies as the annual financial statements of the Company for fiscal 2008. Accordingly, these financial statements should be read in conjunction with the audited annual financial statements, and notes thereto, for the year ended December 31, 2008.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Business Combinations and Related Sections

CICA Handbook Section 1582, “Business Combinations” and Section 1601, “Non-Controlling Interests”, replace Sections 1581 and 1600 respectively. The new standards revise guidance on the determination of the carrying amount of assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. These standards are effective January 1, 2011 prospectively, with early adoption permitted. Lara is assessing the impact of these new standards on its consolidated financial statements.

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June 30, 2009

4. FURNITURE AND EQUIPMENT

	June 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 83,600	\$ 27,735	\$ 55,865
Field equipment	86,670	19,037	67,633
	<u>\$ 170,270</u>	<u>\$ 46,772</u>	<u>\$ 123,498</u>

5. LONG-TERM INVESTMENTS

The Company's long-term investments are comprised of 1,180,872 common shares of Sprott Resource Corp. ("SRC") and 200,000 common shares of CCT Capital Ltd. ("CCT") as well as 200,000 share purchase warrants of CCT. The share purchase warrants entitle the holder to purchase one common share of CCT at a price of \$0.33 per share until August 7, 2009. The Company has classified the investments in common shares of SRC and CCT as available for sale investments. The CCT share purchase warrants are derivative financial instruments and by default must be classified as held for trading investments.

During the six months ended June 30, 2009, the Company recorded an unrealized gain of \$283,103, net of income taxes, on the common shares designated as available for sale which was included in other comprehensive income for the period. The Company recorded a change in fair value of \$1,764 on the CCT share purchase warrants designated as held for trading, which was included in the net loss for the period.

	June 30, 2009		
	Cost	Fair Value	Accumulated Unrealized Gain(Loss)
Available for sale investments			
CCT – 200,000 common shares	\$ 21,924	\$ 24,000	\$ 2,076
SRC – 1,180,872 common shares	4,623,114	3,637,086	(986,028)
	<u>4,645,038</u>	<u>3,661,086</u>	<u>(983,952)</u>
Held for trading investments			
CCT – 200,000 share purchase warrants	11,076	-	(11,076)
	<u>\$ 4,656,114</u>	<u>\$ 3,661,086</u>	<u>\$ (995,028)</u>

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June 30, 2009

6. MINERAL PROPERTIES

	Brazil		Peru		Total
Balance, December 31, 2008	\$	114,441	\$	1	\$ 114,442
Acquisition costs		18,315		-	18,315
Balance, June 30, 2009	\$	132,756	\$	1	\$ 132,757

Brazil

Araguala Nickel Project

In the first quarter of 2009, the Company reduced its land holdings on this project to 45,000 hectares from approximately 310,000 hectares.

Campos Verdes Gold Project

In the first quarter of 2009, the Company reduced its land holdings in this project to 25,000 hectares from 32,900 hectares.

Curionópolis

In January 2008, the Company signed an option agreement to acquire a 100% interest in the Curionópolis Property located in Pará State, Brazil whereby 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 payment of 50% of net income 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 royalty for US\$1,500,000. The option agreement is subject to publication of the exploration license covering the property and regulatory approval. Regulatory approval has been received and publication of the license has been completed, however transfer of the license is still pending. Redrock and its Brazilian subsidiaries are companies wholly-owned and controlled by the Company's President and an employee of the Company.

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 extended its option for an additional two years by making payments of US\$15,000 (paid), 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. 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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6. MINERAL PROPERTIES (continued)

Brazil and Colombia

Strategic Alliance

In November 2008, the Company signed a definitive agreement (the “Alliance Agreement”) with Sprott to form a strategic alliance (the “Alliance”) to acquire phosphate, potash and other fertilizer feedstock mineral projects. Under the terms of the Alliance Agreement, the initial interest of the Company and Sprott is 50% each in a newly incorporated company, Lara Alliance (BVI) Ltd. (the “Venture”). In the first year, the Company will have a deemed initial contribution of US\$500,000 and Sprott will contribute US\$500,000 cash for their respective 50% interests in the Venture. Sprott may at its election invest a further US\$2,500,000 over the following two-year period to earn up to a 63% interest in the Venture, subject to the Company’s option to contribute funds to maintain a 50% interest in the Venture.

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June 30, 2009

7. EXPLORATION EXPENDITURES

Six Months Ended June 30, 2009														
	Campos Verdes		Sao Lourenco		Other		Total Brazil	Peru	Total					
Assays	\$	234	\$	11,267	\$	67,243	\$	633	\$	79,377	\$	4,203	\$	83,580
Field costs		297		10,749		27,812		11,369		50,227		676		50,903
Salaries and consultants		5,251		46,734		59,443		49,040		160,468		26,738		187,206
Office and administrative		9,848		23,164		49,892		35,749		118,653		8,442		127,095
Property maintenance costs		32,610		11,239		17,891		7,477		69,217		-		69,217
Telecommunications		1,023		1,456		3,870		1,008		7,357		-		7,357
Travel and related costs		3,122		16,933		14,167		11,158		45,380		-		45,380
Trenching		-		-		907		-		907		-		907
		52,385		121,542		241,225		116,434		531,586		40,059		571,645
Recoveries		-		-		-		-		-		-		-
	\$	52,385	\$	121,542	\$	241,225	\$	116,434	\$	531,586	\$	40,059	\$	571,645

Six Months Ended June 30, 2008														
	Campos Verdes		Sao Lourenco		T'Gold		Other		Total Brazil	Peru	Total			
Assays	\$	35,352	\$	6,855	\$	14,995	\$	1,051	\$	58,253	\$	8,540	\$	66,793
Field costs		49,995		34,101		14,513		10,427		109,036		-		109,036
Salaries and consultants		31,471		43,048		42,543		149,490		266,552		25,520		292,072
Office and administrative		10,373		4,896		335		152,240		167,844		5,206		173,050
Property maintenance costs		21,535		49		39		52,028		73,651		-		73,651
Telecommunications		816		710		755		2,882		5,163		-		5,163
Travel and related costs		1,190		12,633		13,580		24,104		51,507		64		51,571
Trenching		905		3,906		-		7,245		12,056		-		12,056
Vehicle		-		-		-		-		-		405		405
Drilling		71,828		-		-		-		71,828		-		71,828
		223,465		106,198		86,760		399,467		815,890		39,735		855,625
Recoveries		(211,172)		-		-		-		(211,172)		-		(211,172)
	\$	12,293	\$	106,198	\$	86,760	\$	399,467	\$	604,718	\$	39,735	\$	644,453

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Notes to the Interim Consolidated Financial Statements

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

June 30, 2009

8. SHARE CAPITAL

Issued and outstanding

	Common Shares		
	Number of Shares	Amount	Contributed Surplus
Balance, December 31, 2008	19,246,501	\$ 8,852,146	\$ 7,331,391
Stock-based compensation	-	-	67,864
Balance, June 30, 2009	19,246,501	\$ 8,852,146	\$ 7,399,255

Share purchase warrants

The following share purchase warrants are outstanding as at June 30, 2009.

Expiry Date	Exercise Price	Number of Warrants
September 28, 2009	\$ 1.20	1,597,500

Stock options

The following table summarizes the stock options outstanding and exercisable at June 30, 2009 with a weighted average life of 2.54 years:

Issue Date	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
January 11, 2006	250,000	\$ 0.51	250,000	January 11, 2011
March 16, 2006	645,000	1.35	645,000	March 16, 2011
July 10, 2006	250,000	1.10	250,000	July 10, 2011
November 9, 2006	25,000	1.03	25,000	November 9, 2011
December 18, 2006	25,000	1.45	25,000	December 18, 2011
May 14, 2007	75,000	1.32	75,000	May 14, 2012
October 3, 2007	150,000	1.22	150,000	October 3, 2012
June 18, 2008	410,000	0.80	410,000	October 16, 2012
October 29, 2008	15,000	0.32	15,000	October 29, 2013
May 21, 2009	75,000	0.40	75,000	May 21, 2014
	1,920,000	\$ 1.03	1,920,000	

In May 2009, the Company granted a total of 75,000 stock options to an officer and a consultant with an exercise price of \$0.40 and an expiry date of May 21, 2014. The fair value of these options has been measured using a Black-Scholes

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8. SHARE CAPITAL (continued)

option pricing model, with the following assumptions: an expected dividend yield of 0%, an expected stock price volatility of 68%, a risk-free interest rate of 1.87% and an expected life of 5 years. The options were fully vested on the grant date. The Company recorded stock-based compensation of \$17,120 for these options with the offsetting amount being credited to contributed surplus. During the six months ended June 30, 2009, the Company accrued stock based compensation of \$50,744 with the offsetting amount credited to contributed surplus for options granted in prior years.

9. 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 6), the furniture and equipment are located in Brazil (see Note 4) and substantially all of the exploration expenditures are incurred in Brazil (see Note 7).

10. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2009 the Company paid \$107,990 (2008 - \$Nil) to Seabord Services Corp. ("Seabord"), a management company controlled by a director, for administrative services which include: a chief financial officer, a corporate secretary, accounting staff and office space. At June 30, 2009, the Company was indebted to Seabord in the amount \$Nil (2008 - \$Nil). At June 30, 2009, Lara had deposits for future services with Seabord amounting to \$10,000. These transactions were in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties. All balances due to related parties are included in accounts payable and accrued liabilities.

11. FINANCIAL RISK MANAGEMENT

As at June 30, 2009, the Company's financial instruments are comprised of cash and cash equivalents, receivables, long-term investments, accounts payable and accrued liabilities. The fair value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity. The Company's long-term investments are carried at fair value at June 30, 2009.

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

Currency Risk

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

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(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

June 30, 2009

11. FINANCIAL RISK MANAGEMENT (continued)

At June 30, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Brazilian Reals.

	Brazilian Reals
Cash and cash equivalents	348,516
Receivables	55,644
Accounts payable and accrued liabilities	(145,653)
Net exposure	258,507
Canadian dollar equivalent	\$ 153,271

Based on the above net exposure as at June 30, 2009 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the Brazilian Real would result in an increase/decrease of approximately \$15,300 in the Company's pre-tax earnings (loss).

Credit Risk

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

Liquidity Risk

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

Interest Rate Risk

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

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12. CAPITAL RISK MANAGEMENT

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

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