CARAT EXPLORATION INC.

INTERIM FINANCIAL STATEMENTS

NOVEMBER 30, 2005

(UNAUDITED)

MINNI, CLARK & COMPANY
CERTIFIED GENERAL ACCOUNTANTS

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NOTICE TO READER

To the Shareholders,
CARAT EXPLORATION INC.

We have compiled the balance sheets of **CARAT EXPLORATION INC.** as at November 30, 2005 and the statements of loss, deficit and cash flows for the periods 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.
January 23, 2006

CARAT EXPLORATION INC.

INTERIM BALANCE SHEETS

(UNAUDITED – SEE NOTICE TO READER)

ASSETS

	Nov.30, 2005	Aug. 31, 2005
CURRENT		
Cash	$ 622,621	$ 148,664
GST receivable	31,262	25,810
Interest receivable	2,434	897
Provincial tax credit receivable (Note 3)	63,277	85,878
Exploration advances (Note 6(e))	181,500	-
	901,094	261,249
MINERAL PROPERTY (Note 4)	68,958	68,958
DEFERRED EXPLORATION COSTS (Note 4)	392,935	340,982
	$ 1,362,987	$ 671,189

LIABILITIES

	Nov.30, 2005	Aug. 31, 2005
CURRENT		
Accounts payable and accrued liabilities	$ 7,826	$ 9,386
Due to related parties (Note 6)	-	736
	7,826	10,122

SHAREHOLDERS' EQUITY

	Nov.30, 2005	Aug. 31, 2005
SHARE CAPITAL (Note 5)	1,482,964	770,595
CONTRIBUTED SURPLUS (Note 5)	240,000	240,000
DEFICIT	(367,803)	(349,528)
	1,355,161	661,067
	$ 1,362,987	$ 671,189

APPROVED BY THE DIRECTORS:

"Harry Katevatis"

"Jim Heras"

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

CARAT EXPLORATION INC.

INTERIM STATEMENTS OF LOSS AND DEFICIT

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2005

(UNAUDITED – SEE NOTICE TO READER)

	2005	(Note 8) 2005
EXPENSES		
Filing fee	$ 600	$ 8,484
Interest and bank charges	50	70
Management and administration fees (Note 6)	9,750	39,000
Office and miscellaneous	-	867
Professional fees	2,066	17,668
Stock-based compensation (Note 5)	-	240,000
Transfer agent	2,288	4,017
Travel and promotion	3,521	9,023
NET LOSS FOR THE PERIOD	(18,275)	(319,129)
DEFICIT, BEGINNING OF THE PERIOD	(349,528)	(30,399)
DEFICIT, END OF PERIOD	$ (367,803)	$ (349,528)
Basic diluted loss per share	$ (0.002)	$ (0.046)
Weighted average number of shares outstanding	8,444,986	7,019,069
Fully diluted loss per share	$ (0.002)	$ (0.041)
Weighted average number of shares outstanding	9,407,486	7,819,069

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

CARAT EXPLORATION INC.

INTERIM STATEMENTS OF CASH FLOWS

FOR THE THREE MONTH PERIOD ENDED NOVEMBER 30, 2005

(UNAUDITED – SEE NOTICE TO READER)

	2005	(Note 8) 2005
OPERATING ACTIVITIES		
Net loss for the period	$ (18,275)	$ (319,129)
Items not involving cash:		
Stock-based compensation	-	240,000
Changes in non-cash working capital items:		
GST receivable	(5,452)	(13,479)
Interest receivable	(1,537)	(897)
Prepaid expenses and advances	(181,500)	307
Provincial tax credit receivable	22,601	(63,871)
Accounts payable and accrued liabilities	(1,560)	6,176
	(185,723)	(150,893)
FINANCING ACTIVITIES		
Advances from related parties (repaid)	(736)	(27,045)
Issuance of shares, net of share issuance costs	712,369	515,594
	711,633	488,549
INVESTING ACTIVITIES		
Deferred exploration costs (net)	(51,953)	(251,539)
Acquisition of mineral properties	-	(13,030)
	(51,953)	(264,569)
INCREASE IN CASH	473,957	73,087
CASH, BEGINNING OF PERIOD	148,664	75,577
CASH, END OF PERI0D	$ 622,621	$ 148,664
REPRESENTED BY:		
Cash	$ 622,621	$ 148,664
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

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

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 period ended August 31, 2004 the Company staked 12 additional mineral claims at the cost of $35,928. During the year ended August 31, 2005 16 additional claims were staked by the Company 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, Nov. 30, 2005
Analytical fees	$ 6,774	$ -	$ 6,774
Drilling	-	11,299	11,299
Geological surveys, consulting and reports	239,456	40,416	279,872
Travel, supplies and field expenses	53,685	-	53,685
Project management fees	3,804	-	3,804
Sampling, prospecting and line cutting	112,403	-	112,403
Mineral work fees	7,950	4,000	11,950
Mobilization and demobilization	5,000	-	5,000
	492,072	55,715	484,787
Interest income	(2,212)	(3,762)	(5,974)
Provincial tax credit (Note 3)	(85,878)	-	(85,878)
	$ 340,982	$ 51,953	$ 392,935

5. SHARE CAPITAL

a) Authorized

100,000,000 common shares without par value.

b) Issued and fully paid

On March 11, 2005 the Company completed its initial public offering of 2,000,000 common shares at $0.30 per share. Pursuant to this financing, the Company paid an agent's commission of 10% in cash totaling $60,000 and issued to the agent a warrant to acquire 100,000 shares at $0.30 per share. The agent also received a corporate finance fee of $5,000 cash and 40,000 common shares at a fair market price of $0.30 per share. The warrant for the 100,000 shares was exercised by the agent during the year for proceeds of $30,000.

		Number of Shares	Amount
Subscriber's share		1	$ 1
Issued pursuant to:			
Private placement	@ $0.01	3,000,000	30,000
Escrow shares	@ $0.075	3,000,000	225,000
Balance, August 31, 2004		6,000,001	255,001
Issued pursuant to a prospectus (at $0.30, net of share issue costs of $126,406)		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
Balance, November 30, 2005		8,470,401	$ 1,482,964

5. 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. A summary of the stock options activities during the year ended August 31, 2005 is as follows:

	Number	Weighted Average Price
Options exercisable and outstanding August 31, 2004	-	-
Granted	800,000	$0.30
Expired/cancelled	-	-
Exercised	-	-
Options exercisable and outstanding August 31, 2005 and November 30, 2005	800,000	$0.30

At November 30, 2005 the Company had 800,000 share purchase options outstanding exercisable at $0.30 per share until February 28, 2007.

During the year ended August 31, 2005, stock-based compensation of $240,000 was expensed by the Company. There were no stock options granted during the period ended November 30, 2005.

The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options at the grant date using the following weighted average assumptions for the year ended August 31, 2005:

Weighted average fair value of options granted	$0.30
Expected dividend yield	0.0%
Expected volatility	452%
Risk-free interest rate	3.0%
Expected term in years	2 years

d) Warrants

The Company has 165,200 share purchase warrants outstanding entitling the holder to purchase one additional share at $2.80 per share on or before August 15, 2006.

e) Escrow Shares

As at November 30, 2005 2,981,250 (August 31, 2005 – 3,577,500) 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 November 30, 2005, the Company paid $9,750 (August 31, 2005 - $39,000) for management and administration expenses to a company controlled by a director.

b) The exploration expenses of $51,715 (August 31, 2005 - $245,848) and staking expenses of $Nil (August 31, 2005 - $3,030) incurred by the Company, during the period were charged from a company controlled by a director either as expenses paid or as a reimbursement of expenditure incurred on behalf of the Company. Included under exploration expenses were $Nil (August 31, 2005 - $33,250) for geological consulting fees and $Nil (August 31, 2005 - $2,391) for project management fees paid to the director or company controlled by the director.

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

d) During the period $3,272 (August 31, 2005 - $11,147) was paid to a firm controlled by an officer of the Company for legal fees and disbursements.

e) During the period the Company advanced $150,000 to company controlled by a director for an exploration program on the Seneca Property.

7. INCOME TAXES

At November 30, 2005, the tax effects of the significant components with the Company's future tax assets are as follows using the current income tax rates of 35.6% (2005 – 35.6%):

	Nov. 30, 2005	(Note 8) Aug. 31, 2005
Future income tax assets		
Non-capital losses	$ 18,275	$ 47,348
Exploration and development costs	51,953	145,248
Share issue costs	73,983	36,000
Less:		
Valuation allowance	(144,211)	(228,596)
Net future income tax assets	$ -	$ -

The Company has non-capital tax loss carry forwards of approximately $203,228 (August 30, 2005 - $133,000) and accumulated Canadian exploration and development expenses of approximately $408,000 that are available to reduce taxable income of future periods. These tax loss carry forwards expire between 2014, 2015 and 2016.

Due to uncertainty surrounding the realization of future income tax assets, the Company has recognized a 100% valuation allowance against its future income tax assets.

8. COMPARATIVE FIGURES

Comparative figures reflect operations for the year ended August 31, 2005 as the Company did not have any financials at November 30, 2004 as the Company was listed on the TSX on March 14, 2005.

9. SUSEQUENT EVENT

a) Subsequent to November 30, 2005, the Company announced a non-brokered private placement of 200,000 units at $2.81 per unit. Each unit shall consist of one flow-through common share and one half share purchase warrant. Each warrant is exercisable at a price of $3.30 per share for a period of one year from closing.

b) Subsequent to November 30, 2005, the Company received shareholder approval to forward split the authorized and issued capital of the Company on a basis of four new shares for every one old share.