



**(An Exploration-Stage Company)**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**  
**(Unaudited – Prepared by Management)**

**March 31, 2011**

**NOTICE TO READER**

The accompanying unaudited condensed consolidated interim financial statements of Lara Exploration Ltd. for the three months ended March 31, 2011 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

**LARA EXPLORATION LTD.**

(An Exploration-Stage Company)

**Condensed Consolidated Interim Statements of Financial Position**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
<b>ASSETS</b>		(Note 14)	(Note 14)
<b>Current</b>			
Cash and cash equivalents (Note 3)	\$ 2,946,856	\$ 1,438,137	\$ 2,375,295
Receivables (Note 4)	85,452	36,493	454,424
Current income tax receivable	45,984	45,984	189,838
Prepaid expenses (Note 4)	130,416	149,509	71,232
	3,208,708	1,670,123	3,090,789
<b>Non-current</b>			
Equipment (Note 6)	98,535	102,447	164,512
Long-term investments (Notes 5 & 13)	3,970,773	4,812,647	4,804,591
Mineral properties (Note 7)	3,293,799	3,239,416	4,287,245
<b>TOTAL ASSETS</b>	<b>\$ 10,571,815</b>	<b>\$ 9,824,633</b>	<b>\$ 12,347,137</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities (Note 13)	\$ 440,927	\$ 489,493	\$ 850,649
<b>Non-current</b>			
Deferred income tax liability	129,559	92,303	18,560
	570,486	581,796	869,209
<b>EQUITY</b>			
Non-controlling interest	-	-	113,186
Share capital (Note 8)	14,713,557	13,502,669	13,260,499
Contributed surplus	7,471,456	7,817,934	7,399,060
Accumulated other comprehensive income	891,032	569,956	111,375
Deficit	(13,074,716)	(12,647,722)	(9,406,192)
<b>TOTAL EQUITY</b>	<b>10,001,329</b>	<b>9,242,837</b>	<b>11,477,928</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 10,571,815</b>	<b>\$ 9,824,633</b>	<b>\$ 12,347,137</b>

Nature of operations (Note 1)

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 – Prepared by Management)

(Expressed in Canadian Dollars)

	Three months ended March 31,	
	2011	2010 (Note 14)
<b>EXPLORATION EXPENDITURES</b> (Note 7)	\$ 471,562	\$ 430,587
<b>GENERAL &amp; ADMINISTRATIVE EXPENSES</b>		
Depreciation	4,318	4,072
Management fees	45,000	45,000
Directors fees	12,000	-
Office, rent and administrative services	123,130	132,385
Professional fees	114,334	63,671
Shareholder information and investor relations	42,455	33,407
Share-based payments	52,560	-
Transfer agent and filing fees	20,485	45,932
Travel and related costs	52,884	44,059
	467,166	368,526
<b>Loss before other items</b>	(938,728)	(799,113)
<b>OTHER EXPENSE (INCOME)</b>		
Change in fair value of derivative financial instruments (Note 5)	736	(12,612)
Foreign exchange loss	61,932	24,620
Interest income	(133)	(2,532)
Other income	(31,568)	-
Gain on sale of equipment	-	(1,164)
Realized gain on sale of long-term investments	(400,109)	-
Option payments received	(142,500)	-
	(511,642)	8,312
<b>Net loss before income taxes</b>	(427,086)	(807,425)
Current income tax recovery	-	(54,839)
Future income tax (recovery) expense	(92)	1,577
<b>Net loss for the period</b>	\$ (426,994)	\$ (754,163)
<b>Other comprehensive income (loss)</b>		
Net loss for the period	\$ (426,994)	\$ (754,163)
Change in fair value of financial instruments (Note 5)	358,425	794,375
Future income tax expense	(37,349)	(99,298)
<b>Comprehensive income (loss)</b>	\$ (105,918)	\$ (59,086)
<b>Basic and diluted loss per share</b>	\$ (0.02)	\$ (0.034)
<b>Weighted average number of common shares outstanding</b>	25,493,089	24,905,070

See accompanying notes to the consolidated financial statements.

**LARA EXPLORATION LTD.**

(An Exploration-Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

For the three months ended March 31, 2011 and 2010

(Expressed in Canadian Dollars)

	Three months ended	
	March 31,	
	2011	2010
<b>CASH FLOWS FROM (TO)</b>		(Note 14)
<b>OPERATIONS</b>		
Net loss for the period	\$ (426,994)	\$ (754,163)
Items not affecting cash:		
Depreciation	4,318	19,241
Share-based payments	52,560	-
Change in fair value of held for trading		
Investments	736	(12,612)
Gain on sale of equipment	-	(1,164)
Gain on sale of long-term investments	(400,109)	-
Option payments received	(142,500)	-
Future income tax recovery	(92)	1,577
Changes in non-cash working capital items:		
Receivables	(48,959)	340,633
Prepaid expenses and deposits	19,093	(36,913)
Accounts payable and accrued liabilities	(48,566)	(122,050)
Exploration advances	-	83,788
	(990,513)	(481,663)
<b>INVESTING</b>		
Mineral property acquisition costs	(54,383)	(30,415)
Proceeds on sale of equipment	-	4,280
Proceeds on sale of long-term investments	1,742,171	-
Purchase of equipment	(406)	(7,077)
	1,687,382	(33,212)
<b>FINANCING</b>		
Issuance of shares for cash	811,850	-
	811,850	-
<b>Change in cash and cash equivalents</b>	1,508,719	(514,875)
<b>Cash and cash equivalents, beginning of period</b>	1,438,137	2,375,295
<b>Cash and cash equivalents, end of period</b>	\$ 2,946,856	\$ 1,860,420
<b>Supplementary cash flow information (Note 11)</b>		
Interest received	\$ 133	\$ 2,530
Income taxes paid	-	-

See accompanying notes to the consolidated financial statements.

**LARA EXPLORATION LTD.**

(An Exploration-Stage Company)

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited – Prepared by Management)

For the three months ended March 31, 2011 and 2010

(Expressed in Canadian Dollars)

	<u>Share</u> <u>Number of</u> <u>shares</u>	<u>Capital</u> <u>Amount</u> <u>\$</u>	<u>Contributed</u> <u>Surplus</u> <u>\$</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income</u> <u>\$</u>	<u>Non-</u> <u>Controlling</u> <u>Interest</u> <u>\$</u>	<u>Deficit</u> <u>\$</u>	<u>Total</u> <u>\$</u>
Balance January 1, 2010	24,905,067	13,260,499	7,399,060	111,375	113,186	(9,406,192)	11,477,928
Issue of shares for Maxy acquisition	5	6	-	-	-	-	6
Total other comprehensive income	-	-	-	695,077	-	-	695,077
Profit (loss) for the period	-	-	-	-	-	(754,163)	(754,163)
Balance March 31, 2010	<u>24,905,072</u>	<u>13,260,505</u>	<u>7,399,060</u>	<u>806,452</u>	<u>113,186</u>	<u>(10,160,355)</u>	<u>11,418,848</u>
Balance at December 31, 2010	25,217,572	13,502,669	7,817,934	569,956	-	(12,647,722)	9,242,837
Cancellation of treasury shares	(6,016)	(3,221)	3,221	-	-	-	-
Exercise of share options	677,500	811,850	-	-	-	-	811,850
Share-based payments	-	-	52,560	-	-	-	52,560
Transfer of value on exercise of share options	-	402,259	(402,259)	-	-	-	-
Total other comprehensive income	-	-	-	321,076	-	-	321,076
Profit (loss) for the period	-	-	-	-	-	(426,994)	(426,994)
Balance March 31, 2011	<u>25,889,056</u>	<u>14,713,557</u>	<u>7,471,456</u>	<u>891,032</u>	<u>-</u>	<u>(13,074,716)</u>	<u>10,001,329</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 – Prepared by Management)

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(Expressed in Canadian Dollars)

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### **1. NATURE AND CONTINUANCE 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. 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 March 31, 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**

#### **Statement of Compliance and Conversion to 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”).

These are the Company’s first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011. Previously the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP.

#### **Basis of Presentation**

These condensed consolidated interim financial statements have been prepared on a historical cost basis and have been prepared using the accrual basis of accounting, except for cash flow information. The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments estimates and assumptions that affect the application of the policies and reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies as compared to the most recent annual financial statements prepared under Canadian GAAP.

The accounting policies set out below have applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been used in preparing an opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, “First Time Adoption of International Financial Reporting Standards (IFRS 1)”. The impact of the transition from Canadian GAAP to IFRS is explained in Note 14.

## LARA EXPLORATION LTD.

(An Exploration-Stage Company)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and the following subsidiaries:

Name	Place of Incorporation	Principal Activity	Ownership %
Maxy Gold Corp.	British Columbia, Canada	Exploration company	100
Pan Brazilian (BVI) Ltd.	British Virgin Islands	Holding company	100
Lara (BVI) Ltd.	British Virgin Islands	Holding company	100
Prospero Gold Ltd.	British Virgin Islands	Holding company	100
Caliban Gold Corp.	British Virgin Islands	Holding company	100
Lucas International Resources Corp.	British Virgin Islands	Holding company	100
Scorpio Resources Group Corp.	British Virgin Islands	Holding company	100
Ariel Offshore Corp.	British Virgin Islands	Holding company	100
Arena Gold Corp.	British Virgin Islands	Holding company	100
Minas Dixon (BVI) Ltd.	British Virgin Islands	Holding company	100
Lara Alliance (BVI) Ltd.	British Virgin Islands	Holding company	100
Colombia Alliance (BVI) Ltd.	British Virgin Islands	Holding company	70
Maxy Gold Peru S.A.C.	Peru	Exploration company	100
Ynnan Yunxin Mining Co. Ltd.	Peoples Republic of China	Exploration company	75
Quinghai Xiyu Mining Co. Ltd.	Peoples Republic of China	Inactive	50
Mineracao Nova Fronteira Ltd.	Brazil	Exploration company	100
Pan Brazilian Mineracao Ltda.	Brazil	Exploration company	100
Lara Alliance Mineracao Ltda.	Brazil	Exploration company	100
Curionopolis Mineracao Ltda.	Brazil	Exploration company	100
Minas Dixon S.A.	Peru	Exploration company	100
Pan Exploration	Brazil	Exploration company	100

Inter-company balances and transactions, including any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the condensed consolidated interim financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Business Combinations**

Business combinations that occurred prior to January 1, 2011 were not accounted for in accordance with IFRS 3, *Business Combinations* ("IFRS 3") or IAS 27, *Consolidated and Separate Financial Statements*, in accordance with the IFRS 1 exemption discussed in Note 14.

Acquisitions of businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity investments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

Business combinations that involve companies in the exploration stage are treated as asset acquisitions.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

#### **Foreign Currencies**

The functional and presentation currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The Company has determined that the functional currency of its foreign subsidiaries is the Canadian dollar. Exchange differences arising from the translation of the net investment in its subsidiaries are recorded as a gain or loss on foreign currency translation in the statements of income and comprehensive income.

#### **Financial Instruments**

##### ***Financial assets***

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. FVTPL has two categories: designated and held for trading. The Company's cash and short-term money market investments are classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

## **LARA EXPLORATION LTD.**

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

#### ***Financial liabilities***

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. The Company's trade and other payables are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income.

#### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable and pre-payments, assets that are assessed not to be impaired indirectly are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS financial instruments, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

#### **Mineral Properties and Exploration and Evaluation Expenditures**

Acquisition costs for mineral properties, net of recoveries, are capitalized on a property-by-property basis. Acquisition costs include cash consideration and the value of common shares, based on recent issue prices, issued for mineral properties pursuant to the terms of the agreement. Exploration expenditures, net of recoveries, are charged to

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Capitalized acquisition costs are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. When there is little prospect of further work on a property being carried out by the Company or its partners, when a property is abandoned, or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount.

The recoverability of the carrying amount of mineral properties is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas of interest.

#### **Equipment**

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write off the cost of equipment, less their estimated residual value, using the straight-line method at various rates ranging from 10% to 33 1/3% per annum.

An item of Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item are accounted for separately, including major inspection and overhaul expenditures are capitalized.

#### **Cash and Cash Equivalents**

Cash and cash equivalents in the statement of financial position are comprised of cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and term deposits which are available on demand by the Company for its exploration programs and administrative expenses, and are not invested in any asset backed securities.

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Impairment**

At each financial position reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is established to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For the purposes of impairment testing, mineral properties are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **Share Capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

#### **Share-based Payment Transactions**

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date and each tranche is recognized on a straight line basis over the period the options vest. The fair value of the options granted is measured using the *Black-Scholes* option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

#### **Income Taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to the offset of current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### **Asset Retirement Obligation**

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

#### **Earnings (Loss) per share**

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

#### **Segment Reporting**

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant Accounting Judgments and Estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The interim condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements; and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- a) the recoverability of amounts receivable and prepayments;
- b) the carrying value of the investment in mineral properties and the recoverability of the carrying value;
- c) the estimated useful lives of equipment and the related;
- d) the inputs used in accounting for share based payments expensed; and
- e) the provision for deferred income taxes and deferred income tax.

### 3. CASH AND CASH EQUIVALENTS

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	March 31, 2011	December 31, 2010	January 1, 2010
Cash	\$ 2,918,106	\$ 1,409,387	\$ 2,346,545
Short-term bank deposits	28,750	28,750	28,750
	\$ 2,946,856	\$ 1,438,137	\$ 2,375,295

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**LARA EXPLORATION LTD.**

(An Exploration-Stage Company)

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**4. TRADE AND OTHER RECEIVABLES**

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Current</b>			
Accounts receivable	\$ 85,452	\$ 36,493	\$ 454,424
Prepaid expenses	130,416	149,509	71,232
	\$ 215,868	\$ 186,002	\$ 525,656

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

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Currency</b>			
Canadian dollar	\$ 35,395	\$ 31,737	\$ 421,776
US dollar	9,646	-	-
Other	40,411	4,756	32,648
	\$ 85,452	\$ 36,493	\$ 454,424

**5. LONG-TERM INVESTMENTS**

	March 31, 2011		
	Cost	Fair value	Accumulated Unrealized Gain (Loss)
Available-for-sale investments	\$ 2,923,226	\$ 3,959,947	\$ 1,036,721
Held for trading investments	11,076	10,826	(250)
	\$ 2,934,302	\$ 3,970,773	\$ 1,036,471
	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

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### 5. LONG TERM INVESTMENTS (Continued)

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.

### 6. EQUIPMENT

	Office	Computer	Vehicles	Field	Total
<b>Cost</b>					
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	-	-	-	406
Disposals	-	-	-	-	-
As at March 31, 2011	94,005	31,449	86,669	2,940	215,063
<b>Accumulated depreciation</b>					
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	1,601	767	1,851	99	4,318
Disposals	-	-	-	-	-
As at March 31, 2011	40,970	23,007	51,493	1,058	116,528
<b>Net book value</b>					
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 March 31, 2011	\$ 53,035	\$ 8,442	\$ 35,176	\$ 1,882	\$ 98,535

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### 7. MINERAL PROPERTIES

	March 31, 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	157,724	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	83,224	83,224	83,224
Curionopolis – Brazil	121,669	121,669	-
Minas Dixon – Peru	1	1	1
Balance	\$ 3,293,799	\$ 3,239,416	\$ 4,287,245

In January 2011, Lara made an option payment of US\$55,000 (2010 – US\$30,000) on the São Lourenço property which has been capitalized to mineral properties. In May 2010, Lara completed an option agreement on the Corina property with Consorcio Minero Horizonte S.A. and received an initial option payment of US\$200,000. In June 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 for Lara to acquire the Curionopolis property. In May of 2011 Lara made an additional option payment of US\$165,000 to Redrock.

#### 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 52,414 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.

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### **7. MINERAL PROPERTIES** (Continued)

#### ***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 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.

#### ***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.

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### **7. MINERAL PROPERTIES** (Continued)

#### ***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.

#### **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\$700,000 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.

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**7. MINERAL PROPERTIES** (Continued)

Exploration expenditures incurred during the three months ended March 31, 2011 were as follows:

	Campos Verdes	Araguaia	Goias Gold	Carajas	General Gold	Other	Total Brazil	Peru	Colombia	Total
Assays	-	-	-	977	-	-	977	37,433	-	38,410
Field costs	-	-	25,287	3,613	-	-	28,900	42,819	-	71,719
Office and administrative	-	-	104,548	32,659	-	-	137,207	43,926	-	181,133
Property maintenance costs	-	-	45,978	13,970	-	-	59,948	15,233	-	75,181
Salaries and consultants	-	-	49,156	19,284	-	-	68,440	358,853	-	427,293
Travel and related costs	-	-	2,698	714	-	-	3,412	6,422	-	7,664
Telecommunications	-	-	1,021	221	-	-	1,242	24,484	-	27,896
Trenching	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	228,688	71,438	-	-	300,126	529,170	-	829,296
	-	-	-	-	-	-	-	(357,734)	-	(357,734)
	-	-	228,688	71,438	-	-	300,126	171,436	-	471,562

Exploration expenditures incurred during the three months ended March 31, 2010 were as follows:

	Campos Verdes	Curionopolis	Sao Lourenco	General Gold	Other	Total Brazil	Peru	Colombia	Total
Assays	76	82	7,235	4,900	298	12,591	-	-	12,591
Field costs	36	62	17,771	2,327	8,121	28,317	-	652	28,969
Office and administrative	967	1,038	12,518	62,390	3,788	80,701	20,630	5,940	107,271
Property maintenance costs	1590	527	-	135,859	-	137,976	-	-	137,976
Salaries and consultants	852	914	11,015	54,896	3,394	71,071	45,093	6,501	122,665
Telecommunications	219	-	191	-	-	410	2,537	-	2,947
Travel and related costs	333	1,755	3,597	2,600	367	8,652	5,527	3,989	18,168
Trenching	-	-	-	-	-	-	-	-	-
Recoveries	4,073	4,378	52,327	262,972	15,968	339,718	73,787	17,082	430,587
	-	-	-	-	-	-	-	-	-
	4,073	4,378	52,327	262,972	15,968	339,718	73,787	17,082	430,587

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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 March 31, 2011 is as follows:

Expiry Date	Exercise Price	Balance, December 31 2010	Granted	Exercised	Expired / Cancelled	Balance, March 31 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	-	55,000	-	832,500
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
Total		2,341,875	50,000	677,500	70,000	1,644,375
Weighted average						
Exercise price		\$0.97	\$1.76	\$1.20	\$1.35	\$0.89

#### (c) Share based payments

During the period ended March 31, 2011, the Company granted 50,000 (2010 – Nil) options to an officer. 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 and the Company recorded share based compensation of \$52,560 (2010 - \$nil) for these options with the offsetting amount credited to contributed surplus.

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**8. EQUITY (Continued)**

## d) Loss Per Share

The calculation of basic and diluted loss per share for the three months ended March 31, 2011 was based on the loss attributable to common shareholders of \$426,994 (2010 – \$754,163) and a weighted average number of common shares outstanding of 25,493,089 (2010 – 24,905,070). The diluted loss per share did not include the effect of the 1,644,375 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 three months ended March 31, 2011	Salary or Fees	Termination Benefits	Share-based Payments	Total
Miles Thompson, Chief Executive Officer	\$ 24,000	\$ -	\$ -	\$ 24,000
Andre Gauthier, President	21,000	-	-	21,000
Chris MacIntyre, Vice President, Corporate Development	12,000	-	52,560	64,560
	\$ 57,000	\$ -	\$ 52,560	\$ 109,560

  

For the three months ended March 31, 20110	Salary or Fees	Termination Benefits	Share-based Payments	Total
Miles Thompson, Chief Executive Officer	\$ 24,000	\$ -	\$ -	\$ 24,000
Andre Gauthier, President	21,000	-	-	21,000
Chris MacIntyre, Vice President, Corporate Development	12,000	-	-	12,000
	\$ 57,000	\$ -	\$ -	\$ 57,000

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### 10. RELATED PARTY TRANSACTIONS (Continued)

Related party assets and liabilities	Service or item	March 31, 2011	December 31, 2010	January 1, 2010
<b>Amounts due to:</b>				
Miles Thompson	Management fees	\$ 1,248	\$ -	\$ -
Andre Gauthier	Management fees	21,874	-	-
Chris MacIntyre	Admin services	1,225	-	-
Inca Pacific Resources	Expense recovery	-	-	8,068
<b>Amounts due from:</b>				
Reservoir Capital Corp.	Expense reimbursement	\$ -	\$ 7,741	\$ -

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 three month period ended March 31, 2011, the Company:

- re-allocated contributed surplus of \$402,259 to share capital for exercise of options, and;
- cancelled 6,016 common shares of the Company valued at \$3,221.

During the three months ended March 31, 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 March 31, 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	\$ 1,057,059	\$ 610,838	\$ 10,213
Receivables	9,921	9,536	101,101
Accounts payable and accrued liabilities	(21,344)	(73,621)	(15,752)
Net exposure	1,045,636	546,753	95,562
Canadian dollar equivalent	\$ 1,016,568	\$ 322,912	\$ 32,873

Based on the above net exposures as at March 31, 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 \$137,235 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 March 31, 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:

<b>March 31, 2011</b>				
<b>Financial assets</b>	<b>Loans-and-receivables</b>		<b>Held for trading</b>	<b>Available-for-sales</b>
Cash and cash equivalents	\$ -	\$	2,946,856	\$ -
Receivables	85,452		-	-
Long-term investments	-		10,826	3,959,947
	\$ 85,452	\$	2,957,682	\$ 3,959,947
<b>December 31, 2010</b>				
<b>Financial assets</b>	<b>Loans-and-receivables</b>		<b>Held for trading</b>	<b>Available-for-sales</b>
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
<b>January 1, 2010</b>				
<b>Financial assets</b>	<b>Loans-and-receivables</b>		<b>Held for trading</b>	<b>Available-for-sales</b>
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 March 31, 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 March 31, 2011 was \$440,927 (December 31, 2010 - \$489,493; January 1, 2010 - \$850,649). The carrying value of its financial liabilities approximates their fair value as at March 31, 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:

March 31, 2011	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Investments	3,959,947	10,826	-	\$ 3,970,773
December 31, 2010	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Investments	4,801,085	11,562	-	\$ 4,812,647
January 1, 2010	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Investments	4,790,723	13,868	-	\$ 4,804,591

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

As stated in Note 2, these are Lara’s first 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 ended March 31, 2011, the comparative information for the three months ended March 31, 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 ended March 31, 2010 and financial statements for 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”).

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### 14. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Continued)

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 March 31, 2010
- Consolidated Statement of Comprehensive Loss for the year ended December 31, 2010
- Consolidated Statement of Comprehensive Loss for the three-month period ended March 31, 2010
- Consolidated Statement of Cash Flows for the three-month period ended March 31, 2010

#### Consolidated Statement of Financial Position as at the transition date of January 1, 2010:

	GAAP	IFRS Adjustments	Notes	IFRS
<b>Assets</b>				
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
<b>Liabilities</b>				
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
<b>Shareholders' Equity</b>				
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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**14. 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
<b>Assets</b>				
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
<b>Liabilities</b>				
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
<b>Shareholders' Equity</b>				
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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**14. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Continued)****Consolidated Statement of Financial Position as at March 31, 2010:**

	GAAP	IFRS Adjustments	Notes	IFRS
<b>Assets</b>				
<b>Current</b>				
Cash	\$ 1,860,420	\$ -		\$ 1,860,420
Receivables	58,952	-		58,952
Current income tax receivable	244,677	-		244,677
Prepaid expenses and deposits	108,145	-		108,145
	2,272,194	-		2,272,194
Furniture and equipment	149,232	-		149,232
Long-term investments	5,611,578	-		5,611,578
Mineral properties	5,172,666	(855,000)	(a)	4,317,666
	\$ 13,205,670	\$ (855,000)		\$ 12,350,670
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$ 782,599	\$ -		\$ 782,599
Exploration advances	83,788	-		83,788
	812,387	-		812,387
Future income tax liability	974,435	(855,000)	(a)	119,435
Non-controlling interest	113,186	(113,186)		-
	1,900,008	(968,186)		931,822
<b>Shareholders' Equity</b>				
Non-controlling interest	-	113,186		113,186
Share capital	13,260,505	-		13,260,505
Contributed Surplus	7,399,060	-		7,399,060
Accumulated other comprehensive income	806,452	-		806,452
Deficit	(10,160,355)	-		(10,160,355)
	11,305,662	113,186		11,418,848
	\$ 13,205,670	\$ (855,000)		\$ 12,350,670

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**14. 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
<b>EXPLORATION EXPENSES</b>	\$ 1,919,691	\$ -		\$ 1,919,691
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
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
<b>OTHER EXPENSE (INCOME)</b>				
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)
<b>LOSS BEFORE INCOME TAXES</b>	(3,296,657)	-		(3,296,657)
<b>INCOME TAX EXPENSE (RECOVERY)</b>				
Current	(54,839)	-		(54,839)
Future	(403,348)	403,060	(a)	(288)
	(458,187)	403,060		(55,127)
<b>NET LOSS FOR THE YEAR</b>	\$ (2,838,470)	\$ (403,060)		\$ (3,241,530)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
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)
<b>COMPREHENSIVE LOSS</b>	\$ (2,379,889)	(403,060)		\$ (2,782,949)
<b>Basic and diluted loss per share</b>	\$ (0.11)	\$ (0.02)		\$ (0.13)
<b>Weighted average number of shares outstanding, basic and diluted</b>	24,967,215			24,967,215

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**14. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Continued)****Consolidated Statement of Comprehensive Loss for the three months ended March 31, 2010:**

	GAAP	IFRS Adjustments	Notes	IFRS
<b>EXPLORATION EXPENSES</b>	\$ 430,587	\$ -		\$ 430,587
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Depreciation	4,072	-		4,072
Management fees	45,000	-		45,000
Office, rent and administrative services	132,385	-		132,385
Professional fees	63,671	-		63,671
Shareholder information and Investor relations	33,407	-		33,407
Transfer agent and regulatory fees	45,932	-		45,932
Travel and related costs	44,059	-		44,059
	368,526	-		368,526
<b>OTHER EXPENSE (INCOME)</b>				
Change in fair value of derivative financial instruments	(12,612)	-		(12,612)
Foreign exchange loss	24,620	-		24,620
Interest income	(2,532)	-		(2,532)
Gain on sale of equipment	(1,164)	-		(1,164)
	8,312	-		8,312
<b>LOSS BEFORE INCOME TAXES</b>	(807,425)	-		(807,425)
<b>INCOME TAX EXPENSE (RECOVERY)</b>				
Current	(54,839)	-		(54,839)
Future	1,577	-		1,577
	(53,262)	-		(53,262)
<b>NET LOSS FOR THE PERIOD</b>	\$ (754,163)	\$ -		\$ (754,163)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Net loss for the period	\$ (754,163)	\$ -		\$ (754,163)
Change in fair value of investments	794,375	-		794,375
Future income tax expense	(99,298)	-		(99,298)
<b>COMPREHENSIVE LOSS</b>	\$ (59,086)	\$ -		\$ (59,086)
<b>Basic and diluted loss per share</b>	\$ (0.04)	-		\$ (0.04)
<b>Weighted average number of shares outstanding, basic and diluted</b>	24,905,070	-		24,905,070

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**14. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Continued)****Consolidated Statement of Cash Flows for the three months ended March 31, 2010:**

	GAAP	IFRS Adjustments	Notes	IFRS
<b>CASH FLOWS FROM (TO)</b>				
<b>OPERATIONS</b>				
Net loss for the period	\$ (754,163)	\$ -		\$ (754,163)
<b>Items not affecting cash:</b>				
Depreciation	19,241	-		19,241
Change in value of held for trading investments	(12,612)	-		(12,612)
Gain on sale of equipment	(1,164)	-		(1,164)
Future income tax recovery	1,577	-		1,577
<b>Changes in non-cash working capital items:</b>				
Receivables	340,633	-		340,633
Prepaid expenses	(36,913)	-		(36,913)
Accounts payable and accrued Liabilities	(122,050)	-		(122,050)
Exploration advances	83,788	-		83,788
	(481,663)	-		(481,663)
<b>INVESTING</b>				
Mineral properties	(30,415)	-		(30,415)
Proceeds on sale of equipment	4,280	-		4,280
Equipment	(7,077)	-		(7,077)
	(33,212)	-		(33,212)
<b>Change in cash and cash equivalents</b>	(514,875)	-		(514,875)
<b>Cash and cash equivalents, beginning of period</b>	2,375,295	-		2,375,295
<b>Cash and cash equivalents, end of period</b>	\$ 1,860,420	\$ -		\$ 1,860,420

**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.