CARAT EXPLORATION INC.

INTERIM FINANCIAL STATEMENTS

NOVEMBER 30, 2006

(UNAUDITED – PREPARED BY MANAGEMENT)

MANAGEMENT COMMENTS ON UNAUDITED FINANCIAL STATEMENTS

The accompanying unaudited financial statements of Carat Exploration Inc. for the three months ended November 30, 2006 have been prepared by management and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

CARAT EXPLORATION INC.

INTERIM BALANCE SHEETS

AS AT NOVEMBER 30, 2006 AND AUGUST 31, 2006

(UNAUDITED – PREPARED BY MANAGEMENT)

ASSETS

	Nov. 30, 2006	Aug. 31, 2006
CURRENT		
Cash	$ 1,503,830	$ 1,623,648
GST receivable	42,527	23,072
Interest receivable	20,298	7,104
Due from related party (Note 6)	5,194	5,194
Provincial tax credit receivable (Note 3)	230,728	173,927
Prepaid expenses and advance	8,515	16,397
	1,811,092	1,849,342
MINERAL PROPERTY (Note 4)	125,902	125,902
DEFERRED EXPLORATION COSTS (Note 4)	1,367,715	1,140,507
	$ 3,304,709	$ 3,115,751

LIABILITIES

	Nov. 30, 2006	Aug. 31, 2006
CURRENT		
Accounts payable and accrued liabilities	$ 270,380	$ 109,910
Due to related parties	803	-
	271,183	109,910

SHAREHOLDERS' EQUITY

	Nov. 30, 2006	Aug. 31, 2006
SHARE CAPITAL (Note 5)	3,386,218	3,322,118
CONTRIBUTED SURPLUS (Note 5)	511,442	412,754
DEFICIT	(864,134)	(729,031)
	3,033,526	3,005,841
	$ 3,304,709	$ 3,115,751

Commitment (Note 7)

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, 2006 AND 2005

(UNAUDITED – PREPARED BY MANAGEMENT)

	2006	2005
EXPENSES		
Filing fee	$ -	$ 600
Interest and bank charges	123	50
Investor relations	20,676	-
Management and administration fees (Note 6)	12,000	9,750
Office and miscellaneous	4,458	-
Professional fees	6,472	2,066
Rent	4,821	-
Shareholder information	-	-
Stock-based compensation (Note 5)	98,688	-
Transfer agent	1,307	2,288
Travel and promotion	1,820	3,521
LOSS BEFORE OTHER ITEMS	(150,365)	(18,275)
OTHER ITEMS		
Interest income	15,262	-
NET LOSS FOR THE YEAR	(135,103)	(18,275)
DEFICIT, BEGINNING OF THE YEAR	(729,031)	(349,528)
DEFICIT, END OF YEAR	$ (864,134)	$ (367,803)
Basic and fully diluted loss per share	$ (0.004)	$ (0.002)
Weighted average number of shares outstanding	36,000,149	8,444,986

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, 2006 AND 2005

(UNAUDITED – PREPARED BY MANAGEMENT)

	2006	2005
OPERATING ACTIVITIES		
Net loss for the period	$ (135,105)	$ (18,275)
Items not involving cash:		
Stock-based compensation	98,688	-
	(36,417)	(18,275)
Changes in non-cash working capital items:		
GST receivable	(19,455)	(5,452)
Interest receivable	(13,193)	(1,537)
Prepaid expenses and advance	7,882	(181,500)
Provincial tax credit receivable	(56,800)	22,601
Accounts payable and accrued liabilities	160,470	(1,560)
	42,487	(185,723)
FINANCING ACTIVITIES		
Advances from related parties (repaid)	803	(736)
Issuance of shares, net of share issuance costs	64,100	712,369
	64,903	711,633
INVESTING ACTIVITIES		
Deferred exploration costs (net)	(227,208)	(51,953)
Acquisition of mineral properties	-	-
	(227,208)	(51,953)
INCREASE (DECREASE) IN CASH	(119,818)	473,957
CASH, BEGINNING OF PERIOD	1,623,648	148,664
CASH, END OF PERIOD	$ 1,503,830	$ 622,621
REPRESENTED BY:		
Cash	$ 1,503,830	$ 622,621

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

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, interest receivable, due from related party, provincial tax credit receivable, prepaid expenses and advances, accounts payable and accrued liabilities, amount due to related parties 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 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 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 year. For the years 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

The Company has a stock-based compensation plan which is described in Note 5(c). The Company accounts for all stock-based payments and awards under the fair value based method.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight line basis over the vesting period.

No stock options were granted to directors and employees during the period.

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 for $250,000 at any time before the property is put into commercial production.

During the periods ended August 31, 2004 and 2005 the Company staked 28 additional mineral claims at the cost of $38,958.

4. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS - continued

By another opinion agreement dated July 22, 2005, the Company was granted an option to acquire a 100% undivided interest in 2 mineral claims also situated in the New Westminster Mining Division, B.C. As consideration, the Company paid $40,000 and 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.

Included in the cost of acquisition is $26,944 paid for assessment fees.

Deferred Exploration Costs

	Nov. 30, 2006	Aug. 31, 2006
Balance, beginning of year	$ 1,140,507	$ 340,982
Analytical fees	5,349	22,644
Drilling	-	391,565
Geological surveys, consulting and reports	108,813	289,161
Travel, supplies and field expenses	158,353	166,092
Project management fees	11,494	1,532
Sampling, prospecting and line cutting	-	36,513
Permits	-	4,000
Mobilization and demobilizing	-	16,800
	1,424,516	1,269,289
Less: mining tax credits	(56,802)	(128,782)
Balance, end of year	$ 1,367,714	$ 1,140,507

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 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 optioner (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 a Pre-Feasibility Study, whichever occurs earlier.

5. SHARE CAPITAL

a) Authorized

400,000,000 common shares without par value.

5. SHARE CAPITAL – continued

b) Issued and fully paid

	Number of Shares	Amount	Contributed Surplus
Balance, August 31, 2004	6,000,001	$ 255,001	$ -
Prospectus financing	2,000,000	600,000	-
Corporate finance fee	40,000	12,000	-
Exercise of agents' warrants	100,000	30,000	-
Share issue costs	-	(126,406)	-
Stock-based compensation	-	-	240,000
Balance, August 31, 2005	8,140,001	770,595	240,000
Private placement	460,400	1,151,652	-
Split on a 3:1 basis	25,801,203	-	-
Exercise of warrants	100,000	70,000	-
Private placement	1,481,800	1,531,740	-
Share issue costs	-	(201,869)	-
Stock-based compensation	-	-	172,754
Balance, August 31, 2006	35,983,404	3,322,118	412,754
Exercise of warrants	88,000	64,100	-
Stock-based compensation	-	-	98,688
Balance, November 30, 2006	36,071,404	$ 3,386,218	$ 511,442

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 three month period ended November 30, 2006 and the year ended August 31, 2006 is as follows:

	Number	Weighted Average Price
Balance, August 31, 2004	-	$ -
Granted	800,000	$ 0.30
Balance, August 31, 2005	800,000	$ 0.30
Split on a 3:1 basis	2,400,000	$ 0.075
Granted	1,600,000	$ 0.90
Granted	250,000	$ 1.17
Granted	75,000	$ 1.50

Balance, November 30, 2006 and August 31, 2006	5,125,000	$ 0.407

5. SHARE CAPITAL - continued

Stock options outstanding at November 30, 2006 are as follows:

Number of Shares	Exercise Price	Expiry Date
3,200,000	$0.075	February 28, 2007
1,600,000	$0.90	February 28, 2008
250,000	$1.17	April 15, 2009
75,000	$1.50	June 20, 2007
5,125,000		

During the period ended November 30, 2006, under the fair value based method $98,688 (2005 - $Nil) in compensation expense was recorded in the statement of loss and deficit for the stock options granted to directors, officers and consultants of the Company.

The fair value of the share options used to calculate compensation expense has been estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2006	2005
Risk-free interest rate	3.58% - 4.38%	3.0%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	78% to 338%	442%
Expected life of options	1 - 3 years	2 years
Weighted average fair value of options granted	$0.96	$0.30

d) Escrow Shares

As at November 30,2006 6,075,000 (August 31, 2006 – 8,100,000) 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.

e) Warrants

Warrants outstanding at November 30, 2006 are as follows:

Number of Warrants	Exercise Price	Expiry Date
560,800	$0.70	August 15, 2006
172,000	$0.825	January 6, 2007
640,900	$1.41	June 6, 2007

6. RELATED PARTY TRANSACTIONS

a) During the period ended November 30, 2006, the Company paid $12,000 (2005 - $9,750) for management fees and administration expenses to a company controlled by a director.

b) During the period ended November 30, 2006, the Company paid $Nil (2005 - $51,715) for exploration expenditures for staking expenses to a company controlled by a director.

c) During the period ended November 30, 2006 $2,289 (2005 - $3,272) was paid to a firm controlled by an officer of the Company for legal fees and disbursements.

d) During the period ended November 30, 2006 $7,420 (2005 - $Nil) was recorded as a receivable as reimbursement for rent. The amount is non-interest bearing and unsecured, with no fixed terms of repayment.

7. COMMITMENT

The Company has minimum rental obligation of $16,798 under an operating lease for office premises which expires on January 31, 2009.