



**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

**CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended December 31, 2017 and 2016**  
**(Expressed in Canadian dollars)**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Lara Exploration Ltd.

We have audited the accompanying consolidated financial statements of Lara Exploration Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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 consolidated 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 consolidated 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Lara Exploration Ltd. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Lara Exploration Ltd.'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

April 16, 2018

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 3)	\$ 1,532,332	\$ 3,103,765
Short-term investments (Note 3)	551,616	-
Receivables (Note 4)	16,529	68,512
Prepays and deposit (Note 5)	50,062	87,059
<b>Total current assets</b>	<b>2,150,539</b>	<b>3,259,336</b>
<b>Non-current assets</b>		
Restricted cash equivalents (Note 6)	57,500	46,000
Equipment (Note 7)	61,821	14,804
Exploration and evaluation assets (Note 8)	185,013	163,526
Investment in associated companies and joint ventures (Note 10)	306,735	371,704
Long-term investments (Note 11)	1,681,384	551,492
<b>Total non-current assets</b>	<b>2,292,453</b>	<b>1,147,526</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,442,992</b>	<b>\$ 4,406,862</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 14)	\$ 98,844	\$ 110,990
Advances from joint venture partners (Note 9)	-	102,572
<b>TOTAL LIABILITIES</b>	<b>98,844</b>	<b>213,562</b>
<b>EQUITY</b>		
Share capital (Note 12)	24,283,887	24,226,886
Commitment to issue shares	-	44,558
Share-based payments reserve	9,054,746	8,349,246
Accumulated other comprehensive income (Note 11)	695,506	85,055
Deficit	(29,689,991)	(28,512,445)
<b>TOTAL EQUITY</b>	<b>4,344,148</b>	<b>4,193,300</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 4,442,992</b>	<b>\$ 4,406,862</b>

Nature of operations and ability to continue as a going concern (Note 1)

Events after the reporting date (Note 19)

These consolidated financial statements were authorized for issuance by the Board of Directors on April 16, 2018.

**Approved on behalf of the Board of Directors**"Miles Thompson" , Director"Christopher Jones" , Director

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

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Year ended December 31,	
	2017	2016
<b>EXPLORATION EXPENDITURES</b> (Note 9)	\$ 1,050,188	\$ 846,778
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Depreciation (Note 7)	692	697
Management and directors' fees (Note 14)	120,000	120,000
Office, rent and administrative services	349,974	344,015
Professional fees	78,601	73,419
Shareholder communication and investor relations	91,678	85,830
Share-based payments (Notes 12 and 14)	717,943	127,403
Transfer agent and regulatory fees	58,417	56,222
Travel and related costs	18,563	5,777
Total general and administrative expenses	1,435,868	813,363
	(2,486,056)	(1,660,141)
Change in fair value of derivative financial instruments (Note 11)	517,242	-
Equity loss on investment in associated companies and joint ventures (Note 10)	(165,387)	(93,152)
Foreign exchange loss	(82,400)	(58,964)
Gain on sale of exploration and evaluation asset (Note 9)	-	408,840
Gain on sale of subsidiaries (Note 8)	1,033,047	-
Interest income	18,618	15,148
Option revenue received (Note 9)	-	780,630
Other income	200	4,699
Write-off of exploration and evaluation assets (Note 8)	(12,810)	(35,401)
	1,308,510	1,021,800
<b>Net loss for the year</b>	\$ (1,177,546)	\$ (638,341)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Change in fair value of AFS investments	\$ 610,451	\$ (52,226)
<b>Comprehensive loss for the year</b>	\$ (567,095)	\$ (690,567)
<b>Loss per common share</b>		
Basic and diluted loss per common share	\$ (0.03)	\$ (0.02)
Weighted average number of common shares outstanding (basic and diluted)	34,238,909	32,397,127

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

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	<u>Year ended December 31,</u>	
	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (1,177,546)	\$ (638,341)
<b>Items not affecting cash:</b>		
Depreciation	692	697
Depreciation included in exploration expenditures	8,866	8,025
Equity loss on investment in associated companies and joint ventures	165,387	93,152
Change in fair value of derivative financial instruments	(517,242)	-
Gain on sale of exploration and evaluation asset	-	(408,840)
Gain on sale of subsidiaries	(1,033,047)	-
Cost recoveries received as shares	-	(2,193)
Other income	(200)	-
Write-off of exploration and evaluation assets	12,810	35,401
Share-based payments	717,943	127,403
Unrealized foreign exchange loss	52,041	-
<b>Changes in non-cash working capital items:</b>		
Receivables	7,010	(61,888)
Prepays and deposits	36,997	(39,699)
Accounts payable and accrued liabilities	13,212	(169,064)
Advances from joint venture partners	(33,086)	102,572
	(1,746,163)	(952,775)
<b>INVESTING ACTIVITIES</b>		
Acquisition of exploration and evaluation assets	(34,297)	(126,302)
Cash received for exploration and evaluation assets	-	112,611
Investment in associated companies and joint ventures	(100,418)	(56,805)
Investment in restricted cash	(11,500)	-
Purchase of equipment	(58,518)	(343)
Net proceeds from sale of subsidiaries	983,120	-
Short-term investments	(551,616)	-
	226,771	(70,839)
<b>FINANCING ACTIVITIES</b>		
Cash received pursuant to unit offering	-	3,000,000
Share issuance costs	-	(63,347)
Exercise of options	-	173,000
	-	3,109,653
Effect of exchange rate changes on cash and cash equivalents	(52,041)	-
<b>Change in cash and cash equivalents</b>	<b>(1,571,433)</b>	<b>2,086,039</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>3,103,765</b>	<b>1,017,726</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,532,332</b>	<b>\$ 3,103,765</b>

Supplemental disclosure with respect to cash flows (Note 15)

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

**LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Number of shares	Share capital	Commitment to issue shares	Share-based payments reserve	Accumulated other comprehensive income (loss)	Deficit	Total
<b>Balance as at December 31, 2016</b>	34,212,607	\$ 24,226,886	\$ 44,558	\$ 8,349,246	\$ 85,055	\$ (28,512,445)	\$ 4,193,300
Share-based payments	-	-	12,443	705,500	-	-	717,943
Bonus shares issued	75,001	57,001	(57,001)	-	-	-	-
Change in fair value of AFS investments	-	-	-	-	610,451	-	610,451
Net loss for the year	-	-	-	-	-	(1,177,546)	(1,177,546)
<b>Balance as at December 31, 2017</b>	34,287,608	\$ 24,283,887	\$ -	\$ 9,054,746	\$ 695,506	\$ (29,689,991)	\$ 4,344,148
<b>Balance as at December 31, 2015</b>	31,286,357	\$ 20,980,656 173,00	\$ 63,533	\$ 8,339,445	\$ 137,281	\$ (27,874,104)	\$ 1,646,811
Exercise of stock options	445,000	0	-	-	-	-	173,000
Reclassification of share-based payment reserve on exercise of options	-	79,577	-	(79,577)	-	-	-
Share-based payments	-	-	38,025	89,378	-	-	127,403
Unit offering completed	2,400,000	3,000,000	-	-	-	-	3,000,000
Shares issuance costs	6,250	(63,347)	-	-	-	-	(63,347)
Bonus shares issued	75,000	57,000	(57,000)	-	-	-	-
Change in fair value of AFS investments	-	-	-	-	(52,226)	-	(52,226)
Net loss for the year	-	-	-	-	-	(638,341)	(638,341)
<b>Balance as at December 31, 2016</b>	34,212,607	\$ 24,226,886	\$ 44,558	\$ 8,349,246	\$ 85,055	\$ (28,512,445)	\$ 4,193,300

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

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

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### **1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN**

Lara Exploration Ltd. (the “Company” or “Lara”) was incorporated under the British Columbia Business Corporations Act on March 31, 2003. The Company’s principal business activities are the acquisition, exploration and development of mineral properties in South America, currently with exploration and evaluation properties in Brazil, Peru, Colombia and Chile. These consolidated financial statements of the Company as at and for the years ended December 31, 2017 and 2016 are comprised of the Company and its subsidiaries. The Company’s common shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol of “LRA”. The Company’s head office is located at 501 – 543 Granville Street, Vancouver, British Columbia, Canada V6C 1X8.

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether they contain reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain the necessary financing to complete their exploration and development, confirmation of the Company’s interest in the underlying claims and leases, ability to obtain the necessary permits to mine them and future profitable production or proceeds from the disposition of these assets.

These consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from the carrying values shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. The Company’s continuing operations and the ability of the Company to meet mineral property and other commitments are dependent upon the ability of the Company to continue to raise additional equity or debt financing and to seek joint venture partners. At the date of these consolidated financial statements, the Company has not identified a known body of commercial grade mineral on any of its properties. At December 31, 2017, the Company has not achieved profitable operations and has accumulated losses since inception. Management believes that it may have to raise additional working capital to fund operations for the next twelve months. Therefore, there is a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

#### **Basis of Presentation**

These annual consolidated financial statements have been prepared on a historical cost basis, except for long-term investments which are classified as either available-for-sale (“AFS”) or fair value through profit or loss (“FVTPL”) which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of the policies and reported amounts of assets, liabilities, revenue and expenses. Actual



## LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

results may differ from these estimates. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

#### Basis of Consolidation

These consolidated financial statements comprise the accounts of the Company, and its subsidiaries, after the elimination of all material intercompany balances and transactions.

#### Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. The Company's principal operating subsidiaries and associated companies are as follows:

Name	Principal Activity	Place of incorporation	Ownership %
Maxy Gold Corp.	Exploration company	British Columbia	100%
Maxy Gold Peru S.A.C.	Exploration company	Peru	100%
Lara Peru S.A.C.	Exploration company	Peru	100%
Lara do Brasil Mineracao Ltda.	Exploration company	Brazil	100%
Andean Coal (BVI) Ltd. *	Holding company	British Virgin Islands	50%
Kiwanda Alliance (BVI) Inc. *	Holding company	British Virgin Islands	50%
Kiwanda Chile SA *	Exploration company	Chile	50%
Minas Dixon S.A. *	Exploration company	Peru	45%

\* These entities are jointly controlled, referred to as joint ventures and accounted for using the equity method of accounting (Note 10).

During the year ended December 31, 2016, Lara Alianca Mineracao Ltda., Curionopolis Mineracao Ltda., Copper Alliance Mineracao Ltda. and Enigma Mineracao Ltda. were all amalgamated into Pan Brazilian Mineracao Ltda., which was renamed as Lara do Brasil Mineracao Ltda.

#### Business Combinations

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

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

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

#### **Foreign Currencies**

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

#### **Financial Instruments**

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

All financial assets are initially recorded at fair value and designated upon inception into one of the following three categories: held-to-maturity, AFS, FVTPL and loans and receivables.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost. The Company's cash and cash equivalents, short-term investments restricted cash and accounts receivables are classified as loans and receivables.

Financial assets classified as AFS are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for losses in value that are considered other than temporary. The Company's long-term investments in equities are classified as AFS and long-term investments in options are classified as FVTPL.

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

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss ("FVTPL") or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. The Company's accounts payable and accrued liabilities and advances from joint venture partners are classified as other financial liabilities. The Company does not currently have any FVTPL financial liabilities.

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

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

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

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

- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS investments, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

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

Cash and cash equivalents in the consolidated statements of financial position is comprised of cash at banks and on hand, broker balances, and short-term deposits with an original maturity of three months or less or are readily convertible into a known amount of cash.

#### **Equipment**

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write-off the cost of equipment, less their estimated residual value, using the straight-line method at various rates ranging from 10% to 33 1/3% per annum. An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statements of loss and comprehensive loss.

#### **Exploration and Evaluation Assets and Expenditures**

Acquisition costs for exploration and evaluation assets, 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 recorded in the consolidated statements of loss and comprehensive loss as incurred.

After an exploration and evaluation asset is determined by management to be commercially viable and technically feasible, exploration and evaluation expenditures on the property will first be assessed for impairment before being capitalized.

## **LARA EXPLORATION LTD.**

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

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

Option payments to acquire an exploration and evaluation asset made at the sole discretion of the Company under an option agreement, are 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 profit or loss. Option payments are at the discretion of the optionee and, accordingly, are accounted for when receipt is reasonably assured.

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

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

#### **Investments in Joint Arrangements**

The Company accounts for its investment in a joint venture using the equity method and accounts for investments in joint operations by recognizing the Company's direct rights to assets, obligations for liabilities, revenues and expenses. Under the equity method, the interest in the joint venture is carried on the consolidated statement of financial position at cost plus changes in the Company's share of its net assets, less distributions received and less any impairment in the value of individual investments.

#### **Equity Investment**

The Company accounts for its long-term investments in affiliated companies over which it has significant influence and investments in joint ventures using the equity method of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received.

The Company assesses its equity investments for impairment if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events has an impact on the estimated future cash flow of the investment that can be reliably estimated. Objective evidence of impairment of equity investments includes:

- significant financial difficulty of the associated companies;
- becoming probable that the associated companies will enter bankruptcy or other financial reorganization; or,
- national or local economic conditions that correlate with defaults of the associated companies.

## **LARA EXPLORATION LTD.**

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

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

#### **Impairment**

At each reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell ("FVLCS") and value in use ("VIU"). FVLCS is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is established to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

For the purposes of impairment testing, mineral properties are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **Valuation of Equity Units Issued in Private Placements**

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the day prior to the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as other reserve.

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

The stock option plan (Note 12) allows Company employees and consultants to acquire shares of the Company. Share-based payments to employees are measured at the fair value of the instruments issued and are amortized over the vesting period. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest.

## **LARA EXPLORATION LTD.**

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

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

The offset to the recorded cost is to share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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

The Company's bonus share plan allows it to grant bonus shares as long-term incentive compensation. Bonus shares granted entitle the holder to receive common shares of the Company at the completion date of the vesting period. Share-based payment expense is recognized over the vesting period based on the quoted market value of the common shares on the grant date.

#### **Income Taxes**

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

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

The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

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

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

#### **Restoration, Rehabilitation and Environmental Obligations**

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

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

#### **Earnings (Loss) per Share**

Basic earnings (loss) per share ("EPS") is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by adjusting the loss attributable to equity shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive instruments. The calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. In years where a loss is reported, diluted loss per share is the same as basic loss per share because the effects of potentially dilutive common shares would be anti-dilutive.

#### **Segment Reporting**

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

#### **Significant Accounting Judgments and Estimates**

The preparation of consolidated financial statements in conformance with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### *Critical Accounting Estimates*

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and include, but are not limited to, the following:

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

#### Estimated useful lives of equipment

The estimated useful lives of equipment, which is included in the consolidated statements of financial position, will impact the amount and timing of the related depreciation included in profit or loss.

#### Share-based payments (stock options) and FVTPL investments

The fair value of stock options issued and FVTPL investments are subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

#### Recovery of deferred tax assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

#### *Critical Accounting Judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

#### Functional currency

The Company applied judgment in determining its functional currency and the functional currency of its subsidiaries. The functional currency was determined based on the currency in which funds are sourced and the degree of dependence on the Company for financial support.

#### Equity investments

The Company has a minority position on the Board of Minas Dixon S.A. ("Minas") and has a joint control position on the Boards of Andean Coal (BVI) Ltd. ("Andean Coal") and Kiwanda Alliance (BVI) Ltd. ("Kiwanda BVI") and has joint control on operational decisions. The Company has determined that it has significant influence in its associated company and has joint control over its joint arrangements and therefore equity accounting is appropriate. The Company's judgment is that it has significant influence, but not control over its equity investments.

#### Exploration and evaluation assets

Management is required to make judgments on the status of each mineral property and the future plans with respect to finding commercial resources. The nature of exploration and evaluation activity is such that only a few projects are ultimately successful and some assets are likely to become impaired in future periods.



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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Accounting Pronouncement Not Yet Effective

The IASB is replacing IAS 39 Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments. IFRS 9 is effective for periods beginning on or after January 1, 2018.

IFRS 16 Leases was issued in January 2016 and is effective for periods beginning on or after January 1, 2019. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Company expects that these new IFRS standards will have an insignificant effect on its consolidated financial statements.

### 3. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of cash on hand and short-term deposits earning interest at both fixed and floating rates based on daily bank deposit rates:

	December 31, 2017	December 31, 2016
Cash	\$ 259,102	\$ 1,095,850
Short-term deposits	1,273,230	2,007,915
Cash and cash equivalents	\$ 1,532,332	\$ 3,103,765

The Company's short-term deposits are invested in US dollar guaranteed investment certificates ("GICs") at a rate of 0.9% per annum (US\$810,000 plus interest) and a GIC of \$256,631, including interest at a rate of 1.55% per annum.

The Company also has a short-term investment in a GIC of \$551,616 including interest at a rate of 1.85% per annum which matures on May 2, 2018.

### 4. RECEIVABLES

The Company's receivables generally arise from goods and services tax ("GST") receivable from government taxation authorities, and recovery of exploration expenditures from joint venture partners.

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 11,264	\$ 62,022
GST receivable	5,265	6,490
Receivables	\$ 16,529	\$ 68,512

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**5. PREPAIDS AND DEPOSIT**

The Company's prepaids include the unamortized portion of insurance policies, expense advances to consultants and costs incurred to apply for mineral claims. The deposit is with Seaboard Services Corp., a company which provides management services.

	December 31, 2017	December 31, 2016
Prepaid expenses and expenses advances	\$ 40,062	\$ 77,059
Deposit	10,000	10,000
<b>Prepaids and deposit</b>	<b>\$ 50,062</b>	<b>\$ 87,059</b>

**6. RESTRICTED CASH EQUIVALENTS**

At December 31, 2017, the Company classified \$57,500 (December 31, 2016 - \$46,000) as restricted cash equivalents. This amount is held as collateral for the Company's corporate credit cards.

**7. EQUIPMENT**

	Vehicles	Field equipment	Office equipment	Computer equipment	Total
<b>Costs</b>					
December 31, 2015	\$ -	\$ 3,015	\$ 92,427	\$ 41,625	\$ 137,067
Additions	-	-	-	343	343
Disposals	-	-	-	-	-
December 31, 2016	-	3,015	92,427	41,968	137,410
Additions	58,518	-	-	-	58,518
Disposals	-	(3,015)	-	-	(3,015)
December 31, 2017	58,518	-	92,427	41,968	192,913
<b>Accumulated depreciation</b>					
December 31, 2015	-	620	77,312	35,952	113,884
Additions	-	301	3,403	5,018	8,722
Disposals	-	-	-	-	-
December 31, 2016	-	921	80,715	40,970	122,606
Additions	5,863	151	3,014	530	9,588
Disposals	-	(1,072)	-	-	(1,072)
December 31, 2017	\$ 5,863	-	83,729	\$ 41,500	131,092
<b>Net book value</b>					
December 31, 2016	\$ -	\$ 2,094	\$ 11,712	\$ 998	\$ 14,804
December 31, 2017	\$ 52,655	\$ -	\$ 8,698	\$ 468	\$ 61,821

Of the \$9,558 (2016 -\$8,722) of depreciation expense recognized during the year ended December 31, 2017, \$8,866 (2016 - \$8,025) was included as exploration expenditures and \$692 (2016 - \$697) was recorded as depreciation on the statements of loss and comprehensive loss. In the year ended December 31, 2017, Lara sold two subsidiaries related to the Curionopolis Copper-Gold Project. As a result, field equipment with a net book value of \$1,943 was removed from equipment.

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**8. EXPLORATION AND EVALUATION ASSETS**

	December 31, 2016		Acquisitions	Impairments	December 31, 2017	
<b>Brazil</b>						
Planalto Copper	\$	55,449	\$ -	\$ -	\$	55,449
Azul Tin		21,638	-	-		21,638
Serrita		12,810	-	(12,810)		-
Damolândia		19,358	-	-		19,358
<b>Peru</b>						
Antamaray		24,286	3,225	-		27,511
Puituco		10,447	30,524	-		40,971
Buenos Aires		19,538	548	-		20,086
Total	\$	163,526	\$ 34,297	\$ (12,810)	\$	185,013

	December 31, 2015		Acquisitions	Impairments	Recoveries of capital costs	December 31, 2016	
<b>Brazil</b>							
Planalto Copper	\$	25,777	\$ 29,672	\$ -	\$ -	\$	55,449
Azul Tin		11,447	10,191	-	-		21,638
Serrita		-	12,810	-	-		12,810
Damolândia		-	19,358	-	-		19,358
<b>Peru</b>							
Corina		112,611	-	-	(112,611)		-
Antamaray		-	24,286	-	-		24,286
Puituco		-	10,447	-	-		10,447
Buenos Aires		-	19,538	-	-		19,538
<b>Paraguay</b>							
Sarambi		35,401	-	(35,401)	-		-
Total	\$	185,236	\$ 126,302	\$ (35,401)	\$ (112,611)	\$	163,526

**Brazil****Curionópolis Copper-Gold Project**

In October 2013 the Company signed an option agreement with Tessarema Resources Inc. ("Tessarema") whereby Tessarema can earn a 100% interest in the Curionópolis Copper Project. Tessarema can complete its acquisition of 100% of the project by making a final payment of US\$750,000 to Lara, and placing the project into commercial production at a minimum rate of 500 tonnes per day, thereafter paying a 2% net smelter return ("NSR") royalty to Lara. Tessarema was not able to reach commercial production on the property in 2017 by the contractual deadline. Subsequent to that deadline Lara and Tessarema agreed to revise the terms of the agreement. In June 2017, Lara completed the sale of the Curionópolis Copper Project to Tessarema and received \$983,250 (US\$750,000), a 5% carried interest in the project company, Mineracao Maravaia Ltda., and

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### 8. EXPLORATION AND EVALUATION ASSETS (continued)

a 2% NSR royalty on the Maravaia project and the other mineral rights covered by the original Curionopolis Option Agreement with Tessarema. If the Maravaia Mine does not reach commercial production by November 26, 2018, Tessarema must make an additional US\$1,000,000 payment to Lara. Tessarema completed the acquisition of the project by acquiring two subsidiaries from Lara, Carajas (BVI) Ltd. and Maravaia Mineracao Ltda. The Company recorded a gain on sale as follows:

Assets and Liabilities Held by Former Subsidiaries	Amount
Cash	\$ 130
Receivables	42,974
Equipment	1,943
Accounts payable and accrued liabilities	(25,358)
Advances from JV partners	(69,486)
Net liability held by former subsidiaries	49,797
Gross proceeds on sale of subsidiaries	983,250
Gain on sale of subsidiaries	\$ 1,033,047

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

Work on the project is currently suspended, pending the renewal of the exploration license by the Brazilian Department of Mines (“DNPM”). The DNPM has delayed analysis of the renewal, as Vale S.A. (“Vale”) has claimed to have a license dating back to 1986 that is still valid. Codelco do Brasil Mineracao Ltda. has filed a lawsuit with the Federal Courts in Brasilia, against both the DNPM and Vale to nullify Vale’s old license and safeguard its rights under the Liberdade exploration license.

#### ***Planalto Copper Project***

In February 2013 (amended in June 2016), the Company entered into an option agreement to acquire a 100% interest in the Planalto Copper Project by paying US\$500,000 (US\$50,000 paid to date) in cash and a 2% NSR royalty. Lara has the right to acquire 50% of the NSR for US\$2,000,000. The original Planalto mineral licenses were cancelled by the DNPM based on perceived deficiencies in the application paperwork. These deficiencies have been rectified and the licenses were reissued to Lara in June 2016. During the year ended December 31, 2016, the Company made an option payment of \$29,672 (US\$25,000) which was capitalized to exploration and evaluation assets. Lara signed a memorandum of understanding to option the Planalto Copper Project to Avanco Resources Ltd. (“Avanco”) subject to due diligence whereby Avanco could earn up to a 75% interest in the project. Avanco completed electromagnetic surveys over two of the soil geochemical anomalies on the property and elected not to proceed with its option.

#### ***Serrita Gold Project***

The Company completed further mapping and sampling work on this property and decided to terminate its option agreement. As a result, the Company wrote off \$12,810 of exploration and evaluation costs in the year ended December 31, 2017.

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### **8. EXPLORATION AND EVALUATION ASSETS (continued)**

#### ***Azul Tin Project***

In October 2015, the Company entered into an option agreement with Best Metais e Soldas S.A. (“Best”) to acquire the Azul Tin Project, located in Tocantins State, central Brazil. The Company paid US\$7,500 on signing the agreement and a second payment of US\$7,500 was made in January 2016. In order to complete the acquisition, Lara must make the following payments to Best: US\$40,000 by December 31, 2016; US\$200,000 by December 31, 2017 and US\$500,000 by December 31, 2018. Lara did not make the US\$40,000 payment due on December 31, 2016, and is in the process of renegotiating the payment terms of the option agreement. In April 2017, Best agreed to extend the option in exchange for a single payment of US\$700,000 due by December 31, 2018. Best is entitled to a 2% royalty on the value of ore produced. Lara can purchase the royalty from Best for a one-time payment of US\$3,000,000.

#### ***Damolândia Nickel Project***

In February 2016, the Company entered into an agreement with BCV Consultoria e Projetos Ltda. (“BCV”), to acquire the Damolândia Nickel Project in central Brazil. Lara has agreed to make staged cash payments totalling US\$580,000. BCV will also be entitled to a 1% NSR royalty on any production from the project, but Lara retains the right to purchase this royalty for a cash payment of US\$2,000,000. During the year ended December 31, 2016, the Company made its first option payment in the amount of \$19,358 (US\$15,000) which was capitalized to exploration and evaluation assets. On January 23, 2018 the agreement was amended and Lara now has until February 16, 2020 to make the first of three US\$50,000 payments. Originally that payment was due in 2019. The other terms of the agreement remain as before the amendment.

#### **Peru**

#### ***Picha Copper Project***

During the year ended December 31, 2015, the Company signed a Letter of Intent (“LOI”) granting the Kiwanda Group a six-month exclusive option to acquire the Picha Copper Project in exchange for assuming mineral rights and community obligations that fell due during 2015. In the event that Kiwanda elects to complete its option, the Project will be transferred to a new company controlled by Kiwanda, which will grant Lara an NSR royalty of 2% on any precious metals and 1% on any base metals or other minerals produced from the Project. Kiwanda will also pay or transfer to Lara 30% of the proceeds upon a sale or transfer of the Project to a third-party.

In May 2016, Lara granted a six-month extension to allow Kiwanda to enter into a letter of intent (“LOI -2”) with Carajas Copper Company Limited (“Carajas”). Under the terms of LOI-2, Carajas had a six-week exclusive option to purchase the Picha Project by committing to pay Australian (“A\$”) \$60,000 within 30 days of signing. During the exclusivity period, the parties agreed to negotiate, in good faith, a definitive agreement, whereby Kiwanda transferred the ownership of Kiwanda Peru SAC and the Picha Project to Carajas, for a consideration of A\$400,000, paid by way of issuance of new ordinary shares of Carajas priced at A\$0.003 per share. Each share included an option exercisable at A\$0.004 per share for a period of 2 years. Lara will remain entitled to an NSR royalty on future production of 2% for precious metals and 1% for base metals. In August 2016, the Company announced that Kiwanda and Carajas had agreed to acquire the Picha property according to the terms of LOI-2. The sale to Carajas Copper was completed effective December 16, 2016 and Lara received 40,000,000 shares and 40,000,000 options of Carajas (now renamed Valor Resources Ltd.) which had a combined value of \$411,033.

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### **8. EXPLORATION AND EVALUATION ASSETS (continued)**

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

In July 2014, the Company signed a definitive agreement with Compañía Minera Ares S.A.C. (“Ares”), a subsidiary of London-listed Hochschild Mining plc. who operates mines nearby, granting an option to purchase its Corina Gold Project in southern Peru. Under the proposed terms, Ares can acquire the Corina property from Lara for staged cash payments totalling US\$4,150,000, carrying out US\$2,000,000 in exploration and paying a 2% NSR royalty on any future production. In October 2016, Ares signed a community agreement in support of their application to conduct drilling on the property and made a cash payment of US\$150,000 to Lara. Ares has 36 months from the date of the community agreement, to complete the acquisition. Ares has been conducting surface fieldwork, as well as baseline environmental and archeological surveys for their drill permit application.

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

In November 2013, Lara signed an option agreement with S.A.C., (“Apumayo”) a subsidiary of Peruvian gold miner Aruntani S.A.C., for Apumayo to acquire 100% of the Company’s Grace Gold Project in southern Peru for a total of US\$2,000,000 (US\$75,000 received to date) within 36 months of receiving approval by Dirección General de Minería for the start of exploration activities. Lara will also be entitled to an NSR royalty of between 0.75% and 1% on gold and gold equivalent production in excess of 200,000 troy ounces. Apumayo further committed to minimum exploration expenditures on the property of US\$500,000 and the completion of a minimum of 3,000 metres of drilling. The timing of the payments to Lara and the work commitments are subject to securing community agreements and drilling permits from the Peruvian government. Apumayo secured a drill permit and completed some drilling in 2017. The option agreement with Apumayo expired on December 2017. Lara and Apumayo are currently negotiating a renewal of the option agreement.

#### ***Other Properties***

During the year ended December 31, 2016, the Company acquired the Antamaray, Puituco and Buenos Aires properties by staking claims and incurring costs of \$24,286, \$10,447 and \$19,538 respectively.

#### **Strategic Alliances - Kiwanda Alliances**

In October 2014, Lara and Kiwanda agreed to sell all the rights and options held under their Phosphate Alliance and Coal Alliance, to Bifox Limited (“Bifox”) formerly Phillips River Mining Limited. In November 2016, Bifox signed definitive option agreements with the underlying owners of the phosphate rock mine and processing facilities at Bahia Inglesa in northern Chile and has assumed control and management of the day to day operations. Bifox will seek to list its shares on the Australian Securities Exchange (“ASX”) in 2018, which will also mark the completion of the transaction with Lara for the sale of all its direct project rights under the Kiwanda alliances to Bifox in exchange for reimbursement of US\$570,000 of project expenses, issue to Lara of vendor shares in Bifox and a 2% production royalty.

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**9. EXPLORATION EXPENDITURES**

During the year ended December 31, 2017, the Company incurred the following exploration expenditures, which were expensed as incurred:

	Curionópolis	General and other	Buenos Aires	Antamaray	General and other	General and other North America	Total
	Brazil	Brazil	Peru	Peru	Peru		
Administrative	\$ 43,694	\$ 217,333	\$ 151	\$ 454	\$ 18,616	\$ -	\$ 280,248
Assays	7,620	18,170	-	1,508	2,883	-	30,181
Drilling	-	43,944	-	-	-	-	43,944
Field costs	2,869	79,145	-	-	13,429	-	95,443
Property maintenance	2,638	87,589	-	-	11,867	-	102,094
Salaries / consultants	95,214	191,966	2,737	7,266	122,994	49,346	469,523
Telecommunications	-	3,540	-	-	4,065	-	7,605
Travel	13,740	24,369	-	-	13,271	20,856	72,236
Total expenditures	165,775	666,056	2,888	9,228	187,125	70,202	1,101,274
Recoveries	(51,086)	-	-	-	-	-	(51,086)
Net expenditures	\$ 114,689	\$ 666,056	\$ 2,888	\$ 9,228	\$ 187,125	\$ 70,202	\$1,050,188

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**9. EXPLORATION EXPENDITURES (continued)**

During the year ended December 31, 2016, the Company incurred the following exploration expenditures, which were expensed as incurred:

	Curionópolis Brazil	General and other Brazil	Grace Peru	Corina Peru	Picha Peru	Sami Peru	General and other Peru	Total
Administrative	\$ 100,874	\$ 236,036	\$ -	\$ 437	\$ 3,065	\$ 150	\$ 21,557	\$ 362,119
Assays	13,590	12,729	-	-	-	-	1,557	27,876
Field costs	1,162	54,882	-	-	-	-	13,845	69,889
Property maintenance	13,728	75,125	-	55	34,150	11,642	2,290	136,990
Salaries / consultants	114,571	160,918	5,146	990	13,162	-	60,645	355,432
Telecommunications	-	2,244	-	-	-	-	3,273	5,517
Travel	33,750	12,401	-	-	-	-	1,373	47,524
Total expenditures	277,675	554,335	5,146	1,482	50,377	11,792	104,540	1,005,347
Recoveries	(106,710)	-	-	(1,482)	(50,377)	-	-	(158,569)
Net expenditures	\$ 170,965	\$ 554,335	\$ 5,146	\$ -	\$ -	\$ 11,792	\$ 104,540	\$ 846,778



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**9. EXPLORATION EXPENDITURES (continued)**

During the year ended December 31, 2017, the Company received aggregate option payments as follows:

	Gross options payments received				Recovery of exploration expenditure	Advance from JV partners	Option revenue received	Total
	Shares	Cash	Advances	Total				
Curionópolis, Brazil	\$ -	\$ -	\$ 18,000	\$ 18,000	\$ 51,086	\$ -	\$ -	\$ 51,086
<b>Total</b>	\$ -	\$ -	\$ 18,000	\$ 18,000	\$ 51,086	\$ -	\$ -	\$ 51,086

During the year ended December 31, 2016, the Company received aggregate option payments as follows:

	Gross option payments received				Recovery of exploration expenditures and capital costs	Advances from JV partners	Option revenue received	Gain on sale of exploration and evaluation asset	Total
	Shares and Options	Cash	Advances	Total					
Curionópolis, Brazil	\$ -	\$ 693,975	\$ 209,282	\$ 903,257	\$ 106,710	\$ 102,572	\$ 693,975	\$ -	\$ 903,257
Corina, Peru	-	200,748	-	200,748	114,093	-	86,655	-	200,748
Picha, Peru	411,033	48,184	-	459,217	50,377	-	-	408,840	459,217
<b>Total</b>	\$ 411,033	\$ 942,907	\$ 209,282	\$ 1,563,222	\$ 271,180	\$ 102,572	\$ 780,630	\$ 408,840	\$ 1,563,222

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**10. INVESTMENT IN ASSOCIATED COMPANIES AND JOINT VENTURES****Kiwanda Coal Alliance**

The Company owns a 50% interest in Andean Coal (BVI) Ltd. (“Andean Coal”). The Company had a net investment in Andean Coal of \$371,704 at December 31, 2016. During the year ended December 31, 2017, the Company made an additional investment of \$1,127. The Company’s share of the net loss for the year ended December 31, 2017 was \$66,096 which decreased its net investment in Andean Coal to \$306,735.

**Kiwanda Phosphate Alliance**

The Company owns a 50% interest in Kiwanda Alliance (BVI) Inc. (“Kiwanda”). At December 31, 2016, the Company’s net investment in Kiwanda was \$nil and there were accumulated unrecognized losses of \$319,256. During the year ended December 31, 2017, the Company made an additional investment of \$1,022. The Company’s share of the net loss for the year ended December 31, 2017, was \$46,990 and recognized a loss of \$1,022, resulting in accumulated unrecognized losses of \$365,224 and a net investment in Kiwanda of \$nil at December 31, 2017.

**Minas Dixon S.A.**

The Company owns a 45% interest in Minas Dixon S.A. (“Minas”). At December 31, 2016, Lara had accumulated unrecognized losses of \$82,797 in Minas with a net investment of \$nil. During the year ended December 31, 2017, the Company made an additional investment of \$98,269. The Company’s share of the net loss for the year ended December 31, 2017, was \$66,802 and recognized a loss of \$98,269. At December 31, 2017, the Company’s net investment in Minas was \$nil and the accumulated unrecognized losses were \$51,330.

The continuity of investment in associated companies and joint ventures is as follows:

	Minas	Kiwanda	Andean Coal	Total
<u>Investment in associated company</u>				
Net investment at December 31, 2015	\$ -	\$ -	\$ 408,051	\$ 408,051
Additional investment for the year ended December 31, 2016	54,037	1,389	1,379	56,805
Share of net loss	(54,037)	(1,389)	(37,726)	(93,152)
Net investment at December 31, 2016	-	-	371,704	371,704
Additional investment for the year ended December 31, 2017	98,269	1,022	1,127	100,418
Share of net loss	(66,802)	(1,022)	(66,096)	(133,920)
Previous losses recognized	(31,467)	-	-	(31,467)
Net investment at December 31, 2017	\$ -	\$ -	\$ 306,735	\$ 306,735

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**10. INVESTMENT IN ASSOCIATED COMPANIES AND JOINT VENTURES (continued)**

As at December 31, 2017, the associated companies' and joint venture's aggregate assets, aggregate liabilities and net losses are as follows:

	Minas	Kiwanda	Andean Coal
Current assets	\$ 40,936	\$ 45,015	\$ -
Non-current assets	309	228,519	396,328
Current liabilities	(123,945)	(39,167)	-
Loss for the year	(148,449)	(93,980)	(132,191)
The Company's ownership percentage	45%	50%	50%
The Company's share of loss for the year	(66,802)	(46,990)	(66,096)

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**11. LONG-TERM INVESTMENTS**

The Company has the following long-term investments in the common shares and options of private companies and of companies that trade on the TSX-V and the ASX. The common shares have been classified as AFS financial assets and are valued at their fair market values at December 31, 2017. The options held in Valor Resources Limited are derivatives and are classified as FVTPL financial assets. They were fair valued at December 31, 2017 using a Black-Scholes option pricing model with the following assumptions: a stock price of Australian dollars ("AUD") AUD 0.006, an exercise price of AUD 0.004, an expected life of 0.96 years, a volatility of 150%, a risk-free interest rate of 1.77% and a dividend yield of 0%.

	Fair value December 31, 2016	Additions	Disposals	Change in fair value	Fair value December 31, 2017
<u>Available-for-sale investments</u>					
Aguia Resources Ltd.	\$ 106,463	\$ -	\$ -	\$ 4,581	\$ 111,044
Mt. Ridley Mines Inc.	25,071	-	-	2,358	27,429
Redzone Resources Ltd.	8,925	-	-	13,175	22,100
Reservoir Capital Corp.	-	2,199	-	(400)	1,799
Valor Resources Limited	232,093	-	-	590,737	822,830
	372,552	2,199	-	610,451	985,202
<u>Options</u>					
Valor Resources Limited	178,940	-	-	517,242	696,182
Total	\$ 551,492	\$ 2,199	\$ -	\$ 1,127,693	\$ 1,681,384

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**11. LONG-TERM INVESTMENTS (continued)**

	Fair value December 31, 2015	Additions	Disposals	Change in fair value	Fair value December 31, 2016
<u>Available-for-sale investments</u>					
Agua Resources Ltd.	\$ 160,399	\$ -	\$ -	\$ (53,936)	\$ 106,463
Mt. Ridley Mines Inc.	23,786	-	-	1,285	25,071
Redzone Resources Ltd.	8,500	-	-	425	8,925
Valor Resources Limited	-	232,093	-	-	232,093
	192,685	232,093	-	(52,226)	372,552
<u>Options</u>					
Valor Resources Limited	-	178,940	-	-	178,940
Total	\$ 192,685	\$ 411,033	\$ -	\$ (52,226)	\$ 551,492

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### **12. EQUITY**

#### **Authorized**

As at December 31, 2017, the authorized share capital of the Company was an unlimited number of common shares without par value.

#### **Share Capital**

In August 2016, the Company completed a private placement of \$3,000,000 through the issuance of 2,400,000 units at \$1.25 per unit. Each unit consisted of one common share and one-half of one non-transferable, common share purchase warrant. Each full warrant will entitle the holder to purchase an additional common share at \$1.85 for two years. The Company uses the residual value method to allocate value between the shares and warrants issued in private placements. All of the proceeds in the private placement were allocated to share capital and no value was attributed to the warrants.

The Company paid finders' fees with respect to the subscriptions from investors introduced by finders. The fees were payable in cash, or at each finder's election, the issuance of that number of units equal to 5% of the number of units issued pursuant to such subscriptions. As a result, the Company paid cash finders' fees of \$37,525 and issued 6,250 units at a value of \$7,813. The Company also paid an additional \$25,822 of share issue costs for filing fees and legal expenses.

During the year ended December 31, 2016, the Company also issued:

- 75,000 bonus shares to the directors and employees of the Company, valued at \$57,000; and,
- 445,000 common shares pursuant to the exercise of stock options for total proceeds of \$173,000. Upon exercise of the options, \$79,577 of share-based payment reserve was reclassified to share capital.

During the year ended December 31, 2017, the Company issued 75,001 bonus shares to the directors and employees of the Company, valued at \$57,001.

#### **Stock Options**

The Company has a formal stock option plan (the "Plan") that was ratified and approved by the shareholders of the Company and accepted by the TSX-V. The Plan allows the Board of Directors to grant incentive stock options of up to 10% of its outstanding shares to officers, directors, employees and other service providers. The exercise price of each option is to be not less than the closing market price of the Company's stock on the trading day prior to the date of grant. The vesting terms are determined at the time of the option grant by the board of directors. Options granted to investor relations personnel vest in accordance with TSX-V regulations.

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**12. EQUITY (continued)**

The changes in stock options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
<b>Balance as at December 31, 2015</b>	2,660,000	\$ 0.69
Granted	180,000	0.93
Exercised	(445,000)	(0.39)
Cancelled/expired	(600,000)	(1.13)
<b>Balance as at December 31, 2016</b>	1,795,000	0.64
Granted	1,645,000	0.76
Cancelled/expired	(575,000)	(1.20)
<b>Balance as at December 31, 2017</b>	2,865,000	\$ 0.60

The following table summarizes the stock options outstanding and exercisable at December 31, 2017:

Date Granted	Expiry Date	Exercise Price	Number Outstanding	Number Exercisable
April 22, 2014	April 22, 2019	\$0.86	50,000	50,000
July 24, 2015	July 24, 2020	\$0.25	990,000	990,000
May 27, 2016	May 27, 2021	\$0.86	100,000	100,000
November 18, 2016	November 18, 2021	\$1.02	80,000	80,000
November 21, 2017	November 21, 2022	\$0.76	1,645,000	1,645,000
<b>Total</b>			2,865,000	2,865,000

At December 31, 2017, the weighted average remaining life of the outstanding stock options was 3.95 years (December 31, 2016 – 2.52 years). On January 31, 2017, 575,000 options with an exercise price of \$1.20 expired unexercised.

**Share Purchase Warrants**

The changes in share purchase warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
<b>Balance as at December 31, 2015</b>	-	-
Issued	1,203,125	\$ 1.85
<b>Balance as at December 31, 2016 and 2017</b>	1,203,125	\$ 1.85

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### 12. EQUITY (continued)

The Company issued 1,203,125 common share purchase warrants with an exercise price of \$1.85 per warrant pursuant to its private placement in August 2016.

#### Share-based Payments

During the year ended December 31, 2017, the Company accrued \$12,443 (2016 - \$38,025) of share-based payments for vesting bonus shares and issued 75,001 (2016 - 75,000) bonus shares to certain directors and employees. The Company recorded an increase in share capital of \$57,001 (2016 - \$57,000) or \$0.76 (2016 - \$0.76) per share, for the bonus shares issued.

During the year ended December 31, 2017 the Company granted 1,645,000 (2016 - 180,000) stock options to certain officers, directors, consultants and employees which were fully vested on the grant dates. During the year ended December 31, 2017, there was one option grant of 1,645,000 options in November 2017 with an exercise price of \$0.76. During the year ended December 31, 2016, 100,000 options were granted in May 2016, with an exercise price of \$0.86 and 80,000 were granted in November 2016, with an exercise price of \$1.02. The fair value of the stock options granted was estimated to be \$705,500 (2016 - \$89,378) using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31, 2017	Year ended December 31, 2016
Grant date fair value	\$0.43	\$0.50
Risk free interest rate	1.65%	0.78%
Expected life	5 years	5 years
Expected volatility	67%	64%
Dividend yield	0%	0%
Forfeiture rate	0%	0%

### 13. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the exploration and development of exploration and evaluation assets. Except for exploration and evaluation assets, equipment and exploration expenditures, substantially all of the Company's assets and expenditures are located and incurred in Canada. Exploration and evaluation assets are located in Brazil and Peru, equipment is located mainly in Brazil and all of the exploration expenditures are incurred in Brazil, Peru and Chile.



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**14. RELATED PARTY TRANSACTIONS AND BALANCES**

The aggregate value of transactions and outstanding balances relating to key management personnel are as follows:

	Year ended	
	December 31, 2017	December 31, 2016
Salaries, benefits and directors' fees	\$ 336,250	\$ 336,195
Share-based payments	401,358	79,141
	<b>\$ 737,608</b>	<b>\$ 415,336</b>

Amounts due to and from related parties as of December 31, 2017 and December 31, 2016 are as follows:

Related party balances	Service or items	December 31, 2017	December 31, 2016
<b>Amounts due to:</b>			
Chief Executive Officer	Expense recovery	\$ 593	\$ -
Vice President, Corporate Development	Expense recovery	2,499	-
Vice President, Exploration	Fees and expense recovery	11,759	14,512
<b>Amounts due from:</b>			
Chief Executive Officer	Expense recovery	-	100
Reservoir Capital Corp. ( <i>common director</i> )	Expense recovery	-	1,199

**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the year ended December 31, 2017, the Company recorded the following non-cash transactions:

- gain on sale of a subsidiary of \$1,033,047;
- a write-off of exploration and evaluation assets of \$12,810; and
- share-based payments of \$717,943.

During the year ended December 31, 2016, the Company recorded the following non-cash transactions:

- gain on sale of mineral property of \$408,840 received as shares and options;
- a write-off of exploration and evaluation assets of \$35,401; and
- share-based payments of \$127,404.

## LARA EXPLORATION LTD.

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### 16. FINANCIAL AND CAPITAL RISK MANAGEMENT

#### Financial Risk Management

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

#### Credit Risk

The Company's cash and cash equivalents are mainly held through large Canadian or US financial institutions and, as at December 31, 2017, are mainly held in interest-bearing accounts; accordingly, credit risk is minimized. The Company assesses the collectability of amounts owing from partners on their mineral properties and on its loans receivable and records allowances for non-collection based on management's assessment of specific accounts.

#### Currency Risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Brazil, and Peru. The Company funds cash calls to its subsidiary companies outside of Canada in Canadian and US dollars and a portion of its expenditures are also incurred in the local currencies. The risk is that there could be a significant change in the exchange rate of the Canadian dollar relative to the US dollar, the Brazilian real and the Peruvian sol. A significant change in these rates could have an adverse effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

As at December 31, 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars, Brazilian reals and Peruvian sols:

	US dollars	Brazilian reals	Peruvian sols	Total
Cash and cash equivalents	877,917	86,666	14,307	
Receivables	23,153	2,967	7,005	
Accounts payable and accrued liabilities	(29)	(69,051)	(23,686)	
Net exposure	901,041	20,582	(2,374)	
Canadian dollar equivalent	\$1,130,861	\$7,794	(\$919)	\$1,137,736

Based on the above net exposures as at December 31, 2017 and assuming all other variables remain constant, a 10% change in the value of the Canadian dollar against the above foreign currencies would result in an increase/ decrease of approximately \$113,800 (2016 - \$86,200) to the net profit or loss.

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### 16. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

#### *Market and Interest Rate Risk*

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in values because of volatility of quoted market prices. Interest rate risk is the risk that the fair value of cash flows from a financial instrument will fluctuate due to changes in market interest rates. The Company holds AFS investments which have market risk and which have mostly declined in value since acquisition, due to the weak equity markets for exploration companies. The only exception to this has been Valor, which has increased in value. The Company's cash and cash equivalents are held mainly in interest-bearing bank accounts, and therefore there is currently minimal interest rate risk.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company manages liquidity risk through the management of its capital resources as outlined below.

#### **Management of Capital**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties. The Company relies mainly on equity issuances to raise new capital and on entering into joint venture agreements on certain properties, which enables it to conserve capital and to reduce risk. Lara can liquidate long-term investments in order to raise additional cash resources. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents. The Company prepares annual estimates of exploration and administrative expenditures and monitors actual expenditures compared to the estimates to ensure that there is sufficient capital on hand to meet ongoing obligations. The Company's investment policy is to invest its cash in savings accounts or highly liquid short-term deposits with terms of one year or less and which can be liquidated after 30 days without penalty. Management believes that the Company may have to raise additional capital to fund its operations for the next twelve months.

### 17. FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows:

Financial instruments	December 31, 2017			
	Financial instruments at FVTPL	Available-for-sale investments	Loans and receivables	Other financial liabilities
Cash and cash equivalents	\$ -	\$ -	\$ 1,532,332	\$ -
Short-term investments	-	-	551,616	-
Restricted cash equivalents	-	-	57,500	-
Receivables	-	-	11,264	-
Long-term Investments	696,182	985,202	-	-
Accounts payable and accrued liabilities	-	-	-	(98,844)
	\$ 696,182	\$ 985,202	\$ 2,157,712	\$ (98,844)

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**17. FINANCIAL INSTRUMENTS** (continued)

Financial instruments	December 31, 2016			
	Financial instruments at FVTPL	Available-for-sale investments	Loans and receivables	Other financial liabilities
Cash and cash equivalents	\$ -	\$ -	\$ 3,103,765	\$ -
Restricted cash equivalents	-	-	46,000	-
Receivables	-	-	62,022	-
Long-term investments	178,940	372,552	-	-
Accounts payable and accrued liabilities	-	-	-	(110,990)
Advance from joint venture partners	-	-	-	(102,572)
	\$ 178,940	\$ 372,552	\$ 3,211,787	\$ (213,562)

**Fair Value**

Financial instruments measured at fair value on the consolidated statement of financial position are summarized into the following fair value hierarchy levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of receivables and accounts payable and accrued liabilities approximated their fair value due to the short-term nature of these instruments. Financial instruments measured at fair value on the consolidated statements of financial position are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
<b>December 31, 2017</b>				
Long-term investments	\$ 985,202	\$ 696,182	\$ -	\$ 1,681,384
<b>December 31, 2016</b>				
Long-term investments	\$ 372,552	\$ 178,940	\$ -	\$ 551,492

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### 18. INCOME TAXES

As at December 31, 2017 and 2016, no deferred tax assets are recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to realize such assets:

	December 31 2017	December 31 2016
Mineral properties	\$ 3,172,886	\$ 3,745,063
Tax loss carry-forwards	4,424,420	4,015,259
Other	501,339	582,110
Unrecognized deferred tax assets	\$ 8,098,645	\$ 8,342,432

The Company has non-capital losses of approximately \$11.0 million (2016 - \$10.3 million) and \$5.1 million (2016 - \$5.1 million) to reduce future income tax in Canada and Peru respectively. The losses in Canada expire between 2025 and 2036 and in Peru, between 2017 and 2019.

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rate of 26.0% (2016 – 26.0%) as follows:

	December 31 2017	December 31 2016
Pre-tax loss for the year	\$ (1,177,546)	\$ (638,341)
Expected income tax recovery	(306,161)	(165,969)
Non-deductible items	535,838	(548,244)
Deferred income tax assets not recognized	(229,677)	714,213
Income tax recovery	\$ -	\$ -

Tax attributes are subject to review, and potential adjustments, by tax authorities.

### 19. EVENTS AFTER THE REPORTING DATE

The following events occurred after December 31, 2017:

- 80,000 stock options were exercised at a price of \$0.25 per option;
- 250,000 bonus shares were granted to senior management and 83,332 of these were issued on March 22, 2018; and
- 350,000 stock options were granted to senior management on March 14, 2018 at an option price of \$0.72 and with an option life of five years.