

Knight Resources Ltd.

**Financial Statements
For The Years Ended September 30, 2006 and 2005**



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Telefax (604) 691-3031
www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Knight Resources Ltd. as at September 30, 2006 and 2005 and the statements of operations, deficit and cash flows for the years ended September 30, 2006 and 2005. 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

November 30, 2006



KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Balance Sheets
(Canadian Dollars)

	September 30, 2006	September 30, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 452,183	\$ 649,983
Short-term investments	-	42,745
Accounts receivable	18,071	14,043
Advances for exploration (note 5)	-	342,076
Tax credits recoverable	1,390,380	2,253,684
Prepaid expenses	10,500	8,244
	1,871,134	3,310,775
Property, plant and equipment (note 3)	13,299	18,855
	\$ 1,884,433	\$ 3,329,630
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 209,095	\$ 62,145
Shareholders' equity		
Share capital (note 6)	19,396,240	19,208,832
Contributed surplus (note 7)	2,689,917	2,408,471
Deficit	(20,410,819)	(18,349,818)
	1,675,338	3,267,485
	\$ 1,884,433	\$ 3,329,630

Nature of operations (note 1)
Contingency (note 5)
Commitment (note 11)
Subsequent events (note 13)

Approved on behalf of the Board:

"Harvey Keats" Director

"David Patterson" Director

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Statements of Operations
(Canadian Dollars)

	Years ended September 30,	
	2006	2005
Exploration expenditures		
West Raglan (schedule 1)(note 5)	\$ 1,202,935	\$ 2,068,783
General and administrative expenditures		
Accounting and audit	46,674	82,462
Administrative fees	95,000	108,000
Amortization	5,556	7,927
Directors fees (note 9)	24,000	24,000
Filing fees	9,248	25,500
Legal fees	20,921	125,734
Management fees (note 9)	137,419	152,588
Office and miscellaneous	53,121	82,282
Promotion	213,541	272,989
Rent (note 9)	33,262	32,240
Stock-based compensation expense (note 7)	281,446	494,022
Telephone and communications	12,750	26,855
Transfer agent	7,410	7,501
Travel	47,811	70,845
	988,159	1,512,945
Loss before other items and income taxes	(2,191,094)	(3,581,728)
Other items		
Interest income	37,005	27,512
Oil and gas net loss	-	(2,597)
	37,005	24,915
Loss before income taxes	(2,154,089)	(3,556,813)
Future income tax recovery (note 10)	93,088	192,530
Loss for the year	\$ (2,061,001)	\$ (3,364,283)
Basic and diluted loss per share	\$ (0.03)	\$ (0.06)
Weighted average number of shares outstanding	66,808,337	59,937,953

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Statements of Deficit
(Canadian Dollars)

	Years ended September 30,	
	<u>2006</u>	<u>2005</u>
Deficit, beginning of year	\$ (18,349,818)	\$ (14,985,535)
Loss for the year	(2,061,001)	(3,364,283)
Deficit, end of year	\$ (20,410,819)	\$ (18,349,818)

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Statements of Cash Flows
(Canadian Dollars)

	Years ended September 30,	
	2006	2005
Cash Provided by (Used for):		
Operating Activities		
Loss for the year	\$ (2,061,001)	\$ (3,364,283)
Items not involving cash:		
Amortization	5,556	7,927
Stock-based compensation expense (note 7)	281,446	494,022
Future income tax recovery	(93,088)	(192,530)
Accrued interest income	-	1,966
Changes in non-cash operating working capital:		
Accounts receivable	(4,028)	2,328
Advances for exploration	342,076	(342,076)
Tax credits recoverable	863,304	589,342
Prepaid expenses	(2,256)	29,702
Accounts payable and accrued liabilities	146,950	(1,326,253)
	(521,041)	(4,099,855)
Financing Activities		
Issuance of common shares	280,496	3,740,550
Investing Activities		
Redemption of short-term investments	42,745	760,448
Purchase of short-term investments	-	(510,448)
Purchase of property, plant and equipment	-	(4,712)
	42,745	245,288
Decrease in cash and cash equivalents	(197,800)	(114,017)
Cash and cash equivalents, beginning of year	649,983	764,000
Cash and cash equivalents, end of year	\$ 452,183	\$ 649,983
Cash and cash equivalents consists of:		
Cash	\$ 154,236	\$ 649,983
Redeemable Guaranteed Investment Certificates	297,947	-
	\$ 452,183	\$ 649,983
Cash provided by:		
Interest received	\$ 37,005	\$ 27,512
Tax credits received	\$ 1,512,697	\$ 2,408,932
Supplemental cash flow information:		
Stock-based compensation transferred to share capital on exercise of stock options	\$ -	\$ 128,249

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(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 in the process of exploring mineral properties and has not yet determined whether these properties contain deposits that are economically recoverable. The continuing operations of the Company are dependent upon obtaining necessary financing to meet the Company's commitments as they come due and to finance exploration and development of the properties, the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties and upon future profitable production or proceeds from disposition of the mineral and oil and gas properties.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

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) Short-term investments

Short-term investments consist of money market instruments with terms to maturity, at the date of issue, greater than ninety days.

c) 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. An impairment loss would be recognized when estimates of future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount.

d) Oil and gas properties

The Company follows the full-cost method of accounting for costs of oil and gas properties whereby all costs relating to exploration and development of petroleum and natural gas are capitalized. Such costs by area of interest include geological and geophysical expenditures, land acquisition costs and costs of drilling productive and non-productive wells and general and administrative costs directly related to exploration and development activities.

When and if production is attained, these costs are depleted using the units of production method based upon estimated proven recoverable reserves. The Company applies a ceiling test in respect of producing properties to determine that the capitalized costs of producing properties will be recovered from estimated net future revenues from the production of proved reserves at year-end oil and gas prices. No gains or losses are ordinarily recognized upon the sale or disposition of oil and gas properties within a specified area of interest, except under circumstances which result in a major disposal of assets or a sale or abandonment of an entire area of interest.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(Canadian Dollars)

2. Significant Accounting Policies (cont'd)

The carrying value of capitalized costs for producing and exploration stage oil and gas properties are separately reviewed at each reporting period to determine if impairment in value is indicated. Should impairment occur, the carrying value will be written down to the estimated net recoverable amount. Future depletion charges will be based on the revised carrying values for producing properties.

Costs incurred for initial new property investigation where no acquisition occurs are expensed as incurred.

e) 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.

f) 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. No diluted loss per share has been presented as the effect would be anti-dilutive.

g) Use of estimates

The preparation of financial statements in conformity with 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 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 depletion and amortization, stock-based compensation and income taxes. Actual results could differ from those estimates.

h) 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 the 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.

i) 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.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(Canadian Dollars)

2. Significant Accounting Policies (cont'd)

j) 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.

k) 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.

l) 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, 2006 and 2005.

m) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(Canadian Dollars)

3. Property, plant and equipment

	2006		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 9,658	\$ 5,368	\$ 4,290
Computer software	8,233	8,233	-
Office furniture and equipment	16,244	7,235	9,009
	<u>\$ 34,135</u>	<u>\$ 20,836</u>	<u>\$ 13,299</u>

	2005		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 9,658	\$ 3,530	\$ 6,128
Computer software	8,233	6,768	1,465
Office furniture and equipment	16,244	4,982	11,262
	<u>\$ 34,135</u>	<u>\$ 15,280</u>	<u>\$ 18,855</u>

4. Oil and Gas Properties

Maycroft Property

In November 2001, the Company entered into a farmout agreement with Polaris Resources Ltd. ('Polaris') to participate and earn a 25% before payout (20% after payout) working interest, subject to a 9% overriding royalty in a gas prospect in the Foothills region of Alberta, Canada. The Company has a director in common with Polaris. Upon signing the agreement, the Company advanced Polaris \$125,000 for seismic costs and had advanced an additional \$397,500 for preparatory work to obtain a well licence. On December 16, 2003 the Alberta Energy & Utilities Board ("AEUB") denied the well licence application. The Company's interest in the farmout agreement remains in good standing, however, as at September 30, 2004, the Company wrote off all of the deferred costs as there had been no progress towards obtaining a well licence.

5. Mineral Property

West Raglan Property

Cumulative expenditures

	2006	2005
Exploration expenditures	\$ 14,367,827	\$ 12,515,499
Refundable tax credits and mining duties	(6,002,995)	(5,353,602)
Net exploration expenditures	<u>\$ 8,364,832</u>	<u>\$ 7,161,897</u>

As at September 30, 2006, the Company owes Anglo American Exploration (Canada) Limited ('Anglo American') \$160,683 (2005 - \$Nil), which amount is included in accounts payable and accrued liabilities. As at September 30, 2006, the Company has advances for exploration with Anglo American of \$Nil (2005 - \$342,076) for exploration expenditures incurred on the West Raglan Property.

On March 26, 2003, the Company entered into a formal option and joint venture agreement with Anglo American, whereby the Company could earn a 49% participating joint venture interest in the West Raglan Project ('the Project') located in northern Quebec, Canada, currently 720 km².

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(Canadian Dollars)

5. Mineral Property(cont'd)

The option was exercised during the year ended September 30, 2005 as the Company met the option earn-in terms by incurring \$11.8 million of exploration expenditures.

Anglo American contributed to exploration funding by participating in private placements in the Company in an amount equal to 20% of approved exploration program expenditures for a cumulative total of \$2,360,000 as at September 30, 2005. No additional funding was provided by Anglo American during the year ended September 30, 2006.

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.

Anglo American charged an administrative and overhead charge of 12% of direct project costs during the option period. After the option period, 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 from 51% to 70% 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 to 75% 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.

On April 21, 2004 Novawest Resources Inc. of Vancouver, BC, commenced litigation in the Supreme Court of British Columbia against Anglo American. The lawsuit, Action No. SO42230, related primarily to the question of ownership of the claims that form the West Raglan Property. On June 24, 2004 Anglo American filed a Statement of Defence in the Supreme Court of British Columbia. In the Statement of Defence, Anglo American provided a detailed account of the events that led to Anglo American's staking of the West Raglan Property, and more specifically challenged the basis for all claims made by Novawest Resources Inc. On May 12, 2006, the Supreme Court of British Columbia dismissed the lawsuit by summary trial. Novawest subsequently reached an agreement with Anglo American whereby Novawest agreed to not appeal the dismissal.

On November 12, 2004 the Company commenced litigation in the Supreme Court of British Columbia against Novawest and all the directors and officers of Novawest (the 'Personal Defendants'). The lawsuit, Action No. SO46306 alleged that the Novawest Action was filed, at the behest of the Personal Defendants, with the purpose, among other things, of causing injury to the Company. On July 7, 2006, the Company announced that Novawest and the Company had agreed to a mutually satisfactory resolution under which the action commenced by the Company against Novawest and others was terminated by consent of the parties, without payment of court costs to any party.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(Canadian Dollars)

6. Share Capital

a) Authorized: Unlimited common shares without par value

b) Issued and outstanding:

	<u>Number</u>	<u>Value</u>
Balance at September 30, 2004	48,411,706	\$ 15,532,563
Exercise of stock options		
- cash	200,000	38,000
- fair value of options exercised	-	128,249
Exercise of agent's options	1,300,000	260,000
Exercise of warrants (d)	8,195,000	1,248,750
Private placements (c)	7,473,334	2,193,800
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(192,530)
Balance at September 30, 2005	65,580,040	\$ 19,208,832
Private placement (c)	1,711,177	280,496
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(93,088)
Balance at September 30, 2006	67,291,217	\$ 19,396,240

c) Private placements:

During the year ended September 30, 2006 and 2005, the Company completed the following private placements:

- i) During 2006, the Company issued 1,711,177 flow-through common shares through a non-brokered private placement at a price of \$0.17 per share for proceeds of \$290,900 less fees and costs of \$10,404. For income tax purposes, the subscription funds of \$290,900 have been applied towards carrying out exploration activities and the expenditures have been renounced in favour of the subscriber. Accordingly, the Company does not have available deductions from taxable income in respect of such expenditures.
- ii) During 2005, the Company issued 1,840,000 common shares to Anglo American through a non-brokered private placement at a price of \$0.30 per share for proceeds of \$552,000. Along with the shares, the Company issued Anglo American 1,840,000 non-transferable share purchase warrants entitling Anglo American to purchase one additional common share of the Company at a price of \$0.35 expiring April 22, 2007. The private placement fulfills Anglo American's obligation to fund 20% of exploration on the West Raglan Project during the option earn-in phase through private placements in the Company.
- iii) During 2005, the Company issued 1,833,334 common shares through a non-brokered private placement at a price of \$0.30 per share for proceeds of \$550,000 less costs of \$15,000. Along with the shares, the Company issued 1,833,334 non-transferable share purchase warrants entitling the holder to purchase one additional common share of the Company at a price of \$0.35 expiring April 22, 2007.
- iv) During 2005, the Company issued 2,000,000 flow-through common shares through a non-brokered private placement at a price of \$0.25 per share for proceeds of \$500,000 less fees and costs of \$36,200. For income tax purposes, the subscription funds of \$500,000 have been applied towards carrying out exploration activities and the expenditures have been renounced in favour of the subscriber. Accordingly, the Company does not have available deductions from taxable income in respect of such expenditures.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(Canadian Dollars)

6. Share Capital (cont'd)

- v) During 2005, the Company issued 800,000 flow-through common shares through a non-brokered private placement at a price of \$0.25 per share for proceeds of \$200,000 less costs of \$7,000. For income tax purposes, the subscription funds of \$200,000 have been applied towards carrying out exploration activities and the expenditures have been renounced in favour of the subscriber. Accordingly, the Company does not have available deductions from taxable income in respect of such expenditures.
- vi) During 2005, the Company issued 1,000,000 common shares to Anglo American through a non-brokered private placement at a price of \$0.45 per share for proceeds of \$450,000. Along with the shares, the Company issued Anglo American 1,000,000 non-transferable share purchase warrants entitling Anglo American to purchase one additional common share of the Company at a price of \$0.45 expiring December 29, 2005.

d) Warrants:

A continuity of warrants exercisable and outstanding for the year ended September 30, 2006 is as follows:

Balance at September 30, 2005	Granted	Exercised	Expired	Balance at September 30, 2006	Exercise Price	Expiry Date
6,586,769	-	-	(6,586,769)	-	\$0.35	December 10, 2005
1,000,000	-	-	(1,000,000)	-	\$0.45	December 29, 2005
3,673,334	-	-	-	3,673,334	\$0.35	April 22, 2007
11,260,103	-	-	(7,586,769)	3,673,334		

A continuity of warrants exercisable and outstanding for the year ended September 30, 2005 is as follows:

Balance at September 30, 2004	Granted	Exercised	Expired	Balance at September 30, 2005	Exercise Price	Expiry Date
8,000,000	-	(8,000,000)	-	-	\$0.15	March 25, 2005
5,785,000	1,300,000	(195,000)	(6,890,000)	-	\$0.25	May 12, 2005
6,586,769	-	-	-	6,586,769	\$0.35	December 10, 2005 ¹
-	1,000,000	-	-	1,000,000	\$0.45	December 29, 2005
-	3,673,334	-	-	3,673,334	\$0.35	April 22, 2007
20,371,769	5,973,334	(8,195,000)	(6,890,000)	11,260,103		

¹During 2005, these warrants were re-priced from \$0.65 to \$0.35 and were extended from June 10, 2005 to December 10, 2005.

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(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, 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 2% 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, 2006 and 2005 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, 2004	4,795,000	0.72	1.13
Cancelled	(5,000)	0.30	
Exercised	(200,000)	0.19	
Granted	1,740,000	0.28	
Balance at September 30, 2005	6,330,000	0.51	0.93
Cancelled	(626,000)	0.27	
Expired	(3,122,500)	0.72	
Granted	3,850,000	0.16	
Balance at September 30, 2006	6,431,500	\$0.23	1.06

As at September 30, 2006, stock options exercisable and outstanding are as follows:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
January 16, 2007	\$0.25	715,000	715,000
January 17, 2007	\$0.25	50,000	50,000
March 1, 2007	\$0.25	250,000	250,000
May 30, 2007	\$0.35	340,000	340,000
June 18, 2007	\$0.30	1,002,500	1,002,500
July 28, 2007	\$0.51	315,000	315,000
January 15, 2008	\$0.17	2,909,000	2,859,000
July 3, 2008	\$0.135	750,000	525,000
July 10, 2008	\$0.21	100,000	25,000
		6,431,500	6,081,500

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(Canadian Dollars)

7. Stock Options (cont'd)

b) Contributed surplus:

Contributed surplus at September 30, 2004	\$ 2,042,698
Exercise of stock options	(128,249)
Granting of stock options	254,056
Re-pricing of stock options	50,233
Extension of stock options	189,733
<hr/>	
Contributed surplus at September 30, 2005	\$ 2,408,471
Granting of stock options	281,446
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<u>Contributed surplus at September 30, 2006</u>	<u>\$ 2,689,917</u>

The fair value based method is used to calculate the compensation expense for all stock-based awards. The stock-based compensation expense for fiscal 2006 and 2005 grants and modifications was calculated by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	<u>2006</u>	<u>2005</u>
Weighted average:		
Risk-free interest rate	3.90%	3.02%
Expected dividend yield	-	-
Expected stock price volatility	97%	141%
Expected option life in years	2.0	1.8
Fair value	\$0.08	\$0.12

8. Financial Instruments

a) Fair value

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, advances for exploration, tax credits recoverable and accounts payable and accrued liabilities, as reflected in the balance sheets, approximate their fair values due to the relatively short periods to maturity of these instruments.

b) Foreign exchange risk

The Company undertakes certain transactions in foreign currencies and as such is subject to risk due to fluctuations in exchange rates. The Company does not use derivative instruments or hedges to reduce the exposure to foreign exchange risk.

9. 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, 2006 and 2005:

- a) paid or accrued \$24,000 (2005 - \$24,000) for directors fees to a director and a company controlled by a director;
- b) paid or accrued \$ 137,419 (2005 - \$152,588) for management fees to a company controlled by the CEO and to a company controlled by the President;
- c) paid or accrued \$66,010 (2005 - \$139,820) for technical services relating to the West Raglan Property to a company controlled by the President and to a company controlled by a director;

KNIGHT RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
September 30, 2006 and 2005
(Canadian Dollars)

9. Related Party Transactions (cont'd)

- d) paid or accrued \$33,262 (2005 - \$32,240) for rent to a company where the CEO is a director;
- f) during the year ended September 30, 2005, the Company issued 8,000,000 common shares to Donner Metals Ltd. (formerly Donner Minerals Ltd.), a company related by way of common directors and being a significant shareholder of the Company, on exercise of warrants at \$0.15 per share.

Other related party transactions are described in note 4.

10. Income Taxes

Substantially all of the difference between the actual income tax recovery of \$93,088 (2005 - \$192,530) and the expected statutory corporate income tax recovery relates to losses and resource pools not recognized.

The Company has accumulated losses of approximately \$2,899,000 which may be deducted in the calculation of taxable income in future years. The losses expire on various dates to 2026. Also, the Company has approximately \$2,500,000 of capital losses and \$11,784,000 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 \$1,846,000 (2005 - \$1,669,000).

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

	2006	2005
Future income tax assets:		
Resource pools	\$ 3,838,908	\$ 3,317,010
Capital losses carried forward	413,971	432,788
Non-capital losses carried forward	895,850	785,411
Property, plant and equipment	8,553	6,615
Valuation allowance	(5,157,282)	(4,541,824)
	\$ -	\$ -

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.

11. Commitment

The Company has outstanding letters of credit of \$Nil (2005 - \$42,745).

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

Subsequent to September 30, 2006, the Company:

- a) Issued 2,500,000 units through a brokered private placement at a price of \$0.24 per unit for proceeds of \$600,000 less a commission of \$36,000. Each unit consists of one flow-through common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional non flow-through common share of the Company at a price of \$0.29 until October 18, 2007.
- b) Received \$481,000 of refundable tax credits pursuant to refundable mining duties.

KNIGHT RESOURCES LTD.
(An exploration stage company)

Exploration Expenditures
(Canadian Dollars)

Schedule 1

	Years ended September 30,	
	<u>2006</u>	<u>2005</u>
West Raglan Property		
Drilling	\$ 664,728	\$ 1,036,796
Geochemistry	69,261	125,696
Geology	241,956	553,691
Geophysics	297,110	600,041
Mobilization	151,001	860,153
Other	379,140	614,219
Safety and environment	49,132	97,777
	<u>1,852,328</u>	<u>3,888,373</u>
Refundable tax credits	(545,189)	(1,563,592)
Mining duties refund	(104,204)	(255,998)
	<u>\$ 1,202,935</u>	<u>\$ 2,068,783</u>