

# **LARA EXPLORATION LTD.**

**(An Exploration Stage Company)**

## **Interim Consolidated Financial Statements**

**Nine Months Ended September 30, 2009**

**(Unaudited)**

**(Expressed in Canadian Dollars)**

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

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)  
Interim Consolidated Balance Sheets  
(Unaudited – Expressed in Canadian Dollars)

	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,803,149	\$ 3,428,859
Receivables	440,545	368,638
Prepaid expenses and deposits	99,654	43,019
	<u>2,343,348</u>	<u>3,840,516</u>
<b>Furniture and equipment</b> (Note 4)	116,786	136,958
<b>Long-term investments</b> (Note 5)	4,205,371	3,328,206
<b>Mineral properties</b> (Note 6)	132,757	114,442
<b>Deferred acquisition costs</b> (Note 1)	3,400	-
<b>Future income tax asset</b>	211,259	220,100
	<u>\$ 7,012,921</u>	<u>\$ 7,640,222</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 132,657	\$ 145,721
Current income taxes payable	-	254,795
	<u>132,657</u>	<u>400,516</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 8)	8,852,146	8,852,146
<b>Contributed surplus</b> (Note 8)	7,399,255	7,331,391
<b>Accumulated other comprehensive income</b>	(380,422)	(1,114,596)
<b>Deficit</b>	(8,990,715)	(7,829,235)
	<u>6,880,265</u>	<u>7,239,706</u>
	<u>\$ 7,012,921</u>	<u>\$ 7,640,222</u>

Nature of operations (Note 1)

Approved by the Board of Directors:

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

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

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

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Interim Consolidated Statements of Operations and Comprehensive Loss

(Unaudited – Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>EXPLORATION EXPENDITURES</b> (Note 7)	\$ 279,807	\$ 471,281	\$ 851,452	\$ 1,115,734
<b>GENERAL &amp; ADMINISTRATIVE EXPENSES</b>				
Amortization	349	298	1,082	985
Management fees	24,424	24,381	73,540	72,381
Office, rent and administrative services	56,577	39,585	178,457	129,568
Professional fees	16,482	21,990	54,263	66,811
Shareholder information and investor relations	25,069	16,826	63,308	70,300
Stock-based compensation	-	13,075	67,864	138,247
Transfer agent and filing fees	3,346	2,349	28,134	32,102
Travel and related costs	19,026	19,312	39,024	48,687
	145,273	137,816	505,672	559,081
<b>Loss before other items</b>	(425,080)	(609,097)	(1,357,124)	(1,674,815)
<b>OTHER ITEMS</b>				
Unrealized gain (loss) on change in fair value of derivative financial instruments (Note 5)	10,084	6,815	8,320	(20,030)
Foreign exchange gain (loss)	(10,638)	289	5,424	14,552
Interest income	26,693	28,574	33,350	105,598
Other income	3,150	-	12,602	4,623,114
	29,289	35,678	59,696	4,723,234
<b>Net income (loss) before income taxes</b>	(395,791)	(573,419)	(1,297,428)	3,048,419
Current income tax recovery (expense)	59,126	-	137,238	(238,952)
Future income tax recovery (expense)	(1,290)	-	(1,290)	14,600
<b>Net income (loss) for the period</b>	\$ (337,955)	\$ (573,419)	\$ (1,161,480)	\$ 2,824,067
<b>Other comprehensive income (loss)</b>				
Net income (loss) for the period	\$ (337,955)	\$ (573,419)	\$ (1,161,480)	\$ 2,824,067
Change in fair value of financial instruments (Note 5)	534,201	(1,501,420)	868,845	(1,297,246)
Future income tax recovery (expense)	(83,130)	226,000	(134,671)	194,000
<b>Comprehensive income (loss)</b>	\$ 113,116	\$ (1,848,839)	\$ (427,306)	\$ 1,720,821
<b>Basic and diluted earnings (loss) per share</b>	\$ (0.02)	\$ (0.03)	\$ (0.06)	\$ 0.15
<b>Weighted average number of common shares outstanding</b>				
	19,246,501	19,246,501	19,246,501	19,116,848

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

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Interim Consolidated Statements of Deficit and Accumulated Other Comprehensive Income

(Unaudited – Expressed in Canadian Dollars)

	Three Months ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
<b>Deficit, beginning of period</b>	\$ (8,652,760)	\$ (6,842,571)	\$ (7,829,235)	\$(10,240,057)
Net income (loss) for the period	(337,955)	(573,419)	(1,161,480)	2,824,067
<b>Deficit, end of period</b>	<b>(8,990,715)</b>	<b>(7,415,990)</b>	<b>(8,990,715)</b>	<b>(7,415,990)</b>
<b>Accumulated other comprehensive income (loss), beginning of period</b>	(831,493)	38,076	(1,114,596)	42,076
Change in fair value of financial instruments, net of future income tax	451,071	(1,099,246)	734,174	(1,103,246)
<b>Accumulated other comprehensive loss, end of period</b>	<b>\$ (380,422)</b>	<b>\$ (1,061,170)</b>	<b>\$ (380,422)</b>	<b>\$ (1,061,170)</b>

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

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)  
Interim Consolidated Statements of Cash Flows  
(Unaudited – Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>CASH FLOWS FROM (TO)</b>				
<b>OPERATIONS</b>				
Net income (loss) for the period	\$ (337,955)	\$ (573,419)	\$ (1,161,480)	\$ 2,824,067
Items not affecting cash:				
Amortization	6,712	6,332	20,172	11,187
Stock-based compensation	-	13,075	67,864	138,247
Change in fair value of held for trading				
Investments	(10,084)	(6,815)	(8,320)	20,030
Other income	-	-	-	(4,623,114)
Future income tax recovery	(49,008)	-	(127,120)	(14,600)
Future income tax expense	1,290	-	1,290	-
Changes in non-cash working capital items:				
Receivables	(57,131)	14,557	(71,907)	58,575
Prepaid expenses and deposits	770	(32,373)	(56,635)	(45,356)
Accounts payable and accrued liabilities	(37,374)	88,734	(13,064)	(105,136)
Current income tax payable	5,205	-	(254,795)	238,952
Exploration advances	-	(37,574)	-	(129,309)
	(477,575)	(527,483)	(1,603,995)	(1,626,457)
<b>INVESTING</b>				
Deferred acquisition costs	(3,400)	-	(3,400)	-
Mineral property acquisition costs	-	-	(18,315)	(20,000)
Purchase of furniture and equipment	-	(69,983)	-	(72,439)
	(3,400)	(69,983)	(21,715)	(92,439)
<b>FINANCING</b>				
Issuance of shares for cash	-	-	-	1,061,250
	-	-	-	1,061,250
<b>Change in cash and cash equivalents</b>	(480,975)	(597,466)	(1,625,710)	(657,646)
<b>Cash and cash equivalents, beginning of period</b>	2,284,124	4,674,117	3,428,859	4,734,297
<b>Cash and cash equivalents, end of period</b>	\$ 1,803,149	\$ 4,076,651	\$ 1,803,149	\$ 4,076,651
<b>Supplementary cash flow information</b>				
Interest received	\$ 5,611	\$1,071	\$ 9,983	\$ 77,658
Cash income taxes paid (recovered)	(15,323)	-	244,677	-

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

# LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

(Unaudited – Expressed in Canadian Dollars)

September 30, 2009

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## 1. NATURE OF OPERATIONS

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

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

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

In September 2009, Lara signed a Letter of Intent (“LOI”) with Maxy Gold Corp. (“Maxy”) with respect to the acquisition of Maxy by, or merger of Maxy into, Lara at an exchange ratio of one Lara share for eight Maxy shares. The exchange ratio represents a premium of 35% to the closing price of Maxy’s shares on September 22, 2009. Lara will issue 4,307,731 common shares and, following completion, Lara will have 23,554,234 common shares outstanding of which 4,307,731 shares or 18.29% will be held by the former shareholders of Maxy. It is intended that Maxy’s President, Andre Gauthier, will join Lara’s Board of Directors and become its President on closing. The transaction has been approved by the Boards of Directors of both companies, but remains subject to approval of Maxy’s shareholders and the TSX Venture Exchange. The costs incurred to date for the acquisition in the amount of \$3,400 have been capitalized as deferred acquisition costs.

In November 2009, Lara signed a definitive Arrangement Agreement with Maxy providing for a Plan of Arrangement with Maxy’s shareholders whereby Lara will acquire all of the outstanding shares of Maxy at an exchange ratio of one Lara share for eight Maxy shares. Maxy has mailed an Information Circular to its shareholders in respect of their approval of the transaction being sought at a special shareholders’ meeting on December 14, 2009.

## 2. BASIS OF PRESENTATION

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

## LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

(Unaudited – Expressed in Canadian Dollars)

September 30, 2009

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

#### Business Combinations and Related Sections

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

### 4. FURNITURE AND EQUIPMENT

	September 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 83,600	\$ 31,316	\$ 52,284
Field equipment	86,670	22,168	64,502
	<u>\$ 170,270</u>	<u>\$ 53,484</u>	<u>\$ 116,786</u>

### 5. LONG-TERM INVESTMENTS

The Company’s long-term investments are comprised of 1,180,872 common shares of Sprott Resource Corp. (SRC”) and 200,000 common shares of CCT Capital Ltd. (“CCT”) as well as 200,000 share purchase warrants of CCT. The share purchase warrants entitled the holder to purchase one common share of CCT at a price of \$0.33 per share until August 10, 2009. 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 Company has classified the investments in common shares of SRC and CCT as available for sale investments. The CCT share purchase warrants are derivative financial instruments and by default must be classified as held for trading investments.

## LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

(Unaudited – Expressed in Canadian Dollars)

September 30, 2009

### 5. LONG-TERM INVESTMENTS (Continued)

During the nine months ended September 30, 2009, the Company recorded an unrealized gain of \$734,174, net of income taxes, on the common shares designated as available for sale which was included in other comprehensive income for the period. The Company recorded a change in fair value of \$8,320 on the CCT share purchase warrants designated as held for trading, which was included in the net loss for the nine months ended September 30, 2009.

	September 30, 2009		
	Cost	Fair Value	Accumulated Unrealized Gain(Loss)
<b>Available for sale investments</b>			
CCT – 200,000 common shares	\$ 21,924	\$ 15,000	\$ (6,924)
SRC – 1,180,872 common shares	4,623,114	4,180,287	(442,827)
	4,645,038	4,195,287	(449,751)
<b>Held for trading investments</b>			
CCT – 200,000 share purchase warrants	11,076	10,084	(992)
	\$ 4,656,114	\$ 4,205,371	\$ (450,743)

### 6. MINERAL PROPERTIES

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

#### Brazil

##### Curionópolis

In September 2009, Lara announced that the Brazilian Department of Mines had granted an exploration license for its 8,569 hectare Curionopolis Property in the Carajas District of northern Brazil. This event triggers Lara's option to acquire a 100% interest in the Curionopolis Property from Redrock Exploration (BVI) Ltd, for US\$630,000 in cash payments and US\$2.7 million in exploration expenditures over a three year period (refer to news release of January 21, 2008 for details). The Company has simultaneously completed an agreement whereby Vertical Mineracao Ltda. ("Vertical"), a special purpose company owned by a group of Brazilian iron producers will acquire the iron ore targets on the Curionopolis Property for cash payments, exploration work commitments and royalties. Under the terms of the agreement, Lara will cede approximately 1,500 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\$3.0 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 Interim Consolidated Financial Statements

(Unaudited – Expressed in Canadian Dollars)

September 30, 2009

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### **6. MINERAL PROPERTIES (continued)**

#### **São Lourenço Tin Mine**

On January 29, 2007, the Company signed a lease with an option to purchase agreement with Mineração Céu Azul Ltda. (which currently leases the mine), Companhia de Mineração São Lourenço Ltda. (titleholder of the mineral rights) and Companhia Industrial Amazonense (owner of preferential purchase rights of tin production). Under the terms of this agreement, the Company was required to make approximately US\$73,500 (US\$48,000 paid) in staged lease payments over three years and make a one-time payment of US\$1 million by January 2010 to exercise its option to acquire the mineral rights. Subsequent to December 31, 2008, the Company agreed to an amendment, whereby it extended its option for an additional two years by making payments of US\$15,000 (paid), US\$30,000 and US\$55,000 in January 2009, January 2010 and January 2011, respectively, and by making a one-time payment of US\$1 million by May 2012. The São Lourenço mine lies within the frontier zone and will thus be subject to certain foreign ownership restrictions at transfer and, accordingly, the Company does not expect to be able to directly own a majority interest in the mine at that time.

#### **Brazil and Colombia**

##### **Strategic Alliance**

In November 2008, the Company signed a definitive agreement (the “Alliance Agreement”) with Sprott to form a strategic alliance (the “Alliance”) to acquire phosphate, potash and other fertilizer feedstock mineral projects. Under the terms of the Alliance Agreement, the initial interest of the Company and Sprott is 50% each in a newly incorporated company, Lara Alliance (BVI) Ltd. (the “Venture”). In the first year, the Company will have a deemed initial contribution of US\$500,000 and Sprott will contribute US\$500,000 cash for their respective 50% interests in the Venture. Sprott may at its election invest a further US\$2,500,000 over the following two-year period to earn up to a 63% interest in the Venture, subject to the Company’s option to contribute funds to maintain a 50% interest in the Venture. As at September 30, 2009 the inception to date phosphate expenditures total \$498,111.

## LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

(Unaudited – Expressed in Canadian Dollars)

September 30, 2009

### 7. EXPLORATION EXPENDITURES

Nine Months Ended September 30, 2009														
	Campos Verdes		Curiopolis		Sao Lourenco		Other		Total Brazil	Peru	Total			
Assays	\$	234	\$	11,267	\$	67,243	\$	15,366	\$	94,110	\$	4,203	\$	98,313
Field costs		297		17,236		41,757		25,778		85,068		676		85,744
Salaries and consultants		5,251		69,441		65,783		96,638		237,113		46,853		283,966
Office and administrative		9,848		37,257		57,530		75,054		179,689		22,436		202,125
Property maintenance costs		32,610		16,812		17,891		21,693		89,006		-		89,006
Telecommunications		1,023		2,755		4,533		5,303		13,614		-		13,614
Travel and related costs		3,122		24,268		14,592		32,649		74,631		2,821		77,452
Trenching		-		-		1,232		-		1,232		-		1,232
		52,385		179,036		270,561		272,481		774,463		76,989		851,452
Recoveries		-		-		-		-		-		-		-
	\$	52,385	\$	179,036	\$	270,561	\$	272,481	\$	774,463	\$	76,989	\$	851,452

  

Nine Months Ended September 30, 2008														
	Campos Verdes		Sao Lourenco		T'Gold		Other		Total Brazil	Peru	Total			
Assays	\$	35,352	\$	20,582	\$	14,995	\$	2,162	\$	73,091	\$	8,540	\$	81,631
Field costs		113,137		62,315		14,513		37,777		227,742		-		227,742
Salaries and consultants		31,471		91,589		42,803		276,622		442,485		41,047		483,532
Office and administrative		19,086		13,340		2,775		214,934		250,135		6,062		256,197
Property maintenance costs		28,503		3,991		39		89,641		122,174		-		122,174
Telecommunications		930		993		755		7,242		9,920		-		9,920
Travel and related costs		1,523		14,686		13,580		58,735		88,524		64		88,588
Trenching		905		10,788		-		10,770		22,463		-		22,463
Vehicle		-		-		-		-		-		405		405
Drilling		71,828		-		-		-		71,828		-		71,828
		302,735		218,284		89,460		697,883		1,308,362		56,118		1,364,480
Recoveries		(248,746)		-		-		-		(248,746)		-		(248,746)
	\$	53,989	\$	218,284	\$	89,460	\$	697,883	\$	1,059,616	\$	56,118	\$	1,115,734

## LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

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

September 30, 2009

### 8. SHARE CAPITAL

#### Issued and outstanding

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

#### Share purchase warrants

In September 2009, 1,597,500 share purchase warrants with an exercise price of \$1.20 expired unexercised.

#### Stock options

The following table summarizes the stock options outstanding and exercisable at September 30, 2009 with a weighted average life of 2.24 years and a weighted average exercise price of \$1.00:

Issue Date	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
January 11, 2006	250,000	\$ 0.51	250,000	January 11, 2011
March 16, 2006	570,000	1.35	570,000	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	90,000	1.22	90,000	October 3, 2012
June 18, 2008	360,000	0.80	360,000	October 16, 2012
October 29, 2008	15,000	0.32	15,000	October 29, 2013
May 21, 2009	75,000	0.40	75,000	May 21, 2014
	1,635,000	\$ 1.00	1,635,000	

During the nine months ended September 30, 2009, 285,000 options expired unexercised.

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

## LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

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

September 30, 2009

### 9. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties. Except mineral property interests, equipment and exploration expenditures, substantially all of the Company's assets and expenditures are located and incurred in Canada. The mineral property interests are located in Brazil and Peru (see Note 6), the furniture and equipment are located in Brazil (see Note 4) and substantially all of the exploration expenditures are incurred in Brazil (see Note 7).

### 10. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2009 the Company paid \$154,490 (2008 - \$Nil) to Seabord Services Corp. ("Seabord"), a management company controlled by a director, for administrative services which include: a chief financial officer, a corporate secretary, accounting staff and office space. At September 30, 2009, Lara had deposits for future services with Seabord amounting to \$10,000. During the nine months ended September 30, 2009, Lara paid \$650 to a company controlled by a director, for geological consulting. These transactions were in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties. All balances due to related parties are included in accounts payable and accrued liabilities.

### 11. FINANCIAL RISK MANAGEMENT

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

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

#### Currency Risk

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

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

	Brazilian Reals
Cash and cash equivalents	191,507
Receivables	53,888
Accounts payable and accrued liabilities	(133,155)
Net exposure	112,240
Canadian dollar equivalent	\$ 67,888

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

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

September 30, 2009

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### **11. FINANCIAL RISK MANAGEMENT (continued)**

Based on the above net exposure as at September 30, 2009 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the Brazilian Real would result in an increase/decrease of approximately \$6,800 in the Company's pre-tax earnings (loss).

#### **Credit Risk**

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

#### **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.

#### **Interest Rate Risk**

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

### **12. CAPITAL RISK MANAGEMENT**

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

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