CARAT EXPLORATION INC.

Consolidated Financial Statements (Unaudited)
November 30, 2009 and 2008

Index

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 2009	August 31 2009
ASSETS		
CURRENT		
Cash and cash equivalents (Note 5)	$ 460,838	$ 678,574
GST receivable	7,658	5,873
Tax credit receivable (Note 6)	3,630	3,630
Accrued interest receivable	323	323
Prepaid expenses and deposit	4,933	15,947
	477,382	704,347
MINERAL PROPERTIES (Note 7)	131,093	131,093
DEFERRED EXPLORATION COSTS (Note 7)	1,136,192	1,128,135
	$ 1,744,667	$ 1,963,575
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 9,613	$ 141,964
Due to related parties (Note 9)	8,877	29,447
	18,490	171,411
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8)	4,846,882	4,846,882
CONTRIBUTED SURPLUS (Note 8)	5,145,802	5,137,807
DEFICIT	(8,266,507)	(8,192,525)
	1,726,177	1,792,164
	$ 1,744,667	$ 1,963,575

Commitment (Note 7)

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 Loss and Deficit
(Unaudited)

	Three Months Ended November 30	
	2009	2008
EXPENSES		
Investor relations	$ 15,000	$ -
Management and administration fees	9,000	9,000
Office and others	10,664	14,695
Professional fees	5,962	3,386
Salaries and benefits	30,000	32,168
Stock-based compensation	7,995	-
Stock exchange and filing fees	100	-
Transfer agent fees	855	1,052
Travel and promotion	905	613
	80,481	60,914
Interest income	(122)	(5,739)
Interest expense	-	348
Foreign exchange	(6,377)	1,425
NET LOSS FOR THE PERIOD	(73,982)	(56,948)
DEFICIT, BEGINNING OF PERIOD	(8,192,525)	(4,532,696)
DEFICIT, END OF PERIOD	$ (8,266,507)	$ (4,589,644)
BASIC LOSS PER SHARE	$ -	$ -
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	40,062,790	37,913,704

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 2009	2008
OPERATING ACTIVITIES		
Net loss for the period	$ (73,982)	$ (56,948)
Add items not affecting cash:		
Stock-based compensation	7,995	-
Net changes in non-cash working capital items		
Short-term investment	-	(125,000)
GST receivable	(1,785)	26,494
Accrued interest receivable	-	(5,165)
Prepaid and deposit	11,014	6,875
Accounts payable and accrued liabilities	(132,351)	(5,324)
	(189,109)	(159,068)
FINANCING ACTIVITIES		
Amounts due to related parties	(20,570)	(1,801)
	(20,570)	(1,801)
INVESTING ACTIVITIES		
Expenditures on deferred exploration	(8,057)	(7,251)
	(8,057)	(7,251)
INCREASE (DECREASE) IN CASH DURING THE PERIOD	(217,736)	(168,120)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	678,574	191,086
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 460,838	$ 22,966
Supplemental Cash Flow Information:		
Cash paid for income tax	$ -	$ -
Interest paid	$ -	$ -

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 mineral properties.

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 November 30, 2009, the Company had working capital of $458,892 (August 31, 2009 - $532,936). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses. The Company has an accumulated deficit of $8,266,507 as at November 30, 2009 (August 31, 2009 - $8,192,525).

The ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration and development of its mineral interests, is dependent on the Company’s ability to obtain the necessary financing. Management is planning to raise additional capital to finance operations and expected growth, if necessary, or alternatively to dispose of its mineral interests. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, the Company will be unable to continue.

The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. Ultimately, the Company continuing as a going concern is dependent upon its success in locating properties with economically recoverable resources and attaining either profitable operations from those properties or the proceeds from the disposition of those properties. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) 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. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(f) Stock-based compensation

The Company has a stock option plan, which is described in note 8(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 share capital.

(g) Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments that are readily redeemable or that have an initial maturity of three months or less.

(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 enacted. Future tax benefits are recognized to the extent that realization of such benefits is considered to be more likely than not.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

(j) Foreign currency translation

The functional currency of the Company is the Canadian dollar. The Company uses the temporal method for foreign currency translation of its subsidiaries. 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.

(k) Financial instruments and comprehensive income

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. Any financial asset may be designated as available-for-sale upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from operations calculated in accordance with generally accepted accounting principles.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments and comprehensive income (Continued)

The Company has no items of other comprehensive income in the periods presented. Therefore, net loss as presented in the Company's consolidated statements of operations equals comprehensive loss.

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

The new sections are effective for the Company for the year commencing September 1, 2008. As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 4.

(l) Unit offerings

The proceeds from the issuance of units are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the market trading price and the Black-Scholes option pricing model for the shares and warrants, respectively.

(m) Recent accounting pronouncements

(i) 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 confirmed that generally accepted accounting principles for publicly accountable enterprises will be converged with IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim financial statements for the three months ended November 30, 2011, which must include restated interim results for the three-month period ended November 30, 2010, prepared on the same basis. The conversion to IFRS will impact the Company's accounting policies, information technology and data system, internal control over financial reporting, and disclosure controls and procedures. The Company is currently evaluating the future impact of IFRS on its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Recent accounting pronouncements

(ii) Business Combinations

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to the Company’s interim and annual consolidated financial statements relating to fiscal years commencing September 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The adoption of this section has had no impact on the consolidated financial statements of the Company.

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 considers capital to be the shareholders’ equity of the Company. The Company 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.

The Company has no externally imposed capital requirements.

4. FINANCIAL INSTRUMENTS

The Company classifies its cash and cash equivalents, as held-for-trading; and accounts payable and due to related parties as other financial liabilities.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Fair value

The carrying values of cash and cash equivalents 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 to related parties are not practicable to determine due to their nature.

(b) Credit risk

Credit risk to the Company is the risk that they will not be able to recover their financial assets, principally cash and cash equivalents. The Company has $412,877 (August 31, 2009 - $653,438) of cash and cash equivalents in a Canadian chartered bank and $47,961 (August 31, 2009 - $25,136) in a subsidiary of a Canadian chartered bank located in Chile. The amounts kept in Chile are to cover expected mineral property and deferred exploration costs for the ensuing quarter. The Company's exposure to credit risk is not considered significant.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet current obligations and future commitments. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. The Company normally maintains sufficient cash and cash equivalents to meet the Company's obligations and requirements for planned operations; however, at November 30, 2009, the cash and cash equivalent balance of $460,838 is insufficient to meet the needs for the coming year. Therefore, the Company will be required to raise additional capital or sell a mineral property interest in order to fund its operations in 2010.

At November 30, 2009, the Company had accounts payable and accrued liabilities totalling $9,613 (August 31, 2009 - $141,964), due within three months of year-end, and amounts due to related parties of $8,877 (August 31, 2009 - $29,447), with no stated terms of repayment.

4. FINANCIAL INSTRUMENTS (continued)

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Company's cash and cash equivalents consists of cash held in bank accounts and a guaranteed investment certificate ("GIC") that earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in interest rates will not have a significant impact on the fair value of the cash and cash equivalents of the Company.

(ii) Foreign currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. The Company has operations in both Brazil and Chile. As at November 30, 2009, the Company has monetary net assets of approximately $47,964 (August 31, 2009 - $15,000) in Chilean pesos. A 10% increase or decrease in the value of the Chilean peso against the Canadian dollar would have a $4,796 (August 31, 2009 - $1,500) increase or decrease on the monetary net assets of the Company.

The Company has not entered into any foreign currency contracts to mitigate this risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

5. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents consists of cash of $60,838 and a GIC of $400,000.

The GIC was purchased July 3, 2009 and matures one year later on July 2, 2010. The GIC has a principal of $400,000, is redeemable at any time at the option of the Company and bears interest at a rate of prime minus 1.8%.

6. TAX CREDIT

The Company made certain expenditures on the Seneca property that 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. The Company received $315,090 during the year ended August 31, 2009 relating to their 2005 and 2006 work programs on the Seneca property, including interest of $24,901.

7. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Mineral Properties

		November 30, 2009		**August 31, 2009**
Seneca Property, British Columbia	$	1	$	125,902
Combarbala Property, Chile		19,080		19,080
Tucuma Property, Brazil		112,012		112,012
		131,093		256,994
Write-down of Seneca Property		-		(125,901)
	$	131,093	$	131,093

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.

The Company did not perform any significant exploration activities on the property during 2008 and 2009. During the 2009 fiscal year, the Company extended the term of two tenure claims totaling 504 hectares to 2013 and six tenure claims totaling 150 hectares to 2016 with the Government of British Columbia. The Company has no future exploration programs planned on this property and is in the process of seeking a joint venture partner. During 2009, the Company wrote-off $125,901 of mineral properties and $1,889,564 of deferred exploration costs related to the Seneca property. The net book value of the Seneca property at November 30, 2009 is $1 (August 31, 2009 - $1).

7. 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 33 mineral claims located in Region IV of Chile. On August 31, 2009, the Company entered into a Royalty Agreement with BHP Billiton whereby the Company acquired 100% title to the 33 mineral claims of the Combarbala Property by agreeing to pay BHP Billiton a 2% net smelter return royalty.

As of November 30, 2009, the Company has expended a total of US $1,037,469 on the Combarbala Property, being US $988,066 (Cdn $1,025,421). Note 10(b)

Tucuma Property

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 property in Brazil. The Company paid US $100,000 at the conclusion of the due diligence, was to pay an additional US $100,000 on or before March 13, 2009 and was to 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 did not pay the US $100,000 nor did they incur exploration expenditures totaling US $400,000 as required on or before March 13, 2009. Note 10(a)

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.

7. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

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.

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 November 30, 2009 and 2008, the Company has determined that no provision for asset retirement obligations is required.

7. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Deferred exploration costs

The Company incurred the following deferred exploration costs:

	Three Months Ended November 30, 2009	Year Ended August 31, 2009
Seneca Property, British Columbia		
Balance, beginning of period	$ -	$ 1,888,044
Additions during the year:		
Analytical fees	-	1,587
Miscellaneous	-	622
	-	2,209
Mineral exploration tax credit	-	(689)
	-	1,520
	-	1,889,564
Less: Write-down of deferred exploration costs	-	(1,889,564)
Balance, end of period	-	-
Combarbala Property, Chile		
Balance, beginning of year	994,274	951,155
Additions during the year:		
Accounting	697	-
Analytical fees	3,232	18,152
Geological surveys, consulting and reports	9,236	11,537
Legal	12,227	-
Miscellaneous	5,059	448
Sampling and prospecting	-	220
Travel, supplies and field expenses	696	12,762
	31,147	43,119
Balance, end of period	1,025,421	994,274
Tucuma Property, Brazil		
Balance, beginning of year	133,861	21,589
Additions during the year		
Consulting and report	(23,090)	64,534
Miscellaneous	-	5,898
Sampling and prospecting	-	16,167
Travel, supplies and field expenses	-	25,673
	(23,090)	112,272
Balance, end of period	110,771	133,861
Total deferred exploration costs	$ 1,136,192	$ 1,128,135

8. 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, 2008	37,913,704		4,267,477		3,813,066
Private placement	2,072,163		621,649		-
Share issuance costs	-		(62,244)		-
Bonus shares issued for loan	76,923		20,000		-
Stock-based compensation	-		-		1,324,741
Balance, August 31, 2009	40,062,790		4,846,882		5,137,807
Stock-based compensation	-		-		7,995
Balance, November 30, 2009	40,062,790	$	4,846,882	$	5,145,802

In June 2009, the Company completed a non-brokered private placement of 2,072,163 common shares at a price of $0.30 per share for total gross proceeds of $621,649. The Company incurred $62,244 in share issuance costs, which includes $44,689 paid as commission.

In July 2009, the Company issued 76,923 common shares, with an agreed upon value of $0.26 per share, to a relative of a director of the Company. These bonus shares were issued as interest in connection with a loan in the amount of $100,000 extended to the Company, by the relative, during the period from April to July 2009 (note 9(f)). The fair market value of the shares was $0.32 per share and the value was discounted 20% as agreed upon by both parties and in compliance with the TSX-V regulations.

(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.

At the Company's annual general meeting held on February 25, 2009, the Company adopted a stock option plan (the "Plan") whereby the maximum number of options to acquire common shares of the Company that may be granted under the Plan will be 7,582,740. The term of those options to acquire common shares can be no longer than five years.

8. SHARE CAPITAL (Continued)

A summary of the stock options activities follows:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
Balance, August 31, 2008	5,950,000	$ 0.83	4,575,000	$ 0.82
Granted	1,000,000	0.31	850,000	0.32
Vested from prior periods	-	-	1,375,000	0.83
Expired	(450,000)	0.87	(450,000)	0.87
Balance, August 31, 2008	6,500,000	0.75	6,350,000	0.75
Cancelled	(3,000,000)	0.92	(3,000,000)	0.92
Balance, November 30, 2009	3,500,000	$ 0.60	3,350,000	$ 0.60

During the year ended August 31, 2009:

- On May 19, 2009, the Company granted 200,000 options to a consultant with an exercise price of $0.25 per share of which 25% vested each quarter thereafter.
- On July 28, 2009, the Company granted 800,000 options to two directors and an officer with an exercise price of $0.32 per share, which vested immediately.

Stock options outstanding at November 30, 2009 were as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
May 19, 2011	200,000	$ 0.250	50,000
April 30, 2012	4,500,000	$ 0.920	4,500,000
January 2, 2013	1,000,000	$ 0.400	1,000,000
November 24, 2014	800,000	$ 0.320	800,000
November 24, 2014	500,000	$ 0.295	500,000
Balance, end of period	7,000,000		6,850,000
Weighted average remaining contractual life	2.93 years		2.96 years

8. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

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 year	5,950,000		4,575,000
Weighted average remaining contractual life	3.54 years		3.46 years

During the period ended November 30, 2009, the Company recognized $7,995 (2008 - $Nil) of stock-based compensation expense in the Statements of Operations for stock options that were granted or vested to directors, officers and consultants of the Company. As shown below, $7,995 (2008 - $Nil) of the stock-based compensation expense recognized in 2009 relates to options that vest over multiple years.

Grant Gate	2009	2008
May 19, 2009	7,995	-
	7,995	

The fair value of the stock options granted during the years was estimated using the Black-Scholes option pricing model with the following assumptions:

	2009	**2008**
Risk-free interest rate	1.10%	0.00%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	120%	0%
Expected life of options	2 years	0
Weighted average fair value of options granted	$0.16	$0.00
Weighted average exercise price of options granted	$0.25	$0.00

8. SHARE CAPITAL (Continued)

(b) Warrants

	Three Months Ended November 30, 2009			Year Ended August 31, 2009		
	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Balance, beginning of period	-	$	-	368,025	$	0.62
Issued	-	$	-	-	$	-
Expired	-	$	-	(368,025)	$	0.62
Balance, end of period	-	$	-	-	$	-

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			

9. RELATED PARTY TRANSACTIONS

During the period ended November 30, 2009, the Company had the following related party transactions:

(a) incurred $9,000 (2008 - $9,000) for management and administration fees to a company controlled by a director;

(b) incurred $2,680 (2008 - $Nil) for accounting fees included in professional fees to a firm controlled by an officer of the Company. As of November 30, 2009, $2,016 (August 31, 2009 - $Nil) was included in due to related parties;

9. RELATED PARTY TRANSACTIONS (Continued)

(c) incurred $4,107 (2008 - $3,947) for office and other expense reimbursements to a company related through common directors. As of November 30, 2009, a balance of $6,861 (August 31, 2009 - $29,237) was due to this company;

(d) incurred $23,090 in credit (2008 - $Nil) for mineral property and deferred exploration expenditures to a private company controlled by a director. As of November 30, 2009, a balance of $Nil (August 31, 2009 - $Nil) was due to a director; and

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.

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

10. SUBSEQUENT EVENTS

(a) On December 3, 2009, the Company entered into an agreement with Brasilca Mineracao Brasileira Ltd. (“BMBL”) whereby the Company and BMBL agreed to terminate the option agreement dated March 3, 2008 pursuant to which the Company was granted an option to earn a 70% interest in the Tucuma property.

On December 4, 2009, the Company entered into an agreement with Mineracao Vale do Sonho Ltda. (“Do Sonho”), the 100% owner of the exploration rights to the Tucuma property, whereby the Company will acquire all of the issued and outstanding shares of Do Sonho. In consideration, the former shareholders of Do Sonho will receive 1,500,000 common shares of the Company upon receiving regulatory approval, the payment of US $3,000,000 upon commencement of commercial production and a 1% net smelter return.

(b) On December 7, 2009, the Company announced that it has terminated the option and joint venture agreement with Brasilca Mining Corporation, a British Columbia registered company (“Brasilca”) and Brasilca Mineracao Brasileira Ltda pursuant to which Carat was granted an option to earn a 70% interest in the Tucuma project in the State of Para, Brazil (“Tucuma Property”). The Tucuma Property consisting of 6 key mineral concessions totaling 11,500 hectares is now held by Mineracao Vale do Sonho Ltds.(“Do Sonho”), a Brazilian corporation.

(c) On December 23, 2009, 3,000,000 vested stock options exercisable at $0.92 were cancelled when two directors resigned from the Company.