LARA EXPLORATION LTD.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2016 and 2015
(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, 2016 and 2015 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, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

April 13, 2017

LARA EXPLORATION LTD.
(An Exploration Stage Company)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	$ 3,103,765	$ 1,017,726
Receivables (Note 4)	68,512	6,624
Prepaids and deposit (Note 5)	87,059	47,360
Total current assets	3,259,336	1,071,710
Non-current assets		
Restricted cash equivalents (Note 6)	46,000	46,000
Equipment (Note 7)	14,804	23,183
Exploration and evaluation assets (Note 8)	163,526	185,236
Investment in associated companies and joint ventures (Note 10)	371,704	408,051
Long-term investments (Note 11)	551,492	192,685
Total non-current assets	1,147,526	855,155
TOTAL ASSETS	$ 4,406,862	$ 1,926,865
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	$ 110,990	$ 280,054
Advances from joint venture partners (Note 9)	102,572	-
TOTAL LIABILITIES	213,562	280,054
EQUITY		
Share capital (Note 12)	24,226,886	20,980,656
Commitment to issue shares	44,558	63,533
Share-based payments reserve	8,349,246	8,339,445
Accumulated other comprehensive income (Note 11)	85,055	137,281
Deficit	(28,512,445)	(27,874,104)
TOTAL EQUITY	4,193,300	1,646,811
TOTAL LIABILITIES AND EQUITY	$ 4,406,862	$ 1,926,865

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

These consolidated financial statements were authorized for issuance by the Board of Directors on April 13, 2017.

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, 2016	2015
EXPLORATION EXPENDITURES (Note 9)	$ 846,778	$ 920,205
GENERAL AND ADMINISTRATIVE EXPENSES		
Depreciation (Note 7)	697	1,124
Management and directors' fees (Note 14)	120,000	144,537
Office, rent and administrative services (Note 14)	344,015	331,317
Professional fees	73,419	67,753
Shareholder communication and investor relations	85,830	21,087
Share-based payments (Notes 12 and 14)	127,403	218,170
Transfer agent and regulatory fees	56,222	41,147
Travel and related costs	5,777	57,563
Total general and administrative expenses	813,363	882,698
	(1,660,141)	(1,802,903)
Equity loss on investment in associated companies and joint ventures (Note 10)	(93,152)	(142,152)
Foreign exchange gain (loss)	(58,964)	108,163
Impairment loss on loan receivable (Note 11)	-	(416,070)
Interest income	15,148	2,980
Loss on dilution of former subsidiary (Note 10)	-	(4,099)
Gain on reacquisition of subsidiary (Note 10)	-	2,233
Option revenue received (Note 9)	780,630	1,040,567
Gain on sale of exploration and evaluation asset (Note 9)	408,840	-
Other revenue (Note 8)	4,699	72,453
Gain on sale of equipment	-	872
Gain on settlement of accounts payable (Note 12)	-	12,083
Loss on sale of long-term investments (Note 11)	-	(48,806)
Write-off of exploration and evaluation assets (Note 8)	(35,401)	(970,593)
	1,021,800	(342,369)
Net loss for the year	$ (638,341)	$ (2,145,272)
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in fair value of AFS investments	$ (52,226)	$ 76,286
Transfer of loss on disposal of AFS investments	-	48,806
Comprehensive loss for the year	$ (690,567)	$ (2,020,180)
Loss per common share		
Basic and diluted loss per common share	$ (0.02)	$ (0.07)
Weighted average number of common shares outstanding (basic and diluted)	32,397,127	31,113,230

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)

	Year ended December 31, 2016	2015
OPERATING ACTIVITIES		
Net loss for the year	$ (638,341)	$ (2,145,272)
Items not affecting cash:		
Depreciation	697	1,124
Depreciation included in exploration expenditures	8,025	8,055
Equity loss on investment in associated companies and joint ventures	93,152	142,152
Interest income	-	(2,980)
Loss on sale of long-term investments	-	48,806
Gain on settlement of accounts payable	-	(12,083)
Gain on sale of exploration and evaluation asset	(408,840)	-
Cost recoveries received as shares	(2,193)	-
Impairment loss on loan receivable	-	416,070
Loss on dilution of former subsidiary	-	4,099
Gain on reacquisition of subsidiary	-	(2,233)
Write-off of exploration and evaluation assets	35,401	970,593
Option payments received as shares	-	(418,833)
Gain on sale of equipment	-	(872)
Share-based payments	127,403	218,170
Unrealized foreign exchange gain	-	(67,290)
Changes in non-cash working capital items:		
Receivables	(61,888)	26,971
Prepaids and deposits	(39,699)	17,041
Accounts payable and accrued liabilities	(169,064)	71,918
Advances from joint venture partners	102,572	-
	(952,775)	(724,564)
INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets	(126,302)	(46,848)
Cash received for exploration and evaluation assets	112,611	-
Cash held by former subsidiary	-	(46,678)
Cash acquired on reacquisition of subsidiary	-	1,408
Investment in associated companies and joint ventures	(56,805)	(139,081)
Interest received	-	2,980
Purchase of equipment	(343)	(2,555)
Proceeds on disposal of equipment	-	1,755
Proceeds from sale of long-term investments	-	1,016,800
	(70,839)	787,781
FINANCING ACTIVITIES		
Cash received pursuant to unit offering	3,000,000	-
Share issuance costs	(63,347)	-
Exercise of options	173,000	-
	3,109,653	-
Change in cash and cash equivalents	2,086,039	63,217
Cash and cash equivalents, beginning of year	1,017,726	954,509
Cash and cash equivalents, end of year	$ 3,103,765	$ 1,017,726

Supplementary cash flow information (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**
Balance as at December 31, 2015	31,286,357	$ 20,980,656	$ 63,533	$ 8,339,445	$ 137,281	$ (27,874,104)	$ 1,646,811
Exercise of stock options	445,000	173,000	-	-	-	-	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)
Balance as at December 31, 2016	34,212,607	$ 24,226,886	$ 44,558	$ 8,349,246	$ 85,055	$ (28,512,445)	$ 4,193,300

Balance as at December 31, 2014	30,969,691	$ 20,863,240	$ 39,503	$ 8,202,304	$ 12,189	$ (25,728,832)	$ 3,388,404
Bonus shares issued	74,999	56,999	(56,999)	-	-	-	-
Share-based payments	-	-	81,029	137,141	-	-	218,170
Shares issued to settle accounts payable	241,667	60,417	-				60,417
Change in fair value of AFS investments	-	-	-	-	76,286	-	76,286
Transfer of gain on sale of AFS investments	-	-	-	-	48,806	-	48,806
Net loss for the year	-	-	-	-	-	(2,145,272)	(2,145,272)
Balance as at December 31, 2015	31,286,357	$ 20,980,656	$ 63,533	$ 8,339,445	$ 137,281	$ (27,874,104)	$ 1,646,811

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

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, 2016 and 2015 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, 2016, the Company has not achieved profitable operations and has accumulated losses since inception. However, management believes that it has sufficient capital to fund its operations for the next twelve months.

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 financial instruments classified as available-for-sale ("AFS") 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 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.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 do Brasil Mineracao Ltda.	Exploration company	Brazil	100%
Maravaia Mineração 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 Minercao 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.

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, available for sale (“AFS”), fair value through profit and loss (“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, 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 unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets objective evidence of impairment could include:

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

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.

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.

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.

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.

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:

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 amortization included in profit or loss.

Share-based payments (stock options)

The fair value of stock options issued 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.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Pronouncement Not Yet Effective

The IASB intends to replace 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. The Company is evaluating the impact the final standard is expected to have on its consolidated financial statements.

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 is evaluating the impact the final standard is expected to have on its consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

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, 2016	December 31, 2015
Cash	$ 1,095,850	$ 1,017,726
Short-term deposits	2,007,915	-
Cash and cash equivalents	$ 3,103,765	$ 1,017,726

The Company's short-term deposits are invested in guaranteed investment certificates ("GICs") with an interest rate of 1.35% per annum.

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, 2016	December 31, 2015
Accounts receivable	$ 62,022	$ 1,125
GST receivable	6,490	5,499
Receivables	$ 68,512	$ 6,624

(Expressed in Canadian dollars)

5. PREPAIDS AND DEPOSIT

The Company's prepaids include the unamortized portion of insurance policies and expense advances to consultants. The deposit is with Seabord Services Corp., a company which provides management services.

	December 31, 2016	December 31, 2015
Prepaid expenses and expenses advances	$ 77,059	$ 37,360
Deposit	10,000	10,000
Prepaids and deposit	$ 87,059	$ 47,360

6. RESTRICTED CASH EQUIVALENTS

At December 31, 2016 and 2015, the Company classified $46,000 as restricted cash equivalents. This amount is held as collateral for the Company's corporate credit cards.

7. EQUIPMENT

	Computer equipment	Field equipment	Office equipment	Total
Costs				
December 31, 2014	$ 39,268	$ 3,015	$ 93,918	$ 136,201
Additions	2,357	-	198	2,555
Disposals	-	-	(1,689)	(1,689)
December 31, 2015	41,625	3,015	92,427	137,067
Additions	343	-	-	343
Disposals	-	-	-	-
December 31, 2016	41,968	3,015	92,427	137,410
Accumulated depreciation				
December 31, 2014	33,268	319	71,924	105,511
Additions	2,684	301	6,194	9,179
Disposals	-	-	(806)	(806)
December 31, 2015	35,952	620	77,312	113,884
Additions	5,018	301	3,403	8,722
Disposals	-	-	-	-
December 31, 2016	$ 40,970	$ 921	$ 80,715	$ 122,606
Net book value				
December 31, 2015	$ 5,673	$ 2,395	$ 15,115	$ 23,183
December 31, 2016	$ 998	$ 2,094	$ 11,712	$ 14,804

Of the $8,722 (2015 -$9,179) of depreciation expense recognized during the year ended December 31, 2016, $8,025 (2015 - $8,055) was included as exploration expenditures and $697 (2015 - $1,124) was recorded as depreciation on the statements of loss and comprehensive loss.

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

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

	December 31, 2014	Acquisitions	Impairments	December 31, 2015
Brazil				
Itaituba Iron	$ 54,246	$ -	$ (54,246)	$ -
Planalto Copper	25,777	-	-	25,777
Azul Tin	-	11,447	-	11,447
Peru				
Condoroma	916,347	-	(916,347)	-
Corina	112,611	-	-	112,611
Paraguay				
Sarambi	-	35,401	-	35,401
Total	$ 1,108,981	$ 46,848	$ (970,593)	$ 185,236

During the year ended December 31, 2015 the Company recorded other income of $72,453 with respect to land fees from 2014 which had been accrued but not paid. In 2015 the Company could not find partners for these properties and decided to let those properties lapse and reversed the accrual for land fees.

Brazil

Curionóplis 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. Under the terms of the agreement, Tessarema has earned a notional 49% interest by: making staged cash payments to Lara totalling US$750,000, completing 2,000 metres of drilling and delivering a National Instrument ("NI") 43-101 report confirming a mineral resource which could be economically mined of at least 100,000 tonnes of contained copper and copper equivalent by-products, all by December 31, 2015. In February 2016, Tessarema earned a further 11% interest (for a total notional interest of 60%) by paying Lara US$500,000, completing permitting

8. EXPLORATION AND EVALUATION ASSETS (continued)

for pilot mining and granting Lara a royalty of 5% on any pilot scale production. Tessarema can earn an additional 40% interest in the project (for a total of 100%) by paying Lara US$750,000, and placing the project into commercial production at a minimum rate of 500 tonnes per day. If that milestone is achieved, the 5% pilot royalty would terminate and Lara would be granted a 2% production royalty. Under the terms of the agreement, Tessarema must earn a 100% interest in the project or the property will be returned to Lara.

Curionopolis Iron Project

The Company has an agreement whereby Vertical Mineração Ltda. ("Vertical"), a special purpose company owned by a group of Brazilian pig iron producers, has acquired the iron ore targets within the Curionopolis licenses for cash payments, exploration work commitments and royalties. Vertical has completed exploration and development studies on the iron deposits in the property and is currently in the process of completing environmental permitting to secure a mining license. Lara is entitled to royalties of US$1.50/ton on sales of granular iron ore and US$0.75/ton on sales of fine-grained iron ore produced from the project.

During the year ended December 31, 2015, the Company filed for arbitration with the Forum Arbitral do Rio de Janeiro ("FARJ"), over its Mineral Rights Transfer Agreement ("the Agreement") with Vertical. Among the terms of the agreement, signed in May 2009, whereby Lara transferred its rights to the Curionópolis Iron Project to Vertical, were obligations for Vertical to make purchase payments and pay minimum royalties to the Company. Despite several renegotiations extending payment terms and repeated notifications Vertical has not made these payments. Lara has requested that the Arbitrators rule on the unpaid amounts, plus interest and fines, as defined by the Agreement. Vertical has contested the qualification of the FARJ and no progress has been made with the arbitration.

Itaituba Iron Project

In 2011, the Company entered into an option agreement to acquire the Itaituba Iron Project by paying 100,000 reals (approximately $55,000); 50,000 reals were paid upon signing the agreement and another 50,000 reals were due upon the transfer of the title of one license area. In March 2013, the transfer of the title to the license area was completed and Lara made the second payment of 50,000 reals. The Company must make a third purchase payment of US$0.30 per ton of measured reserves of iron ore and a royalty payment of US$0.45 per ton of economically mineable reserves as determined by a NI 43-101 compliant report. At December 31, 2015, the Company wrote down its investment in the property to $nil.

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% net smelter return ("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 Brazilian Department of Mines based on perceived deficiencies in the application paperwork. These deficiencies have been rectified and the licenses have been 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.

8. EXPLORATION AND EVALUATION ASSETS (continued)

Liberdade Copper Project

In September 2010, the Company signed an agreement with a local subsidiary of a Chilean copper company, Codelco do Brasil Mineracao Ltda. ("Codelco") for Codelco to earn an initial 51% interest in the Liberdade Copper Project by investing US$3,300,000 in exploration which has been completed. Codelco at its election, can then earn a further 24% interest by sole-funding such additional exploration work as is necessary to define a minimum resource of at least 500,000 tonnes of copper equivalent, independently reported under NI 43-101 guidelines. Work on the project is currently suspended, pending the renewal of the exploration license by the Brazilian Department of Mines. The Brazilian Department of Mines ("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 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.

Sergipe Potash Project

In June 2012, Lara entered into an option agreement with Aguia Resources Ltd. ("Aguia") whereby Aguia could pay a total of US$100,000, issue up to 15,000,000 common shares to Lara and carry out US$1,500,000 of exploration expenditures within two years of the renewal of certain exploration licenses in order to acquire a 100% interest in Lara's Sergipe Potash Project in northeast Brazil. In March 2014, the parties amended the terms of the agreement and Aguia committed to pay US$400,000 in stages to Lara (which was received) by September 30, 2015 and issue 4,000,000 more common shares to Lara by March 31, 2014 (received) and a further 11,000,000 common shares if it exercised its option to acquire a 100% interest in the project or fails to drill. The Company received the 11,000,000 common shares from Aguia in June and sold them to a third party for proceeds of $418,833. Aguia subsequently terminated its option and the Company relinquished these mineral rights, considering the project unfeasible in the current pricing environment for potash.

Caninde Graphite Project

In October 2014, Lara signed an option agreement with Paradigm Metals Limited ("Paradigm") to earn up to an 80% interest in the Company's Canindé Graphite Project in northeastern Brazil by making staged payments totalling US$700,000 to Lara (US$100,000 received), funding a minimum of US$4,500,000 of exploration and development work and putting the project into commercial production. Paradigm terminated the option in October 2015 and returned the property to Lara and has subsequently been relinquished.

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, the Company agreed to extend the option in exchange for a single payment of US$700,000 due by December 31, 2018.

8. EXPLORATION AND EVALUATION ASSETS (continued)

Tocantins Gold Project

In January 2016, the Company entered into an agreement with Brazil Americas Investments & Participation Mineração Ltda. ("Brazil Americas"), to acquire the Tocantins Gold Project, located close to the town of Conceição do Tocantins, in Central Brazil. Under the terms of the Agreement, Lara will assume the project costs going forward and will pay Brazil Americas 50% of any proceeds from the eventual sale of the project to a third-party.

Serrita Gold Project

The Serrita Project comprises three exploration licenses, covering a wide area of artisanal workings. Lara has an option to acquire the Serrita Project by making staged cash and success-based bonus payments totalling up to US$1,650,000 and paying a 1.25% NSR royalty on any production. Lara retains the right to purchase this royalty for a cash payment of US$1,500,000. The Company has also agreed to pay a finder's fee of staged (mostly success-based) payments totalling US$85,000. During the year ended December 31, 2016, the Company made its first option payment in the amount of $12,810 (US$10,000) which was capitalized to exploration and evaluation assets.

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.

Peru

Corina Gold Project

In June 2014, the Company signed a binding Letter of Intent with Compañía Minera Ares S.A.C. ("Ares"), a subsidiary of London-listed Hochschild Mining plc. that 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. Lara and Ares signed a definitive agreement in July 2014 and Ares made the first cash payment of US$150,000. Ares had up to 36 months to obtain a community access agreement, which would allow them to begin exploration. On obtaining this agreement Ares is required to pay the Company US$150,000 and the 36 month option agreement will begin. In October 2016, Ares signed a community agreement in support of their application to conduct drilling on the property and made a further cash payment of US$150,000 to Lara.

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

8. EXPLORATION AND EVALUATION ASSETS (continued)

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. The option agreement with Apumayo has been extended to December 2017.

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.

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.

Paraguay

Sarambi

At December 31, 2015 the Company had capitalized $35,401 of acquisition costs. During the three months ended March 31, 2016, the Company decided not to pursue the acquisition of this property and wrote off the full amount of the capitalized cost.

San Alfredo Prospect

On November 3, 2015 the Company entered into an LOI to acquire a 100% interest in the San Alfredo Prospecting License subject to a 1% NSR royalty payable to the vendor. Lara is required to pay US$7,500 to

8. EXPLORATION AND EVALUATION ASSETS (continued)

acquire the property and make staged payments to the optionor totaling US$300,000, should Lara attain certain objectives in advancing the property to production. In November 2015 Lara made a payment of US$18,750 to the optionor for holding costs due to the Ministry of Obras Publicas, which was required in the LOI but is exclusive of the US$300,000 of staged payments. In the year ended December 31, 2016, the Company terminated the LOI without making any of the staged payments.

Minas Dixon - Lara Copper Project

Lara has a 45% interest in the Lara Copper Project. Lara retains a 1% NSR royalty on all production from the projects.

Strategic Alliances

Kiwanda Alliances

In 2011, Lara signed alliance agreements with Kiwanda Mines LLC to generate phosphate and coal opportunities. In October 2014, Lara and Kiwanda agreed to sell all the rights and options held under their Phosphate Alliance and Coal Alliance, to Phillips River Mining Limited ("Phillips River") as follows:

a) The Coal Alliance’s 23.48% interest in central Colombian coal producer Carbhid S.A.
b) The Coal Alliance's option to earn a 51% interest in Carbhid's Escalones mining rights.
c) The Coal Alliance's option to earn a 100% interest in the Pelaya coal exploration rights in northern Colombia.
d) The Phosphate Alliance's option to acquire a 100% interest in the Bifox phosphate mining rights in northern Chile.
e) The Phosphate Alliance's 100% owned Ki phosphate exploration rights adjacent to the Bifox mining rights.

Lara has received US$200,000 from Kiwanda Group LLC that was due upon signing of the Heads of Agreement and is entitled to a further US$570,000 upon the completion of the acquisition of the assets by Phillips River. Phillips River will acquire the assets through the issue of new shares at a deemed price of Australian $0.20 each, based on an independent valuation. After payment of the amounts due to Lara, the new Phillips River shares will be issued equally to Lara (50%) and Kiwanda (50%), with 50-60% of the shares payable upon closing of the transaction and the remainder only payable subject to achieving certain production and resource definition milestones. Phillips River will assume the day-to-day management and costs of these assets, with Lara retaining the right to appoint a director to the Phillips River’s board of directors. Lara is further entitled to a 2% production royalty on the Coal Alliance assets and once an annual production capacity of 50,000 tons has been achieved, a 2% production royalty on the Phosphate Alliance assets.

In November 2016, Phillips River signed definitive option agreements with the underlying owners of the Bifox phosphate rock mine and processing facilities at Bahia Inglesa in northern Chile and has assumed management of the operations. Phillips River will seek to list its shares on the Australian Securities Exchange (‘ASX”) in 2017, 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 Phillips River in exchange for reimbursement of US$570,000 project expenses, issue to Lara of vendor shares in Phillips River and the 2% production royalty.

(Expressed in Canadian dollars)

9. EXPLORATION EXPENDITURES

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

(Expressed in Canadian dollars)

9. EXPLORATION EXPENDITURES (continued)

During the year ended December 31, 2015, the Company incurred the following exploration expenditures, which were expensed as incurred:

	Curionópolis Brazil	Caninde Brazil	General and other Brazil	Condoroma Peru	Corina Peru	Picha Peru	General and other Peru	Total
Administrative	$ 165,211	$ 57,457	$ 141,872	$ 1,415	$ 18,359	$ 3,419	$ 63,219	$ 450,952
Assays	2,431	3,230	12,216	-	-	-	-	17,877
Drilling	-	70,085	-	-	-	-	-	70,085
Field costs	116,125	13,104	29,870	209	2,743	511	19,813	182,375
Property maintenance	32,126	5,928	2,055	16	213	40	415	40,793
Salaries and consultants	135,821	40,821	167,226	5,203	68,360	10,949	90,208	518,588
Telecommunications	2,037	13	2,597	111	1,455	271	2,839	9,323
Travel and related costs	11,914	12,921	16,421	64	842	157	5,156	47,475
Trenching	-	11,199	-	-	-	-	-	11,199
Total expenditures	465,665	214,758	372,257	7,018	91,972	15,347	181,650	1,348,667
Recoveries	(281,907)	(111,168)	-	-	(20,040)	(15,347)	-	(428,462)
Net expenditures	$ 183,758	$ 103,590	$ 372,257	$ 7,018	$ 71,932	$ -	$ 181,650	$ 920,205

During the quarter ended March 31, 2015 Paradigm acquired 51% of the shares of Caninde (BVI) Ltd. ("Caninde") which owns 100% of the shares of Lara Alliance Mineracao Ltda., which holds title to the Caninde Graphite Project. On November 1, 2015 the Company reacquired Caninde. For the period from April 1 to October 31, 2015 the Company deconsolidated Caninde and reported its results on an equity basis (Note 10) and as at December 31, 2015 has fully consolidated the entity. Expenditures incurred on general and other projects in Brazil are for activity where Lara is working on target generation or potential target acquisitions. Expenditures incurred on general and other projects in Peru include costs incurred on a number of minor properties all of which were nominal.

(Expressed in Canadian dollars)

9. EXPLORATION EXPENDITURES (continued)

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
Total	$ 411,033	$ 942,907	$ 209,282	$ 1,563,222	$ 271,180	$ 102,572	$ 780,630	$ 408,840	$ 1,563,222

During the year ended December 31, 2015, the Company received aggregate option payments as follows:

	Gross option payments received				Recovery of exploration expenditures	Advances from JV partners	Option revenue received	Total
	Shares	Cash	Advances	Total				
Caninde, Brazil	$ -	$ -	$ 111,168	$ 111,168	$ 111,168	$ -	$ -	$ 111,168
Curionópolis, Brazil	-	335,225	281,907	617,132	281,907	-	335,225	617,132
Sergipe Potash, Brazil	418,833	256,082	-	674,915	-	-	674,915	674,915
Corina, Peru	-	20,040	-	20,040	20,040	-	-	20,040
Picha, Peru	-	45,774	-	45,774	15,347	-	30,427	45,774
Total	$ 418,833	$ 657,121	$ 393,075	$ 1,469,029	$ 428,462	$ -	$ 1,040,567	$ 1,469,029

(Expressed in Canadian dollars)

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 $408,051 at December 31, 2015. During the year ended December 31, 2016 the Company made an additional investment of $1,379. The Company's share of the net loss for the year ended December 31, 2016 was $37,726 which decreased its net investment in Andean Coal to $371,704.

Kiwanda Phosphate Alliance

The Company owns a 50% interest in Kiwanda Alliance (BVI) Inc. ("Kiwanda BVI"). At December 31, 2015, the Company's net investment in Kiwanda was $nil and there were accumulated unrecognized losses of $200,073. During the year ended December 31, 2016, the Company made an additional investment of $1,389. The Company's share of the net loss for the period was $120,572 and recognized a loss of $1,389, resulting in accumulated unrecognized losses of $319,256 and a net investment in Kiwanda of $nil at December 31, 2016.

Minas Dixon S.A.

The Company owns a 45% interest in Minas Dixon S.A. ("Minas"). At December 31, 2015 Lara had accumulated unrecognized losses of $33,280 in Minas with a net investment of $nil. During the year ended December 31, 2016, the Company made an additional investment of $54,037. The Company's share of the net loss for the year ended December 31, 2016, was $103,554 and it recognized a loss of $54,037. At December 31, 2016, the Company's net investment in Minas was $nil and the accumulated unrecognized losses were $82,797.

Caninde

On March 23, 2015, Paradigm exercised its option in connection with the earn-in agreement with respect to the Canindé Graphite Project (Note 8). As a result, the Company reduced its continuing interest in its previously wholly-owned subsidiaries Caninde (BVI) Inc. and Lara Alianca Mineraco Ltda. (collectively, "Caninde") to 49% and recognized a $4,099 loss on dilution of the former subsidiary. The Company used an effective transition date of April 1, 2015. The following table summarizes the derecognized carrying values of the assets and liabilities of Caninde at April 1, 2015:

		Caninde
Cash	$	46,678
Receivables and other current assets		20,173
Current liabilities		(58,815)
Net assets of former subsidiary		8,036
Investment in associated company		3,937
Loss on dilution of subsidiary	$	4,099

At April 1, 2015, Lara had a net investment in Caninde of $3,937 and made an additional investment of $77,224 during the period ended October 31, 2015. The Company's share of the net loss for the period was $79,015. In October 2015, Paradigm elected to terminate its option and return the 51% of the outstanding

(Expressed in Canadian dollars)

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

shares of Caninde that it held. The effective transition date was November 1, 2015. The following table summarizes the carrying values of the assets and liabilities of Caninde at November 1, 2015:

		Caninde
Cash	$	1,408
Receivables and other current assets		3,676
Current liabilities		(705)
Net assets of former subsidiary		4,379
Investment in associated company		2,146
Gain on reacquisition of subsidiary	$	2,233

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

	Minas	Kiwanda	Andean Coal	Caninde (1)	Total
Investment in associated company					
Net investment at December 31, 2014	$ -	$ -	$ 409,331	$ -	$ 409,331
Investment at April 1, 2015	-	-	-	3,937	3,937
Additional investment for the year ended December 31, 2015	54,778	4,315	2,764	77,224	139,081
Net assets transferred to subsidiary	-	-	-	(2,146)	(2,146)
Share of net loss	(54,778)	(4,315)	(4,044)	(79,015)	(142,152)
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

(1) The figures for Caninde in the above column are for the period April 1, 2015 to October 31, 2015.

As at December 31, 2016, the associated companies' and joint venture's aggregate assets, aggregate liabilities and net losses are as follows:

	Minas	Kiwanda	Andean Coal
Current assets	$ 10,399	$ 3,973	$ -
Non-current assets	309	-	537,215
Current liabilities	(114,865)	(4,597)	-
Loss for the year	(230,120)	(241,143)	(75,455)
The Company's ownership percentage	45%	50%	50%
The Company's share of loss for the year	(103,554)	(120,572)	(37,726)

(Expressed in Canadian dollars)

11. LONG-TERM INVESTMENTS AND LOAN RECEIVABLE

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, 2016. The options held in Carajas are derivatives and are classified as FVTPL financial assets. They were fair valued at December 31, 2016 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 2 years, a volatility of 150%, a risk free interest rate of 1.77% and a dividend yield of 0%.

	Fair value December 31, 2015	Additions	Disposals	Change in fair value	Fair value December 31, 2016
Available-for-sale investments					
Aguia 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
Carajas Copper Company Limited (now renamed Valor Resources Ltd.)	-	232,093	-	-	232,093
	192,685	232,093	-	(52,226)	372,552
Options					
Carajas Copper Company Limited	-	178,940	-	-	178,940
Total	$ 192,685	$ 411,033	$ -	$ (52,226)	$ 551,492

(Expressed in Canadian dollars)

11. LONG-TERM INVESTMENTS AND LOAN RECEIVABLE (continued)

	Fair value December 31, 2014	Additions	Disposals	Change in fair value	Fair value December 31, 2015
Available-for-sale investments					
Aguia Resources Ltd.	$ 258,400	$ 418,833	$ (720,879)	$ 204,045	$ 160,399
Harvest Minerals Ltd. (formerly Avenue Resources)	18,966	-	(66,821)	47,855	-
Mezzi Holdings Ltd. (formerly CCT Capital Ltd.)	4,500	-	(4,632)	132	-
Mt. Ridley Mines Inc.	-	-	-	23,786	23,786
Horizonte Minerals Inc.	411,250	-	(224,468)	(186,782)	-
Redzone Resources Ltd.	21,250	-	-	(12,750)	8,500
Total	$ 714,366	$ 418,833	$ (1,016,800)	$ 76,286	$ 192,685

During the year ended December 31, 2015 the Company sold all of its holdings in Mezzi Holdings (formerly CCT Capital Ltd.), Harvest Minerals Ltd. (formerly Avenue Resources Limited) and Horizonte Minerals Inc. The Company received 11,000,000 common shares of Aguia during the year ended December 31, 2015, as a condition of its option agreement with Aguia (Note 8) and sold those shares along with an additional 17,679,450 of its previously held common shares of Aguia and 8,225,000 common shares of Horizonte Minerals Inc. The total proceeds for all shares sold were $1,016,800 and the Company recorded a loss on disposal of $48,806.

In January 2014 the Company invested US$300,000 into Symerton Holding S.A. ("Symerton"). In return the Company received 150 ordinary shares (with an assessed value of $nil) in Symerton and an unsecured US$300,000 loan receivable. Symerton is a private company based in the Republic of Panama that is seeking to acquire gold projects in South America. Symerton is related to the Company as a director of the Company is a significant shareholder of Symerton. The loan was unsecured and non-interest bearing and as at December 31, 2015 management fully impaired the loan in the amount of $416,070 based on expected non-recovery at that date.

12. EQUITY

Authorized

As at December 31, 2016, 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 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, 2015, the Company issued:

- 74,999 bonus shares to the directors and employees of the Company, valued at $56,999; and,
- 241,667 common shares pursuant to the settlement of accounts payable, valued at $60,417.

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.

(Expressed in Canadian dollars)

12. EQUITY (continued)

The changes in stock options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Balance as at December 31, 2014	2,075,000	$ 1.05
Granted	1,470,000	0.25
Cancelled / expired	(885,000)	(0.80)
Balance as at December 31, 2015	2,660,000	0.69
Granted	180,000	0.93
Exercised	(445,000)	(0.39)
Cancelled/expired	(600,000)	(1.13)
Balance as at December 31, 2016	1,795,000	$ 0.64

The following table summarizes the stock options outstanding and exercisable at December 31, 2016:

Date Granted	Expiry Date	Exercise Price	Number Outstanding	Number Exercisable
January 31, 2012	January 31, 2017	$ 1.20	575,000	575,000
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
Total			1,795,000	1,795,000

At December 31, 2016, the weighted average remaining life of the outstanding stock options was 2.52 years (2015 – 3.03 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
Balance as at December 31, 2014 and 2015	-	-
Issued	1,203,125	$ 1.85
Balance as at December 31, 2016	1,203,125	$ 1.85

(Expressed in Canadian dollars)

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, 2016, the Company accrued $38,025 of share-based payments for vesting bonus shares and issued 75,000 (2015 – 74,999) bonus shares to certain directors and employees. The Company recorded an increase in share capital of $57,000 (2015 - $56,999) or $0.76 (2015 - $0.76) per share, for the bonus shares issued.

During the year ended December 31, 2016 the Company granted 180,000 (2015 – 1,470,000) stock options to certain officers, directors, consultants and employees which were fully vested on the grant dates. Of these, 100,000 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 $89,378 using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31, 2016	Year ended December 31, 2015
Grant date fair value	$0.50	$0.25
Risk free interest rate	0.78%	1.43%
Expected life	5 years	5 years
Expected volatility	64%	52%
Dividend yield	0%	0%
Forfeiture rate	0%	0%

During the year ended December 31, 2015, the Company entered into agreements with its President & CEO, Vice-President Corporate Development and former President, to settle outstanding management and consulting fees owed to them as of May 31, 2015, by making cash payments totaling $105,200 and issuing 166,667 common shares valued at $0.25 per share. Additionally, the Company agreed to settle outstanding fees owed to three current Non-Executive Directors and to terminate the payment of further directors' fees to them and two former Non-Executive Directors as of March 31, 2015, by making cash payments of $21,274 and issuing 75,000 common shares valued at $0.25 per share. The Company recognized a gain of $12,083 on the settlement of these debts.

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.

(Expressed in Canadian dollars)

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, 2016	Year ended December 31, 2015
Salaries, benefits and directors' fees	$ 336,195	$ 349,000
Share-based payments	79,141	171,995
	$ 415,336	$ 520,995

Amounts due to and from related parties as of December 31, 2016 and December 31, 2015 are as follows:

Related party balances	Service or items	December 31, 2016	December 31, 2015
Amounts due to:			
Chief Executive Officer	Management fees	$ -	$ 71,214
Vice President, Corporate Development	Management fees	-	30,843
Vice President, Exploration	Fees and expense recovery	14,512	81,816
Seabord Services Corp.	Expense recovery	580	-
Amounts due from:			
Seabord Services Corp.	Deposit	10,000	10,000
Chief Executive Officer	Expense recovery	100	-
Reservoir Capital Corp. *(common director)*	Expense recovery	1,199	1,199

During the year ended December 31, 2016, the Company paid $213,600 (2015 - $213,600) to Seabord Services Corp. ("Seabord"). Seabord is a management services company controlled by a former director. Seabord provides the services of a Chief Financial Officer ("CFO"), a Corporate Secretary, accounting and administrative staff, and office space to the Company. The CFO and Corporate Secretary are employees of Seabord and are not paid directly by the Company.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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.

During the year ended December 31, 2015, the Company recorded the following non-cash transactions:

- a loss on sale of investments of $48,806;
- option revenue received in shares of $418,833;
- a write-off of exploration and evaluation assets of $970,593; and
- share-based payments of $218,170.

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, 2016, 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, 2016, 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	552,042	190,324	4,301	
Receivables	35,895	3,207	75,197	
Accounts payable and accrued liabilities	(29)	(94,625)	(3,576)	
Net exposure	587,908	98,906	75,922	
Canadian dollar equivalent	$789,955	$40,893	$30,993	$ 861,841

Based on the above net exposures as at December 31, 2016 and assuming that 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 $86,200 (2015 - $44,800) to the net profit or loss.

(Expressed in Canadian dollars)

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 as a result 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 have declined in value since acquisition, as a result of the weak equity markets for exploration companies. 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 has sufficient capital to fund its operations for the next twelve months.

17. FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows:

	December 31, 2016			
Financial instruments	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)

(Expressed in Canadian dollars)

17. FINANCIAL INSTRUMENTS (continued)

	December 31, 2015		
Financial instruments	Available-for-sale investments	Loans and receivables	Other financial liabilities
Cash and cash equivalents	$ -	$ 1,017,726	$ -
Restricted cash equivalents	-	46,000	-
Accounts receivable	-	1,125	-
Long-term investments	192,685	-	-
Accounts payable and accrued liabilities	-	-	(280,054)
	$ 192,685	$ 1,064,851	$ (280,054)

Fair Value

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

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
b) 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).
c) 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
December 31, 2016				
Long-term investments	$ 372,552	$ 178,940	$ -	$ 551,492
December 31, 2015				
Long-term investments	$ 192,685	$ -	$ -	$ 192,685

(Expressed in Canadian dollars)

18. INCOME TAXES

As at December 31, 2016 and 2015, 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 2016	December 31 2015
Mineral properties	$ 3,745,063	$ 2,920,249
Tax loss carry-forwards	4,015,259	4,113,958
Other	582,110	571,728
Unrecognized deferred tax assets	$ 8,342,432	$ 7,605,935

The Company has non-capital losses of approximately $10.3 million (2015 - $9.9 million) and $5.1 million (2015 - $5.9 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% (2015 – 26.0%) as follows:

	December 31 2016	December 31 2015
Pre-tax loss for the year	$ (638,341)	$ (2,145,272)
Expected income tax recovery	(165,969)	(557,771)
Non-deductible items	(548,244)	729,715
Deferred income tax assets not recognized	714,213	(171,944)
Income tax recovery	$ -	$ -

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