



LARA EXPLORATION LTD.

(An Exploration Stage Company)

Unaudited Interim Consolidated Financial Statements

Six Months Ended June 30, 2010 and 2009

(Expressed in Canadian Dollars)

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of Lara Exploration Ltd. for the six months ended June 30, 2010 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Balance Sheets

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

	June 30, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 1,065,605	\$ 2,375,295
Receivables	63,443	454,424
Current income tax receivable	244,677	189,838
Prepaid expenses and deposits	111,336	71,232
	1,485,061	3,090,789
Furniture and equipment (Note 3)	137,410	164,512
Long-term investments (Note 4)	4,718,028	4,804,591
Mineral properties (Note 5)	5,093,251	5,142,245
	\$ 11,433,750	\$ 13,202,137
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 618,363	\$ 850,649
Future income tax liability	862,739	873,560
Non-controlling interest	113,186	113,186
	1,594,288	1,837,395
Shareholders' equity		
Share capital (Note 6)	13,260,505	13,260,499
Contributed surplus (Note 6)	7,779,627	7,399,060
Accumulated other comprehensive income	25,215	111,375
Deficit	(11,225,885)	(9,406,192)
	9,839,462	11,364,742
	\$ 11,443,750	\$ 13,202,137

Nature of operations (Note 1)

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.

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Consolidated Statements of Operations and Comprehensive Income

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
EXPLORATION EXPENDITURES (Note 5)	\$ 489,760	\$ 237,800	\$ 920,347	\$ 571,645
GENERAL & ADMINISTRATIVE EXPENSES				
Amortization	2,947	360	7,019	733
Management fees	45,000	24,404	90,000	49,116
Directors fees	10,000	-	10,000	-
Office, rent and administrative services	92,461	68,252	224,846	121,880
Professional fees	36,251	25,502	99,923	37,781
Shareholder information and investor relations	37,494	35,474	70,901	38,239
Stock-based compensation	380,567	42,046	380,567	67,864
Transfer agent and filing fees	16,869	15,485	62,801	24,788
Travel and related costs	43,459	10,919	87,518	19,998
	665,049	222,442	1,033,575	360,399
Loss before other items	(1,154,809)	(460,242)	(1,953,922)	(932,044)
OTHER EXPENSE (INCOME)				
Change in fair value of derivative financial instruments (Note 4)	705	-	(11,907)	(1,764)
Foreign exchange loss	79	7,540	24,699	16,062
Interest income	(854)	3,857	(3,386)	6,657
Other income	(90,545)	3,121	(90,545)	9,452
Loss on sale of equipment	1,425	-	261	-
	89,190	14,158	(80,878)	30,407
Net loss before income taxes	(1,065,619)	(445,724)	(1,873,044)	(901,367)
Current income tax recovery	-	47,367	54,839	78,112
Future income tax recovery (expense)	89	-	(1,488)	-
Net loss for the period	\$ (1,065,530)	\$ (398,357)	\$ (1,819,693)	\$ (823,525)
Other comprehensive income (loss)				
Net loss for the period	\$ (1,065,530)	\$ (398,357)	\$ (1,819,693)	\$ (823,525)
Change in fair value of financial instruments (Note 4)	(893,205)	466,732	(98,470)	334,644
Future income tax recovery (expense)	111,607	(55,491)	12,309	(51,541)
Comprehensive income (loss)	\$ (1,847,128)	\$ 12,884	\$ (1,905,854)	\$ (540,422)
Basic and diluted loss per share	\$ (0.04)	\$ (0.02)	\$ (0.07)	\$ (0.04)
Weighted average number of common shares outstanding	24,905,072	19,246,501	24,905,071	19,246,501

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Consolidated Statements of Deficit and Accumulated Other Comprehensive Income

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

	Three Months ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Deficit, beginning of period	\$ (10,160,355)	\$ (8,254,403)	\$ (9,406,192)	\$(7,829,235)
Net loss for the period	(1,065,530)	(398,357)	(1,819,693)	(823,525)
Deficit, end of period	(11,225,885)	(8,652,760)	(11,225,885)	(8,652,760)
Accumulated other comprehensive income (loss), beginning of period	806,452	(1,242,734)	111,375	(1,114,596)
Change in fair value of financial instruments, net of future income tax	(781,237)	411,241	(86,160)	283,103
Accumulated other comprehensive income (loss), end of period	\$ 25,215	\$ (831,493)	\$ 25,215	\$ (831,493)

See accompanying notes to the consolidated financial statements.

LARA EXPLORATION LTD.

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Consolidated Statements of Cash Flows

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
CASH FLOWS FROM (TO)				
OPERATIONS				
Net loss for the period	\$ (1,065,530)	\$ (383,357)	\$ (1,819,693)	\$ (823,525)
Items not affecting cash:				
Amortization	11,561	6,724	23,725	13,460
Stock-based compensation	380,567	42,046	380,567	67,864
Change in fair value of held for trading				
Investments	705	-	(11,907)	1,764
Loss on sale of equipment	1,425	-	261	-
Future income tax (recovery) expense	(89)	(41,499)	1,488	(78,112)
Changes in non-cash working capital items:				
Receivables	(4,491)	(38,859)	336,142	(14,776)
Prepaid expenses and deposits	(3,191)	(41,499)	(40,104)	(57,404)
Accounts payable and accrued liabilities	(110,236)	20,519	(232,286)	24,309
Current income tax payable	-	-	-	(260,000)
Exploration advances	(83,788)	-	-	-
	(873,067)	(456,793)	(1,361,807)	(1,126,420)
INVESTING				
Recovery of mineral property costs	201,084	-	201,084	-
Mineral property acquisition costs	(121,668)	-	(152,083)	(18,315)
Proceeds on sale of equipment	200	-	4,480	-
Furniture and equipment	(1,364)	-	(1,364)	-
	78,252	-	52,117	(18,315)
Change in cash and cash equivalents	(794,815)	(456,793)	(1,309,690)	(1,144,735)
Cash and cash equivalents, beginning of period	1,860,420	2,740,917	2,375,295	3,428,859
Cash and cash equivalents, end of period	\$ 1,065,605	\$ 2,284,124	\$ 1,065,605	\$ 2,284,124
Supplementary cash flow information				
Interest received	\$ 1,164	\$4,139	\$ 3,680	\$ 4,372
Income taxes paid	-	-	-	260,000

Supplemental disclosure with respect to cash flows (Note 12)

See accompanying notes to the consolidated financial statements.

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Notes to the Consolidated Financial Statements

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

June 30, 2010

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. Through the acquisition of Maxy Gold Corp., in December 2009, the Company also acquired two projects in China. At present, Lara has no revenue generating activities and has working capital of \$866,698. The Company will need additional funding in order to cover its exploration and administrative costs for the next twelve months. Lara has historically financed its operations by the issuance of equity. However, there is no guarantee that this source of capital will be available in the future, or if it is, whether it will be on terms acceptable to the Company. If the Company cannot secure additional financing the going concern basis of presentation may not be appropriate and Lara may have to realize its assets at amounts significantly below their carrying value.

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. BASIS OF PRESENTATION

These unaudited interim 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 complete financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. Operating results for the six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These interim consolidated financial statements follow the same accounting policies as the annual consolidated financial statements of the Company for the year ended December 31, 2010. Certain comparative figures have been reclassified to conform to the current period’s presentation.

Recent Accounting Pronouncements

Business Combinations and Related Sections

CICA Handbook Section 1582, “Business Combinations”, Section 1601 “Consolidations” and Section 1602, “Non-Controlling Interests”, replace Sections 1581, “Business Combinations” and 1600, “Consolidated Financial Statements” respectively and establish a new section for accounting for a non-controlling interest in a subsidiary. 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. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These new sections effectively bring Canadian GAAP into line with IFRS. The Company does not expect to adopt these new CICA Handbook sections prior to January 1, 2011. At that point, the Company will begin reporting its financial results under IFRS and therefore

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June 30, 2010

2. BASIS OF PRESENTATION (Continued)

does not expect that these new Handbook sections will have any impact on the Company's financial statements in the interim period.

3. FURNITURE AND EQUIPMENT

	June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 126,178	\$ 48,542	\$ 77,636
Field equipment	93,948	34,174	59,774
	\$ 220,126	\$ 82,716	\$ 137,410

4. LONG-TERM INVESTMENTS

The Company owns 1,180,872 common shares of Sprott Resource Corp. ("Sprott"), 200,000 shares of CCT Capital Ltd. ("CCT") and 200,000 share purchase warrants of CCT. The CCT share purchase warrants are derivative financial instruments and by default must be classified as held for trading investments. Both the Sprott 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 2.1 years, a risk free interest rate of 1.96%, an expected dividend yield of 0% and a volatility of 125%.

	June 30, 2010		
	Cost	Fair Value	Unrealized Gain (Loss)
Available for sale investments			
CCT – 200,000 common shares	\$ 21,924	\$ 16,000	\$ (5,921)
Sprott – 1,180,872 common shares	4,623,114	4,676,253	53,139
	4,645,038	4,692,253	47,218
Held for trading investments			
CCT – 200,000 share purchase warrants	11,076	25,775	15,404
	\$ 4,656,114	\$ 4,718,028	\$ 61,914

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June 30, 2010

5. MINERAL PROPERTIES

	June 30, 2010	December 31, 2009
Midu – China	\$ 1,000,000	\$ 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	400,339	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
Curionópolis – Brazil	121,669	-
Minas Dixon – Peru	1	1
Balance	\$ 5,093,251	\$ 5,142,245

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

Brazil

Canabrava VMS Project

The Canabrava VMS Project comprises 19 exploration licenses covering a total of 28,048 hectares in Goiás and Tocantins states, registered by the Company between 2006 and 2008. In May 2008, the Company signed a letter of intent with Votorantim Metais Zinco S.A. (Votorantim Metais”) whereby Votorantim Metais may earn up to a 75% interest in the Company’s Canabrava VMS Project by funding further exploration and development work on the project. Votorantim Metais can earn an initial 55% interest in the project by funding \$2.5 million of exploration expenditures over a three-year period. It may then elect to increase its interest to 70% by delivering a feasibility study within a further two years. Subject to agreement by the Company and a decision to construct a mine at Canabrava, Votorantim Metais may raise its interest to 75% by funding the Company’s equity cost of the mine development, on terms substantially the same as those of the debt financing. Votorantim Metais has also contributed 17 mineral rights to the joint venture, such that the total holdings are now 52,414 hectares.

Curionópolis

Lara has an option to acquire a 100% interest in the Curionópolis Property from Redrock for US\$630,000 in cash payments 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 and an employee of the Company. The Company has simultaneously completed an agreement whereby Vertical Mineração Ltda. (“Vertical”), a special

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June 30, 2010

5. MINERAL PROPERTIES (Continued)

purpose company owned by a group of Brazilian iron producers will acquire the iron ore targets on the Curionópolis Property for cash payments, exploration work commitments and royalties. Under the terms of that 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.

São Lourenço Tin Mine

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). 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 (paid), US\$30,000 (paid) 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.

Peru

Lara Prospect

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. During the quarter ended March 31, 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.

Brazil and Colombia

Phosphate and Potash Properties

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.

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

June 30, 2010

5. EXPLORATION EXPENDITURES

Exploration expenditures incurred during the six months ended June 30, 2010 were as follows:

	Campos Verdes	Araguaia	Goias Gold	Carajas	General Gold	Other	Total Brazil	Peru	Colombia	Total
Salaries and consultants	\$ 861	\$ 914	\$ 55,796	\$ 17,654	\$ 56,513	\$ 3,394	\$ 135,132	\$ 313,954	\$ 17,342	\$ 466,428
Office and administrative	976	1,038	61,303	18,802	64,112	3,788	150,019	72,198	9,219	231,436
Field costs	36	62	61,190	14,696	3,051	8,121	87,156	-	1,584	88,740
Travel and related costs	336	1,755	20,321	7,135	3,204	367	33,118	12,893	5,016	51,027
Assays	76	82	7,758	3,575	4,900	298	16,689	-	-	16,689
Property maintenance costs	1,590	527	2,055	236	136,879	-	141,287	-	-	141,287
Telecommunications	227	-	2,454	408	37	-	3,126	5,402	-	8,528
Trenching	-	-	-	-	-	-	-	-	-	-
	4,102	4,378	210,877	62,506	268,696	15,968	566,527	404,447	33,161	1,004,135
Recoveries	-	-	-	-	-	-	-	(83,788)	-	(83,788)
	\$ 4,102	\$ 4,378	\$ 210,877	\$ 62,506	\$ 268,696	\$ 15,968	\$ 566,527	\$ 320,659	\$ 33,161	\$ 920,347

Exploration expenditures incurred during the six months ended June 30, 2009 were as follows:

	Campos Verdes	Curionoplis	Sao Lourenco	T'Gold	Other	Total Brazil	Peru	Colombia	Total
Salaries and consultants	\$ 5,251	\$ 46,734	\$ 59,443	\$ -	\$ 49,040	\$ 160,468	\$ 26,738	\$ -	\$ 187,206
Office and administrative	9,848	23,164	49,892	-	35,749	118,653	8,442	-	127,095
Field costs	297	10,749	27,812	-	11,369	50,227	676	-	50,903
Travel and related costs	3,122	16,933	14,167	-	11,158	45,380	-	-	45,380
Assays	234	11,267	67,243	-	633	79,377	4,203	-	83,580
Property maintenance costs	32,610	11,239	17,891	-	7,477	69,217	-	-	69,217
Telecommunications	1,023	1,456	3,870	-	1,008	7,357	-	-	7,357
Vehicle	-	-	-	-	-	-	-	-	-
Trenching	-	-	907	-	-	907	-	-	907
	52,385	121,542	241,225	-	116,434	531,586	40,059	-	571,645
Recoveries	-	-	-	-	-	-	-	-	-
	\$ 52,385	\$ 121,542	\$ 241,225	\$ -	\$ 116,434	\$ 531,586	\$ 40,059	\$ -	\$ 571,645

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6. 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		Amount		Contributed Surplus
Balance, December 31, 2009	24,905,067	\$	13,260,499	\$	7,399,060
Issued for Maxy acquisition	5		6		-
Stock-based compensation	-		-		380,567
Balance, June 30, 2010	24,905,072	\$	13,260,505	\$	7,779,627

During the six months ended June 30, 2010 Lara issued an additional 5 shares to Maxy shareholders with respect to the acquisition of Maxy Gold Corp. which occurred on December 21, 2009.

Stock options

The changes in outstanding stock options are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2009	1,766,250	\$ 1.23
Granted	920,000	0.67
Forfeited	(206,875)	2.66
Balance, June 30, 2010	2,479,375	\$ 0.91

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June 30, 2010

7. SHARE CAPITAL (Continued)

The following table summarizes the stock options outstanding and exercisable at June 30, 2010, with a weighted average life of 2.73 years:

Grant Date	Number Outstanding	Exercise Price	Number Exercisable	Expiry Date
January 11, 2006	250,000	\$ 0.51	250,000	January 11, 2011
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	350,000	\$ 0.80	350,000	June 18, 2013
October 29, 2008	15,000	\$ 0.32	15,000	October 29, 2013
May 21, 2009	57,500	\$ 0.40	57,500	May 21, 2014
February 21, 2008	36,875	\$ 3.20	36,875	February 21, 2013
May 27, 2010	900,000	\$ 0.67	900,000	May 27, 2015
	2,479,375	\$ 0.91	2,479,375	

Stock-based compensation and contributed surplus

On May 27, 2010 the Company granted 920,000 stock options to certain directors, officers, employees and consultants which were fully vested on the grant date. The fair value of these options has been measured using a Black-Scholes option pricing model. The following assumptions were used for the valuation of these stock options: a risk-free interest rate of 2.44%, and expected dividend yield of 0%, a stock price volatility of 74% and an expected option life of five years. Based on these assumptions, the Company recorded stock-based compensation of \$380,567 with the offsetting amount credited to contributed surplus.

8. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2010 the Company paid \$99,600 (2009 - \$107,990) to Seabord Services Corp. ("Seabord"), a management company controlled by a director, for administrative services which include: a chief financial officer, a corporate secretary, accounting staff and office space. At June 30, 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 June 30, 2010 the Company had a balance owing to Inca Pacific Resources Inc. of \$6,171 (2009 - \$Nil). 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. As at June 30, 2010, Lara had an account receivable with Reservoir Capital Corp. ("Reservoir") in the amount of \$12,420 (2009 - \$Nil). Reservoir is related to Lara by having two directors in common.

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June 30, 2010

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, Peru, China and Colombia (see Note 5), the equipment is located in Brazil and Peru where substantially all of the exploration expenditures are incurred (see Note 6).

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

At June 30, 2010 Lara's cash and cash equivalents consisted of \$1,036,855 in cash (December 31, 2009 - \$2,346,545) and \$28,750 in term deposits (December 31, 2009 - \$28,750).

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has classified its financial assets as follows:

Financial assets	June 30, 2010		
	Loans and receivables	Held-for-trading	Available-for-sale
Cash and cash equivalents	\$ -	\$ 1,065,605	\$ -
Receivable	63,443	-	-
Investments	-	25,775	4,692,253
	\$ 63,433	\$ 1,091,380	\$ 4,692,253

The carrying value of its financial assets approximates their fair value as at March 31, 2010 due to their short term maturity.

The Company classifies its only financial liability, accounts payable and accrued liabilities as other financial liabilities. The total other liabilities outstanding at June 30, 2010 was \$618,363 (December 31, 2009 - \$850,649). The carrying value of its financial liabilities approximates their fair value as at June 30, 2010 due to their short term maturity.

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments	\$ 4,692,253	\$ 25,775	\$ -	\$ 4,718,028

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

June 30, 2010

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company's risk exposure and the impact on the Company's financial instrument 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 June 30, 2010, the Company had cash and cash equivalents balance of \$1,065,605 to settle current liabilities of \$618,363. 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 Peru and Colombia, and a portion of the Company's expenses are incurred in Brazilian Reals. A significant change in the currency 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 June 30, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Brazilian Reals.

	<u>Brazilian Reals</u>
Cash and cash equivalents	\$ 255,549
Receivables	54,570
Accounts payable and accrued liabilities	(130,338)
Net exposure	179,781
<hr/>	
Canadian dollar equivalent	\$ (104,835)

Based on the above net exposure as at June 30, 2010, 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 \$10,500 (2009 - \$15,300) in the Company's pre-tax earnings (loss).

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

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

June 30, 2010

11. 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. At March 31, 2010 a 10% change in the market price of Lara's available for sale investments would increase or decrease other comprehensive income by \$558,510 on a before tax basis.

Commodity Price Risk

Lara is exposed to commodity price risk. Declines in the market price 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 exploration and administration activities.

12. CAPITAL RISK MANAGEMENT

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

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