CARAT EXPLORATION INC.

FINANCIAL STATEMENTS

FEBRUARY 28, 2006

(UNAUDITED)

NOTICE TO READER

BALANCE SHEETS

STATEMENTS OF LOSS AND DEFICIT

STATEMENTS OF CASH FLOWS

NOTES TO FINANCIAL STATEMENTS

MINNI, CLARK & COMPANY
CERTIFIED GENERAL ACCOUNTANTS

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** Incorporated Professional*

NOTICE TO READER

To the Shareholders,
CARAT EXPLORATION INC.

We have compiled the balance sheets of **CARAT EXPLORATION INC.** as at February 28, 2006 and the statements of loss, deficit and cash flows for the six month period then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

"MINNI, CLARK & COMPANY"
CERTIFIED GENERAL ACCOUNTANTS

Vancouver, B.C.
April 15, 2006

CARAT EXPLORATION INC.

BALANCE SHEETS

(UNAUDITED – SEE NOTICE TO READER)

ASSETS

	Feb. 28, 2006	Aug. 31, 2005
CURRENT		
Cash	$ 888,195	$ 148,664
GST receivable	36,201	25,810
Interest receivable	4,704	897
Prepaid expenses and deposits	6,474	-
Provincial tax credit receivable (Note 3)	148,822	85,878
Exploration advances	6,474	-
	1,090,870	261,249
MINERAL PROPERTY (Note 4)	68,958	68,958
DEFERRED EXPLORATION COSTS (Note 4)	676,690	340,982
	$ 1,836,518	$ 671,189

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	$ 173,730	$ 9,386
Due to related parties (Note 6)	1,473	736
	175,203	10,122

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 5)	1,815,938	770,595
CONTRIBUTED SURPLUS (Note 5)	255,244	240,000
DEFICIT	(409,867)	(349,528)
	1,661,315	661,067
	$ 1,836,518	$ 671,189

COMMITMENTS (Note 7)

APPROVED BY THE DIRECTORS:

"Charalambos (Harry) Katevatis"

"Dimitrios (Jim) Heras"

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

CARAT EXPLORATION INC.

STATEMENTS OF LOSS AND DEFICIT

FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(UNAUDITED – SEE NOTICE TO READER)

	THREE MONTHS ENDED FEBRUARY 28		SIX MONTHS ENDED FEBRUARY 28	
	2006	2005	2006	2005
REVENUE				
Interest	$ 4,866	$ -	$ 8,629	$ 212
EXPENSES				
Filing fee	7,719	1,595	8,319	1,940
Interest and bank charges	66	2	116	23
Management and administration	10,500	9,750	20,250	19,500
Office and administrative	775	69	775	68
Professional fees	12,600	4,800	14,666	5,700
Rent	623	-	623	-
Stock based compensation	15,244	-	15,244	-
Transfer agent	1,623	758	3,911	758
Travel and promotion	1,543	6,697	5,064	6,783
	50,693	23,671	68,968	34,772
NET LOSS FOR THE PERIOD	(45,827)	(23,671)	(60,339)	(34,560)
DEFICIT, BEGINNING OF PERIOD	(364,040)	(41,501)	(349,528)	(30,612)
DEFICIT, END OF PERIOD	$ (409,867)	$ (65,172)	$ (409,867)	$ (65,172)
BASIC LOSS PER SHARE	$ (0.001)	$ (0.001)	$ (0.002)	$ (0.001)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	33,866,864	24,000,004	33,866,864	24,000,004
FULLY DILUTED LOSS PER SHARE	$ (0.001)	$ (0.001)	$ (0.002)	$ (0.001)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	37,976,984	24,800,004	37,976,984	24,800,004

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

CARAT EXPLORATION INC.

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED FEBRUARY 28, 2006

(UNAUDITED – SEE NOTICE TO READER)

	THREE MONTHS ENDED FEBRUARY 28		SIX MONTHS ENDED FEBRUARY 28	
	2006	2005	2006	2005
OPERATING ACTIVITIES				
Net loss for the period	$ (45,827)	$ (23,671)	$ (60,339)	$ (34,560)
Items not involving cash:				
Stock based compensation	15,244	-	15,244	-
	(30,583)	(23,671)	(45,095)	(34,560)
Changes in non-cash working capital items:				
GST receivable	(4,939)	(2,523)	(10,391)	(4,387)
Interest receivable	(2,270)	-	(3,807)	-
Prepaid expenses and deposits	175,026	307	(6,474)	(14,633)
Provincial tax credit receivable	(85,545)	-	(62,944)	(2,740)
Accounts payable	165,904	15,407	164,344	12,339
Due to related parties	1,473	18,497	737	31,481
	219,066	8,017	36,370	(12,500)
FINANCING ACTIVITIES				
Deferred share issue costs	-	(9,779)	-	(39,730)
Shares issued for cash, net of Share issue costs	332,974	-	1,045,343	-
	332,974	(9,779)	1,045,343	(39,730)
INVESTING ACTIVITIES				
Deferred exploration costs (net)	(286,466)	(7,950)	(342,182)	(18,970)
INCREASE (DECREASE) IN CASH	265,574	(9,712)	739,531	(71,200)
CASH, BEGINNING OF PERIOD	622,621	14,089	148,664	75,577
CASH, END OF PERIOD	$ 888,195	$ 4,377	$ 888,195	$ 4,377

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

1. NATURE OF OPERATIONS

The Company was incorporated under the laws of the Province of British Columbia on October 16, 2003. The Company listed its common shares for trading on the TSX Venture Exchange as a junior mineral exploration company on March 14, 2005. The Company is in the development stage and is in the process of acquiring and exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts shown for mineral property and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and upon future profitable production or proceeds from the disposition thereof. There is no assurance that the Company will be successful in recovering the amounts shown for mineral property and related exploration costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral properties and deferred exploration costs. Actual results could differ from those reported.

b) Mineral Properties and Exploration Costs

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized on the unit of production basis over the proven reserves of the related property following commencement of production. Proceeds received, as a result of the sale of a mineral property, will be applied first against the carrying value of the property, and any excess will be set off against deferred exploration costs. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral property and has not yet determined the amount of reserves available. Management reviews the carrying value of the mineral property on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company and the assessment of future probability of profitable revenues from the property or from the sale of the property. The amounts shown for mineral property and deferred exploration costs represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

c) General and Administrative Expenses

The Company charges all general and administrative expenses not directly related to exploration activities to operations as incurred.

d) Fair Market Value of Financial Instruments

The carrying values of cash, GST receivable, accounts payable and accrued liabilities, amount due to related party, prepaid expenses and advances approximate their fair market value because of the short maturity of these instruments. Unless otherwise noted, it is managements opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

e) Loss Per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding during the period.

The Company uses the treasury stock method to compute the dilutive effect of the options, warrants and similar instruments. Under this method the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive. Therefore, there is no difference in the calculation of basic and diluted loss per share.

f) Stock-based Compensation

Canadian generally accepted accounting principles require the fair value of all share purchase options to be expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

g) Future Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. These future taxes are measured by the provisions of currently enacted tax laws. Management believes that it is not sufficiently likely that the Company will generate sufficient taxable income to allow the realization of future income assets and therefore the Company has fully provided against these assets.

3. PROVINCIAL TAX CREDIT

The Company is qualified for the B.C. Mining Exploration Tax Credit ("BCMETC"). The BCMETC is a B.C. income tax credit which is equal to 20% of qualified mining exploration costs incurred by the Company, and is refundable to the extent it exceeds the Company's income tax payable.

4. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS

Seneca Property

Pursuant to an option agreement dated June 21, 2004, the Company was granted an option to acquire a 100% undivided interest in 6 mineral claims situated in the New Westminster Mining Division, B.C. As consideration for the property, the Company paid $20,000. The claims are subject to net Smelter Return Royalty of 1%. Under the terms of the agreement the Company has also the option to purchase the net Smelter Returns Royalty of 1% for $250,000 at any time before the property is put into commercial production.

During the year ended August 31, 2004 the Company staked 12 additional mineral claims at the cost of $35,928 and during the year ended August 31, 2005 the Company staked 16 additional claims at the cost of $3,030.

By another opinion agreement dated July 22, 2005, the Company was granted an option to acquire a 100% undivided interest in two mineral claims also situated in the New Westminster Mining Division, B.C.. As consideration, the Company paid $10,000 and has agreed to pay a further sum of $30,000 on or before July 22, 2006. In addition, the Company has agreed to expend $20,000 on exploration expenditure on or before March 20, 2006. The claims are subject to a 2% Net Smelter Royalty, which can be purchased by the Company for $1.25 million at any time.

Deferred Exploration Costs

	Balance, Aug. 31, 2005	Additions	Balance, Feb. 28, 2006
Analytical fees	$ 6,774	$ 5,981	$ 12,755
Drilling	-	180,536	180,536
Geological surveys, consulting and reports	237,244	139,074	376,318
Travel, supplies and field expenses	53,685	86,000	139,685
Project management fees	3,804	-	3,804
Sampling, prospecting and line cutting	112,403	3,862	116,265
Mineral work fees	7,950	4,000	11,950
Mobilization and demobilization	5,000	1,800	6,800
	426,860	421,253	848,113
Provincial tax credit (Note 3)	(85,878)	(85,545)	(171,423)
	$ 340,982	$ 335,708	$ 676,690

5. SHARE CAPITAL

a) Authorized

100,000,000 common shares without par value.

b) Issued and fully paid

	Number of Shares	Amount
Balance, August 31, 2004	6,000,001	$ 255,001
Issued pursuant to a prospectus (at $0.30, net of share issue costs)	2,000,000	473,594
Issued as corporate finance fee to agent	40,000	12,000
Issued pursuant to agent's warrants exercised	100,000	30,000
Balance, August 31, 2005	8,140,001	770,595
Issued pursuant to:		
Private placement @ $2.38 net of share issuance costs	330,400	712,369
Private placement @ $2.81 net Of share issuance costs	130,000	332,974
Forward split 4/1	25,801,203	-
Balance, February 28, 2006	34,401,604	$ 1,815,938

On February 23, 2006 the company issued and outstanding shares were split on the basis of four new shares for each existing share increasing the number of shares issued by 25,801,203.

In February 2006, the Company completed a non-brokered private placement of 130,000 (pre-split) units at a price of $2.81 (pre-split) per unit. Each unit consists of common share and one-half a non-transferable share purchase warrant entitling the holder to purchase one additional common share at a price of $3.30 (pre-split) for a period of one year. In consideration for the above financing the Company paid a finders fee of $2,810.

5. SHARE CAPITAL - continued

c) Stock Options

As at February 28, 2006, the following directors and employee stock options were outstanding:

Number of Shares	Exercise Price	Expiry date
3,200,000	$0.075	February 28, 2007
1,600,000	$0.90	February 3, 2008

For the period ended February 28, 2006 the Company recorded a stock-option compensation charge of $15,244 in respect to the stock options for the 1,600,000 shares granted. The fair value of these stock options, which vested immediately at the date of grant, is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair value are as follows:

Risk free interest rate	3.58%
Expected life of options	2 years
Expected dividend	0.0%
Expected stock price volatility	0.778%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Stock based compensation charges are expensed for the stock options granted with a corresponding increase to contributed surplus. Upon exercise of stock options the consideration paid will be credited to share capital.

d) Warrants

As at February 28, 2006, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry date
660,800	$0.70	August 15, 2006
260,000	$0.825	January 6, 2007

e) Escrow Shares

As at February 28, 2006 – 11,925,004 (August 31, 2005 – 14,310,000) common shares of the Company are subject to escrow agreements, and may be released in accordance with regulatory policies as follows:

- 10% upon listing on TSX (listed March 14, 2005);
- 15% every six months thereafter for 36 months.

6. RELATED PARTY TRANSACTIONS

a) During the period ended February 28, 2006, the Company paid $20,250 (2005 - $19,500) for management and administration expenses to a company controlled by a director.

b) Included in deferred exploration costs is $204,709 (2005 - $Nil) paid to a company controlled by a director for geological consulting, project maintenance fees and reimbursement of expenses.

c) The amounts due to related parties are non-interest bearing and unsecured, with no fixed terms of repayment.

d) During the period $2,926 (2005 - $Nil) was paid to a firm controlled by an officer of the Company for legal fees and disbursements.

7. COMMITMENTS

The Company entered into an operating lease for office premises which expires on January 31, 2009. The minimum rental obligations under this lease is as follows:

2006	$ 6,320.00
2007	7,584.00
2008	7,584.00
2009	7,584.00
	$ 22,120.00