CARAT EXPLORATION INC.

Consolidated Financial Statements
August 31, 2008 and 2007

Index	**Page**
Auditors' Report to the Shareholders	1
Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 22

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CARAT EXPLORATION INC.

We have audited the consolidated balance sheet of Carat Exploration Inc. as at August 31, 2008 and the consolidated statements of operations and deficit and cash flows for the year then ended. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at August 31, 2007 and for the year then ended were audited by other auditors who provided an opinion without reservation in their report dated December 14, 2007.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
December 12, 2008

7th Floor, Marine Building
355 Burrard Street, Vancouver, BC
Canada V6C 2G8

Fax: 604.688.4675
Telephone: 604.687.1231
Web: SmytheRatcliffe.com

A Member of PKF International

CARAT EXPLORATION INC.
Consolidated Balance Sheets (note 1)
August 31

		2008		2007 (restated – note 12)
Assets				
Current				
Cash	$	191,086	$	332,907
Short-term investments		-		550,000
GST receivable		29,430		7,501
Accrued interest receivable		-		2,995
Due from related party (note 7)		-		4,452
Tax credit receivable (note 4)		293,819		290,630
Prepaid expenses and deposit		15,311		9,614
		529,646		1,198,099
Mineral Properties (note 5)		234,148		125,902
Deferred Exploration Costs (note 5)		2,860,788		2,341,477
	$	3,624,582	$	3,665,478
Liabilities				
Current				
Accounts payable and accrued liabilities	$	62,392	$	96,352
Due to related parties (note 7)		14,343		-
		76,735		96,352
Shareholders' Equity				
Share Capital (note 6)		4,267,477		4,040,914
Contributed Surplus (notes 6(b) and 12)		3,813,066		1,556,816
Deficit (note 12)		(4,532,696)		(2,028,604)
		3,547,847		3,569,126
	$	3,624,582	$	3,665,478

Nature of Operations and Going-Concern (note 1)
Commitment (note 8)
Subsequent Event (note 11)

Approved by the Directors:

"Harry Katevatis"
……………………………………………………………………… Director
Harry Katevatis

"Yannis Tsitos"
……………………………………………………………………… Director
Yannis Tsitos

See notes to consolidated financial statements.

CARAT EXPLORATION INC.
Consolidated Statements of Operations and Deficit
Years Ended August 31

	2008	2007 (restated – note 12)
Expenses		
Stock-based compensation	$ 2,244,843	$ 1,159,062
Salaries and benefits	85,782	-
Professional fees	53,322	50,676
Management and administration fees	43,000	48,000
Office and others	39,134	22,421
Investor relations	22,575	91,844
Regulatory and filing fees	10,018	16,943
Transfer agent fees	6,843	6,404
Travel and promotion	2,842	44,725
Loss Before Other Items	2,508,359	1,440,075
Other Items		
Foreign exchange loss	6,517	16,578
Foreign taxes paid	-	3,944
Interest income	(10,784)	(36,457)
	(4,267)	(15,935)
Net Loss and Comprehensive Loss for Year	2,504,092	1,424,140
Deficit, Beginning of Year		
As previously reported	2,413,191	604,464
Prior period adjustment (note 12)	(384,587)	-
Deficit, Beginning of Year, as restated	2,028,604	604,464
Deficit, End of Year	$ 4,532,696	$ 2,028,604
Loss per Share	$ 0.07	$ 0.04
Weighted Average Number of Common Shares Outstanding	37,283,651	36,384,686

CARAT EXPLORATION INC.
Consolidated Statements of Cash Flows
Years Ended August 31

	2008	2007 (restated – note 12)
Operating Activities		
Net loss	$ (2,504,092)	$ (1,424,140)
Item not affecting cash		
Stock-based compensation	2,244,843	1,159,062
Unrealized foreign exchange loss	4,159	-
	(255,090)	(265,078)
Changes in non-cash working capital		
Short-term investments	550,000	(550,000)
GST receivable	(21,929)	15,571
Accrued interest receivable	2,995	4,109
Prepaid expenses and deposit	(5,697)	6,783
Accounts payable and accrued liabilities	11,729	(13,558)
Cash Provided by (Used in) Operating Activities	282,008	(802,173)
Financing Activities		
Amounts due to related parties	18,795	742
Shares issued for cash, net of share issuance costs	237,970	828,363
Cash Provided by Financing Activities	256,765	829,105
Investing Activities		
Acquisition of interest in mineral properties	(108,246)	-
Expenditures on mineral properties	(568,189)	(1,317,673)
Cash Used in Investing Activities	(676,435)	(1,317,673)
Foreign Exchange Effect on Cash Held in Foreign Currency	(4,159)	-
Outflow of Cash	(141,821)	(1,290,741)
Cash, Beginning of Year	332,907	1,623,648
Cash, End of Year	$ 191,086	$ 332,907
Supplemental Cash Flow Information		
Tax credits receivable included in mineral properties	$ 293,819	$ 290,360
Accounts payable included in mineral properties	$ 29,339	$ 75,028
Income taxes paid	$ -	$ -
Interest paid	$ 518	$ 452

See notes to consolidated 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 its mineral properties, and has not yet determined whether these properties contain mineral reserves that are economically recoverable.

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 August 31, 2008, the Company had working capital of $452,911 (2007 - $1,101,747). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses. The Company has an accumulated deficit of $4,532,696 as at August 31, 2008 (2007 - $2,028,604).

The Company's ability to discharge its liabilities and fulfill its commitments as they come due is dependent upon its success in obtaining additional equity financing and, ultimately, on locating economically recoverable resources and attaining profitable operations. 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(e) General and administrative expenses

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

(f) Basic and diluted 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. Diluted loss per share is not presented when the effects are anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Stock-based payments

The Company has a stock-based compensation plan, which is described in note 6(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 capital stock.

(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 assured. Future tax benefits, such as non-capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered to be more likely than not.

(i) Short-term investments

Short-term investments include money market instruments that mature in greater than ninety days but less than one year from the date of acquisition.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(j) 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.

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 August 31, 2008 and 2007, the Company has determined that no provision for asset retirement obligations is required.

(k) Foreign currency translation

The functional currency of the Company 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 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.

(l) Changes in accounting policies

The CICA issued the following recommendations that were adopted by the Company on September 1, 2007. In accordance with the transitional provisions, these standards have been applied without restatement of prior periods.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(l) Changes in accounting policies (Continued)

(i) Section 3865, Hedges

Section 3865 addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures, and also requires all derivatives in hedging relationships to be recorded at fair value. The adoption of this standard had no impact on the Company, as there are no hedging relationships in place.

(ii) Section 1530, Comprehensive Income

Section 1530 introduces a statement of comprehensive income, which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity from transactions and other events from non-owner sources, and includes unrealized gains and losses on financial assets that are classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments.

(iii) Section 3855, Financial Instruments – Recognition and Measurement

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered or most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the consolidated statements of operations.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to September 1, 2007 are recognized by adjusting opening deficit.

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

On the date of adoption, the Company re-measured its financial assets and liabilities as appropriate. There was no impact on the consolidated financial statements arising from the adoption of the standard. In accordance with this standard, prior period financial statements have not been restated.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Recent accounting pronouncements

(i) The CICA has issued the following new Handbook recommendations that will become effective for the Company:

- Section 3862, "Financial Instruments - Disclosures"
- Section 3863, "Financial Instruments - Presentation"
- Section 1400, "General Standards of Financial Statement Presentation"
- Section 1535, "Capital Disclosures"
- Section 3064, "Goodwill and Intangible Assets".

Section 3862 modifies the disclosure requirements for Section 3861, "Financial Instruments - Disclosure and Presentation", including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance, and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward the presentation requirements of Section 3861. These new sections are effective for the Company on September 1, 2008. The Company is in the process of assessing the impact of these new sections on its consolidated financial statements.

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of a company's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going-concern. The new section is effective for the Company on September 1, 2008. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

Effective September 1, 2008, the Company will be required to comply with Section 1535, "Capital Disclosures". This section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. The new requirements are related to disclosure only and will not impact the financial results of the Company.

In January 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces existing Section 3062, "Goodwill and Other Intangible Assets". This new section establishes standards for the recognition of internally developed intangible assets. The standards for the recognition and impairment testing of goodwill are carried forward unchanged. This section is applicable to the Company commencing September 1, 2009.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(m) Recent accounting pronouncements (Continued)

(ii) 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 announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of September 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011 and earlier where applicable. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Certain of the comparative figures for the year ended August 31, 2007 have been reclassified to conform to the current year's presentation.

3. **FINANCIAL INSTRUMENTS**

The Company has designated its cash and short-term investments as held-for-trading; amounts receivable as loans and receivables; and accounts payable and accrued liabilities as other liabilities.

(a) Fair value

The carrying values of cash, short-term investments, receivables, advances, tax credit receivable, 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 from (to) related party are not practicable to determine due to their related party nature.

(b) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(c) Credit risk

The Company is exposed to credit risk with respect to its balances receivable, which consists largely of tax credits receivable from Canadian agencies and interest receivable.

(d) Currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

4. TAX CREDIT

The Company is 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.

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Mineral Properties Costs

The Company incurred the following mineral properties costs:

	2008	2007
Seneca Property, British Columbia	$ 125,902	$ 125,902
Combarbala Property, Chile	-	-
Tucuma Property, Brazil	108,246	-
	$ 234,148	$ 125,902

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. 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.

5. 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 (incurred) 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 optionor ("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 complete a pre-feasibility study, whichever occurs earlier.

Tucuma Project

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 project in Brazil, subject to regulatory approval (received). The Company has agreed to pay US $100,000 (paid) at the conclusion of the due diligence, an additional US $100,000 on or before March 13, 2009, and 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.

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.

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.

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Deferred Exploration Costs

The Company incurred the following deferred exploration costs:

	2008	2007
Seneca Property, British Columbia		
Balance, beginning of year	$ 1,875,289	$ 1,140,507
Expenditures during the year		
Geological surveys, consulting and reports	7,601	267,745
Sampling and prospecting	6,519	-
Analytical fees	1,300	49,439
Miscellaneous	408	-
Travel, supplies and field expenses	116	330,865
Drilling	-	254,689
Mobilization and demobilization	-	15,740
	15,944	918,478
Mining tax credit	(3,189)	(183,696)
	12,755	734,782
Balance, end of year	1,888,044	1,875,289
Combarbala Property, Chile		
Balance, beginning of year	466,188	-
Expenditures during the year		
Geological surveys, consulting and reports	182,547	208,006
Sampling and prospecting	118,517	-
Drilling	83,466	127,182
Travel, supplies and field expenses	54,977	39,496
Analytical fees	34,416	88,409
Miscellaneous	11,044	-
Mobilization and demobilization	-	3,095
	484,967	466,188
Balance, end of year	951,155	466,188
Tucuma Property, Brazil		
Expenditures during the year		
Consulting	21,589	-
Balance, end of year	21,589	-
Total deferred exploration costs	$ 2,860,788	$ 2,341,477

6. SHARE CAPITAL

(a) Authorized

400,000,000 common shares without par value

(b) Issued and fully paid

	Number of Shares	Capital Stock	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	600,000	-
Share issuance costs	-	(51,557)	-
Stock-based compensation	-	-	1,159,062
Balance, August 31, 2007	37,263,404	4,040,914	1,556,816
Private placement	612,500	245,000	-
Agent's compensation	37,800	15,120	
Share issuance costs	-	(22,150)	-
Fair value of warrants	-	(8,302)	8,302
Fair value of brokers' warrants	-	(3,105)	3,105
Stock-based compensation	-	-	2,244,843
Balance, August 31, 2008	37,913,704	$ 4,267,477	$ 3,813,066

In August 2008, the Company completed a non-brokered private placement of 612,500 units at a price of $0.40 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.65 per share for twelve months. If the Company's common shares trade at a price greater than $0.90 per share for a period of ten consecutive business days, the Company may force the warrant holder to exercise the warrants within ten business days. If the warrants are not exercised during this period, they will be terminated. The Company incurred $22,150 in share issuance costs of which $7,030 was paid in cash and $15,120 was settled in units with the same terms above. In addition, the Company issued 42,875 warrants to the brokers exercisable at a price of $0.40 per share for twelve months.

The Company recorded $8,302 for the fair value of the warrants issued pursuant to the private placement and recorded $3,105 for the fair value of the brokers' warrants as share issue costs. These balances were estimated using the Black-Scholes option pricing model assuming 2.67% risk-free interest rate and volatility of 62.62% over a period of one year with no dividend.

6. SHARE CAPITAL (Continued)

(b) Issued and fully paid (Continued)

During the year ended August 31, 2007, the Company completed a non-brokered private placement of 750,000 units at a price of $0.80 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of $1.20 per share for twelve months. Share issuance costs comprised $48,042 in cash commission and $3,515 in filing fees in respect of this financing.

(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.

During the year ended August 31, 2008, the Company adopted a rolling stock option plan (the "Plan") whereby the maximum number of common shares of the Company that may be issued under the Plan will be 10% of the common shares issued and outstanding from time to time.

A summary of the stock options activities is as follows:

	Number of Stock Options	Weighted Average Exercise 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	1,200,000	$ 0.420
Expired	(1,675,000)	$ 0.910
Balance, August 31, 2008	5,950,000	$ 0.830

6. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

During the year ended August 31, 2008:

- On October 22, 2007, the Company granted 200,000 options to consultants with an average exercise price of $0.50 of which 25% vested immediately and the remaining vesting 25% each quarter thereafter.
- On January 2, 2008, the Company granted 1,000,000 options to an officer with an exercise price of $0.40 of which 25% vested immediately and the remaining vesting 25% each quarter thereafter.

During the year ended August 31, 2007:

- On May 1, 2007, the Company granted 4,500,000 options to directors with an exercise price of $0.92 of which 12.5% vested immediately and the remaining vesting 12.5% each quarter thereafter.
- On July 1, 2007, the Company granted 75,000 options to consultants with an average exercise price of $1.18 of which 25% vested immediately and the remaining vesting 25% each quarter thereafter.

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 contractual life	3.54		3.46

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

Expiry Date	Number of Options	Exercise Price	Exercisable
February 28, 2008	1,600,000	$ 0.90	1,600,000
June 1, 2008	75,000	$ 1.18	18,750
April 15, 2009	250,000	$ 1.17	250,000
April 30, 2012	4,500,000	$ 0.92	1,125,000
Balance, end of year	6,425,000		2,993,750
Weighted average contractual life	3.47		2.16

6. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

During the year ended August 31, 2008, the Company recognized fair value of $2,244,843 (2007 - $1,159,062) in stock-based compensation expense was recorded in the statements of operations for the stock options granted and vested to directors, officers and consultants of the Company.

Stock-based compensation expense of $27,805 (2007 - $4,062) was attributed to professional fees and $2,217,038 (2007 - $1,155,000) was attributed to management and administration fees.

The fair value of the share options used to calculate compensation expense was estimated using the Black-Scholes option pricing model with the following assumptions:

	2008	**2007**
Risk-free interest rate	4.32% - 2.62%	3.58% - 4.38%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	63% - 89%	78% - 338%
Expected life of options	1 – 5 years	1 – 3 years
Weighted average fair value of options granted	$ 0.42	$ 0.96
Weighted average exercise price of options granted	$ 0.42	$ 0.96

(d) Escrow shares

As at August 31, 2008, none (2007 - 4,770,002) of the common shares of the Company were subject to escrow agreements.

6. SHARE CAPITAL (Continued)

(e) Warrants

	2008		2007	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	375,000	$ 1.20	-	$ 0.00
Issued	368,025	$ 0.62	375,000	$ 1.20
Expired	(375,000)	$ 1.20	-	$ 0.00
Balance, end of year	368,025	$ 0.62	375,000	$ 1.20

Warrants exercisable and outstanding at August 31, 2008 have a remaining contractual life of 0.97 years and 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		

Warrants exercisable and outstanding at August 31, 2007 are as follows:

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

7. RELATED PARTY TRANSACTIONS

During the year ended August 31, 2008, the Company had the following related party transactions:

(a) paid $43,000 (2007 - $48,000) for management fees and administration expenses to a company controlled by a director;

(b) paid $277,005 (2007 - $894,034) for exploration expenditures to a company controlled by a director. As of August 31, 2008, $240 (2007 - $Nil) was included in due to related parties;

(c) $17,427 (2007 - $7,744) was paid to a firm controlled by an officer of the Company for legal fees and disbursements. As of August 31, 2008, $6,446 (2007 - $Nil) was included in due to related parties;

(d) $7,700 (2007 - $4,452) was recorded as reimbursement for rent from a company related through common directors. As of August 31, 2008, a balance of $7,657 was due to (2007 - $4,452 due from) this company. The amount is non-interest bearing and unsecured, with no fixed terms of repayment; and

7. RELATED PARTY TRANSACTIONS (Continued)

(e) paid $3,352 (2007 - $Nil) to directors for reimbursement of expenses.

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.

8. COMMITMENT

The Company had an operating lease for office premises expiring on January 31, 2009, which was cancelled effective July 31, 2008.

9. SEGMENTED INFORMATION

The Company had assets and operated in the following geographic segments in the exploration and development of mineral properties at August 31:

	2008			
	Canada	Chile	Brazil	Total
Mineral properties	$ 2,013,946	$ 951,155	$ 129,835	$ 3,094,936
Cash	172,698	18,388	-	191,086
Other	338,560	-	-	338,560
	$ 2,525,204	$ 969,543	$ 129,835	$ 3,624,582

	2007			
	Canada	Chile	Brazil	Total
Mineral properties	$ 2,001,191	$ 466,188	$ -	$ 2,467,379
Cash	162,880	170,027	-	332,907
Investments	550,000	-	-	550,000
Other	315,192	-	-	315,192
	$ 3,029,263	$ 636,215	$ -	$ 3,665,478

10. INCOME TAXES

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2008	2007
Effective income tax rates	33.08%	34.12%
Income tax benefit computed at Canadian statutory rates	$ 828,354	$ 485,917
Stock based compensation	(743,433)	(396,338)
Temporary differences	25,593	25,919
Future income taxes due to change in tax rates	(21,022)	-
Unrecognized tax losses	(89,492)	(115,498)
	$ -	$ -

The components of future income tax assets are as follows:

	2008	2007
Future income tax assets		
Non-capital loss carry-forwards	$ 354,096	$ 251,239
Other income tax assets	47,422	72,913
Book value of mineral properties in excess of tax value	(114,736)	(75,385)
	286,782	248,767
Valuation allowance	(286,782)	(248,767)
Future income tax assets	$ -	$ -

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

The Company has available approximate non-capital losses that may be carried forward to apply against future years' income for income tax purposes. The losses expire as follows:

2014	$ 29,000
2015	101,000
2026	271,000
2027	335,000
2028	334,000
	$ 1,070,000

11. SUBSEQUENT EVENT

Subsequent to August 31, 2008, 200,000 stock options exercisable at $0.40 and $0.60 expired unexercised.

12. PRIOR PERIOD ADJUSTMENT AND COMPARATIVE FIGURES

The consolidated financial statements for the year ended August 31, 2007 have been restated to adjust contributed surplus and stock-based compensation expense for amounts that relate to the 2007 fiscal year. This error was noted in the current year and resulted in a restatement to reduce net loss, deficit and contributed surplus by $384,587. The resulting restatement to amounts for the year ended August 31, 2007 is as follows:

	As Previously Reported August 31, 2007	Adjustment	As Restated August 31, 2007
Net loss and comprehensive loss for year	$ 1,808,727	$ (384,587)	$ 1,424,140
Contributed surplus	$ 1,941,403	$ (384,587)	$ 1,556,816
Deficit, end of year	$ 2,413,191	$ (384,587)	$ 2,028,604
Stock-based compensation expense	$ 1,543,649	$ (384,587)	$ 1,159,062
Basic loss per share	$ 0.05	$ (0.01)	$ 0.04