CARAT EXPLORATION INC.

FINANCIAL STATEMENTS

AUGUST 31, 2005 AND 2004

BALANCE SHEETS

STATEMENTS OF LOSS AND DEFICIT

STATEMENTS OF CASH FLOWS

NOTES TO FINANCIAL STATEMENTS

MINNI, CLARK & COMPANY
CERTIFIED GENERAL ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders,
Carat Exploration Inc.

We have audited the balance sheets of CARAT EXPLORATION INC. as at August 31, 2005 and 2004 and the statements of loss, deficit, and cash flows for the year ended August 31, 2005 and for the period from October 16, 2003 (date of incorporation) to August 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2005 and 2004 and the results of its operations and changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"MINNI, CLARK & COMPANY"
CERTIFIED GENERAL ACCOUNTANTS

Vancouver, Canada
November 30, 2005

CARAT EXPLORATION INC.

BALANCE SHEETS

AS AT AUGUST 31, 2005 AND 2004

ASSETS

	2005	2004
CURRENT		
Cash	$ 148,664	$ 68,077
Funds in trust	-	7,500
GST receivable	25,810	12,331
Interest receivable	897	-
Provincial tax credit receivable (Note 3)	85,878	22,007
Prepaid expenses and advance	-	307
	261,249	110,222
MINERAL PROPERTY (Note 4)	68,958	55,928
DEFERRED EXPLORATION COSTS (Note 4)	340,982	89,443
	$ 671,189	$ 255,593

LIABILITIES

	2005	2004
CURRENT		
Accounts payable and accrued liabilities	$ 9,386	$ 3,210
Due to related parties (Note 6)	736	27,781
	10,122	30,991

SHAREHOLDERS' EQUITY

	2005	2004
SHARE CAPITAL (Note 5)	770,595	255,001
CONTRIBUTED SURPLUS (Note 5)	240,000	-
DEFICIT	(349,528)	(30,399)
	661,067	224,602
	$ 671,189	$ 255,593

APPROVED BY THE DIRECTORS:

"Harry Katevatis"

"Jim Heras"

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

CARAT EXPLORATION INC.

STATEMENTS OF LOSS AND DEFICIT

FOR THE YEAR ENDED AUGUST 31, 2005
AND FOR THE PERIOD FROM
OCTOBER 16, 2003 (date of incorporation) TO AUGUST 31, 2004

	2005	2004
EXPENSES		
Filing fee	$ 8,484	$ -
Interest and bank charges	70	20
Management and administration fees (Note 6)	39,000	26,000
Office and miscellaneous	867	235
Professional fees	17,668	4,104
Stock-based compensation (Note 5)	240,000	-
Transfer agent	4,017	40
Travel and promotion	9,023	-
NET LOSS FOR THE YEAR	(319,129)	(30,399)
DEFICIT, BEGINNING OF THE YEAR	(30,399)	-
DEFICIT, END OF YEAR	$ (349,528)	$ (30,399)
Basic and diluted loss per share	$ (0.05)	$ (0.11)
Weighted average number of shares outstanding	7,019,069	281,251

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

CARAT EXPLORATION INC.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2005
AND FOR THE PERIOD FROM
OCTOBER 16, 2003 (date of incorporation) TO AUGUST 31, 2004

	2005	2004
OPERATING ACTIVITIES		
Net loss for the year	$ (319,129)	$ (30,399)
Items not involving cash:		
Stock-based compensation	240,000	-
Changes in non-cash working capital items:		
GST receivable	(13,479)	(12,331)
Interest receivable	(897)	-
Prepaid expenses and advance	307	(307)
Provincial tax credit receivable	(63,871)	(22,007)
Accounts payable and accrued liabilities	6,176	3,210
	(150,893)	(61,834)
FINANCING ACTIVITIES		
Advances from related parties (repaid)	(27,045)	27,781
Issuance of shares, net of share issuance costs	515,594	255,001
	488,549	282,782
INVESTING ACTIVITIES		
Deferred exploration costs	(251,539)	(89,443)
Acquisition of mineral properties	(13,030)	(55,928)
	(264,569)	(145,371)
INCREASE IN CASH	73,087	75,577
CASH, BEGINNING OF YEAR	75,577	-
CASH, END OF YEAR	$ 148,664	$ 75,577
REPRESENTED BY:		
Cash	$ 148,664	$ 68,077
Funds in trust	-	7,500
	$ 148,664	$ 75,577
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

Non-cash transactions:

During the year ended August 31, 2005, the Company issued 40,000 common shares as corporate finance fee to the agent in connection with the prospectus.

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, 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 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

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.

See Note 9

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, Oct. 16, 2003	Balance, Aug. 31, 2004	Additions	Balance, Aug. 31, 2005
Analytical fees	$ -	$ 4,637	$ 2,137	$ 6,774
Geological surveys, consulting and reports	-	42,040	197,416	239,456
Travel, supplies and field expenses	-	7,912	45,773	53,685
Project management fees	-	1,413	2,391	3,804
Sampling, prospecting and line cutting	-	55,448	56,955	112,403
Mineral work fees	-	-	7,950	7,950
Mobilization and demobilization		-	5,000	5,000
	-	111,450	317,622	429,072
Interest income	-	-	(2,212)	(2,212)
Provincial tax credit (Note 3)	-	(22,007)	(63,871)	(85,878)
	$ -	$ 89,443	$ 251,539	$ 340,982

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

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	800,000	$0.30

5. SHARE CAPITAL - continued

At August 31, 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 August 31, 2004.

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) Escrow Shares

As at August 31, 2005 3,577,500 (2004 – 3,975,001) 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 year ended August 31, 2005, the Company paid $30,000 (2004 - $20,000) for management fees and $9,000 (2004 - $6,000) for administration expenses to a company controlled by a common director.

b) The exploration expenses of $245,848 (2004 - $111,451) and staking expenses of $3,030 (2004 - $35,928) incurred by the Company, during the year ended August 31, 2005, 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 $33,250 (2004 - $9,500) for geological consulting fees and $2,391 (2004 - $1,414) 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 year ended August 31, 2005 $11,147 (2004 - $1,104) was paid to a firm controlled by an officer of the Company for legal fees and disbursements which were included under share issue costs ($9,779) and professional fees ($1,368).

7. INCOME TAXES

At August 31, 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% (2004 – 35.6%):

	2005	2004
Future income tax assets		
Non-capital losses	$ 47,348	$ 10,447
Exploration and development costs	145,248	51,000
Share issue costs	36,000	-
Less:		
Valuation allowance	(228,596)	(61,447)
Net future income tax assets	$ -	$ -

The Company has non-capital tax loss carry forwards of approximately $133,000 (2004 - $29,000) 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 and 2015.

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

The comparative figures are in respect of the period from the date of incorporation in October 16, 2003 to August 31, 2004. Certain comparative figures had been reclassified to conform with current year presentation.

9. SUBSEQUENT EVENTS

a) Subsequent to August 31, 2005 the Company has completed a private placement of 330,400 units at $2.38 per unit. Each unit consists of one common share and one-half share purchase warrant. Each warrant is exercisable at a price of $2.80 per share for a period of one year from closing. Out of the gross proceeds of $786,352 received, $73,982 was paid to the agents for commission and reimbursements.

b) On October 31, 2005, an advance of $150,000 was made out to a company controlled by a common director for stage 2 of the exploration program on the Seneca property.

c) Subsequent to August 31, 2005 the Company received a refund of $21,748 in respect of B.C. Mining Exploration Tax Credit.