CARAT EXPLORATION INC.

Consolidated Financial Statements (Unaudited)
May 31, 2009 and 2008

Index

Financial Statements

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

These financial statements have been prepared by management of the Company and have not been reviewed by the Company’s independent auditor.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

CARAT EXPLORATION INC.
Consolidated Balance Sheets
May 31, 2009 and August 31, 2008
(Unaudited)

	May 31 2009	August 31 2008
ASSETS		
CURRENT		
Cash	$ 56,502	$ 191,086
Receivable and advances	158	-
GST receivable	5,490	29,430
Tax credit receivable (Note 5)	295,560	293,819
Prepaid expenses and deposit	14,714	15,311
	372,424	529,646
MINERAL PROPERTIES (Note 6)	234,148	234,148
DEFERRED EXPLORATION COSTS (Note 6)	2,903,514	2,860,788
	$ 3,510,086	$ 3,624,582
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 51,282	$ 62,392
Due to related parties (Note 8)	123,921	14,343
	175,203	76,735
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	4,267,477	4,267,477
CONTRIBUTED SURPLUS (Note 7)	3,813,625	3,813,066
DEFICIT	(4,746,219)	(4,532,696)
	3,334,883	3,547,847
	$ 3,510,086	$ 3,624,582

Commitment (Note 6)

APPROVED BY THE DIRECTORS:

"Jim Heras"
Jim Heras, Director

"Yannis Tsitos"
Yannis Tsitos, Director

The accompanying notes are an integral part of these financial statements

CARAT EXPLORATION INC.
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended May 31, 2009	Three Months Ended May 31, 2008	Nine Months Ended May 31, 2009	Nine Months Ended May 31, 2008
OPERATING ACTIVITIES				
Net loss for the period	$ (60,584)	$ (798,447)	$ (213,523)	$ (3,016,442)
Add items not affecting cash:				
Stock-based compensation	559	738,400	559	2,853,565
Net changes in non-cash working capital items				
Short-term investment	20,000	260,000	-	550,000
Receivable and advances	(158)	(19,777)	(158)	(30,510)
GST receivable	(967)	(6,362)	23,940	(20,231)
Accrued interest receivable	62	6,480	-	2,995
Tax credit receivable	(1,741)	(1,388)	(1,741)	(2,028)
Prepaid and deposit	(12,750)	(10,674)	597	(13,937)
Accounts payable and accrued liabilities	10,190	(12,880)	(11,110)	(33,112)
	(45,389)	155,352	(201,436)	290,300
FINANCING ACTIVITIES				
Amounts due to related parties	107,726	(2,205)	109,578	35
	107,726	(2,205)	109,578	35
INVESTING ACTIVITIES				
Deferred exploration costs	(28,002)	(108,117)	(42,726)	(467,843)
	(28,002)	(108,117)	(42,726)	(467,843)
INCREASE (DECREASE) IN CASH DURING THE PERIOD	34,335	45,030	(134,584)	(177,508)
CASH, BEGINNING OF PERIOD	22,167	110,369	191,086	332,907
CASH, END OF PERIOD	$ 56,502	$ 155,399	$ 56,502	$ 155,399
Supplemental Cash Flow Information:				
Income tax paid	$ -	$ -	$ -	$ -
Interest paid	$ -	$ 1,273	$ -	$ 1,282

The accompanying notes are an integral part of these financial statements

CARAT EXPLORATION INC.
Consolidated Statements of Loss and Deficit
(Unaudited)

		Three Months Ended May 31, 2009		Three Months Ended May 31, 2008		Nine Months Ended May 31, 2009		Nine Months Ended May 31, 2008
EXPENSES								
Insurance		4,250		6,326		17,487		8,212
Investor relations		-		-		-		22,575
Management and administration fees		9,000		10,000		27,000		34,000
Office and others		2,416		2,636		14,381		12,419
Professional fees		5,596		7,181		25,499		25,135
Rent		3,085		2,141		9,096		6,076
Salaries and benefits		31,167		32,168		103,234		53,614
Stock-based compensation		559		738,400		559		2,853,565
Stock exchange and filing fees		150		150		8,455		10,168
Transfer agent fees		2,462		926		4,930		6,008
Travel and promotion		919		500		2,373		2,842
		59,604		800,428		213,014		3,034,614
Interest income		(48)		(1,256)		(1,180)		(10,647)
Interest expense		587		405		1,282		414
Foreign exchange		441		(1,130)		407		(7,939)
NET LOSS FOR THE PERIOD		(60,584)		(798,447)		(213,523)		(3,016,442)
DEFICIT, BEGINNING OF PERIOD		(4,685,635)		(4,246,599)		(4,532,696)		(2,028,604)
DEFICIT, END OF PERIOD	$	(4,746,219)	$	(5,045,046)	$	(4,746,219)	$	(5,045,046)
BASIC LOSS PER SHARE	$	-	$	(0.02)	$	(0.01)	$	(0.08)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		37,913,704		37,263,404		37,913,704		37,263,404

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS AND GOING-CONCERN

Carat Exploration Inc. (the "Company") was incorporated under the laws of the province of British Columbia on October 16, 2003. The Company is an exploration stage company 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.

These consolidated financial statements were prepared on a "going-concern" basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As of May 31, 2009, the Company had working capital of $197,221 (August 31, 2008 - $452,911). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses. The Company has an accumulated deficit of $4,746,219 as at May 31, 2009 (August 31, 2008 - $4,532,696).

The Company's ability to discharge its liabilities and fulfill its commitments as they come due is dependent upon its success in obtaining additional equity financing and, ultimately, on locating economically recoverable resources and attaining profitable operations. Failure to continue as a going-concern would require the restatement of assets and liabilities on a liquidation basis, which could differ materially from the going-concern basis.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going-concern assumptions were not appropriate because management believes that actions taken or planned will mitigate the adverse conditions that raise doubts about the Company's viability.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiary, Acarat (Chile) S.A. All significant intercompany transactions and balances have been eliminated.

(b) 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 amounts 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, amount of tax credit receivable and accrued liabilities, the assumptions used in the determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Mineral properties and exploration costs

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

All capitalized costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

(d) Revenue recognition

Interest income is recorded as earned at the stated rate of interest of the short-term investment over the term to maturity.

(e) General and administrative expenses

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

(f) Basic and diluted loss per share

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

The Company uses the treasury stock method to compute the dilutive effect of outstanding 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 year. Diluted loss per share is not presented when the effects are anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Stock-based payments

The Company has a stock-based compensation plan, which is described in note 7(c). The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to capital stock.

(h) Future income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively assured. Future tax benefits, such as non-capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered to be more likely than not.

(i) Short-term investments

Short-term investments include money market instruments that mature in greater than ninety days but less than one year from the date of acquisition.

(j) Asset retirement obligation

The Company recognizes the estimated fair value of legal obligations associated with the retirement of tangible long-lived assets that it is required to settle as a result of existing or enacted laws or by legal construction of a contract. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. The Company estimates fair value by determining the current market cost required to settle the asset retirement obligation, adjusts for inflation through to the expected date of the expenditures and discounts this amount back to the date when the obligation was originally incurred. As the liability is initially recorded on a discounted basis, it is increased each period until the estimated date of settlement. The resulting expense is referred to as accretion expense and is included in operations. The Company reviews the asset retirement obligation for each long-lived asset on a periodic basis and adjusts the liability as necessary to reflect changes in the estimated future cash flows and timing underlying the fair value measurement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Asset retirement obligation (Continued)

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. As at May 31, 2009, the Company has determined that no provision for asset retirement obligations is required.

(k) Foreign currency translation

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are recognized in the determination of net loss in the year in which they arise.

(l) Hedging

This standard addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures, and also requires all derivatives in hedging relationships to be recorded at fair value. The Company does not have hedging relationships in place.

(m) Comprehensive income

Comprehensive income is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity from transactions and other events from non-owner sources, and includes unrealized gains and losses on financial assets that are classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments.

(n) Financial Instruments – Recognition and Measurement

This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered or most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the consolidated statements of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial Instruments – Recognition and Measurement (Continued)

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

(o) Changes in accounting policies

The CICA issued the following recommendations that were adopted by the Company on September 1, 2008. In accordance with the transitional provisions, these standards have been applied without restatement of prior periods.

(i) Financial Instruments – Disclosures, Section 3862

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance, and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

(ii) Financial Instruments – Presentation, Section 3863

This section carries forward the existing presentation requirements and provides additional guidance for classification of financial instruments. The disclosures required pursuant to this Section and Section 3862 is presented in Note 4.

(iii) Going Concern, Section 1400

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of a company's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going-concern. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The adoption of this standard did not have a significant impact on the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iv) Capital Disclosures, Section 1535

This section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. The new requirements are related to disclosure only and will not impact the financial results of the Company.

(v) The following is an overview of recent accounting pronouncements that the Company will be required to adopt in future years:

(1) Goodwill and Intangible Assets, Section 3064

In January 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces existing Section 3062, "Goodwill and Other Intangible Assets". This new section establishes standards for the recognition of internally developed intangible assets. This section is applicable to the Company commencing October 1, 2008.

(2) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February, 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of September 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011 and earlier where applicable. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are as follows:

- To safeguard its ability to continue as a going concern
- To have sufficient capital to be able to meet its strategic objectives including the continued exploration of its existing mineral projects and the identification of additional projects.

Given the current exploration stage of its projects, the Company's sole source of capital is derived from equity issuances (see Note 7). Capital consists of equity attributable to common shareholders comprising issued share capital, share purchase warrants, contributed surplus and accumulated deficit. The Company has no externally imposed capital requirements and manages its capital structure in accordance with its strategic objectives and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares in the form of private placements and/or secondary public offerings. There have been no changes in either the Company's objectives in managing its capital or approach to managing capital during the period.

4. FINANCIAL INSTRUMENTS

The Company has designated its cash and short-term investments as held-for-trading; amounts receivable as loans and receivables; and accounts payable and accrued liabilities as other liabilities.

(a) Fair value

The carrying values of cash, short-term investments, receivables, advances, tax credit receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments.

The fair values of amounts due from (to) related party are not practicable to determine due to their related party nature.

(b) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(c) Credit risk

The Company is exposed to credit risk with respect to its balances receivable, which consists largely of tax credits receivable from Canadian agencies and interest receivable.

(d) Currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

(e) Liquidity risk

Liquidity risk encompasses the risk that an entity can not meet its financial obligations in full. The Company manages liquidity by maintaining adequate cash and cash equivalent balances. As at May 31, 2009, the Company had $197,221 in working capital. The Company will need additional financing to meet its work commitment and to maintain its operation in the next twelve months.

5. TAX CREDIT

The Company is qualified for the British Columbia Mining Exploration Tax Credit (“BCMETC”). The BCMETC is a refundable income tax credit, which is equal to 20% of qualified mining exploration costs incurred by the Company. It is refundable in the following year to the extent it exceeds the Company’s income tax payable.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

		May 31, 2009		August 31, 2008
Seneca Property, British Columbia	$	125,902	$	125,902
Combarbala Property, Chile		-		-
Tucuma Property, Brazil		108,246		108,246
	$	234,148	$	234,148

Seneca Property

Pursuant to an option agreement dated June 21, 2004, the Company was granted an option to acquire a 100% undivided interest in six mineral claims situated in the New Westminster Mining Division, British Columbia. As consideration for the property, the Company paid $20,000. The claims are subject to a net smelter return royalty of 1%. Under the terms of the agreement, the Company also has the option to purchase the net smelter return royalty for $250,000 at any time before the property is put into commercial production. The Company has not exercised this option. During the years ended August 31, 2004 and 2005, the Company staked 28 additional mineral claims at a cost of $38,958.

By another option agreement dated July 22, 2005, the Company was granted an option to acquire a 100% undivided interest in two mineral claims situated in the New Westminster Mining Division, British Columbia. As consideration, the Company paid $40,000 and agreed to $20,000 of exploration expenditures on or before March 20, 2006 (incurred). The claims are subject to a 2% net smelter royalty, which can be purchased by the Company for $1,250,000 at any time. The Company has not yet exercised this option. Included in the cost of acquisition is $26,944 paid for assessment fees.

Combarbala Property

Pursuant to an option agreement dated July 14, 2006, the Company was granted an option to acquire a 50% undivided interest in 29 mineral claims located in the IV Region of Chile. To earn its interest, the Company is required to spend US $250,000 by July 14, 2007 (incurred) and an additional US $1,000,000 by July 14, 2009. Upon completing the expenditures the Company may elect to be vested with an undivided 50% interest in the property and form a joint venture with the optionor (“BHP Billiton”) for the continued exploration and development of the property. BHP Billiton may elect to acquire up to a 70% interest in the joint venture within 180 days of formation, by repaying the historical expenditures incurred by the Company and funding additional expenditures on the property up to an aggregate of $12,000,000 or complete a pre-feasibility study, whichever occurs earlier.

To date, the Company has expended a total of approximately US$933,400 in the Combarbala Property. The Company is in the process of renegotiating with BHP Billiton on the terms on this property.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (continued)

Tucuma Project

In March 2008, the Company entered into an Option and Joint Venture Agreement with Brasilca Mining Corporation to earn a 70% interest in the Tucuma project in Brazil, subject to regulatory approval (received). The Company has agreed to pay US $100,000 (paid) at the conclusion of the due diligence, an additional US $100,000 on or before March 13, 2009, and incur an aggregate of US $2,000,000 in exploration expenditures over three years with a minimum of US $400,000 in the first year. The Company has not paid US$100,000 nor incurred US$400,000 in the Tucuma project on or before March 13, 2009. The Company is in the process of negotiations with the owner of the property to re-schedule cash and work commitments.

Realization

The Company's investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

Title

Although the Company has taken steps to ensure the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Environmental

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Deferred Exploration Costs

The Company incurred the following deferred exploration costs:

		Nine Months Ended May 31, 2009		Year Ended August 31, 2008
Seneca Property, B.C.				
Balance, beginning of period	$	1,888,044	$	1,875,289
Additions during the period:				
Analystical fees		825		1,300
Geological surveys, consulting and reports		6,761		7,601
Miscellaneous		621		408
Sampling and prospecting		-		6,519
Travel, supplies and field expenses		-		116
		8,207		15,944
Mining tax credit		(1,641)		(3,189)
		6,566		12,755
Balance, end of period		1,894,610		1,888,044
Combarbala Property, Chile				
Balance, beginning of period		951,155		466,188
Additions during the year:				
Analystical fees		13,720		34,416
Drilling		-		83,466
Geological surveys, consulting and reports		2,748		182,547
Legal		19,080		182,547
Miscellaneous		392		11,044
Sampling and prospecting		220		118,517
Travel, supplies and field expenses		-		54,977
		36,160		667,514
Balance, end of period		987,315		1,133,702
Tucuma Property, Brazil				
Balance, beginning of period		21,589		-
Consulting and report		-		21,589
Balance, end of period		21,589		21,589
Total deferred exploration costs	$	2,903,514	$	3,043,335

7. SHARE CAPITAL

(a) Authorized

400,000,000 common shares without par value

(b) Issued and fully paid

	Number of Shares	Share Capital	Contributed Surplus
Balance, August 31, 2007	37,263,404	$ 4,040,914	$ 1,556,816
Private placement	650,300	260,120	-
Fair value of warrants	-	(8,302)	8,302
Fair value of brokers' warrants	-	(3,105)	3,105
Share issuance costs	-	(22,150)	-
Stock-based compensation	-	-	2,244,843
Balance, August 31, 2008	37,913,704	4,267,477	3,813,066
Stock-based compensation	-	-	559
Balance, May 31, 2009	37,913,704	4,267,477	3,813,625

In August 2008, the Company completed a non-brokered private placement of 612,500 units at a price of $0.40 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.65 per share for twelve months. If the Company's common shares trade at a price greater than $0.90 per share for a period of ten consecutive business days, the Company may force the warrant holder to exercise the warrants within ten business days. If the warrants are not exercised during this period, they will be terminated. The Company incurred $22,150 in share issuance costs of which $7,030 was paid in cash and $15,120 was settled in units with the same terms above. In addition, the Company issued 42,875 warrants to the brokers exercisable at a price of $0.40 per share for twelve months.

During the year ended August 31, 2008, the Company recorded $8,302 for the fair value of the warrants issued pursuant to the private placement and recorded $3,105 for the fair value of the brokers' warrants as share issue costs. These balances were estimated using the Black-Scholes option pricing model assuming 2.67% risk-free interest rate and volatility of 62.62% over a period of one year with no dividend.

7. SHARE CAPITAL (Continued)

(c) Stock options

The Company has granted share purchase options to directors and officers of the Company to purchase common shares of the Company. These options are granted with an exercise price equal to the market price of the Company's stock at the date of grant.

During the annual general meeting on February 25, 2009, the Company adopted a stock option plan (the "Plan") whereby the maximum number of common shares of the Company that may be issued under the Plan will be 7,582,740 of the common shares issued and outstanding.

A summary of the stock options activities is as follows:

	Number		Weighted Average Price
Balance, August 31, 2007	6,425,000	$	0.930
Granted	1,200,000		0.420
Expired	(1,675,000)		0.910
Balance, August 31, 2008	5,950,000		0.830
Granted	200,000		0.250
Expired	(450,000)		0.500
Balance, May 31, 2009	5,700,000	$	0.840

During the nine months ended May 31, 2009:

- On May 19, 2009, the Company granted 200,000 options to a consultant with an exercise price of $0.25 of which 25% vested each quarter thereafter.

During the year ended August 31, 2008:

- On October 22, 2007, the Company granted 200,000 options to consultants with an average exercise price of $0.50 of which 25% vested immediately and the remaining vesting 25% each quarter thereafter.
- On January 2, 2008, the Company granted 1,000,000 options to an officer with an exercise price of $0.40 of which 25% vested immediately and the remaining vesting 25% each quarter thereafter.

7. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

Stock options outstanding at May 31, 2009 were as follows:

Expiry Date	Number of Options		Exercise Price	Exercisable
April 30, 2012	4,500,000	$	0.92	4,500,000
May 19, 2011	200,000	$	0.25	-
January 2, 2013	1,000,000	$	0.40	1,000,000
Balance, end of period	5,700,000			5,500,000
Weighted average contractual life	3.00			3.04

Stock options outstanding at August 31, 2008 were as follows:

Expiry Date	Number of Options		Exercise Price	Exercisable
October 22, 2008	100,000	$	0.40	100,000
October 22, 2008	100,000	$	0.60	100,000
April 15, 2009	250,000	$	1.17	250,000
April 30, 2012	4,500,000	$	0.92	3,375,000
January 2, 2013	1,000,000	$	0.40	750,000
Balance, end of period	5,950,000			4,575,000
Weighted average contractual life	3.54			3.46

During the nine months ended May 31, 2009, the Company recognized fair value of $559 (2008 - $2,853,565) in stock-based compensation expense and was recorded in the statements of operations for the stock options granted and vested to directors, officers and consultants of the Company. Stock-based compensation expense of $559 (2008 - $18,176) was attributed to investor relations and $Nil (2008 - $2,096,989) was attributed to management and administration fees.

The fair value of the share options used to calculate compensation expense was estimated using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended May 31, 2009	Year Ended August 31, 2008
Risk-free interest rate	1.1%	4.32% to 2.62%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	120%	63% to 89%
Expected life of options	2 years	1 - 5 years
Weighted average fair value of options granted	$0.16	$0.25
Weighted average execrise price of options granted	$0.25	$0.42

7. SHARE CAPITAL (Continued)

(d) Warrants

	Nine Months Ended May 31, 2009		Year Ended August 31, 2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of period	368,025	$ 0.62	375,000	$ 1.20
Issued		-	368,025	0.62
Expired		-	(375,000)	1.20
Balance, end of period	368,025	$ 0.62	368,025	$ 0.62

Warrants exercisable and outstanding at May 31, 2009 have a remaining contractual life of 0.22 years and were as follows:

Number of Warrants	Exercise Price	Expiry Date
325,150	$ 0.65	August 19, 2009
42,875	$ 0.40	August 19, 2009
368,025		

Warrants exercisable and outstanding at August 31, 2008 were as follows:

Number of Warrants	Exercise Price	Expiry Date
325,150	$ 0.65	August 19, 2009
42,875	$ 0.40	August 19, 2009
368,025		

8. RELATED PARTY TRANSACTIONS

During the nine months ended May 31, 2009, the Company had the following related party transactions:

(a) paid $27,000 (2008 - $34,000) for management fees and administration expenses to a company controlled by a director;

(b) $7,118 (2008 - $11,266) was paid to a firm controlled by an officer of the Company for legal fees and disbursements. As of May 31, 2009, $Nil (August 31, 2008 - $6,446) was included in due to related parties;

(c) paid $12,920 (2008 - $Nil) for accounting fees to a company controlled by an officer. As of May 31, 2009, $588 (August 31, 2008 - $Nil) was included in due to related parties.

8. RELATED PARTY TRANSACTIONS (Continued)

(d) $11,882 (2008 - $6,300 rent recovery) was recorded as reimbursement for rent and office expenses from a company related through common directors. As of May 31, 2009, a balance of $22,766 was due to (August 31, 2008 - $7,657) this company. The amount is non-interest bearing and unsecured, with no fixed terms of repayment; and

(e) paid $8,116 (2008 - $1,461) to directors for reimbursement of expenses. As of May 31, 2009, a balance of $Nil (August 31, 2008 - $240) was due to a director.

(f) accrued $567 (2008 - $Nil) in interest expenses payable to a relative of a director in connection with a loan in the amount of $100,000 repayable on or before April 27, 2010 at the interest rate of 6% per annum. As of May 31, 2009, total loan and interest outstanding was $100,567.

All transactions were measured by the exchange amount, which is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

9. SUBSEQUENT EVENTS

Subsequent to the period end, the Company had the following transactions:

(a) completed a private placement of 2,072,163 common shares at a price of $0.30 per share with total proceeds of $576,960 net of finders' fees;

(b) issued 76,923 common shares with a deemed price of $0.26 per share to a relative of a director as bonus interest in consideration with a loan in the amount of $100,000 extended to the Company;

(c) received $112,601 for mining tax credit;

(d) repaid the $100,000 loan with interest;

(e) granted an aggregate 800,000 stock options to directors and officers exercisable at a price of $0.32 per share for a period of five years.