

**LARA EXPLORATION LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SIX MONTHS ENDED JUNE 30, 2009**

**BACKGROUND**

This management's discussion and analysis of financial position and results of operations is prepared as at August 14, 2009, and should be read in conjunction with the unaudited interim consolidated financial statements of Lara Exploration Ltd. (the "Company" or "Lara") as at June 30, 2009 and for the six months ended June 30, 2009 and the related notes thereto. Those unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, as a result, do not contain all disclosure required under generally accepted accounting principles for annual financial statements. Accordingly, readers may want to refer to the Company's December 31, 2008 audited annual consolidated financial statements and accompanying notes. All dollar amounts included therein and in the following management's discussion and analysis ("MD&A") are expressed in Canadian dollars except where noted. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website [www.laraexploration.com](http://www.laraexploration.com).

**FORWARD LOOKING INFORMATION**

This MD&A may contain "forward looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, words such as "estimate", "intend", "expect", "anticipate" and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause Lara's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and factors may include, but are not limited to: unavailability of financing, failure to identify commercially viable mineral reserves, fluctuations in the market valuation for commodities, difficulties in obtaining required approvals for the development of a mineral project and other factors.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**COMPANY OVERVIEW**

Lara is a prospect generator dedicated to the identification, acquisition and exploration of precious and base metal deposits and other resource opportunities in South America. The Company currently holds a portfolio of mineral properties in Brazil, Colombia and Peru. The Company's strategy is to advance its projects through prospecting and early-stage exploration and to seek partners through joint ventures or other associations to fund detailed exploration and project development. By following this strategy, Lara aims to maximize its discovery opportunities, while minimizing its funding requirements and risk.

## **EXPLORATION REVIEW**

The Company has a large portfolio of mineral properties in Brazil, with on-going exploration programs for phosphate rock, potash, nickel, gold, tin, copper, iron, lead and zinc mineralization. In Peru the Company holds the Lara porphyry copper oxide deposit and continues to review acquisition opportunities, notably for gold and silver prospects. The Company also holds a substantial portfolio of phosphate exploration claims in Colombia and is actively seeking to expand its presence in that country.

Highlights for the second quarter of 2009 include:

- Acquisition of the Sergipe Potash Project in Brazil
- Acquisition of the Boyacá Phosphate Project in Colombia
- Acquisition of the Tingo Este Copper Project in Peru
- Completion of an Independent Technical Report on the São Lourenço Tin Project in Brazil

The Company has two active joint ventures, one with Votorantim Metais Zinco S.A. to explore and develop its Canabrava VMS Project in central Brazil and the other with Sprott Resource Corp., (“Sprott”) with a wider exploration and acquisitions mandate.

### ***Araguaia Nickel Project***

The Araguaia Nickel Project comprises 45,000 hectares of 100%-owned exploration licenses near the Carajás District, in Pará State, Northern Brazil. The target geology is mafic and ultramafic intrusions that are part of the Araguaia Ophiolite Sequence, host to several large nickel deposits in this region. To date 64 diamond drill holes and 55 auger drill holes have been completed on the project, defining significant nickel mineralization on two targets, Vila Oito and Floresta. During the first quarter, exploration claims and licenses were relinquished to reduce the project from 310,000 to the current 45,000 hectares and focus on the main targets areas. The Company is in the process of compiling data and reviewing drill cores from the last three years work to prepare an updated National Instrument 43-101 Technical Report, which is due for completion in the third quarter.

### ***São Lourenço Tin Project***

The São Lourenço Tin Project comprises an option to acquire a 100% interest in 3,400 hectares of Mining Licenses in Rondônia State, Northwest Brazil, where the Company completed surface exploration work that outlined a significant body of primary tin mineralization. During the period the Company completed an Independent Technical Report entitled “The Sao Lourenco Tin Project, Rondônia State, Brazil, 30th June 2009”, authored by Martin Mount of Peru-based Anglo Latina Consultores S.A.C. (“ALC”) which concluded the following:

“Lara has focused its exploration on two hills, Serra Irene and Serra Isaac, which comprise two partly exposed cupolas of medium-grained, equigranular granite representing the SW limits of the São Lourenço-Caripuna intrusive complex. Tin mineralization sampled on the top and flanks of both hills comprises sheeted veins, parallel stringers and alteration associated with a late differentiate or fine-grained dyke activity and greisen bordered veins within the granites and which also cross the contact and pass out into the metamorphic aureole. It is likely that the mineralization is wider spread than currently delineated, because there is vegetation and deep colluvial cover over more than 50% of these occurrences.

A total of 2,241 channel samples have been taken from hand-dug surface trenching over three separate exploration phases carried out between March 2007 and December 2008. Of these 1,257 samples reported values >0.05%Sn and 146 reported values >0.5%Sn. High grade values range between 0.73%Sn and 7.88%Sn, which are derived from the main vein structures cutting through the exposed granites.

The writer considers the current information insufficient to estimate a Resource at São Lourenço. However, the writer concludes that the Project definitely merits further exploration and recommends a 1,790 meter diamond-drilling exploration program aimed at determining whether there is low-grade, high tonnage open pit potential, or a low tonnage, high-grade underground potential to be developed at São Lourenço. Other recommendations include additional technical and QA/QC control procedures during the next phase of exploration. The drilling program is estimated at approximately US\$0.64 million.”

#### ***Curionópolis IOCG Project***

The Curionópolis IOCG Project comprises 12,600 hectares of 100% owned exploration claims and licenses and an option to purchase a 100% interest in another 8,500 hectares, located in the Carajás District of Pará State, Northern Brazil. The option is subject to publication of the exploration license covering the property, which has been delayed due to a third-party appeal of the underlying title. During the period the Brazilian Department of Mines and the Ministry of Mines and Energy confirmed the underlying title and the Exploration License has been published, however transfer of the license is still pending.

#### ***Canabrava VMS Project***

The Canabrava Volcanogenic Massive Sulphide (“VMS”) Project comprises 28,500 hectares of 100%-owned exploration claims and licenses that cover strike extensions of four zinc-lead-copper-silver VMS deposits in Central Brazil. Work at Canabrava is being conducted by Votorantim Metais Zinco S.A. (“Votorantim”) under the terms of an option and earn-in agreement whereby Votorantim can earn an initial 55% interest in the project, by funding \$2.5 million of exploration expenditures over a three year period.

To date Votorantim has completed 2,870.8 line kilometers of VTEM (helicopter-borne time domain electromagnetic) geophysics, which defined twenty-three new targets based on signatures similar to those of the known deposits in the belt. During the period work continued on the follow-up, comprising soil sampling grids, terrestrial geophysical surveys (magnetic and time domain electromagnetic) and detailed geological mapping over the target areas to define drill targets.

### **SPROTT STRATEGIC ALLIANCE**

In November 2008, the Company and Sprott Resource Corp., (“Sprott”) agreed to form a strategic alliance (the “Alliance”), owned 50% each, to acquire phosphate, potash and other resource opportunities. Sprott has contributed starting capital of US\$500,000 to the new company, which has been used to acquire and evaluate phosphate and potash exploration properties in Brazil and Colombia and to evaluate acquisition opportunities. During the period the Company continued field reconnaissance work and preliminary evaluation of the Alliance phosphate and potash properties, in the process discarding a number of claim and license areas where results have been disappointing. At present the two most promising projects within the Alliance are the Sergipe Potash Project in Brazil and the Boyacá Phosphate Project in Colombia.

#### ***Sergipe Potash***

The Sergipe Potash Project comprises 14,000 hectares of exploration licenses in Sergipe State, northeast Brazil. The claims are adjacent to and cover the extensions of the potash-bearing sedimentary basins of Vale’s Taquari-Vassouras mine, which produced 607,000 tons of potash in 2008. These sedimentary basins have been explored extensively for oil and gas in the past and a database of seismic surveys and exploration drilling is available through the Brazilian National Petroleum Agency (“ANP”). This ANP data includes eight wells drilled within Lara’s new licenses, several of which intercepted potash, with the best drilled intercept a cumulative 37.6 meters of potash mineralization in ten separate sedimentary units between 1,710 and 1,806 meters depth. The Company plans to access and review the available exploration data in the coming months.

### ***Boyacá Phosphate***

The Boyacá Phosphate Project is owned 70% by the Alliance and comprises approximately 80,000 hectares of exploration claims, covering a series of high-grade phosphate beds in the Cretaceous sedimentary sequences of the Central Colombian Andes. There are three main phosphate-bearing units within the sequence. In various places these phosphate beds are mined on a small-scale to produce 25-35% P<sub>2</sub>O<sub>5</sub> direct-shipping phosphate rock, which is milled and consumed locally as fertilizer.

The Boyacá claim blocks, denominated Tasco, Tota, Iza and Nueva Colon, cover synclinal and anticlinal fold structures, where the mineralized units are repeated and can be traced at surface for many kilometers. Fieldwork has comprised field checks and stratigraphic mapping to delineate the areas with the thickest and most extensive phosphate units. To date the most promising target is Iza, on the western flank of the San Miguel syncline, where the upper phosphate unit comprises stacked massive phosphate beds with an aggregate thickness of more than 4 meters. This synclinal fold is 15 kilometers long and 2 kilometers wide, with the target phosphate bed exposed on both flanks of the fold (i.e. approximately 30 kilometers of near-surface extension). The Company plans to conduct more detailed mapping and systematic channel sampling around the San Miguel syncline and other priority targets in the coming months, aiming to delineate potentially bulk-mineable areas.

### **PERU PROJECTS**

#### ***Lara Copper Deposit***

During the period the Company initiated a strategic review of the Lara Copper Project with a view to extending the Lara deposit and identifying additional outlying exploration targets. The work is still on-going, but the Company is encouraged by early sampling results from the old Socos Mine just to the east of the Lara deposit and mineral mapping using Satellite Imagery (Aster) has identified several new targets that will be checked in the coming period.

#### ***Tingo Este Copper Project***

During the period the Company signed a Letter of Intent to acquire the Tingo Este porphyry copper target from Tinka Resources Ltd., ("Tinka"). The 3,700-hectare Tingo Este property lies approximately 50 kilometers northwest of the Company's Lara Deposit in a similar geological setting in southwest Peru. Mapping and prospecting by Tinka has defined copper mineralization within a 1,000 meter by 800-meter area with values up to 0.9% copper. Under the terms of the letter of intent, Lara will pay the holding taxes of approximately US\$10,000 due at the end of June 2009 and undertake to pay Tinka a 1% net smelter return royalty on any production from the property.

Mineralization at Tingo Este is hosted by granodiorite and quartz monzonite intrusives of the Coastal Batholith. Tinka collected eighty-two channel samples from predominantly fracture-controlled mineralization over 2-meter widths at nominal 50-meter intervals along the major drainages within the target area. Results ranged from 0.012% to 0.9% copper, with 20 samples returning values greater than 0.1% copper. Lara plans to verify these results and conduct its own evaluation work in the coming months.

### **QUALIFIED PERSON**

Michael Bennell, Lara's Vice President Exploration and a member of the Australasian Institute of Mining and Metallurgy, is a Qualified Person as defined by National Instrument 43-101 *Standards of Disclosure for Mineral Projects*, and is responsible for the preparation and verification of the technical information in the MD&A.

## **RESULTS OF OPERATIONS**

For the quarter ended June 30, 2009 the Company reported a loss of \$398,357 or \$0.02 per common share as compared to net income of \$3,908,724 or \$0.26 per common share for the comparative period ended June 30, 2008. The difference is a result of the gain, net of taxes, of \$4,384,162 from the sale of the Company's interest in the Mantaro Project to Sprott Resource Corp., ("Sprott") partially offset by lower exploration expenses and lower stock-based compensation expense in 2009. Stock-based compensation was lower because fewer options were granted than in 2008 and they were granted at a lower exercise price.

For the six months ended June 30, 2009, the Company reported a loss of \$823,525 or \$0.04 per common share as compared to net income of \$3,397,486 or \$0.21 per common share for the comparative period ended June 30, 2008. The difference is due to the gain, net of taxes, of \$4,384,162 from the sale of the Company's interest in the Mantaro Project to Sprott, partially offset by lower exploration expenses and lower stock-based compensation expense in 2009. The exploration and stock-based compensation expenses were lower in 2009 for the same reasons noted above for the three months ended June 30, 2009.

## **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

The Company's working capital position at June 30, 2009 was \$2,603,136 compared to \$3,440,000 at December 31, 2008. The decrease in working capital of \$836,864 from December 31, 2008 was due to its loss from operations and its investment in mineral properties.

All of the Company's cash and cash equivalents at June 30, 2009 are held in interest bearing accounts and highly liquid short-term interest bearing investments with maturities of 90 days or less which can be liquidated at any time without penalties. The Company has not invested in any short-term commercial paper or asset backed securities. In addition, at June 30, 2009, the Company held common shares of Sprott Resource Corp. and CCT Capital Ltd. with a fair value of \$3,661,086. In management's opinion, the Company has sufficient working capital to meet its administrative and exploration expenditures for the next twelve months.

## SUMMARY OF QUARTERLY RESULTS

	2009	2009	2008	2008
Quarter Ended	Jun. 30	Mar. 31	Dec. 31	Sep. 30
Exploration expenditures	\$237,800	\$333,845	\$255,250	\$471,281
Stock-based compensation	42,046	25,818	28,502	13,075
Net income (loss) for the period	(398,357)	(425,168)	(413,245)	(573,419)
Earnings (loss) per share (basic and diluted)	(0.02)	(0.02)	(0.02)	(0.03)

  

	2008	2008	2007	2007
Quarter Ended	Jun. 30	Mar. 31	Dec. 31	Sep. 30
Exploration expenditures	\$272,046	\$372,407	\$459,165	\$295,720
Stock-based compensation	113,352	11,820	83,864	58,130
Net income (loss) for the period	3,908,724	(511,238)	(611,801)	(410,262)
Earnings (loss) per share (basic and diluted)	0.20	(0.03)	(0.04)	(0.03)

For the quarter ended March 31, 2009, exploration expenditures were higher than in the previous quarter but the net loss was close to the December quarter due to the write-off of capitalized mineral property costs in December. There was no corresponding write-off of mineral properties in the March 2009 quarter.

The loss for the quarters varies primarily based on exploration expenditures incurred and whether stock options are granted in the quarter, except that the second quarter of 2008, includes a gain, net of income taxes, of \$4,384,162 on the sale of the Company's interest in the Mantaro Project to Sprott for 1,180,872 common shares of Sprott.

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

## RECENT ACCOUNTING PRONOUNCEMENTS

### 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. That 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.

The Company has completed a scoping study which identifies the mandatory and optional exemptions from retrospective application of IFRS accounting policies and provides a comparison of the Company's current

accounting policies with those prescribed under IFRS. The Company is reviewing and assessing this information but has not determined the impact on the consolidated financial statements at this time. For the balance of 2009, the Company will be selecting the exemptions it will make for the transition to IFRS and will be documenting its new accounting policies under IFRS.

### **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.

### **TRANSACTIONS WITH RELATED PARTIES**

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.

### **MANAGEMENT COMPENSATION**

During the six months ended June 30, 2009, Lara paid \$49,116 in salary to the President and CEO, Miles Thompson and \$57,000 in salary to the Vice-President Exploration, Michael Bennell. No other directors or officers received salary or consulting fees for their services in this period. David Miles, the Chief Financial Officer and Kim Casswell, the Corporate Secretary are employees of Seabord and received no management compensation from Lara.

### **RISKS AND UNCERTAINTIES**

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that claims and leases are in good standing; and obtaining permits for drilling and other exploration activities. The market prices for silver, gold and other metals can be volatile and there is no assurance that a profitable market will exist for a production decision to be made or for the ultimate sale of the metals even if commercial quantities of precious and other metals are discovered.

The Company is operating in countries that currently have varied political environments. Changing political situations may affect the manner in which the Company operates. The Company's equity financings are sourced in Canadian dollars but for the most part it incurs its expenditures in local currencies. At this time there are no currency hedges in place.

The Company is currently earning an interest in certain of its key properties through option agreements and acquisition of title to the properties is only completed when the option conditions have been met. These conditions generally include making property payments, incurring exploration expenditures on the properties and can include the satisfactory completion of pre-feasibility studies. If the Company does not satisfactorily complete

these option conditions in the time frame laid out in the option agreements, the Company's title to the related property will not vest and the Company will have to write-down the previously capitalized costs related to that property.

#### **OUTSTANDING SHARE DATA**

As at August 14, 2009, there were 19,246,501 common shares issued. In addition, there were the following options and warrants outstanding:

- 1,920,000 fully vested stock options with a weighted average exercise price of \$1.03 per share and terms expiring between January 11, 2011 and May 21, 2014.
- 1,597,500 share purchase warrants with an exercise price of \$1.20 and an expiry date of September 28, 2009.