

**CARAT EXPLORATION INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**NOVEMBER 30, 2007 AND 2006**

**CONSOLIDATED BALANCE SHEETS**

**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NOTES TO CONSOLIDATED 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**  
**(Unaudited)**

	November 30 2007	August 31 2007
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 37,053	\$ 646,241
Short-term investments	450,000	-
Receivable and advances	66,299	-
GST receivable	12,665	56,362
Accrued interest receivable	9,211	5,523
Due from related party (Note 6)	6,678	2,226
Tax credit receivable	290,630	353,760
Prepaid expenses and deposit	3,515	6,032
	876,051	1,070,144
MINERAL PROPERTIES (Note 4)	125,902	125,902
DEFERRED EXPLORATION COSTS (Note 4)	2,592,506	1,968,788
	\$ 3,594,459	\$ 3,164,834
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 44,774	\$ 43,586
	44,774	43,586
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 5)	4,040,914	3,492,471
CONTRIBUTED SURPLUS (Note 5)	2,940,491	945,204
DEFICIT	(3,431,720)	(1,316,427)
	3,549,685	3,121,248
	\$ 3,594,459	\$ 3,164,834

Commitment (Note 8)

APPROVED BY THE DIRECTORS:

"Harry Katevatis"  
Harry Katevatis, Director

"Jim Heras"  
Jim Heras, Director

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended November 30	
	2007	2006
<b>EXPENSES</b>		
Investor relations	\$ 12,575	\$ 20,676
Management and administration fees	12,000	12,000
Office and others	4,384	9,402
Professional fees	5,102	6,472
Stock-based compensation	999,088	98,688
Stock exchange and filing fees	535	-
Transfer agent fees	1,119	1,307
Travel and promotion	783	1,820
	1,035,586	150,365
Interest income	(8,271)	(15,262)
Foreign exchange	(8,786)	-
<b>NET LOSS FOR THE PERIOD</b>	<b>(1,018,529)</b>	<b>(135,103)</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(2,413,191)</b>	<b>(729,031)</b>
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (3,431,720)</b>	<b>\$ (864,134)</b>
<b>BASIC LOSS PER SHARE</b>	<b>\$ (0.027)</b>	<b>\$ (0.004)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>37,263,404</b>	<b>36,000,149</b>

The accompanying notes are an integral part of these financial statements

**CARAT EXPLORATION INC.**  
**Consolidated Statement of Cash Flows**  
**(Unaudited)**

	Three Months Ended November 30	
	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (1,018,529)	\$ (135,105)
Add items not affecting cash:		
Stock-based compensation	999,088	98,688
Net changes in non-cash working capital items		
Short-term investment	100,000	-
Receivable and advances	(66,299)	-
GST receivable	(5,164)	(19,455)
Accrued interest receivable	(6,216)	(13,193)
Tax credit receivable	-	(56,800)
Prepaid and deposit	6,099	7,882
Accounts payable and accrued liabilities	(51,578)	160,470
	(42,599)	42,487
<b>FINANCING ACTIVITIES</b>		
Amounts due to related parties	(2,226)	803
Shares issued for cash, net of share issuance costs	-	64,100
	(2,226)	64,903
<b>INVESTING ACTIVITIES</b>		
Deferred exploration costs	(251,029)	(227,208)
	(251,029)	(227,208)
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	(295,854)	(119,818)
<b>CASH, BEGINNING OF PERIOD</b>	332,907	1,623,648
<b>CASH, END OF PERIOD</b>	\$ 37,053	\$ 1,503,830
<b>Supplemental Cash Flow Information:</b>		
Cash paid for income tax	\$ -	\$ -
Interest paid or accrued	\$ -	\$ -

The accompanying notes are an integral part of these financial statements

CARAT EXPLORATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOVEMBER 30, 2007 AND 2006

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) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary Acarat (Chile) S.A.

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 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.

c) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

d) General and Administrative Expenses

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

e) Fair Market Value of Financial Instruments

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

f) Basic and Diluted 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.

g) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

h) 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.

i) Cash and cash equivalents

Cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days.

j) Asset Retirement Obligation

The Company has adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. The new section requires recognition of a legal liability for obligations relating to retirement of property, plant and equipment, and arising from the acquisition, development or normal operation of those assets. Such asset retirement cost must be recognized at fair value when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized to operations on a systematic basis over its useful life. There is no material impact on the financial statements resulting from the adoption of Section 3110 in the current period.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

k) Foreign Currency Translation

The functional currency of the Company and its subsidiary 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 amounts 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.

3. 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 PROPERTIES 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 years ended August 31, 2004 and 2005 the Company staked 28 additional mineral claims at the 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 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.

CARAT EXPLORATION INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
 NOVEMBER 30, 2007 AND 2006

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS - continued

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.

Deferred Exploration Costs

	Three Months Ended November 30, 2007	Year Ended August 31, 2007
<u>Seneca Property, B. C.</u>		
Balance, beginning of period	\$ 1,875,289	\$ 1,140,507
Additions during the period:		
Analytical fees	-	49,439
Drilling	-	254,689
Geological surveys, consulting and reports	-	206,182
Travel, supplies and field expenses	-	330,865
Project management fees	-	61,563
Mobilization and demobilization	-	15,740
	-	918,478
Mining tax credit	-	(183,696)
	-	734,782
Balance, end of period	<u>1,875,289</u>	<u>1,875,289</u>
<u>Combarbala Property, Chile</u>		
Balance, beginning of period	466,188	-
Additions during the period:		
Analytical fees	12,932	88,409
Drilling	83,467	127,182
Geological surveys, consulting and reports	28,930	208,006
Sampling and prospecting	83,383	-
Travel, supplies and field expenses	20,296	39,496
Project management fees	22,021	-
Mobilization and demobilization	-	3,095
	251,029	466,188
Balance, end of period	<u>717,217</u>	<u>466,188</u>
Total deferred exploration costs	<u>\$ 2,592,506</u>	<u>\$ 2,341,477</u>

CARAT EXPLORATION INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
 NOVEMBER 30, 2007 AND 2006

5. 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, 2006	35,983,404	\$ 3,197,551	\$ 412,754
Exercise of options	200,000	30,000	(15,000)
Exercise of warrants	330,000	264,920	-
Private placement	750,000	599,985	-
Share issuance costs	-	(51,542)	-
Stock-based compensation	-	-	1,543,649
Balance, August 31, 2007	37,263,404	4,040,914	1,941,403
Stock-based compensation	-	-	999,088
Balance, November 30, 2007	<u>37,263,404</u>	<u>\$ 4,040,914</u>	<u>\$ 2,940,491</u>

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 months ended November 30, 2007 and for the year ended August 31, 2007 is as follows:

	Number	Weighted Average Price
Balance, August 31, 2006	5,125,000	\$ 0.407
Granted	4,575,000	0.920
Expired	(3,075,000)	0.100
Exercised	(200,000)	0.075
Balance, August 31, 2007	6,425,000	0.930
Granted	100,000	0.400
Granted	100,000	0.600
Balance, November 30, 2007	<u>6,625,000</u>	<u>\$ 0.910</u>

CARAT EXPLORATION INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
 NOVEMBER 30, 2007 AND 2006

5. SHARE CAPITAL - continued

c) Stock Options - continued

Stock options outstanding at November 30, 2007 are as follows:

Number of Shares	Exercise Price	Expiring Date
1,600,000	\$ 0.90	February 28, 2008
75,000	\$ 1.18	June 1, 2008
250,000	\$ 1.17	April 15, 2009
4,500,000	\$ 0.92	April 30, 2012
100,000	\$ 0.40	October 22, 2008
100,000	\$ 0.60	October 22, 2008
<u>6,625,000</u>		

During the three months ended November 30, 2007, under the fair value based method \$999,088 (2006 - \$98,688) in stock-based compensation expense was recorded in the statement of loss and deficit for the stock options granted and vested 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:

	Three Months Ended November 30, 2007	Three Months Ended November 30, 2006
Risk-free interest rate	4.32%	3.58% - 4.38%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	82%	78% to 338%
Expected life of options	1 year	1 - 3 years
Weighted average fair value of options granted	\$0.50	\$0.96

d) Escrow Shares

As at November 30, 2007 a total of 2,385,001 (August 31, 2007 – 4,770,002) 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
NOVEMBER 30, 2007 AND 2006

5. SHARE CAPITAL - continued

e) Warrants

Warrants outstanding at November 30, 2007 are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiring Date</u>
375,000	\$1.20	July 9, 2008

6. RELATED PARTY TRANSACTIONS

- a) During the three months ended November 30, 2007, the Company paid \$12,000 (2006 - \$12,000) for management fees and administration expenses to a company controlled by a director.
- b) During the three months ended November 30, 2007, \$2,780 (2006 - \$2,289) was paid to a firm controlled by an officer of the Company for legal fees and disbursements.
- c) During the three months ended November 30, 2007, \$2,100 (2006 - \$2,100) was recorded as reimbursement for rent from a company related through common directors. As of November 30, 2007, a balance of \$6,678 (August 31, 2007 - \$2,226) is due from this company. The amount is non-interest bearing and unsecured, with no fixed terms of repayment.

7. PRIOR PERIOD RESTATEMENT AND COMPARATIVE FIGURES

Comparative figures at August 31, 2007 have been restated. Share capital and deficit were decreased by \$124,567 to adjust for future income tax recovery from renunciation of flow-through tax benefits. Further, certain comparative figures have been reclassified to conform with the current years presentation.

8. COMMITMENT

The Company has minimum rental obligation of \$8,848 under an operating lease for office premises which expires on January 31, 2009.

9. SUBSEQUENT EVENT

Subsequent to November 30, 2007 the Company has granted stock options to a new officer to purchase up to 1,000,000 common shares of the Company at a price of \$0.40 per share for a period of five years.