



**ANNUAL REPORT**

**DECEMBER 31, 2010**



TSX-Venture: LRA

May 9, 2011

Dear Shareholders,

On behalf of the Board of Directors and Management of Lara Exploration Ltd. ("Lara" or the "Company"), we are pleased to report on the excellent progress made by the Company in 2010, and to outline our plans for 2011. During 2010 the Company's field teams generated important new gold, nickel and copper targets and we signed a number of new joint ventures and partnerships. For 2011 we expect to see drilling on ten of the Company's projects and we are pleased to report that we have already hit encouraging copper intercepts from drilling at both the Lara Project in Peru and Liberdade in Brazil. Good drilling and bulk sampling results on the Curionópolis Iron Project have led our partner, Vertical Mineração Ltda. ("Vertical"), to accelerate its development plans and as a result Lara should see royalty income from this project starting in 2011.

#### **Capital and Finances:**

Lara's business model is that of a Prospect Generator, which allows the Company to develop many projects across a broad range of commodities, advancing them through funded joint ventures rather than always betting our own treasury. As a result, after 5 years actively investing and building the business, Lara still has less than 26 million shares outstanding. Our budget for 2010 was approximately \$3 million, but with the sale of the Midu Gold Project in China and sale of shares held in other companies, Lara consumed only a net \$0.9 million of cash and ended the year with over \$6 million of liquid assets (primarily cash and shares of Sprott Resource Corp).

#### **Acquisitions and Exploration:**

The bullish markets for exploration stocks through 2010 helped increase Lara's market capitalization materially, but it also meant that expectations were high and we did not find any affordable acquisitions. We thus focused our energies on organic growth, increasing our exploration budgets to complete first-pass exploration on a number of prospects in Peru and Brazil, making a number of exciting discoveries in the process. In Peru, our field teams outlined new epithermal gold targets at Grace, Lampa and Sami, and porphyry-type copper mineralization at Picha, all of which, along with the existing targets at Condoroma and Chocos, have attracted interest from potential partners. Joint venture partners advanced work on the Corina Gold Project and the Lara Copper Project, with very encouraging drill results already received from the Lara Project.

In Brazil our generative work for IOCG-type copper and gold mineralization generated new targets on the Curionópolis and Liberdade Projects in the Carajás District and encouraged Codelco do Brasil Mineração Ltda., a subsidiary of the Chilean State-owned miner, to farm into both projects. Drilling at Liberdade at the end of 2010 has already reported significant copper intercepts and both projects are scheduled for drilling from May 2011. In the 2008-2009 downturn the Company entered into an agreement with Vertical as an opportunity to generate long-term royalty income from iron ore sales that could ensure the sustainability of Lara's business. Work by Vertical through 2010, supported by the Company's technical team, outlined extensive iron mineralization on the

property that has encouraged Vertical to begin developing mining operations. Subject to successful completion of permitting, we expect pilot-scale mining to begin in 2011 and full operations to ramp-up in 2012 and 2013, generating significant royalty income for Lara.

Although we sold our interest in the Midu Gold Project to our partner in 2010, we continue to have a joint venture with Western Mining Corporation, one of China's largest base metal producers and will maintain an active business development presence in the country for 2011. In Colombia, we continued to work with our partner Geotec Ltda to advance the Boyaca Phosphate Project and look for new opportunities through 2010 and expect to maintain a low-level effort in the country through this year.

**Our Team:**

The Lara Management team has remained relatively stable through the year, led by President, Andre Gauthier dividing his time between Peru, China and Vancouver and myself as Chairman and Chief Executive Officer, between Brazil and Toronto. Technical oversight generally and the Company's programs in Brazil are managed by Michael Bennell, Vice President Exploration, while Noel Diaz in Lima is both General Manager and Exploration Manager for Peru. Christopher MacIntyre joined the Company as Vice President Corporate Development in early 2011, based in Toronto; most of the Corporate functions continue to be ably managed by Chief Financial Officer, David Miles and Corporate Secretary, Kim Casswell, based in Vancouver.

**Outlook:**

The Company currently holds a portfolio of some 30 projects, located mostly in Brazil and Peru, covering a diverse range of commodities. Twelve of these projects are currently in joint ventures and we expect our partners to drill ten of them in 2011. A further 5 projects have drill targets and are available for joint venture, with several already under offer. Our \$3.5 million budget for 2011 is fully funded, but we expect that cash payments from joint ventures, the sale of projects and income from the iron ore royalty to in part offset that cost.

Our Peruvian field teams will have a busy year working on the remaining properties in the current portfolio and operating the planned joint venture drill programs, though we are starting to look at new opportunities. In Brazil we have partnered practically all of our advanced projects and are dedicating our efforts for this year to acquiring new prospects in tin, iron and nickel primarily, but remain opportunistic in other areas, particularly gold and fertilizer minerals.

We credit our success to the entire team of professionals and support staff committed to the Company's mission and we are grateful for their support and enthusiasm. We are also very grateful for the patience and support of our shareholders and we would like once again to thank you all for your interest in the Company. Lara is starting to take shape as a sizeable and sustainable exploration business and we are optimistic that the targets to be drilled in 2011 have the potential to transform the Company.

On behalf of the board of directors,

Signed: "Miles F Thompson"  
Chairman and CEO



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2010**

**BACKGROUND**

This management's discussion and analysis of financial position and results of operations is prepared as at April 21, 2011 and should be read in conjunction with the unaudited interim consolidated financial statements of Lara Exploration Ltd. (the "Company" or "Lara") as at December 31, 2010 and for the year ended December 31, 2010 and the related notes thereto. Those audited annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 highly prospective projects in Brazil, Peru, China and Colombia, with a strategy to seek partners through joint ventures to fund exploration and project development. This strategy aims to maximize its discovery opportunities, while minimizing its funding requirements and risk for Lara's shareholders.

**EXPLORATION REVIEW**

Lara has a large portfolio of mineral properties in Brazil and Peru, with on-going exploration programs for phosphate rock, potash, nickel, gold, tin, copper, iron, lead and zinc mineralization, mostly funded by partners. The

Company also holds a portfolio of phosphate and uranium exploration claims in Colombia and one joint venture project in China. In 2010, the Company maintained active field teams in both Peru and Brazil working on existing projects and prospecting for new areas. During the year, the Company was successful in both identifying new targets from its own exploration efforts and in signing several new joint venture agreements. Currently Lara has nine active joint ventures, all of which are expected to undertake drill programs in 2011.

Highlights for 2010 include:

- Earn-in Agreements signed with Codelco do Brasil Mineração Ltda., (“Codelco”) on the Company’s Curionópolis and Liberdade IOCG (copper-gold) projects in the Carajás District of northern Brazil, with new drilling at Liberdade already intercepting significant copper mineralization.
- Earn-in Agreement signed with Redzone Resources Ltd. (“Redzone”) to explore the Company’s Lara and Tingo Este copper projects in southern Peru, with drilling at Lara already intercepting significant new copper and molybdenum mineralization.
- The Company’s JV with Vertical Mineração Ltda. (“Vertical”) intercepted significant widths of high-grade iron (greater than 60%) mineralization and the project was put into development, with first production and revenues to Lara from trial mining expected in the second half of 2011.
- Reorganization and integration of the Maxy Gold team and projects acquired at the end of 2009, with new gold (Grace, Sami and Lampa) and copper (Picha) targets identified from fieldwork in Peru and the successful sale of the Midu project in China for \$1m.
- Compilation and a new technical report completed for the Company’s Araguaia nickel project in Brazil, which was then split into two with the Conceição nickel sulphide targets being farmed out to Avanco Resources Ltd. (“Avanco”) and the Vila Oito and Floresta lateritic nickel targets offered (post year end) to Horizonte Minerals plc (“Horizonte”).

### **Brazil Projects**

The Company currently has six active joint ventures in Brazil and in early 2011 signed a Heads of Agreement on a seventh. The Company is involved in the day-to-day operations for the Curionópolis Iron Project and maintained an active exploration and generative effort throughout the year led by Michael Bennell, Vice President Exploration of the Company, who is based in Brazil.

#### ***Curionópolis IOCG Project***

The Company’s 100%-owned Curionópolis IOCG Property (“iron oxide copper gold”) covers 16,452 hectares and is located in the prolific Carajás District in northern Brazil, approximately 10 kilometres south of the Serra Pelada gold project being developed by Colossus Minerals Ltd.

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 can earn an initial 51% interest in the Curionópolis property by investing US\$3.8 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 the underlying owner of part of the property. Codelco may then elect to earn a further 9% interest (60% total) 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. 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.

The Company's field teams have outlined two extensive copper-gold targets (Osmar and Chico), where mineralization identified is IOCG-type (iron oxide copper gold), typical of the Carajás District. Gold and copper values are accompanied by anomalous arsenic, silver, bismuth, tungsten, molybdenum and uranium. Geology of the target areas are metamorphosed volcano-sedimentary sequences with widespread magnetite and actinolite veining, as well as pervasive actinolite, albite and scapolite alteration that is also typical of IOCG systems. The property includes the copper-gold rights to the 1,365-hectare area ceded to Vertical for iron ore mining. Codelco has to date completed additional mapping and surface geochemistry (rock and soils) sampling and plans to begin detailed work and drilling from May 2011.

### ***Curionópolis Iron Project***

The Curionópolis Iron Project comprises a 1,365-hectare license area, covering banded-massive iron formations within the Company's Curionópolis IOCG Project. This property has been assigned to Vertical, a special purpose company owned by a group of Brazilian pig iron producers, under an option agreement whereby Vertical will make cash payments totaling US\$1.4 million over two years (\$100,000 paid to date), incur US\$3.0 million in exploration expenditures over a three year period and pay Lara a royalty of \$1.50 to \$2/tonne for any granular iron-ore production and \$0.75/tonne for any fine iron-ore production.

The Company and Vertical completed 17 diamond drill holes in 2010, testing an approximately one-kilometre section of the Serra Morena Target, all of which reported significant iron mineralization from x-ray fluorescence analyses, with drill hole intervals ranging from 53.81 to 168.4 metres in length returning iron grades of between 36.41% and 65.51% Fe. The best intercept is 166.5 metres at an average grade of 62.62% iron with low impurities (silica, aluminum and phosphorous).

In late 2010 and early 2011, the Company and Vertical completed mapping of another three grid areas and initiated a program of trenching and bulk sampling (from pits) to assess the potential of the deposit. Vertical plans to fast-track development of an operation to mine granular iron ore beginning in the second half of 2011 which will generate royalty income through our net profits interest.

### ***Liberdade Copper Project***

The Company's Liberdade Copper 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. The geology comprises Proterozoic-age volcano-sedimentary sequences of the Aquiri Group and related calc-alkaline intrusives, with evidence of iron-oxide-copper-gold ("IOCG") alteration and mineralization seen in small-scale "garimpeiro" surface workings. Exploration work to date has comprised reconnaissance level mapping and sampling that has identified extensive alteration and anomalous copper values.

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 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.

In late 2010 before the start of the rainy season, Codelco drilled a hole that intercepted anomalous copper bearing intervals of 66 metres with an average grade of 0.5% copper and 37 metres at 0.52% copper. Based on these very encouraging results, Codelco plans to resume drilling post the rainy season in May 2011.

### ***Araguaia Nickel Projects***

During the period, the Company completed an updated National Instrument 43-101 Technical Report on its Araguaia Nickel Project in Pará State, northern Brazil. The report compiled, consolidated and interpreted data from

the Company's own work programs, with exploration and drilling programs executed under separate joint ventures with the Brazilian subsidiaries of Xstrata plc ("Xstrata") and Teck Cominco Ltd. ("Teck"). The report confirmed the project merits further exploration to enable an initial mineral resource estimate for the Vila Oito target and to advance the exploration at the Floresta, D-Grid and Conceição nickel targets.

Lara's property comprises 74,705 hectares of exploration licenses and claims in a district that has seen several significant nickel discoveries in recent years: Araguaia adjacent to Vila Oito (Teck), Serra da Tapa and Vale dos Sonhos (Xstrata) and Lontra (Horizonte Minerals plc).

On January 10, 2011, the Company completed an agreement whereby Avanco may fund nickel sulphide exploration in order to earn a 75% interest in the Company's Conceição License Block. Under the terms of the agreement, Avanco may earn a 75% interest in any of licenses comprising the Conceição License Block by completing surface sampling and 1,500 metres of drilling within one year of renewal of the exploration licenses. Avanco must then also complete sufficient exploration work to generate a JORC (Australasian Joint Ore Reserves Committee) compliant resource with sufficient drill data and metallurgical test work necessary for the Brazilian Department of Mines to approve the Final Exploration Report within 36 months.

The Conceição License Block includes seven exploration licenses, covering a total of 47,247 hectares, located to the northwest of the town of Conceição de Araguaia in Pará State. Geophysical data from airborne magnetic and electro-magnetic surveys and from field mapping show the property to cover a series of parallel NW-trending mafic intrusive bodies. Occurrences of nickel and copper sulphide-bearing gabbros and pyroxenites have been sampled, returning copper and nickel values in the order of several thousand parts per million and limited geochemical work indicates that these have low but still highly anomalous platinum and palladium values of a few hundred parts per billion.

On January 11, 2011, the Company completed a Heads of Agreement with London-listed (AIM: HZM) Horizonte Minerals plc ("Horizonte") to exchange the Company's Vila Oito and Floresta properties for 8.5 million shares of Horizonte, valued at approximately \$2 million. Exploration programs on the Araguaia Nickel Project conducted since 2006 have identified bodies of nickel laterite mineralization in the southern part of the Vila Oito license block and in the southwest of the Floresta license block.

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

The Canabrava Volcanogenic Massive Sulphide ("VMS") Project comprises 52,414 hectares of 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 de 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 by May 12, 2012. Votorantim completed 2,870.8 line kilometers of VTEM (helicopter-borne time domain electromagnetic) geophysics in 2008, which defined twenty-three new targets based on signatures similar to those of the known deposits in the belt. During the period, Votorantim completed additional surface sampling and terrestrial geophysical surveys and plans to execute a 1,500-metre diamond drill program on priority exploration targets in the second quarter of 2011.

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

On December 7, 2009 the Company entered into an Agreement with Talon Metals Corp. (TSX: TLO), whereby Talon was been granted an option to earn a 75% interest in Lara's Sergipe Potash Project in northeast Brazil. To earn its interest, Talon must pay Lara US\$500,000 (US\$200,000 paid) and undertake a minimum US\$4 million in exploration work programs, both over four years, and deliver a Resource Report on the Project by late 2014. Talon will be the operator of the work programs, which must include at least five drill holes targeting potentially economic potash-bearing evaporite sequences.

The Sergipe Potash Project comprises two separate license blocks, with a total area of 14,114 hectares, which are contiguous with Talon's Capela and Panqueca potash prospects and cover the strike extension trend of the known potash deposits in Vale's Taquari-Vassouras Mine. A significant amount of exploration data is available on the Project from the oil and gas industry, which includes geological and geophysical data from 11 oil wells. Two of these wells intersected a cumulative 37 and 5 metres of potash mineralization respectively, in ten and two individual potash-bearing horizons, at depths between 1,300 and 1,800 metres. Furthermore, data is available for at least 30 2-D seismic lines over the Project. During the period, Talon initiated exploration work on the properties, with the acquisition and reinterpretation of the geophysical (2D and 3D seismic) and drilling data generated from historical oil and gas exploration in the basin. In 2011, Talon must complete one drill hole on the Lara properties and pay US\$100,000 to Lara in order to maintain the Agreement in good standing.

### ***São Lourenço Tin Project***

The São Lourenço property comprises seven mining licenses covering a total of 3,459 hectares, where a local company, Mineração Oriente Novo S.A., produced some 12,000 tons of tin between 1973 and 1988, before going into liquidation. Production has continued on a small-scale since then to keep the licenses in good standing and there are still roads and camp infrastructure maintained on the property. The Company has an option agreement to acquire 100% of the rights to São Lourenço against which it has made staged payments of US\$148,000 over five years and must make a final one-time payment of US\$1 million in May 2012 to complete the acquisition. The São Lourenço property is located in the frontier zone and is subject to limitations on foreign ownership.

In recent years Lara has focused its exploration effort 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. These veins 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 to date, from hand-dug surface trenching. 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 Company is currently seeking a partner to earn into the project by funding drilling and completing the purchase option.

### **Peru Projects**

The Company acquired a large portfolio of properties in Peru, through the acquisition of Maxy Gold Corp., in late 2009, in addition to the Lara and Tingo Este properties already held. The Company currently has three projects within two joint ventures in the country and is acting as operator for the exploration on the Lara and Tingo Este Copper Projects. The Company also maintained an active exploration and generative effort throughout the year, under the supervision of Exploration Manager Noel Diaz, who lives in Peru and Andre Gauthier, President of the Company, who is partly based there.

### ***Lara Copper Project***

The 1,800-hectare Lara Copper Project in the Southern Peruvian Coastal Belt covers two porphyry copper-molybdenum targets known as Lara and Socos. In total, 27 drill holes representing 3,290 metres have been drilled on the Project, testing a roughly 500-meter by 500-meter portion of the Lara target, but Socos remains untested. Under an agreement signed on February 12, 2010, Redzone Resources Ltd. ("Redzone") can earn an initial 55% interest in the Lara Copper Project and the nearby Tingo Este Copper Project by spending US\$2.5 million on 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 Project 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 Project.

During the period, Redzone filed an updated Technical Report on the Lara Porphyry Copper-Molybdenum Deposit, Peru, authored by Simon J. Meldrum, Consulting Geologist and dated March 1, 2010. In preparation of the new Technical Report, Mr. Meldrum re-logged all the diamond drill core, re-compiled and re-coded the RC drill logs and collated the geological database including 251 drill-hole log records and 61 field samples. He concluded that the overall mineralizing system is much larger than the current mineral resource estimate indicates, with the secondarily enriched portion of the deposit open to the east and west and the primary mineralization open in all directions. Most notably, a large portion of the core of the deposit and the Socos copper target remain untested by drilling. Mr. Meldrum further noted that there is good potential to expand both the tonnage and grade of the current resource estimate and that the Project deserves a comprehensive evaluation of the low grade (0.15% copper cut-off) potential and what would be economically feasible at US\$2.00 & US\$3.00 per pound copper prices in line with current and foreseeable metal prices. Mr. Meldrum recommended that Redzone embark on a rigorous exploration campaign that would involve detailed geological and structural mapping and sampling to define the overall limits of the Lara Porphyry system and core drilling aimed at infilling and expanding the Lara porphyry.

In the fourth Quarter, the Company successfully secured drill permits, mobilized a field team and equipment to begin an initial 2,000-metre drill program. Results of this drilling, reported in February 2011, demonstrated the potential for not only supergene enriched secondary mineralization, but also for hypogene (sulphide) mineralization and show that the Lara copper-molybdenum porphyry system is still open in all directions. 11 diamond drill holes were completed on this program, including both infill and step-out holes to the existing resource.

#### ***Corina Gold Project***

The Corina Gold Project is located in the districts of Juan Espinoza Medrano and Cotaruse, province of Antabamba, department of Apurimac, of southern Peru, with a total approximate area of 12,669 hectares. The Company has an Agreement whereby Consorcio Minero Horizonte S.A. ("CMH") may acquire up to an 80% interest in the Project by paying US\$700,000 in cash, completing US\$8,500,000 of exploration and feasibility work and paying a sliding-scale royalty to the Company. CMH is a privately owned mid-sized Peruvian gold producer.

Reconnaissance work by the Company has previously outlined an extensive package of the Tertiary-age volcanics that are host to many low and high sulphidation gold deposits in the region, e.g. Liam, Selene, Pallancata and Antapite. An exposed low sulphidation epithermal vein (denominated Promesa) has been mapped over 4.5 kilometers, with rock chip gold values reporting up to 6.7 g/t Au. The structure that is host to the Promesa vein cuts dacite and rhyolite pyroclastics and a rhyolite dome, extending eastward into the basal sedimentary sequence made up of brecciated and mineralized sandstones. The structure shows high potential for exploration both laterally and at depth due to very little erosion. Subsequent to the end of the period, CMH secured access permits and initiated fieldwork, with a view to undertaking extensive drill program in 2011.

#### ***Sami Gold Project***

The Sami Gold Project comprises 32,600 hectares of exploration licenses, located in the Ayacucho region of southern Peru. During the year, the Company's field teams discovered a new gold target at Pitusaja with a signature typical of a precious metals rich, high sulphidation epithermal systems, with anomalous gold values associated with quartz-alunite alteration, strong silicification and accompanying argillization. Also indicative is the presence of volatile pathfinder elements: mercury, arsenic and antimony, associated with barium, bismuth, silver and molybdenum.

The Pitusaja target is hosted by tuffs and lapilli of andesitic composition and Tertiary age. The thirty-two rock chip samples taken during reconnaissance mapping returned anomalous gold values in all but 7 cases, with 19 of the samples returning values in excess of 100 parts per billion gold ("ppb Au"), and a high of 1,450 ppb Au. The core of the target comprises a zone of strong silica alteration 200 metres (east-west) by 10-40 metres in width (north-south) comprising veins and hydrothermal breccias with abundant disseminated pyrite. Extensions of the target are covered by quaternary soils, but outcrops approximately 200 metres to the north indicate continuity. The

Pitusaja samples were also anomalous in silver (up to 25 grams per ton “g/t”), copper (up to 560 parts per million “ppm”), molybdenum (up to 581 ppm), mercury (up to 152 ppm), arsenic (up to 2,298 ppm), antimony (up to 1,304 ppm), bismuth (up to 2,433 ppm) and barium (up to 1,029 ppm). The other six anomalies: Pirca, Sami West, Nuños North, Titiminas, Yanasora South and Nañate (Sami 35) were defined using satellite imagery, with ground confirmation of alteration and anomalous values from rock chip samples during the recent reconnaissance field programs. The Company plans to undertake more detailed sampling, geophysical surveys (to map the extensions of the Pitujasa target under cover) and more detailed mapping of the volcanic stratigraphy and structures.

### ***Grace Gold Project***

The Company’s 100% owned Grace Gold Project is 4,800 hectares in size, located in the Ayacucho District of southern Peru. The property covers Tertiary-age andesitic volcanoclastics (lapilli tuffs), cut by brecciated silica bodies and veins with wide quartz alunite and granular silica halos, indicative of a well-preserved high-sulphidation epithermal system. The property also hosts widespread argillic alteration with patches and disseminated pyrite. Reconnaissance work carried out during the period by the Company’s field teams outlined extensive high-sulphidation epithermal alteration with anomalous gold and silver values, related to northwest-southeast oriented faulting that is also host to the past-producing Vicuña gold mine (15 kilometres to the northwest) and contiguous with ground held by Minera Andina de Exploraciones S.A.C. where the Apumayo Target (3 kilometres to the south) is currently being drilled.

The high sulphidation gold silver anomaly is roughly boot-shaped extending approximately 6.0 kilometres in length by 1 to 1.5 kilometres in width between the Leon Cañana and Piruroyoc peaks, at an altitude between 3,900 and 4,200 metres. Individual silica bodies are up to 1,000 metres in length and up to 200 metres in thick. To date 62 rock chip samples have been collected from the anomaly area and analyzed, 9 of which returned anomalous gold values ranging between 50 and 275 parts per billion (“ppb”) and 8 returned silver values between 0.7 and 7.5 parts per million (“ppm”). The alteration is also anomalous in arsenic (14 samples between 798 and 5,122 ppm), mercury (20 samples between 1.16 and 12.1 ppm) and antimony (8 samples between 57 and 620 ppm). In the coming year, the Company plans follow-up sampling and geophysics to define drill targets and to find a joint venture partner for the project.

### ***Picha Copper-Silver Project***

The Company’s 100%-owned Picha Copper-Silver Project is located within the prolific Tertiary Volcanic Arc of Southern Peru, host to various important low and high sulphidation epithermal systems as well as large skarn-porphry deposits like Tintaya. The property is 6,000 hectares in size and is adjacent to the joint-venture properties of Gold Fields Limited and Compañía de Minas Buenaventura S.A., where they have recently announced the discovery of the Chucapaca Gold-Copper Deposit with reported mineral resources of 5.6 million gold equivalent ounces. Mineralization at Chucapaca is hosted by a diatreme-breccia body at the sediment-intrusive contact that is an important regional feature, also host to past silver producer San Antonio de Esquilache and the currently producing Tucari-Santa Rosa epithermal gold-silver district.

Mineralization at Picha is associated with propylitic alteration, small zones of argillic alteration and opaline-quartz veining, stockworks and concordant replacements zones (“mantos”). A total of 419 rock samples have been collected during recent field campaigns, with 11 reporting values over 3% copper; 37 reporting values over 1% copper; 53 reporting values over 0.5% copper; 69 reporting values over 0.1% copper; 85 reporting values over 500 parts per million (“ppm”) copper; and 174 reporting over 100 ppm copper. Molybdenum values were generally low, with anomalous values where present correlating with anomalous copper values. Silver values were also mostly low, but a total of 58 samples (or 19%) reported anomalous values, with good correlation with copper. Barium values were found to be high, with lead, zinc and arsenic also related with copper anomalism.

On April 6, 2011 the Company signed a Letter of Intent (the “Agreement”) whereby Network Exploration Ltd. (TSX Venture: NET, “Network”) may earn up to a 75% interest in the Picha Project. Network can earn an initial 55% working interest the Project (“Option 1”) by issuing 3.5 million units to Lara, with each unit comprising a common

share in Network and a common share purchase warrant, with each warrant valid for 2 years and convertible into a Network share at a price of \$0.10. Network will also make cash payments to Lara of US\$200,000 over 12 months and complete US\$3 million in exploration expenditures over 3 years. Upon completion of Option 1, Network may elect to earn an additional 20% interest in the Project ("Option 2") by paying US\$ 1 million in cash to Lara, funding US\$ 5 million in exploration expenditures and completing a Pre-Feasibility Study within three years. This Agreement is subject to completion of a Definitive Agreement and approval of the transaction by the TSX Venture Exchange.

### ***Lampa Gold Project***

The Lampa Gold Project is 4,800 hectares in size and located within a highly prospective structural corridor in southern Peru. Known deposits/mines in the same corridor include: Arasi (high sulphidation epithermal gold), El Cofre (low sulphidation epithermal silver), Pinaya (gold-copper porphyry), Berenguela (silver carbonate replacement) and San Judas (tungsten). During the period, the Company completed reconnaissance work outlining a 4 by 2 kilometre belt of gold bearing quartz veins hosted by sandstone and quartzites. Individual veins have been mapped for lengths of over 300 metres, with thicknesses in the range of 0.60 to 1.00 metres and evidence of numerous small-scale historical workings. The veining is epithermal and comprises vuggy quartz, with abundant iron oxides (after sulphides). Forty-four rock chips samples have been analyzed from this program, with the highest gold value 6.96 grams per tonne ("g/t"). The veins are also anomalous in cobalt, arsenic and bismuth.

The geology comprises a predominantly sedimentary package of shales and slates of the Ananea Formation (Upper Silurian-Lower Devonian age) overlain by sandstones and quartzites (Jurassic age) and intruded by small stocks of diorite-tonalite and sills of quartz feldspar porphyry. On the west flank of the property, late andesite lava flows and agglomerates of the Tertiary-age cover the sedimentary package. The shales and slates of the Ananea Formation are host to important vein gold deposits in the Oriental Cordillera, which are the source of the gold in the placers of the Madre de Dios. In the coming year, the Company plans follow-up sampling and geophysics to define drill targets and to find a joint venture partner for the project.

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

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 and has been included in the same Agreement with Redzone. The Company acquired Tingo Este from Tinka Resources Ltd., ("Tinka") and is obliged to pay Tinka a 1% net smelter return royalty on any production from the property. 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. 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. The Company and Redzone plan follow-up sampling and fieldwork at Tingo Este in 2011.

### ***Condoroma Copper Project***

The Condoroma Property includes 12 mining claims totaling 9,817 hectares. The Property is located to the east of the old underground Condoroma polymetallic mine (silver, lead, zinc, copper and gold) north of the Cata (silver, lead, zinc copper and gold) and northeast of the Raimondi (silver, lead and zinc) mine. Currently, only the Raimondi mine is active. The central core of the Condoroma Property is thought to represent an important copper, silver, lead and zinc district as indicated by the numerous anomalous zones delineated in the initial exploration program. Previous work by the Company comprises geological mapping over 4,400 hectares, 1,086 surface samples and ground geophysics covering areas of alteration and surface anomalies. In the coming year, the Company plans follow-up sampling and geophysics to define drill targets and to find a joint venture partner for the project.

### ***Chocos Polymetallic Project***

The Chocos Property covers an area of approximately 34,450 hectares and is located in Southern Peru within the Arequipa Department, 770km southeast of Lima. The Property has a multiple vein system with zinc, lead, silver and copper mineralization with some veins as long as two kilometers. These polymetallic veins are hosted in andesite lava flows and subvolcanic andesitic intrusives. Exploration work on the property has been carried out by Buenaventura Ingenieros S.A. (BISA) under contract for Maxy Gold Perú. Rock samples from four veins are anomalous for zinc-lead-silver. The Company plans mapping, follow-up sampling and geophysics during the coming year.

### **Colombia Projects**

#### ***Boyacá Phosphate Project***

The Boyacá Phosphate Project is owned 70% by Lara 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, which are mined on a small-scale in the region to produce 25-35% P2O5 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. Work during the period focused follow-up sampling on the Balcones Syncline where the Company has mapped a series of phosphate rock beds, which are potentially amenable to open pit and near-surface underground mining on a commercial scale.

#### **Qualified Persons**

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.

Andre Gauthier, Lara's President and a member of the Quebec Order of Engineers, 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 regarding the Company's projects in Peru and China.

### **RESULTS OF OPERATIONS**

#### **Year Ended December 31, 2010**

For the year ended December 31, 2010 the Company reported a loss of \$2,838,470 or \$0.11 per common share as compared to a loss of \$1,576,957 or \$0.08 per common share for the comparative period ended December 31, 2009. The loss was higher in 2010 due to higher exploration costs and higher administration costs partially offset by increased other income and a higher income tax recovery. Exploration costs were higher in 2010 due to programs conducted on the Peruvian properties acquired from Maxy Gold Corp. in late 2009. Because the Company acquired these properties in late 2009 only a nominal amount of exploration costs were recorded in 2009 for those Peruvian properties. Administration costs were higher in all categories with the more significant increases due to higher: stock-based compensation, office rent and administrative services, management fees and travel costs. Stock-based compensation was much higher than the prior year due to significantly more options being granted. Office rent and administrative services costs were higher due to additional staff and office rent as a result of the Maxy acquisition. Management fees increased as a result of the addition of a new President. Travel costs were higher mainly due to the President having to travel much of the year to manage exploration efforts in Peru and China.

### Quarter Ended December 31, 2010

For the quarter ended December 31, 2010 the Company reported a loss of \$187,979 or \$0.01 per common share as compared to a loss of \$416,477 or \$0.02 per common share for the comparative period ended December 31, 2009. The loss was lower due to a future income tax recovery and increased income from option payments and a gain on the sale of investments, partially offset by higher exploration, stock-based compensation and travel expenses. The future income tax recovery was the result of conducting exploration work on the Maxy exploration properties, which increased their value for tax purposes. This resulted in a reduction of the future income tax liability originally recognized on the acquisition of these properties with the offsetting amount being credited to future income tax recovery in the statement of operations. The higher exploration costs were mainly due to increased activity in Peru as the Company continued exploration work on the Maxy properties which were acquired in December of 2009. Stock-based compensation was higher due to two fully vested option grants in the fourth quarter of 2010 whereas there were no such grants in the prior comparative quarter. Travel expenses were higher due to travel by the President in order to manage Peru and China operations.

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

The Company's working capital position at December 31, 2010 was \$1,180,630 compared to \$2,240,140 at December 31, 2009. The decrease in working capital of \$1,059,510 from December 31, 2009 was due to its loss from operations partially offset by the proceeds from the sale of the Company's interest in the Yunnan Xinyun Mining Co., which held the Midu property, proceeds from the sale of investments and cash received from optioning the Corina property.

All of the Company's cash and cash equivalents at December 31, 2010 are held in interest bearing accounts and highly liquid short-term interest bearing investments which can be converted to cash after thirty days without penalties. The Company has not invested in any short-term commercial paper or asset backed securities. At December 31, 2010 the Company held common shares of Sprott Resource Corp., Redzone Resources Ltd. and CCT Capital Ltd. with a fair value of \$4,801,085. These investments can be liquidated when necessary in order to provide additional funding for ongoing operations. In management's opinion, the Company has sufficient working capital and capital resources to meet its administrative and exploration expenditures for the next twelve months.

### **SELECTED ANNUAL FINANCIAL INFORMATION**

<b>Periods Ended</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>Financial Results</b>			
Exploration expenditures	\$ 1,919,691	\$ 1,157,280	\$ 1,370,984
Net income (loss)	(2,838,470)	(1,576,957)	2,410,822
Net income (loss) per share - basic and diluted	(0.11)	(0.08)	0.13
<b>Financial Position</b>			
Working Capital	\$ 1,180,630	\$ 2,240,140	\$ 3,440,000
Mineral Properties	4,094,416	5,142,245	114,442
Total Assets	10,679,633	13,202,137	7,640,222
Share Capital	13,502,669	13,260,499	8,852,146
Deficit	(12,244,662)	(9,406,192)	(7,829,235)

In 2010, exploration expenditures increased significantly over 2009 due to activity on the Peruvian properties acquired in the Maxy acquisition. Because the Maxy acquisition occurred in late December of 2009 the Company

reported only a nominal amount of exploration expense on these properties in that year. The net loss was higher than in 2009 due to higher exploration and general administration costs partially offset by higher other income from option payments received, a gain on sale of investments and also due to a significant future income tax recovery. Capitalized mineral property costs declined due to the sale of its 75% interest in Yunnan Xinyun Mining Co. which held the Midu property and due to an option payment received on the Corina property.

For 2009, the Company returned to a net loss, similar to 2007 because there was no significant gain on sale of mineral properties as was the case with the Mantaro Project in 2008. Working capital declined due to on-going exploration and administration activities partially offset by funds received from a private placement. Mineral properties, total assets and share capital increased significantly due to the acquisition of Maxy Gold Corp. ("Maxy") in December 2009. In that transaction most of the consideration paid by Lara was for the mineral properties held by Maxy.

#### SUMMARY OF QUARTERLY RESULTS

	2010		2010		2010		2010	
Quarter Ended	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Exploration expenditures	\$ 336,179	\$ 663,164	\$ 489,760	\$ 430,587				
Stock-based compensation	115,195	-	380,567	-				
Net loss for the period	(187,979)	(830,799)	(1,065,530)	(754,163)				
Loss per share (basic and diluted)	(0.01)	(0.03)	(0.04)	(0.03)				

	2009		2009		2009		2009	
Quarter Ended	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Exploration expenditures	\$ 305,828	\$ 279,807	\$ 237,800	\$ 333,845				
Stock-based compensation	-	-	42,046	25,818				
Net loss for the period	(415,477)	(337,955)	(398,357)	(425,168)				
Loss per share (basic and diluted)	(0.02)	(0.02)	(0.02)	(0.02)				

The loss for the quarters varies primarily based on exploration expenditures incurred and whether stock options are granted in the quarter.

For the quarter ended December 31, 2010 exploration activity decreased compared to the prior quarter as the Company approached the end of the year and exploration programs were completed. Stock-based compensation was higher than for the September quarter because there were two fully vested option grants in the fourth quarter. The loss was lower in the December quarter due to the lower exploration expenditures and due to a significant future income tax recovery.

For the quarter ended September 30, 2010 the higher exploration costs were due to a higher overall level of activity, particularly in Peru. The net loss for the period was lower than for the prior quarter because there was no stock-based compensation expense in the September quarter.

For the quarter ended June 30, 2010 the loss was higher than in the prior quarter due to stock-based compensation partially offset by increased other income which included option payments.

For the quarter ended March 31, 2010 the loss was higher than in the prior quarter due to higher exploration expenses and higher general and administrative costs. The reasons for the increased costs are due to additional exploration activity and administrative costs as a result of acquiring Maxy Gold Corp.

For the quarter ended December 31, 2009, the loss was higher than in the prior quarter due to slightly higher costs for exploration, professional fees and administrative services.

For the quarter ended September 30, 2009, the loss was lower than for the prior quarter due to slightly lower expenditures for several general and administrative expenses and due to lower stock-based compensation expense partially offset by higher exploration expenditures.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off balance sheet arrangements.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **Business Combinations, Consolidated Financial Statements and Non-Controlling Interest**

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. The section applies prospectively to business combinations occurring in years beginning on or after January 1, 2011, unless earlier adopted.

### **Convergence with International Financial Reporting Standards ("IFRS")**

The Company has completed the following steps which are subject to review by the Company's auditors and possible amendment thereafter:

- Determined the functional currencies for each of its reporting entities
- Determined its IFRS accounting policies
- Chosen which of the optional exemptions that it will take on the initial transition to IFRS
- Determined that only minor changes to internal controls and disclosure controls will be required in order to implement IFRS.
- Drafted a transition balance sheet as at January 1, 2010
- Completed bulleted draft note disclosures for its first interim report under IFRS
- Determined that the only adjustment to the transition balance sheet will be the reduction of future income tax liabilities in the amount of \$855,000 which pertained to Peruvian exploration properties acquired in the Maxy acquisition. The offsetting adjustment will be to reduce the carrying value of mineral properties.

Below are some specific comments on the more significant IFRS standards which impact the Company:

#### **a) Business Combinations**

The Company has accounted for its more recent business combinations as asset acquisitions under GAAP and under IFRS 3, the treatment is the same. However, the Company did not do a detailed review of all historical business combinations and has decided to take the IFRS 1 election regarding business combinations, and not restate any combinations prior to the transition date.

**b) Exploration for and Evaluation of Mineral Resources**

Lara has decided to maintain its policy of expensing its exploration and evaluation costs under IFRS. This is the same treatment as the Company had under GAAP and as a result there is no transition date adjustment. Under IFRS impairment testing of these assets is more rigorous than under GAAP. However, there is less likelihood that an impairment will occur because Lara is only going to capitalize mineral property acquisition costs.

**c) The Effects of Changes in Foreign Exchange Rates**

The Company has determined that its functional currency and the functional currency of all of its subsidiary companies is the Canadian dollar. As a result, translation gains and losses for these subsidiaries will be reported in the income statement as they currently are under GAAP and therefore there will be no adjustment to the transition balance sheet. This is a key determination and if the functional currency of the foreign subsidiaries was their local currency instead of the Canadian dollar, then the translation gains or losses would be reported as part of other comprehensive income.

**d) Property, Plant and Equipment**

For IFRS the Company will carry its equipment at cost, less accumulated depreciation and accumulated impairment losses. This is the same treatment as it is currently using under GAAP. The Company will have to break out its equipment into more detailed categories as prescribed under IFRS. However, Lara's equipment assets consist mainly of vehicles, office items and computers and none of these assets requires componentization and accordingly this reduces the amount of work involved on the transition to IFRS.

**e) Financial Instruments**

Aside from cash, receivables and accounts payable, Lara has investments in common shares and warrants of Canadian listed companies. The standard under GAAP was substantially converged with the IFRS standard and these investments have been recorded at fair value under GAAP and accordingly there is no transition date adjustment required for IFRS.

**f) Future Income Taxes**

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. As a result on Lara's transition balance sheet there will be an adjustment which reduces future income tax liabilities by \$855,000 with an offsetting reduction in mineral properties.

**g) Share-Based Payments**

The Company uses the Black-Scholes option pricing model to value its stock option grants and this procedure complies with the IFRS standard as well. There are differences between GAAP and IFRS in how awards are valued for both employees and non-employees, however there is a transitional provision under IFRS 2 – Share-based Payment that restricts the application of this IFRS standard on the transition date to options that have not yet vested. In Lara's case all outstanding options had vested at the transition date and therefore there is no IFRS adjustment is required for Lara's share-based payments.

***Internal Controls Over Financial Reporting and Disclosure Controls***

After selecting its accounting policies under IFRS, Lara has determined that the differences from GAAP are not significant enough to require major changes to internal controls over financial reporting and disclosure controls. The change in standards will mainly impact the collection and reporting of information at the head office level. The Company expects that it will have to add some additional general ledger accounts to capture some information at a more detailed level and also to amend worksheet calculations to comply with the new IFRS standards, mainly in terms of providing more detail for the notes to the financial statements. The Company will also have to amend its quarterly checklists for financial statement preparation and disclosure to ensure that all of

the differences under IFRS are monitored and completed correctly. These changes are important and are being addressed but do not require a significant effort.

#### ***Financial Reporting Expertise***

The Company has been training staff in IFRS through courses, work with consultants and through working directly on the conversion project. Training is on-going but the Company expects that the staff directly involved in the preparation of IFRS financial statements has sufficient expertise will have adequate supervision in order to comply with these new financial reporting standards for the first quarter of 2011.

#### ***Information Technology ("IT") Systems***

Lara has determined that some changes to its head office general ledger system will be required in order to capture sufficient information to report under IFRS. In addition some spreadsheet working papers which support general ledger journal entries or which support financial note disclosures will have to be modified to ensure compliance with IFRS. However, these changes are not complex and Lara does not expect that any outside resource will be required to complete them and that these changes can be accommodated in the normal quarterly workflow.

The Company expects to meet its IFRS reporting requirements for its first quarterly report in 2011.

#### **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2010 the Company paid \$199,200 (2009 - \$197,896) 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 December 31, 2010, 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.

As at December 31, 2010, the Company had a balance owing from Reservoir Capital Corp. of \$7,741. Reservoir Capital Corp. is related to Lara by having two directors in common.

At December 31, 2010, the Company had a balance owing to Inca Pacific Resources Inc. of \$ nil (2009 - \$8,068). Inca Pacific is related to Lara by having two directors in common. All balances due to related parties are included in accounts payable and accrued liabilities.

#### **MANAGEMENT COMPENSATION**

During the year ended December 31, 2010 Lara paid or accrued: \$96,000 in salary to the CEO, Miles Thompson, \$84,000 to a company controlled by the President, Andre Gauthier and \$124,000 in salary to a company controlled by the Vice-President Exploration, Michael Bennell. The four non-executive directors were paid directors' fees in the amount of \$8,000 each. David Miles, the chief financial officer and Kim Casswell, the corporate secretary are employees of Seabord and received no management compensation directly from Lara.

#### **RISKS AND UNCERTAINTIES**

##### **Mineral Property Exploration and Mining Risks**

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: ensuring ownership of and access to mineral properties

by confirmation that option agreements, claims and leases are in good standing and obtaining permits for drilling and other exploration activities.

Lara is currently earning an interest in certain of its 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-off the previously capitalized costs related to that property.

#### **Joint Venture Funding Risk**

Lara's strategy is to seek partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company's property interests may be delayed depending on whether Lara can find another partner or has enough capital resources to fund the exploration and development on its own.

#### **Commodity Price Risk**

Lara is exposed to commodity price risk. Declines in the market prices of gold, base metals and other minerals may adversely affect Lara's ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

#### **Financing and Share Price Fluctuation Risks**

Lara has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Recently, the securities markets have experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies such as Lara, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on Lara's ability to raise additional funds through equity issues.

#### **Political and Currency Risks**

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. Therefore a weakening of the Canadian dollar against the Brazilian real or Peruvian sol could have an adverse impact on the amount of exploration conducted.

#### **Insured and Uninsured Risks**

In the course of exploration, development and production of mineral properties, the Company is subject to a number of risks and hazards in general, including adverse environmental conditions, operational accidents, labor

disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in the damage to the Company's property or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

Some work is carried out through independent consultants and the Company requires that all consultants carry their own insurance to cover any potential liabilities as a result of their work on a project.

### **Environmental Risks and Hazards**

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect Lara's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present.

### **Competition**

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.

### **OUTSTANDING SHARE DATA**

As at April 21, 2011 there were 25,889,056 common shares issued and outstanding. In addition, there were 1,594,375 fully vested stock options outstanding with exercise prices ranging from \$0.32 to \$3.20 per option and terms expiring between July 10, 2011 and December 20, 2015.



**(An Exploration Stage Company)**  
**Consolidated Financial Statements**  
**Years Ended December 31, 2010 and 2009**  
(Expressed in Canadian Dollars)

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

*"Miles Thompson"*

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Miles Thompson  
President

April 21, 2011

*"David Miles"*

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David Miles  
Chief Financial Officer

**INDEPENDENT AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF LARA EXPLORATION LTD.**

(An Exploration Stage Company)

We have audited the accompanying consolidated financial statements of Lara Exploration Ltd. (an exploration stage company), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive income, deficit and accumulated other comprehensive income, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lara Exploration Ltd. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

*Smythe Ratcliffe LLP*

Chartered Accountants

Vancouver, British Columbia  
April 21, 2011

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Consolidated Balance Sheets

As at December 31

	2010	2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,438,137	\$ 2,375,295
Receivables	36,493	454,424
Current income tax receivable	45,984	189,838
Prepaid expenses and deposits	149,509	71,232
	<u>1,670,123</u>	<u>3,090,789</u>
<b>Furniture and equipment</b> (Note 5)	102,447	164,512
<b>Long-term investments</b> (Note 6)	4,812,647	4,804,591
<b>Mineral properties</b> (Note 7)	4,094,416	5,142,245
	<u>\$ 10,679,633</u>	<u>\$ 13,202,137</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 489,493	\$ 850,649
	<u>489,493</u>	<u>850,649</u>
<b>Future income tax liability</b> (Note 11)	544,243	873,560
<b>Non-controlling interest</b>	-	113,186
	<u>1,033,736</u>	<u>1,837,395</u>
<b>Shareholders' equity</b>		
<b>Share capital</b> (Note 9)	13,502,669	13,260,499
<b>Contributed surplus</b> (Note 9)	7,817,934	7,399,060
<b>Accumulated other comprehensive income</b>	569,956	111,375
<b>Deficit</b>	<u>(12,244,662)</u>	<u>(9,406,192)</u>
	<u>9,645,897</u>	<u>11,364,742</u>
	<u>\$ 10,679,633</u>	<u>\$ 13,202,137</u>

Approved by the Board of Directors:

Signed: "Michael Winn" \_\_\_\_\_ Director

Signed: "Miles Thompson" \_\_\_\_\_ Director

See accompanying notes to the consolidated financial statements.

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Consolidated Statements of Operations and Comprehensive Income

Years ended December 31

	2010	2009
<b>Exploration expenditures (Note 8)</b>	\$ 1,919,691	\$ 1,157,280
<b>General and administrative expenses</b>		
Amortization	11,523	1,420
Directors fees	32,000	-
Management fees	180,000	100,646
Office, rent and administrative services	419,104	256,692
Professional fees	149,832	90,387
Shareholder information and investor relations	155,912	92,243
Stock-based compensation	495,762	67,864
Transfer agent and filing fees	69,567	31,440
Travel and related costs	180,012	67,317
	1,693,712	708,009
<b>Other expenses (income)</b>		
Change in fair value of derivative financial instruments (Note 6)	2,306	(12,104)
Foreign exchange loss (gain)	19,652	(23,772)
Interest income	(3,741)	(39,244)
Gain on sale of investments	(70,997)	-
Gain on sale of subsidiary	(4,108)	-
Loss on sale of equipment	261	-
Other Income	(260,119)	(13,607)
	(316,746)	(88,727)
<b>Loss before income taxes</b>	(3,296,657)	(1,776,562)
<b>Income tax expense (recovery)</b>		
Current	(54,839)	(199,955)
Future	(403,348)	350
	(458,187)	(199,605)
<b>Net loss for the year</b>	\$ (2,838,470)	\$ (1,576,957)
<b>Other comprehensive income (loss)</b>		
Net loss for the year	\$ (2,838,470)	\$ (1,576,957)
Change in fair value of investments (Note 6)	556,362	1,464,281
Future income tax expense	(74,031)	(238,310)
Transfer on sale of investments	(23,750)	-
<b>Comprehensive loss</b>	\$ (2,379,889)	\$ (350,986)
<b>Basic and diluted loss per share</b>	\$ (0.11)	\$ (0.08)
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted	24,967,215	19,367,617

See accompanying notes to the consolidated financial statements.

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Consolidated Statements of Deficit and Accumulated Other Comprehensive Income

Years ended December 31

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	2010	2009
<b>Deficit, beginning of year</b>	\$ (9,406,192)	\$ (7,829,235)
Net loss for the year	(2,838,470)	(1,576,957)
<b>Deficit, end of year</b>	<b>\$ (12,244,662)</b>	<b>\$ (9,406,192)</b>
<b>Accumulated other comprehensive income (loss), beginning of year</b>	<b>\$ 111,375</b>	<b>\$ (1,114,596)</b>
Transfer on sale of investments	(23,750)	-
Change in fair value of investments, net of future income taxes	482,331	1,225,971
<b>Accumulated other comprehensive income, end of year</b>	<b>\$ 569,956</b>	<b>\$ 111,375</b>

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See accompanying notes to the consolidated financial statements.

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)  
Consolidated Statements of Cash Flows  
Years ended December 31

	2010	2009
<b>Cash flows from (used in) operating activities</b>		
Net loss for the year	\$ (2,838,470)	\$ (1,576,957)
Items not affecting cash		
Amortization	11,523	1,420
Amortization included in exploration expense	50,169	25,528
Other income	(65,000)	-
Stock-based compensation	495,762	67,864
Change in fair value of derivative financial instruments	2,306	(12,104)
Loss on sale of equipment	261	-
Gain on sale of investments	(70,997)	-
Gain on sale of subsidiary	(4,108)	-
Future income tax expense (recovery)	(403,348)	350
Changes in non-cash working capital items		
Receivables	412,991	(73,831)
Prepaid expenses and deposits	(78,277)	14,705
Accounts payable and accrued liabilities	(344,997)	(59,086)
Current income taxes payable/receivable	143,854	(444,633)
	(2,688,331)	(2,056,744)
<b>Cash flows from (used in) investing activities</b>		
Mineral property acquisition costs	(152,084)	(18,315)
Recovery of mineral property costs	199,919	-
Net cash acquired on acquisition of Maxy Gold Corp.	-	20,244
Proceeds on sale of investments	658,247	-
Proceeds on sale of subsidiary	886,161	-
Proceeds on sale of equipment	4,480	-
Purchase of furniture and equipment	(10,826)	-
	1,585,897	1,929
<b>Cash flows from financing activities</b>		
Issuance of shares for cash	165,276	1,001,251
<b>Decrease in cash and cash equivalents</b>	(937,158)	(1,053,564)
<b>Cash and cash equivalents – beginning of year</b>	2,375,295	3,428,859
<b>Cash and cash equivalents – end of year</b>	\$ 1,438,137	\$ 2,375,295
<b>Supplemental cash flow information</b>		
Interest received	\$ 162	\$ 36,958
Income tax received (paid)	\$ 198,693	\$ (244,677)

Supplemental disclosure with respect to cash flows (Note 13)

See accompanying notes to the consolidated financial statements.

# LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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## 1. NATURE OF OPERATIONS

Lara Exploration Ltd. (the "Company") was incorporated under the British Columbia *Business Corporations Act* on March 31, 2003.

The Company's principal business activities are the acquisition, exploration and development of mineral exploration properties in South America, currently with properties in Brazil, Peru and Colombia. The Company's continuing operations and ability to meet its mineral property commitments are dependent upon the Company's ability to raise additional financing when required.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Principles of consolidation

These consolidated financial statements have been prepared according to Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its integrated wholly-owned subsidiaries, Pan Brazilian Mineração Ltda. ("Pan Brazilian"), Nova Fronteira Mineração Ltda., T'Gold Mineração Ltda. ("T'Gold"), Minas Dixon S.A. ("Minas Dixon"), and Maxy Gold Corp. ("Maxy") and all of its subsidiaries. Maxy and its subsidiaries were acquired on December 21, 2009 and its results from operations and cash flows from that date have been included in these consolidated financial statements. All significant intercompany transactions and balances have been eliminated.

### Use of estimates

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

### Cash and cash equivalents

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

### Furniture and equipment

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

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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

#### **Mineral properties and exploration expenditures**

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

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

#### **Asset retirement obligations**

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

#### **Future income taxes**

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

#### **Earnings (loss) per share**

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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

#### **Foreign currency translation**

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

#### **Stock-based compensation**

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts are transferred from contributed surplus to share capital.

#### **Revenue recognition**

Interest income is recorded as earned at the stated rate of interest of the term deposit over the term to maturity.

#### **Financial instruments**

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in operations. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Financial instruments classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income, and there is objective evidence that the impairment is other than temporary, the cumulative loss that had been previously recognized is removed from accumulated other comprehensive income and recognized in operations even though the financial asset has not been de-recognized. Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate fair values:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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

#### **Recent Accounting Pronouncements**

Recent accounting pronouncements which may impact the Company in the future are as follows:

#### **Business Combinations, Consolidated Financial Statements and Non-Controlling Interest**

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. The section applies prospectively to business combinations occurring in years beginning on or after January 1, 2011, unless earlier adopted.

#### **International Financial Reporting Standards ("IFRS")**

A decision of the CICA Accounting Standards Board (the "AcSB") requires the Company to report under IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for interim periods and for the year ended December 31, 2010. The Company will therefore be required to present IFRS financial statements for its March 31, 2011 interim financial statements. The Company has substantially completed the work required for its transition to IFRS. The only adjustment to the transition date balance sheet under IFRS is a reduction to mineral properties with a corresponding reduction in the future income tax liability. Under GAAP Lara recognized this 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.

## LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

### 3. ACQUISITION OF MAXY GOLD CORP.

On December 21, 2009, Lara completed the acquisition of Maxy Gold Corp. (“Maxy”) through a Plan of Arrangement (the “Acquisition”) that resulted in the Maxy shareholders receiving 0.125 common share of Lara in exchange for one common share of Maxy. The acquisition resulted in Lara issuing 4,307,738 common shares for 100% of the issued and outstanding common shares of Maxy. Maxy’s outstanding stock options were also exchanged on the same basis as the common shares. On completion of the transaction, Maxy became a wholly-owned subsidiary of Lara. As part of the acquisition, Lara issued 183,750 replacement options to the Maxy option holders as at December 21, 2009. These options were issued on a ratio of 0.125 Lara option for one Maxy option. These options were originally granted on March 22, 2005 and on February 21, 2008. They were valued using the Black-Scholes option pricing model which resulted in a fair value of \$3,800 which was included in the total purchase price of \$3,460,654. The share consideration has been valued at \$0.79 per share based on the closing market price of Lara’s common share on December 21, 2009. The purchase price allocation is as follows:

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<b>Purchase Price:</b>	
Issuance of Lara common shares	\$ 3,403,113
Fair value of Lara stock options granted	3,800
Transaction costs	53,741
	<hr/>
	\$ 3,460,654

<b>Purchase Price Allocation:</b>	
Cash	\$ 73,985
Receivables	11,955
Prepaid expenses and deposits	42,918
Equipment	54,502
Mineral properties (Note 7)	5,009,494
Accounts payable and accrued liabilities	(764,014)
Future income tax liability	(855,000)
Non-controlling interest	(113,186)
	<hr/>
	\$ 3,460,654

### 4. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year’s presentation.

## LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

### 5. FURNITURE AND EQUIPMENT

	2010		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 127,513	\$ 60,180	\$ 67,333
Field equipment	87,144	52,030	35,114
	\$ 214,657	\$ 112,210	\$ 102,447

  

	2009		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 130,824	\$ 34,754	\$ 96,070
Field equipment	93,948	25,506	68,442
	\$ 224,772	\$ 60,260	\$ 164,512

### 6. LONG-TERM INVESTMENTS

The Company holds common shares of: Sprott Resource Corp. ("Sprott"), CCT Capital Ltd. ("CCT") and Redzone Resources Ltd. ("Redzone"). The Sprott and Redzone shares were acquired according to the terms of property agreements. Lara purchased 200,000 units of a private placement offering by CCT Capital Ltd. at a price of \$0.165 per unit in August of 2007. The units consisted of one common share and one common share purchase warrant. The Company allocated the cost between the common shares and share purchase warrants based on the estimated fair value at the time of acquisition. In August, 2009, the TSX Venture Exchange consented to the re-pricing and extension of the warrants. The warrants were re-priced to \$0.10 per warrant and the expiry date was extended to August 10, 2012.

The CCT share purchase warrants are derivative financial instruments and by default must be classified as held for trading investments. The Sprott, Redzone and the CCT common shares have been designated as available for sale investments. The warrants have been valued using the Black-Scholes option pricing model using the following assumptions: an option life of 2.6 years, a risk free interest rate of 1.46%, an expected dividend yield of 0% and a volatility of 125%.

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

**6. LONG-TERM INVESTMENTS (Continued)**

	2010		
	Cost	Fair Value	Unrealized Gain (Loss)
<b>Available for sale investments</b>			
CCT – 200,000 common shares	\$ 21,924	\$ 16,000	\$ (5,924)
Redzone – 100,000 common shares	65,000	74,000	9,000
Sprott – 1,030,872 common shares	4,035,864	4,711,085	675,221
	4,122,788	4,801,085	678,297
<b>Held for trading investments</b>			
CCT – 200,000 share purchase warrants	11,076	11,562	486
	\$ 4,133,864	\$ 4,812,647	\$ 678,783
	2009		
	Cost	Fair Value	Unrealized Gain (Loss)
<b>Available for sale investments</b>			
CCT – 200,000 common shares	\$ 21,924	\$ 20,000	\$ (1,924)
Sprott – 1,180,872 common shares	4,623,114	4,770,723	147,609
	4,645,038	4,790,723	145,685
<b>Held for trading investments</b>			
CCT – 200,000 share purchase warrants	11,076	13,868	2,792
	\$ 4,656,114	\$ 4,804,591	\$ 148,477

## LARA EXPLORATION LTD.

(An Exploration Stage Company)  
Notes to the Consolidated Financial Statements  
Years ended December 31, 2010 and 2009

### 7. MINERAL PROPERTIES

	2010	2009
Midu – China	\$ -	\$ 1,000,000
Condorama – Peru	1,202,847	1,202,847
Chocos – Peru	1,202,847	1,202,847
Sumaq / Sami – Peru	601,423	601,423
Corina – Peru	401,504	601,423
Picha – Peru	200,474	200,474
Other minor properties – Peru	200,480	200,474
São Lourenço – Brazil	99,947	69,532
Campos Verdes – Brazil	63,224	63,224
Curionopolis – Brazil	121,669	-
Minas Dixon – Peru	1	1
Balance, December 31	\$ 4,094,416	\$ 5,142,245

On December 21, 2009, Lara acquired Maxy Gold Corp. (Note 3) and as part of that transaction acquired exploration properties in China and Peru which include: Midu, Condorama, Chocos, Sumaq, Corina, Picha and other minor properties in Peru. The values attributed to these properties are disclosed in the table above. In December 2010, Lara completed the sale of its 75% interest in the Midu Gold Project located in Yunnan Province, China, held through a joint venture company called Yunnan Xinyun Mining Co. for net proceeds of \$886,161. The Midu property was the main asset held by the joint venture.

#### Brazil

##### *Araguaia Nickel Project*

In November 2008, Teck Cominco in accordance with the Teck Agreement, forfeited all rights, title and interest in and to the Araguaia Nickel Project in favour of the Company. In 2009, the Company reduced its land holdings to 45,000 hectares and continues to hold six exploration licenses. In 2010 the Company completed a new Technical Report on the Project and split the mineral rights into separate blocks for the Conceição Nickel Sulphide Project and the Vila Oito-Floresta Lateritic Nickel Project. The Company also acquired additional ground and currently holds 74,705 hectares.

##### *Campos Verdes Gold Project*

The Campos Verdes Gold Project comprised 19 exploration licenses covering a total of 32,900 hectares located in Goiás State. Ten of the licenses were acquired pursuant to an option agreement entered into by Pan Brazilian dated April 5, 2005. During 2006, the Company made a payment of US\$10,000 against this agreement. The Company must pay to the optionor a further US\$98,500 for each licensed property that is put into production on a commercial scale. The remaining licenses were acquired by the Company in 2006 and 2007. In 2009, the Company reduced its land holdings to 5,921 hectares and now holds a single license covering 1,998 hectares.

##### *Canabrava VMS Project*

The Canabrava VMS Project comprises 19 exploration licenses covering a total of 28,048 hectares in Goiás and Tocantins States. The licenses have been registered by the Company from 2006 to 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 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.

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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

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 30, 2010, an amendment was signed extending the expenditure obligation through May 16, 2002.

#### ***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. Under the terms of the Agreement, Codelco may earn an initial 51% interest in the Curionópolis property by investing US\$3.8 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 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.

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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

#### ***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 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.

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

The Company holds 42,636 hectares of phosphate exploration licenses in Brazil and claims for a further 79,745 hectares in Colombia. The 21,689 hectares of potash exploration licenses in Sergipe State, Northeast Brazil have been optioned to Talon Metals Corp., whereby Talon has an option to earn a 75% interest in Lara's licenses by paying US\$0.5 million in cash and undertaking a minimum US\$4 million exploration work program over four years and delivering a Resource Report on the projects by late 2014. Talon will be the operator of the work programs, which must include at least five drill holes targeting potentially economic potash-bearing evaporite sequences within Lara's licenses.

#### ***São Lourenço Tin Project***

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.

#### ***Tapajos Gold Joint Venture***

On April 19, 2007, the Company signed a letter of intent where a new company, T'Gold, was formed as a joint venture vehicle to acquire properties and explore in the Tapajós District of Brazil. T'Gold is 50% owned by the Company and 50% owned by two individuals. The Company contributed seed capital of US\$300,000 and the two individuals contributed the initial property portfolio of 44,800 hectares of exploration claims covering the Santa Felicidade, Santa Cecilia, Castelo, Colibri, Caic-1 and Caic-2 garimpeiro gold workings. T'Gold will pay a 1.5% net smelter royalty on any gold production from the Santa Felicidade, Santa Cecilia, Castelo and Colibri areas, but may buy back half of the net smelter royalty for US\$750,000.

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

#### ***Granulitos Gold***

During 2009 the Company undertook a series of grass roots exploration programs for gold in Central Brazil. The focus of these programs was to target gold mineralization in high-grade metamorphic terrains using models and techniques developed in the Canadian and Australian Shield areas in recent years. Review of historical datasets and field reconnaissance has led to the Company registering claims and subsequently being granted 31 licenses covering a total of 50,465 hectares in five areas: Silvania, Vianopolis, Orizona, Extrema and Santa Cruz. All but one of these areas was dropped in 2010, with a single license covering 1,963 hectares held for further investigation of a target area.

#### **Peru**

#### ***Lara and Tingo Este Copper Projects***

The Company owns a 100% interest in three mining properties comprising 1,800 hectares through its wholly-owned subsidiary, Minas Dixon S.A. ("Minas Dixon"). 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 Copper and 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 is obliged to pay Tinka a 1% net smelter return royalty on any production from the property.

#### ***Maxy Peru Properties***

By acquiring Maxy (note 3), Lara now has a 100% interest in 20 gold and base metal properties in Peru. Maxy acquired 15 of these properties from Southwestern Resources Corp. in June 2008. There is a 2% net smelter returns royalty payable on the Chocos and Condorama properties if they are put into commercial production. The Company also has a 100% interest in 5 additional properties in Peru which were staked by Maxy.

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### 7. MINERAL PROPERTIES (Continued)

#### 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.

<i>Cash Payments to Lara</i>	<i>US\$</i>
<i>Upon signing Definitive Agreement</i>	<i>(paid) 200,000</i>
<i>First Anniversary</i>	<i>200,000</i>
<i>Second Anniversary</i>	<i>300,000</i>
<b>Total</b>	<b>700,000</b>

<i>Exploration Expenditures</i>	<i>US\$</i>
<i>Phase 1 - 18 months (committed)</i>	<i>500,000</i>
<i>Phase 2 – 18-36 months</i>	<i>1,000,000</i>
<b>Total</b>	<b>1,500,000</b>

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.

#### Colombia

The Company holds 79,745 hectares of phosphate exploration claims in the Boyaca District of Colombia. The Boyacá claims are held indirectly through Colombia Alliance (BVI) Ltd., a joint venture company held 70% by Lara and 30% by Colombian consulting group Geotec Ltda.

#### Titles

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements or transfer and may be affected by undetected defects. The amounts shown for mineral properties represent acquisition costs incurred to date, less recoveries and write-downs, and are not intended to reflect present or future values.

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### 8. EXPLORATION EXPENDITURES

Exploration expenditures incurred during the year ended December 31, 2010 were as follows:

	Campos Verdes	Canbrava	Araguaia	General Gold	Curionopolis	Other	Total Brazil	Peru	Colombia	Total
Salaries and consultants	\$ 4,909	\$ 144,998	\$ 914	\$ 79,154	\$ 103,928	\$ 5,724	\$ 339,627	\$ 1,066,953	\$ 31,491	\$ 1,438,071
Office and administrative	2,947	110,424	1,038	75,140	65,785	15,304	270,638	131,366	9,319	411,323
Field costs	36	93,448	62	3,093	31,501	8,121	136,261	1,917	8,026	146,204
Travel and related costs	646	25,977	1,755	4,930	16,054	367	49,728	34,081	9,742	93,551
Assays	76	7,735	82	4,900	10,287	298	23,379	12,279	-	35,658
Property maintenance costs	3,985	5,663	527	150,234	7,708	95	168,212	10,776	-	178,988
Telecommunications	227	3,552	-	37	408	-	4,224	8,741	-	12,965
	12,826	391,797	4,378	317,488	235,671	29,909	992,069	1,266,113	58,578	2,316,760
Recoveries	-	-	-	-	-	-	-	(397,069)	-	(397,069)
	\$ 12,826	\$ 391,797	\$ 4,378	\$ 317,488	\$ 235,671	\$ 29,909	\$ 992,069	\$ 869,044	\$ 58,578	\$ 1,919,691

Exploration expenditures incurred during the year ended December 31, 2009 were as follows:

	Campos Verdes	Curionopolis	Sao Lourenco	General Gold	Other	Total Brazil	Peru	Colombia	Total
Salaries and consultants	\$ 5,251	\$ 75,039	\$ 66,070	\$ 102,589	\$ 37,133	\$ 286,082	\$ 53,145	\$ 63,938	\$ 403,165
Office and administrative	9,848	51,398	59,112	131,312	43,112	294,782	24,970	20,210	339,962
Field costs	297	29,258	43,408	88,700	8,291	169,954	676	7,122	177,752
Travel and related costs	3,122	26,932	14,804	47,489	8,692	101,039	2,821	16,057	119,917
Assays	234	11,923	67,316	23,462	1,143	104,078	4,203	6,815	115,096
Property maintenance costs	32,610	18,462	17,891	15,727	8,527	93,217	-	21,670	114,887
Telecommunications	1,023	3,632	4,631	9,468	2,021	20,775	-	259	21,034
Trenching	-	-	1,538	-	-	1,538	-	-	1,538
	52,385	216,644	274,770	418,747	108,919	1,071,465	85,815	136,071	1,293,351
Recoveries	-	-	-	-	-	-	-	(136,071)	(136,071)
	\$ 52,385	\$ 216,644	\$ 274,770	\$ 418,747	\$ 108,919	\$ 1,071,465	\$ 85,815	\$ -	\$ 1,157,280

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### 9. SHARE CAPITAL

#### Authorized

Unlimited common shares without par value

Unlimited first preferred shares without par value

Unlimited second preferred shares without par value

#### Issued and outstanding

	Number of Shares	Share Capital	Contributed Surplus
Balance, December 31, 2008	19,246,501	\$ 8,852,146	\$ 7,331,391
Issued on exercise of stock options	17,500	7,000	-
Issued on private placement	1,333,333	1,000,000	-
Issued on Maxy acquisition	4,307,733	3,403,107	-
Stock-based compensation on Maxy acquisition	-	-	3,800
Reclassified on exercise of stock options	-	3,995	(3,995)
Stock-based compensation	-	-	67,864
Share issue costs	-	(5,749)	-
Balance, December 31, 2009	24,905,067	13,260,499	7,399,060
Issued on Maxy acquisition	5	6	-
Stock-based compensation	-	-	495,762
Issued on exercise of stock options	312,500	165,276	-
Reclassified on exercise of stock options	-	76,888	(76,888)
Balance, December 31, 2010	25,217,572	\$ 13,502,669	\$ 7,817,934

#### Private placements

In December 2009 Lara completed a private placement with Sprott for 1,333,333 common shares at a price of \$0.75 per share for total proceeds of \$1,000,000.

#### Share purchase warrants

The continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2008	1,597,500	\$ 1.20
Expired	(1,597,500)	\$ 1.20
Balance, December 31, 2009 and 2010	-	\$ -

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### 9. SHARE CAPITAL (Continued)

#### Stock options

The Company adopted a stock option plan pursuant to the policies of the TSX Venture Exchange. The maximum number of shares that may be reserved for issuance under the plan is limited to 10% of the issued common shares of the Company at any time. The vesting terms are determined by the Company's Board of Directors at the time of the grant. The changes in stock options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2008	1,845,000	\$ 1.06
Granted	75,000	\$ 0.40
Granted on Maxy acquisition	183,750	\$ 3.24
Exercised	(17,500)	\$ 0.40
Forfeited	(320,000)	\$ 1.22
Balance, December 31, 2009	1,766,250	\$ 1.23
Granted	1,095,000	\$ 0.74
Exercised	(312,500)	\$ 0.53
Forfeited	(206,875)	\$ 2.66
Balance, December 31, 2010	2,341,875	\$ 0.97

The following table summarizes the stock options outstanding and exercisable at December 31, 2010, with a weighted average life of 2.62 years:

Grant Date	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
March 16, 2006	565,000	\$ 1.35	565,000	March 16, 2011
July 10, 2006	250,000	\$ 1.10	250,000	July 10, 2011
November 9, 2006	25,000	\$ 1.03	25,000	November 9, 2011
October 3, 2007	10,000	\$ 1.22	10,000	October 3, 2012
June 18, 2008	340,000	\$ 0.80	340,000	June 18, 2013
October 29, 2008	15,000	\$ 0.32	15,000	October 29, 2013
May 21, 2009	37,500	\$ 0.40	37,500	May 21, 2014
February 21, 2008	36,875	\$ 3.20	36,875	February 21, 2013
May 27, 2010	887,500	\$ 0.67	887,500	May 27, 2015
November 8, 2010	100,000	\$ 1.02	100,000	May 27, 2015
December 20, 2010	75,000	\$ 1.23	75,000	May 27, 2015
	2,341,875	\$ 0.97	2,341,875	

During the first quarter of 2011, 495,000 options with an exercise price of \$1.35 were exercised and on March 16, 2011 70,000 of these options expired.

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### 9. SHARE CAPITAL (Continued)

#### Stock-based compensation and contributed surplus

During the year ended December 31, 2010, the Company granted 1,095,000 options to certain employees, directors and consultants. 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 stock-based compensation of \$495,762 for these options with the offsetting amount credited to contributed surplus.

In May 2009, the Company granted a total of 75,000 stock options to an officer and a consultant with an exercise price of \$0.40 and an expiry date of May 21, 2014. The fair value of these options has been measured using a Black-Scholes option pricing model. The options were fully vested on the grant date. The Company recorded stock-based compensation of \$17,120 for these options with the offsetting amount being credited to contributed surplus. During the year ended December 31, 2009, the Company recorded additional stock based compensation of \$50,744 with the offsetting amount credited to contributed surplus for options granted in prior years.

The following weighted average assumptions were used for the valuation of stock options:

	2010	2009
Risk-free interest rate	2.37%	1.87%
Expected dividend yield	0%	0%
Expected stock price volatility	73.5%	68%
Expected life of options in years	5	5
Grant date fair value	\$0.45	\$0.23

### 10. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010 the Company paid \$199,200 (2009 - \$197,896) 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 December 31, 2010, 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.

As at December 31, 2010, the Company had a balance owing from Reservoir Capital Corp. of \$7,741. Reservoir Capital Corp. is related to Lara by having two directors in common.

At December 31, 2010, the Company had a balance owing to Inca Pacific Resources Inc. of \$ nil (2009 - \$8,068). Inca Pacific is related to Lara by having two directors in common. All balances due to related parties are included in accounts payable and accrued liabilities.

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### 11. INCOME TAXES

The recovery of income taxes differs from the amount that would have resulted by applying the Canadian federal and provincial statutory tax rates of 28.5% (2009 – 30%) to pre-tax losses as a result of the following:

	2010	2009
Loss before taxes	\$ (3,296,657)	\$ (1,776,562)
Expected income tax recovery	\$ (939,547)	\$ (532,969)
Non-taxable portion of capital gain	(10,117)	-
Utilization of prior years operating losses	(45,984)	(189,030)
Unrecognized tax losses	242,616	755,430
Impact of foreign exchange rates on foreign operating losses	160,500	(224,483)
Permanent differences	141,300	20,359
Other	(6,955)	(28,912)
Income tax recovery	\$ (458,187)	\$ (199,605)
Future income tax assets (liabilities):		
Non-capital loss carry-forwards	\$ 2,675,900	\$ 2,057,144
Investments	(92,300)	(18,560)
Mineral properties	(506,050)	(855,000)
Other	3,677	3,579
Valuation allowance	2,081,227 (2,625,470)	1,187,163 (2,060,723)
Net future income tax liability	\$ (544,243)	\$ (873,560)

As at December 31, 2010, the Company has unused tax loss carry-forwards that are available to reduce future taxable income of \$800,000 (2009 - \$Nil) in Canada, \$6,700,000 (2009 - \$5,900,000) in Brazil and \$283,000 (2009 - \$Nil) in Peru. The tax loss carry-forwards are available for 20 years in Canada, for 4 years in Peru and indefinitely in Brazil. The valuation allowance reflects the Company's estimate that the tax assets will more likely than not be realized and, consequently, have not been recorded in these financial statements.

### 12. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties. Except mineral property interests, equipment and exploration expenditures, substantially all of the Company's assets and expenditures are located and incurred in Canada. The mineral property interests are located in Brazil, Peru and Colombia (see Note 7), the equipment is located in Brazil and substantially all of the exploration expenditures are incurred in Brazil and Peru (see Note 8).

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### 13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

At December 31, 2010 Lara's cash and cash equivalents consisted of \$1,409,387 in cash (2009 - \$2,346,545) and \$28,750 in term deposits (2009 - \$28,750). During the year ended December 31, 2010, the Company received 100,000 common shares of Redzone with an estimated fair value of \$65,000, pursuant to the option agreement on the Lara property (note 7).

### 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has classified its financial assets as follows:

Financial assets	2010			2009		
	Loans and receivables	Held-for-trading	Available-for-sale	Loans and receivables	Held-for-trading	Available-for-sale
Cash and cash equivalents	\$ -	\$1,438,137	\$ -	\$ -	\$2,375,295	\$ -
Receivables	36,493	-	-	454,424	-	-
Investments	-	11,562	4,801,085	-	13,868	4,790,723
	\$ 36,493	\$1,449,699	\$4,801,085	\$ 454,424	\$2,389,163	\$4,790,723

The carrying value of its financial assets approximates their fair value as at December 31, 2010 and 2009 due to their short term maturity except for marketable securities which are carried at fair value.

The Company classifies its only financial liability, accounts payable and accrued liabilities as other financial liabilities. The total other liabilities outstanding at December 31, 2010 was \$489,493 (2009 - \$850,649). The carrying value of its financial liabilities approximates their fair value as at December 31, 2010 and 2009 due to their short term maturity.

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

	Level 1	Level 2	Level 3	Total
2010				
<b>Financial assets</b>				
Investments	\$ 4,801,085	\$ 11,562	\$ -	\$ 4,812,647
2009				
<b>Financial assets</b>				
Investments	\$ 4,790,723	\$ 13,868	\$ -	\$ 4,804,591

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### 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

#### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents. The Company limits exposure to credit risk by maintaining its cash and cash equivalents with large financial institutions.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company believes that these sources will be sufficient to cover the likely short- and long-term requirements. As at December 31, 2010, the Company had cash and cash equivalents of \$1,438,137 (2009 - \$2,375,295) to settle current liabilities of \$489,493 (2009 - \$850,649). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

#### Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate, foreign currency and other price risk.

#### Foreign currency risk

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

At December 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Brazilian reals and Peruvian sols.

	<u>Reals</u>	<u>Sols</u>
Cash and cash equivalents	87,203	413,381
Receivables	7,988	-
Accounts payable and accrued liabilities	(89,983)	(25,926)
Net exposure	5,208	387,455
Canadian dollar equivalent	\$ 3,101	\$ 139,599

Based on the above net exposure as at December 31, 2010, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the Brazilian real and Peruvian sols would result in an increase/decrease of approximately \$14,270 (2009 - \$4,663) in the Company's pre-tax earnings (loss).

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### **14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

#### **Interest rate risk**

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

#### **Other Price Risk**

Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company is exposed to other price risk with respect to its marketable securities. The sensitivity analysis of the Company's exposure to other price risk at the reporting date has been determined based upon hypothetical changes taking place at December 31, 2010 and 2009, which includes a hypothetical change in the share price of Sprott, Redzone and CCT shares (Note 6) of 10% (2009 - 10%), and the impact on other comprehensive income is \$481,265 (2009 - \$479,072).

### **15. CAPITAL RISK MANAGEMENT**

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

The Company's investment policy is to hold cash in interest-bearing bank accounts and highly liquid short-term interest-bearing investments with maturities of one year or less and which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. The Company expects its current capital resources will be sufficient to carry its exploration programs and operating costs through its current operating period. There were no changes in the Company's approach to capital management during the year ended December 31, 2010.