

Knight Resources Ltd.

Financial Statements

For The Years Ended September 30, 2010 and 2009



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Knight Resources Ltd. (the "Company") as at September 30, 2010 and 2009 and the statements of loss and comprehensive loss, shareholders' equity and cash flows for the years 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 audits.

We conducted our audits 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 September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

December 15, 2010

KNIGHT RESOURCES LTD.

(An exploration stage company)

Balance Sheets

(Canadian Dollars)

	September 30, 2010	September 30, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,655,070	\$ 1,534,715
Accounts receivable	21,772	28,102
Tax credits recoverable	541,326	494,269
Prepaid expenses	18,360	16,266
	2,236,528	2,073,352
Property, plant and equipment (note 4)	9,217	8,414
	\$ 2,245,745	\$ 2,081,766
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 407,003	\$ 41,120
Shareholders' equity		
Share capital (note 6)	26,207,491	23,272,203
Contributed surplus	5,728,719	5,384,351
Warrants (note 6)	649,281	-
Deficit	(30,746,749)	(26,615,908)
	1,838,742	2,040,646
	\$ 2,245,745	\$ 2,081,766

Nature of operations (note 1)

Subsequent events (note 13)

Approved on behalf of the Board:

"Harvey Keats"

Director

"David Patterson"

Director

KNIGHT RESOURCES LTD.

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Statements of Loss and Comprehensive Loss

(Canadian Dollars)

	Years ended September 30,	
	2010	2009
Exploration expenditures		
West Raglan (schedule 1)(note 5)	\$ 3,887,807	\$ 373,561
General and administrative expenditures		
Accounting and audit	49,574	45,574
Administrative fees	90,750	97,500
Amortization	6,450	4,249
Directors fees	14,000	-
Filing and listing fees	15,207	9,444
Legal fees	7,094	4,884
Management fees (note 10)	177,699	123,771
Office and miscellaneous	38,239	39,629
Promotion	158,657	130,947
Rent (note 10)	89,495	72,167
Stock-based compensation expense (note 7)	344,368	28,980
Telephone and communications	10,515	11,123
Transfer agent fees	8,752	6,600
Travel	24,080	21,479
	1,034,880	596,347
Other items		
Interest income	22,840	10,388
Sale of seismic data	-	22,247
Loss on disposal of equipment	-	(2,212)
Interest on flow-through shares (note 11)	-	(821)
	22,840	29,602
Loss before income taxes	(4,899,847)	(940,306)
Future income tax recovery (note 11)	769,006	-
Loss and comprehensive loss for the year	\$ (4,130,841)	\$ (940,306)
Basic and diluted loss per share	\$ (0.03)	\$ (0.01)
Weighted average number of shares outstanding	131,269,627	90,670,447

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.

(An exploration stage company)

Statements of Shareholders' Equity

(Canadian Dollars)

	Common Shares		Warrants	Contributed surplus	Deficit	Total shareholders' equity
	Number of	Amount				
Balance at September 30, 2008	90,670,447	\$ 23,272,203	\$ 1,575,518	\$ 3,779,853	\$ (25,675,602)	\$ 2,951,972
Expiry of warrants	-	-	(1,575,518)	1,575,518	-	-
Stock-based compensation	-	-	-	28,980	-	28,980
Loss for the year	-	-	-	-	(940,306)	(940,306)
Balance at September 30, 2009	90,670,447	23,272,203	-	5,384,351	(26,615,908)	2,040,646
Common shares issued for cash:						
Private placements (note 6)	53,068,314	3,999,429	645,392	-	-	4,644,821
Share issue costs on private placements	-	(295,135)	(46,699)	-	-	(341,834)
Warrants issued for finders' fees on private placements	-	-	50,588	-	-	50,588
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(769,006)	-	-	-	(769,006)
Stock-based compensation	-	-	-	344,368	-	344,368
Loss for the year	-	-	-	-	(4,130,841)	(4,130,841)
Balance at September 30, 2010	143,738,761	\$ 26,207,491	\$ 649,281	\$ 5,728,719	\$ (30,746,749)	\$ 1,838,742

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.

(An exploration stage company)

Statements of Cash Flows

(Canadian Dollars)

	Years ended September 30,	
	2010	2009
Cash Provided by (Used for):		
Operating Activities		
Loss for the year	\$ (4,130,841)	\$ (940,306)
Items not involving cash:		
Amortization	6,450	4,249
Stock-based compensation expense (note 7)	344,368	28,980
Loss on disposal of equipment	-	2,212
Future income tax recovery	(769,006)	-
Changes in non-cash operating working capital:		
Accounts receivable	6,330	(18,406)
Tax credits recoverable	(47,057)	1,069,028
Prepaid expenses	(2,094)	2,242
Accounts payable and accrued liabilities	365,883	(1,153,651)
	<u>(4,225,967)</u>	<u>(1,005,652)</u>
Financing Activities		
Common shares issued for cash	4,644,821	-
Share issue costs	(291,246)	-
	<u>4,353,575</u>	<u>-</u>
Investing Activities		
Purchase of property, plant and equipment	(7,253)	(3,305)
Increase (decrease) in cash and cash equivalents	120,355	(1,008,957)
Cash and cash equivalents, beginning of year	1,534,715	2,543,672
Cash and cash equivalents, end of year	\$ 1,655,070	\$ 1,534,715
Cash provided by:		
Interest received	\$ 22,840	\$ 10,388
Tax credits received	\$ 436,518	\$ 1,321,976
Supplemental cash flow information:		
Finder's warrants for share issue costs	\$ 50,588	\$ -

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.

(An exploration stage company)

Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

1. Nature of Operations

Knight Resources Ltd. ("the Company") is a public company incorporated under the Company Act, British Columbia, Canada. Its shares are listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The principal business of the Company is to explore natural resource properties.

The Company is engaged in the identification, acquisition, exploration and development of mineral resources in Canada and is considered to be in the exploration stage as it has not placed any of its mineral properties into production. As of the date of this report, the Company has not determined whether its mineral property interests contain ore reserves that are economically recoverable.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a going-concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business.

For the year ended September 30, 2010, the Company reported a loss of \$4,130,841 (2009 - \$940,306) and as of September 30, 2010 has a deficit of \$30,746,749 (2009 - \$26,615,908). As at September 30, 2010, the Company had \$1,655,070 in cash available to meet its liabilities as they become due and to complete the acquisition, exploration and development of its mineral property interests. The Company's ability to continue as a going concern is dependent upon its ability to secure additional financing on a timely basis, and achieve sufficient positive cash flows to cover obligations and expenses.

These financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities, which might be necessary should the Company be unable to continue its operations as a going concern.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the following significant accounting policies:

a) Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit with banks or highly liquid short-term interest bearing securities with maturities at the purchase date of ninety days or less.

b) Property, plant and equipment

Property, plant and equipment is recorded at cost and amortized over the estimated useful lives of the assets on the following basis:

Computer software	100% declining balance per annum
Computer hardware	30% declining balance per annum
Office furniture and equipment	20% declining balance per annum

The Company periodically evaluates the recoverability of its property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the carrying value of a property exceeds its undiscounted estimated future cash flows, an impairment provision is made to reduce the carrying value to its fair value.

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Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

2. Significant Accounting Policies (cont'd)

c) Mineral properties

All direct costs related to the acquisition of mineral property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized.

Gains and losses are recognized on property dispositions when the value of the consideration received exceeds or is less than, respectively, the carrying value of the property. Partial dispositions or option proceeds with respect to undeveloped properties are credited against the cost of the related property except that, when the proceeds exceed the cost, the excess is credited to operations. The aggregate costs related to abandoned properties are charged to operations.

The Company reviews the carrying values of mineral property interests on a regular basis by reference to the project economics, including the timing of the exploration work, the work programs and exploration results experienced by the Company and others. When the carrying value of a property exceeds its undiscounted estimated future cash flows, an impairment provision is made to reduce the carrying value to its fair value.

d) Loss per share

Basic loss per common share is computed by dividing earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Diluted loss per share is equal to basic loss per share for the periods presented as the effect of any outstanding options and warrants would be anti-dilutive.

e) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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 amounts of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, useful lives for amortization, stock-based compensation and income taxes. Actual results could differ from those estimates.

f) Foreign currency translation

Transactions in foreign currencies are translated at rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at year end into Canadian dollars at the exchange rate in effect at the balance sheet date. Foreign exchange gains and losses are included in income.

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Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

2. Significant Accounting Policies (cont'd)

g) Future income taxes

Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax basis of the assets and liabilities and for loss carryforwards, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is not more likely than not that the asset will be realized.

h) Flow-through shares

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through shares issued, the tax benefits of the related expenditures are renounced to the share subscribers. The Company recognizes the foregone tax benefits to the Company and share capital is reduced for the tax benefits renounced to the subscribers. The tax effect of the renouncement is recorded upon filing of the renouncement documents provided that corresponding exploration expenditures are incurred or there is reasonable assurance that they will be incurred within the permitted time frame. When previously unrecognized future income tax assets exist, a corresponding future income tax recovery is recognized.

i) Stock-based compensation

The Company's stock-based compensation plan is described in note 7. The Company uses the fair value based method to account for stock-based transactions with employees, non-employees and directors. Accordingly, the fair value of the stock options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. Any consideration paid on exercise of stock options together with the related portion of contributed surplus is credited to share capital.

j) Asset retirement obligations

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets if a reasonable estimate of fair value can be made. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

The Company has no material asset retirement obligations as at September 30, 2010 and 2009.

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Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

2. Significant Accounting Policies (cont'd)

k) Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments and derivatives are measured and reported on the balance sheet at fair value except, for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured and reported at amortized cost. Subsequent measurements and changes in fair value will depend on their initial classification. Held-for-trading financial instruments are measured at their fair value and changes are recognized in net income (loss) in the period in which the change occurs. Available-for-sale financial assets are measured at fair value and changes in fair value are recognized in other comprehensive income (loss) until the financial instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading; accounts receivable and tax credits recoverable are classified as loans and receivables; and accounts payable and accrued liabilities are classified as other financial liabilities.

3. Changes in Accounting Policies

Effective October 1, 2009, the Company adopted new accounting policies from the Canadian Institute of Chartered Accountants Handbook ("CICA HB"):

- a) CICA Handbook Section 3855 – *"Financial Instruments – Recognition and Measurement."* This section was amended by the CICA in August 2009 to align this section more closely with International Financial Reporting Standards ("IFRS"). The application of this amendment is to annual financial statements with fiscal years beginning on or after November 1, 2008.

Changes include:

- Reclassification of financial assets out of assets held for trading and assets held for sale categories into loans and receivables category is permitted under certain circumstances;
- The definition of the loans and receivables category has been updated so that debt securities that are not quoted in an active market are permitted to be classified in the loans and receivables category. Impairment of loans and receivables is calculated using the incurred credit loss model of Section 3025 – *"Impaired loans."* Loans and receivables that an entity plans to sell in the near term must be classified as held for trading, and loans or receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available for sale; and
- Impairment losses relating to an available-for-sale debt instrument must be reversed if the fair value of the instrument increases due to an event occurring after the loss was recognized.

The application of these amendments did not have a material impact on the Company.

- b) CICA Handbook Section 3862 – *"Financial Instruments – Disclosures."* This section was amended by the CICA in June 2009 to enhance disclosures about fair value measurements and liquidity risk of financial instruments. The amendment is to be applied to annual financial statements with fiscal years ending after September 30, 2009. The purpose of this amendment is to provide further convergence with IFRS. Financial instruments recognized at fair value on the balance sheet must be classified in fair value hierarchy levels as follows:

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Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

3. Changes in Accounting Policies (cont'd)

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); and
- Level 3 – valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities).

The relevant disclosures are provided in note 8 to these financial statements.

Recent accounting pronouncements

- c) In January 2009, the CICA issued Section 1582 "*Business Combinations*", Section 1601 "*Consolidated Financial Statements*" and Section 1602 "*Non-controlling Interests*" which replace Section 1581 "*Business Combinations*" and Section 1600 "*Consolidated Financial Statements*". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual financial statements for its fiscal year beginning on October 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.
- b) In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. For the Company, the transition date of October 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for its September 2012 year end, the financial reporting impact of the transition to IFRS has not been determined at this time.

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Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

4. Property, plant and equipment

	2010		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 7,127	\$ 5,252	\$ 1,875
Computer software	16,040	12,414	3,626
Office furniture and equipment	13,458	9,742	3,716
	<u>\$ 36,625</u>	<u>\$ 27,408</u>	<u>\$ 9,217</u>

	2009		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 7,127	\$ 4,449	\$ 2,678
Computer software	8,787	7,696	1,091
Office furniture and equipment	13,458	8,813	4,645
	<u>\$ 29,372</u>	<u>\$ 20,958</u>	<u>\$ 8,414</u>

5. Mineral Property

West Raglan Property

Cumulative expenditures	2010	2009
Exploration expenditures	\$ 25,814,783	\$ 21,443,322
Refundable tax credits and mining duties	(8,993,023)	(8,509,369)
Net exploration expenditures	<u>\$ 16,821,760</u>	<u>\$ 12,933,953</u>

As at September 30, 2010, the Company owes Anglo American Exploration (Canada) Limited ('Anglo American') \$370,984 (2009 - \$nil), which amount is included in accounts payable and accrued liabilities.

The Company has earned a participating joint venture interest in the West Raglan Project ('the Project') located in northern Quebec, Canada. Exploration is carried out by Anglo American under the direction of a Management Committee comprised of two representatives from each of the Company and Anglo American. Anglo American has the deciding vote in the case of a Management Committee stalemate.

At September 30, 2008, the Company had a 49% interest in the joint venture. The Company elected not to participate in the calendar 2009 field program and as such, its interest in the Project had been diluted to 45.32% as at December 31, 2009. Effective January 1, 2010, the Company and Anglo American agreed to allow the Company the right to earn back its 49% interest in the Project during 2010 by incurring all of the first \$3,232,959 of exploration expenditures. As at September 30, 2010, the Company had incurred all of the first \$3,232,959 of exploration expenditures and as such has earned back its 49% interest in the joint venture.

KNIGHT RESOURCES LTD.

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Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

5. Mineral Property (cont'd)

Anglo American is entitled to charge an administrative and overhead charge of 3% on capital items, 5% on contracts and 15% on direct costs. The Company has also granted to Anglo American the right to purchase, at fair market value, all mineral products assigned to the Company's interest in any future mine developed on the Project. Anglo American has the right to increase its interest in the Project by 19% by completing, at its own cost, a bankable feasibility study. At the Company's election, Anglo American can further increase its interest in the Project by 5% by arranging production financing for both parties.

The Company and Anglo American are required to contribute to project expenditures in accordance with their respective interests in the project from time to time. Failure to contribute will result in a party's interest being diluted. Should either party's interest fall below 10%, that interest will be reduced to a 1% net smelter royalty, purchasable at the discretion of the other party for \$2,000,000. The Company and Anglo American both have a right of first refusal to purchase all or any part of the other party's interest in the Project.

6. Share Capital and Warrants

a) Authorized: Unlimited common shares without par value

b) Private placements:

During the years ended September 30, 2010 and 2009, the Company completed the following private placements:

- i) On April 20, 2010, April 26, 2010 and May 10, 2010 the Company closed non-brokered private placements for gross proceeds of \$765,621. The funds were raised through the issuance of 4,792,357 Québec flow-through units ("QFT unit") at a price of \$0.115 per QFT unit and 1,950,000 flow-through units ("FT unit") at a price of \$0.11 per FT unit. The proceeds of \$765,621 were allocated to common shares in the amount of \$619,816 and to warrants in the amount of \$145,805, based on their relative fair values on the date of closing. For income tax purposes, the subscription funds of \$765,621 will be applied towards carrying out exploration activities and the expenditures will be renounced in favour of the subscriber. Accordingly, the Company will not have available deductions from taxable income in respect of such expenditures. The Company must spend all of the \$765,621 on Canadian Exploration Expenditures by December 31, 2011.

Each QFT unit and each FT unit consists of one common share and one-half of one common share purchase warrant. Of the 3,371,179 warrants issued, 1,646,179 warrants entitle the holder to acquire one common share at a price of \$0.15 until April 20, 2011, and at a price of \$0.20 until April 20, 2012; 825,000 warrants entitle the holder to acquire one common share at a price of \$0.15 until April 26, 2011, and at a price of \$0.20 until April 26, 2012; and 900,000 warrants entitle the holder to acquire one common share at a price of \$0.15 until May 10, 2011, and at a price of \$0.20 until May 10, 2012.

The fair values of the warrants are \$0.05 and were determined based on the Black-Scholes option pricing model assuming no expected dividends, a weighted average risk-free interest rate of 1.22%, an expected stock price volatility of 99% and an expected life of two years.

The Company incurred total issuance costs on the private placement of \$32,532, which were allocated to common shares in the amount of \$26,337 and to warrants in the amount of \$6,195 based on their relative fair values. All of these costs were incurred in cash.

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Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

6. Share Capital and Warrants (cont'd)

- ii) On March 31, 2010 the Company closed a non-brokered private placement for gross proceeds of \$600,000. The funds were raised through the issuance of 2,608,695 Québec flow-through units ("QFT unit") at a price of \$0.115 per QFT Unit and 2,727,272 flow-through units ("FT unit") at a price of \$0.11 per FT Unit. The proceeds of \$600,000 were allocated to common shares in the amount of \$504,000 and to warrants in the amount of \$96,000, based on their relative fair values on the date of closing. For income tax purposes, the subscription funds of \$600,000 will be applied towards carrying out exploration activities and the expenditures will be renounced in favour of the subscriber. Accordingly, the Company will not have available deductions from taxable income in respect of such expenditures. The Company must spend all of the \$600,000 on Canadian Exploration Expenditures by December 31, 2011.

Each QFT unit and each FT unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.15 until March 31, 2011, and at a price of \$0.20 until March 31, 2012. The Company also issued 426,878 finders' warrants with the same terms as described above.

The fair values of the warrants are \$0.04 and were determined based on the Black-Scholes option pricing model assuming no expected dividends, a weighted average risk-free interest rate of 0.96%, an expected stock price volatility of 87% and an expected life of two years.

The Company incurred total issuance costs on the private placement of \$72,127, which were allocated to common shares in the amount of \$60,587 and to warrants in the amount of \$11,540 based on their relative fair values. Of these costs, \$55,095 was incurred in cash and \$17,032 was incurred through the issuance of the 426,878 finders' warrants.

- iii) On November 19, 2009 and December 9, 2009, the Company closed a non-brokered private placement for gross proceeds of \$2,576,000 and \$703,200 respectively. These funds were raised through the issuance of 32,200,000 units and 8,790,000 units at a price of \$0.08 per unit respectively. Each unit is comprised of one flow-through common share and one half of one non flow-through common share purchase warrant. The total proceeds of \$3,279,200 were allocated to common shares in the amount of \$2,875,613 and to warrants in the amount of \$403,587, based on their relative fair values on the date of closing. For income tax purposes, the subscription funds of \$3,279,200 were applied towards carrying out exploration activities and the expenditures were renounced in favour of the subscriber. Accordingly, the Company will not have available deductions from taxable income in respect of such expenditures. The Company must spend all of the \$3,279,200 on Canadian Exploration Expenditures by December 31, 2010.

Each whole share purchase warrant entitles the holder to purchase one additional non flow-through common share at an exercise price of \$0.12. There are 16,100,000 share purchase warrants that expire on November 19, 2010 and 4,395,000 share purchase warrants that expire on December 9, 2010. The Company also issued 1,218,750 finder's warrants which entitle the holder to purchase 1,218,750 non flow-through common shares at \$0.12 per share up to November 19, 2010 and 439,375 finder's warrants which entitle the holder to purchase 439,375 non flow-through common shares at \$0.12 per share up to December 9, 2010.

The fair values of the warrants are \$0.02 and were determined based on the Black-Scholes option pricing model assuming no expected dividends, a weighted average risk-free interest rate of 0.48%, an expected stock price volatility of 115% and an expected life of one year.

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Notes to the Financial Statements

September 30, 2010 and 2009

(Canadian Dollars)

6. Share Capital and Warrants (cont'd)

The Company incurred total issuance costs on the private placement of \$237,176, which were allocated to common shares in the amount of \$208,212 and to warrants in the amount of \$28,964 based on their relative fair values. Of these costs, \$203,620 was incurred in cash and \$33,556 was incurred through the issuance of 1,658,125 finder's warrants.

c) Warrants:

	Warrants	Weighted-average exercise price	Weighted-average remaining life (years)
Balance at September 30, 2008	19,619,730	\$0.57	0.4
Expired	(19,619,730)	0.57	
Balance at September 30, 2009	-	0.00	0.0
Issued	28,619,166	0.13	
Balance at September 30, 2010	28,619,166	\$0.13	0.5

Warrants exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2010	2009
November 19, 2010 (note 13)	\$0.12	17,318,750	-
December 9, 2010 (note 13)	\$0.12	4,834,375	-
March 31, 2012	\$0.15	3,094,862	-
April 20, 2012	\$0.15	1,646,179	-
April 26, 2012	\$0.15	825,000	-
May 10, 2012	\$0.15	900,000	-
		28,619,166	-

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Notes to the Financial Statements

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(Canadian Dollars)

7. Stock Options

a) Stock options outstanding

The Company has a stock option plan whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of stock options. The term of the stock options granted are fixed by the board of directors and are not to exceed ten years. The exercise prices of the stock options are determined by the board of directors but shall not be less than the closing price of the Company's common shares on the day preceding the day on which the directors grant the stock options, less any discount permitted by the TSX Venture Exchange. The stock options vest immediately on the date of grant unless otherwise required by the exchange or imposed by the Company; however, a four month hold period applies to all shares issued under each stock option, commencing on the date of grant. Other terms and conditions are as follows: all stock options are non-transferable; no more than 5% of the issued shares may be granted to a consultant, or an employee performing investor relations activities, in any 12 month period; disinterested shareholder approval must be obtained for (i) any reduction in the exercise price of an outstanding option, if the holder is an insider, (ii) any grant of stock options to insiders, within a 12 month period, exceeding 10% of the Company's issued shares; and stock options will be reclassified in the event of any consolidation, subdivision, conversion or exchange of the Company's common shares. A summary of the Company's stock options as at September 30, 2010 and 2009 and the changes during the years then ended is as follows:

	Number of Shares	Weighted- average exercise price	Weighted- average remaining life (years)
Balance at September 30, 2008	7,819,000	\$0.24	0.48
Expired	(7,819,000)	0.24	
Balance at September 30, 2009	-	0.00	0.00
Granted	12,150,000	0.10	
Balance at September 30, 2010	12,150,000	\$0.10	0.16

As at September 30, 2010 and 2009, stock options exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2010		2009	
		Options Outstanding	Options Exercisable	Options Outstanding	Options Exercisable
November 4, 2010 (note 13)	\$0.10	9,050,000	8,925,000	-	-
February 11, 2011	\$0.11	3,100,000	2,700,000	-	-
		12,150,000	11,625,000	-	-

b) Stock-based compensation

The fair value based method is used to calculate the compensation expense for all stock-based awards. The stock-based compensation expense for fiscal 2010 grants and modifications was calculated by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

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September 30, 2010 and 2009

(Canadian Dollars)

7. Stock Options (cont'd)

	<u>2010</u>
Weighted average:	
Risk-free interest rate	0.72%
Expected dividend yield	-
Expected stock price volatility	118%
Expected option life in years	1.0

The weighted average fair value of options granted and vested during 2010 was \$0.03 (2009 - \$nil).

8. Financial Instruments

As at September 30, 2010, the Company's financial instruments are cash and cash equivalents, accounts receivable, tax credits recoverable and accounts payable and accrued liabilities. The fair value of cash and cash equivalents is measured using level 1 of the fair value hierarchy. The amounts reflected in the balance sheet for accounts receivable, tax credits recoverable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature and negligible credit losses.

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to credit risk, interest rate risk and currency risk is not considered significant.

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents, accounts receivable and tax credits recoverable are exposed to credit risk. The credit risk on cash and cash equivalents is not considered significant because the counterparties are highly rated financial institutions. The credit risk on accounts receivable and tax credits recoverable is not considered significant because the counterparties are federal and provincial governments.

The aging of accounts receivable and tax credits recoverable are as follows:

	<u>2010</u>	<u>2009</u>
Accounts receivable		
0 to 60 days	\$ 885	\$ 23,092
61 to 120 days	20,887	5,010
> 120 days	-	-
	<u>\$ 21,772</u>	<u>\$ 28,102</u>
Tax credits recoverable		
0 to 365 days	\$ 498,898	\$ 266,117
> 365 days	42,428	228,152
	<u>\$ 541,326</u>	<u>\$ 494,269</u>

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(Canadian Dollars)

8. Financial Instruments (cont'd)

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents are exposed to interest rate risk as the Company invests cash and cash equivalents at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash and cash equivalents. For the year ended September 30, 2010, if interest rates had been 0.25% lower, loss and comprehensive loss would have been \$9,198 higher and conversely if interest rates had been 0.25% higher, loss and comprehensive loss would have been \$9,198 lower.

c) Currency Risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to currency risk is negligible because the Company's operations are in one country, being Canada. The dollar amount and number of transactions conducted in currencies other than the Canadian dollar are not material.

d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accounts payable and accrued liabilities are all current and due within 90 days of the balance sheet date. The Company ensures that it has sufficient capital to meet short term financial obligations after taking into account its exploration obligations and cash and cash equivalents on hand.

9. Capital Management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern.
- To maintain appropriate cash reserves on hand to continue exploration of the Company's West Raglan Project and to meet ongoing operating costs.
- To ensure that flow-through funds are spent on Canadian Exploration Expenditures in order to meet the required renunciation obligations.
- To invest cash on hand in highly liquid and highly rated financial instruments.

In the management of capital, the Company includes shareholders' equity and debt in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets, especially in regards to exploration results on its West Raglan Project. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to externally imposed capital requirements.

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(Canadian Dollars)

10. Related Party Transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The following is a summary of the related party transactions that occurred throughout the years ended September 30, 2010 and 2009:

- a) paid or accrued \$177,699 (2009 - \$123,771) for management fees to a company controlled by the CEO, to a company controlled by the CFO and to a company controlled by the Vice-President of Exploration;
- b) paid or accrued \$61,901 (2009 - \$43,700) for technical services relating to the West Raglan Property to a company controlled by the CEO and to a company controlled by the Vice-President of Exploration;
- c) paid or accrued \$14,000 (2009 - \$nil) for directors fees to a company controlled by a director and to a director; and
- d) paid or accrued \$89,495 (2009 - \$72,167) for rent to companies where the CFO is a common director.

11. Income Taxes

Interest on flow-through shares of \$nil (2009 - \$821) is wholly composed of Part XII.6 tax which is incurred on the renunciation of flow-through shares using the look-back rule. These taxes are deductible for income tax purposes. Substantially all of the difference between the actual income tax recovery of \$769,006 (2009 - \$nil) and the expected statutory corporate income tax recovery relates to losses, resource pools not recognized, stock-based compensation and share issue costs.

The Company has accumulated losses of approximately \$4,190,000 which may be deducted in the calculation of taxable income in future years. The losses expire on various dates to 2030. Also, the Company has approximately \$2,500,000 of capital losses and \$14,890,000 of Canadian and foreign resource tax pools which may be deducted in the calculation of taxable income in future years. These losses and pools can be carried forward indefinitely. The Company has unrecognized investment tax credits and non-refundable tax credits totaling approximately \$1,780,000 (2009 - \$1,730,000).

Significant components of the company's future tax assets are as follows:

	2010	2009
Future income tax assets:		
Resource pools	\$ 4,006,583	\$ 3,694,995
Capital losses carried forward	337,449	337,449
Non-capital losses carried forward	1,127,933	940,541
Property, plant and equipment	13,874	12,139
Share issue costs	122,492	80,625
Valuation allowance	(4,839,325)	(5,065,749)
	769,006	-
Future income liability on flow-through shares	(769,006)	-
Net future income tax	\$ -	\$ -

Due to the uncertainty surrounding the realization of income tax assets in future years, the Company has provided for a full valuation allowance against its potential future income tax assets.

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(Canadian Dollars)

12. Segmented Information

The Company currently operates in one reportable operating segment, being the acquisition, exploration and development of natural resource properties. All of the Company's operations are based in Canada.

13. Subsequent Events

- a) Subsequent to September 30, 2010, 22,153,125 warrants with an exercise price of \$0.12 expired unexercised.
- b) Subsequent to September 30, 2010, 9,050,000 stock options with an exercise price of \$0.10 expired unexercised.

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Schedule of Exploration Expenditures

(Canadian Dollars)

	Years ended September 30,	
	2010	2009
West Raglan Property		
Drilling	\$ 1,897,958	\$ 226,659
Geochemistry	4,622	11,173
Geology	481,124	106,230
Geophysics	816,306	61,133
Mobilization	353,113	56,884
Operator fees	309,540	77,920
Other	15,716	2,667
Property filing fees	253	2,885
Safety and environment	430,928	37,258
Technical services	61,901	43,700
	4,371,461	626,509
Refundable tax credits	(419,356)	(223,608)
Mining duties refund	(64,298)	(29,340)
	\$ 3,887,807	\$ 373,561