CARAT EXPLORATION INC.

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

MINNI, CLARK & COMPANY
CERTIFIED GENERAL ACCOUNTANTS

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** Incorporated Professional*

AUDITORS' REPORT

To the Shareholders,
Carat Exploration Inc.

We have audited the consolidated balance sheets of CARAT EXPLORATION INC. as at August 31, 2007 and 2006 and the consolidated statements of loss and deficit, and cash flows for the years ended August 31, 2007 and 2006. 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, 2007 and 2006 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 AND COMPANY"
CERTIFIED GENERAL ACCOUNTANTS

Vancouver, Canada
December 14, 2007

CARAT EXPLORATION INC.

CONSOLIDATED BALANCE SHEETS

AS AT AUGUST 31, 2007 AND 2006

ASSETS

	2007	(Note 9) 2006
CURRENT		
Cash	$ 332,907	$ 1,623,648
Short-term investments	550,000	-
GST receivable	7,501	23,072
Interest receivable	2,995	7,104
Due from related party (Note 6)	4,452	5,194
Provincial tax credit receivable (Note 3)	290,630	173,927
Prepaid expenses and advance	9,614	16,397
	1,198,099	1,849,342
MINERAL PROPERTY (Note 4)	125,902	125,902
DEFERRED EXPLORATION COSTS (Note 4)	2,341,477	1,140,507
	$ 3,665,478	$ 3,115,751

LIABILITIES

	2007	2006
CURRENT		
Accounts payable and accrued liabilities	$ 96,352	$ 109,910

SHAREHOLDERS' EQUITY

	2007	2006
SHARE CAPITAL (Note 5)	4,040,914	3,197,551
CONTRIBUTED SURPLUS (Note 5)	1,941,403	412,754
DEFICIT	(2,413,191)	(604,464)
	3,569,126	3,005,841
	$ 3,665,478	$ 3,115,751

Commitment (Note 10)

APPROVED BY THE DIRECTORS:

"Harry Katevatis"

"Jim Heras"

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

CARAT EXPLORATION INC.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	2007	(Note 9) 2006
EXPENSES		
Filing fee	$ 16,943	$ 8,945
Interest and bank charges	452	298
Insurance	2,999	-
Investor relations	91,115	46,787
Management and administration fees (Note 6)	48,000	44,250
Office and miscellaneous	10,806	14,256
Professional fees	50,676	31,298
Rent	8,164	3,759
Shareholder information	729	23,046
Stock-based compensation (Note 5)	1,543,649	172,754
Transfer agent	6,404	6,682
Travel and promotion	44,725	45,492
LOSS BEFORE OTHER ITEMS	(1,824,662)	(397,566)
OTHER ITEMS		
Foreign taxes paid	(3,944)	-
Interest income	36,457	18,063
Loss on foreign exchange	(16,578)	-
	15,935	18,063
LOSS BEFORE OTHER ITEMS	(1,808,727)	(379,503)
FUTURE INCOME TAX RECOVERY	-	124,567
NET LOSS FOR THE YEAR	(1,808,727)	(254,936)
DEFICIT, BEGINNING OF THE YEAR	(604,464)	(349,528)
DEFICIT, END OF YEAR	$(2,413,191)	$ (604,464)
Basic and diluted loss per share	$ (0.05)	$ (0.01)
Weighted average number of shares outstanding	36,384,686	34,337,709

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

CARAT EXPLORATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	2007	(Note 9) 2006
OPERATING ACTIVITIES		
Net loss for the year	$(1,808,727)	$ (254,936)
Items not involving cash:		
Stock-based compensation	1,543,649	172,754
Future income tax recovery	-	(124,567)
	(265,078)	(206,749)
Changes in non-cash working capital items:		
GST receivable	15,571	2,738
Interest receivable	4,109	(6,207)
Due from related parties	742	(5,930)
Prepaid expenses and advance	6,783	(16,397)
Provincial tax credit receivable	(116,703)	(88,049)
Accounts payable and accrued liabilities	(13,558)	100,524
	(368,134)	(220,070)
FINANCING ACTIVITIES		
Issuance of shares, net of share issuance costs	828,363	2,551,523
INVESTING ACTIVITIES		
Short-term investments	(550,000)	-
Deferred exploration costs	(1,200,970)	(799,525)
Acquisition of mineral properties	-	(56,944)
	(1,750,970)	(856,469)
INCREASE (DECREASE) IN CASH	(1,290,741)	1,474,984
CASH, BEGINNING OF YEAR	1,623,648	148,664
CASH, END OF YEAR	$ 332,907	$ 1,623,648

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	2007	2006
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) 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 managements 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.

During the years ended August 31, 2006 and 2005, the Company granted stock options to directors, officers, employees and non-employees as set out in note 5(c).

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. 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.

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.

4. MINERAL PROPERTY 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

Seneca Property

	2007	2006
Balance, beginning of year	$ 1,140,507	$ 340,982
Analytical fees	49,439	22,644
Drilling	254,689	391,565
Geological surveys, consulting and reports	206,182	289,161
Travel, supplies and field expenses	330,865	166,092
Project management fees	61,563	1,532
Sampling, prospecting and line cutting	-	36,513
Permits	-	4,000
Mobilization and demobilization	15,740	16,800
	2,058,985	1,269,289
Less: mining tax credits	(183,696)	(128,782)
Balance, end of year	1,875,289	1,140,507

Combarbala Property

	2007	2006
Balance, beginning of year	-	-
Analytical	88,409	-
Drilling	127,182	-
Geological survey, consulting and reports	208,006	-
Travel, supplies and field expenses	39,496	-
Mobilization and demobilization	3,095	-
Balance, end of year	466,188	-
Total deferred exploration costs	$ 2,341,477	$ 1,140,507

5. SHARE CAPITAL

a) Authorized

400,000,000 common shares without par value.

b) Issued and fully paid

	Number of Shares	Amount	Contributed Surplus
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
Renunciation of flow-through tax benefit	-	(124,567)	-
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 issue costs	-	(51,542)	-
Stock-based compensation	-	-	1,543,649
Balance, August 31, 2007	37,263,404	$ 4,040,914	$ 1,941,403

5. SHARE CAPITAL - continued

c) Stock Options

The Company has granted share purchase options to directors and officers of the Company to purchase common shares of the Company. These options are granted with an exercise price equal to the market price of the Company's stock at the date of grant. A summary of the stock options activities during the year ended August 31, 2006 and 2005 is as follows:

	Number	Weighted Average Price
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, August 31, 2006	5,125,000	$ 0.407
Expired	(3,075,000)	$ 0.10
Exercised	(200,000)	$ 0.075
Granted	(4,575,000)	$ 0.92
Balance, August 31, 2007	6,825,000	$ 0.93

Stock options outstanding at August 31, 2007 are as follows:

Number of Shares	Exercise Price	Expiry 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
6,425,000		

During the year ended August 31, 2007, under the fair value based method $1,543,649 (2006 - $172,754) 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.

5. SHARE CAPITAL - continued

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:

	2007	2006
Risk-free interest rate	4.11% - 4.60%	3.58% - 4.38%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	51% to 256%	78% to 338%
Expected life of options	1 - 5 years	1 - 3 years
Weighted average fair value of options granted	$0.93	$0.96

d) Escrow Shares

As at August 31, 2007 4,770,002 (2006 – 9,540,003) 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 August 31, 2007 are as follows:

Number of Warrants	Exercise Price	Expiry Date
375,000	$1.20	July 9, 2008

6. RELATED PARTY TRANSACTIONS

a) During the year ended August 31, 2007, the Company paid $48,000 (2006 - $44,250) for management fees and administration expenses to a company controlled by a director.

b) During the year ended August 31, 2007, the Company paid $894,034 (2006 - $257,081) for exploration expenditures.

c) During the year ended August 31, 2007 $7,744 (2006 - $13,644) was paid to a firm controlled by an officer of the Company for legal fees and disbursements.

d) During the year ended August 31, 2007 $4,452 (2006 - $5,194) was recorded as a receivable as reimbursement for rent from a company related through common directors. The amount is non-interest bearing and unsecured, with no fixed terms of repayment.

7. INCOME TAXES

At August 31, 2007, the tax effects of the significant components with the Company's future tax assets are as follows using the current income tax rates:

	2007	2006
Future income tax assets		
Non-capital losses	$ 241,079	$ 158,219
Exploration and development costs	553,395	316,156
Share issue costs	140,613	86,803
Less:		
Valuation allowance	(935,087)	(561,178)
Net future income tax assets	$	$ -

The Company has non-capital tax loss carry forwards of approximately $709,978 (2006 - $444,436) and accumulated Canadian exploration and development expenses of approximately $1,622,861 (2006 - $888,080) that are available to reduce taxable income of future periods. These tax loss carry forwards expire between 2014 and 2027.

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.

9. 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.

10. COMMITMENT

The Company has minimum rental obligation of $10,744 under an operating lease for office premises which expires on January 31, 2009.

11. SEGMENTED INFORMATION

The Company has assets and operates in the following geographic segments at August 31, 2007:

	Canada	Chile	Total
Total Assets	$ 3,199,290	$ 466,188	$ 3,665,478

12. SUBSEQUENT EVENT

Subsequent to August 31, 2007 the Company has granted stock options pursuant to an investor relations agreement to acquire up to 100,000 shares at $0.40 per share and an additional 100,000 at $0.60 per share for a period of one year.