

# **Knight Resources Ltd.**

## **Quarterly Financial Statements For The Nine Months Ended June 30, 2009 (Unaudited)**

### Notice to Reader

The accompanying unaudited financial statements of Knight Resources Ltd. ("the Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the Company's unaudited interim financial statements as at and for the nine months ended June 30, 2009.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Balance Sheets

(Unaudited)

(Canadian Dollars)

	June 30, 2009	September 30, 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,645,101	\$ 2,543,672
Accounts receivable	7,418	9,696
Tax credits recoverable	494,269	1,563,297
Prepaid expenses	14,014	18,508
	2,160,802	4,135,173
<b>Property, plant and equipment</b>	8,907	11,570
	\$ 2,169,709	\$ 4,146,743
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 10,905	\$ 1,194,771
<b>Shareholders' equity</b>		
Share capital (note 4)	23,272,203	23,272,203
Contributed surplus (note 5)	5,384,351	3,779,853
Warrants (note 4)	-	1,575,518
Deficit	(26,497,750)	(25,675,602)
	2,158,804	2,951,972
	\$ 2,169,709	\$ 4,146,743

Nature of operations and basis of presentation (note 1)

Approved by the Directors:

*"Harvey Keats"*

*"David Patterson"*

See accompanying notes to the financial statements.

**KNIGHT RESOURCES LTD.**

(An exploration stage company)

**Statements of Loss and Comprehensive Loss**

(Unaudited)

(Canadian Dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2009	2008	2009	2008
<b>Exploration expenditures</b>				
West Raglan <b>(schedule)(note 3)</b>	\$ 20,522	\$ 219,520	\$ 365,681	\$ 1,040,544
<b>General and administrative expenditures</b>				
Accounting and audit	-	-	10,574	16,975
Administrative fees	22,500	30,000	78,000	95,000
Amortization	888	1,281	2,663	3,455
Filing fees	749	-	9,344	15,026
Legal fees	287	740	4,884	8,269
Management fees	25,137	42,532	99,721	140,027
Office and miscellaneous	1,560	24,550	31,150	63,607
Promotion	21,697	62,632	112,686	174,971
Rent	21,000	9,500	51,167	28,500
Stock-based compensation <b>(note 5)</b>	7,173	14,542	28,980	348,757
Telephone and communications	3,383	6,011	7,875	23,731
Transfer agent fees	984	2,763	5,576	10,106
Travel	95	15,766	21,390	57,120
	105,453	210,317	464,010	985,544
<b>Other Items</b>				
Interest income	(604)	(30,808)	(8,364)	(110,329)
Interest on flow-through shares	-	-	821	-
	(604)	(30,808)	(7,543)	(110,329)
<b>Loss before income taxes</b>	(125,371)	(399,029)	(822,148)	(1,915,759)
<b>Future income tax recovery</b>	-	-	-	1,328,662
<b>Loss and comprehensive loss for the period</b>	\$ (125,371)	\$ (399,029)	\$ (822,148)	\$ (587,097)
<b>Basic and diluted loss per share</b>	\$ -	\$ -	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	90,670,447	90,103,557	90,670,447	88,172,341

See accompanying notes to the financial statements.

**KNIGHT RESOURCES LTD.**

(An exploration stage company)

**Statements of Shareholders' Equity**

(Unaudited)

(Canadian Dollars)

	Common Shares		Warrants	Contributed surplus	Deficit	Total shareholders' equity
	Number of	Amount				
<b>Balance at September 30, 2008</b>	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 (note 5)	-	-	-	28,980	-	28,980
Loss for the period	-	-	-	-	(822,148)	(822,148)
<b>Balance at June 30, 2009</b>	90,670,447	\$ 23,272,203	\$ -	\$ 5,384,351	\$ (26,497,750)	\$ 2,158,804

  

	Common Shares		Warrants	Contributed surplus	Deficit	Total shareholders' equity
	Number of	Amount				
<b>Balance at September 30, 2007</b>	79,230,947	\$ 21,598,232	\$ 660,072	\$ 3,439,760	\$ (23,286,235)	\$ 2,411,829
Common shares issued for cash:						
Private placements	10,000,000	2,975,460	1,024,540	-	-	4,000,000
Share issue costs on private placements	-	(313,631)	(17,093)	-	-	(330,724)
Exercise of stock options	1,439,500	340,804	-	(114,629)	-	226,175
Expiry of warrants	-	-	(92,001)	92,001	-	-
Stock-based compensation	-	-	-	348,757	-	348,757
Future income tax impact of renunciation of Canadian Exploration Expenditures pursuant to flow-through shares	-	(1,328,662)	-	-	-	(1,328,662)
Loss for the period	-	-	-	-	(587,097)	(587,097)
<b>Balance at June 30, 2008</b>	90,670,447	\$ 23,272,203	\$ 1,575,518	\$ 3,765,889	\$ (23,873,332)	\$ 4,740,278

See accompanying notes to the financial statements.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Statements of Cash Flows

(Unaudited)

(Canadian Dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2009	2008	2009	2008
<b>Cash Provided by (Used for):</b>				
<b>Operating Activities</b>				
Loss for the period	\$ (125,371)	\$ (399,029)	\$ (822,148)	\$ (587,097)
Items not involving cash:				
Amortization	888	1,281	2,663	3,455
Stock-based compensation expense	7,173	14,542	28,980	348,757
Future income tax recovery	-	-	-	(1,328,662)
Changes in non-cash operating working capital:				
Accounts receivable	4,869	(1,771)	2,278	1,357
Advances for exploration	-	(1,497,090)	-	(1,650,586)
Tax credits recoverable	1,335,143	(166,736)	1,069,028	506,539
Prepaid expenses	-	(6,593)	4,494	3,683
Accounts payable and accrued liabilities	(2,496)	1,357	(1,183,866)	(478,951)
	1,220,206	(2,054,039)	(898,571)	(3,181,505)
<b>Financing Activity</b>				
Common shares issued for cash	-	95,580	-	4,226,175
Share issue costs	-	-	-	(330,724)
	-	95,580	-	3,895,451
<b>Investing Activities</b>				
Purchase of property, plant and equipment	-	(2,016)	-	(3,995)
<b>Change in cash and cash equivalents</b>	1,220,206	(1,960,475)	(898,571)	709,951
<b>Cash and cash equivalents, beginning of period</b>	424,895	4,600,671	2,543,672	1,930,245
<b>Cash and cash equivalents, end of period</b>	\$ 1,645,101	\$ 2,640,196	\$ 1,645,101	\$ 2,640,196
<b>Supplementary cash flow information</b>				
Cash paid for interest	\$ -	\$ -	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -
Interest received	\$ 604	\$ 30,808	\$ 8,364	\$ 110,329
Tax credits received	\$ 1,321,976	\$ -	\$ 1,321,976	\$ 697,427
Non-cash financing activities:				
Agent's options for share issue costs	\$ -	\$ -	\$ -	\$ 92,677
Stock-based compensation transferred to share capital on exercise of stock options	\$ -	\$ 49,883	\$ -	\$ 114,629

See accompanying notes to the financial statements.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Notes to the Financial Statements

June 30, 2009

(Unaudited)

(Canadian Dollars)

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### 1. Nature of Operations and Basis of Presentation

The Company is a public company incorporated under the Company Act, British Columbia. Its shares are listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The principal business of the Company is exploration of mineral properties. As of the date of this report, the Company has not determined whether its properties contain reserves that are economically recoverable.

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ended September 30, 2009. The balance sheet at September 30, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

### 2. Significant Accounting Policies

These interim financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended September 30, 2008. For further information, refer to the financial statements and notes thereto included in the Company's Annual Report to Shareholders for the year ended September 30, 2008.

### 3. Mineral Property

#### West Raglan Property

	June 30, 2009	September 30, 2008
<b>Cumulative expenditures</b>		
Exploration expenditures	\$ 21,435,442	\$ 20,816,813
Refundable tax credits and mining duties	(8,509,369)	(8,256,421)
	<u>\$ 12,926,073</u>	<u>\$ 12,560,392</u>

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 Exploration (Canada) Limited ('Anglo American') under the direction of a Management Committee comprised of two representatives from each of the Company and Anglo American. At September 30, 2008, the Company had a 49% interest in the joint venture, however by electing to not participate in the calendar 2009 field program, it is anticipated that the Company's interest will dilute to approximately 45%.

### 4. Share Capital and Warrants

During the nine months ended June 30, 2009, 19,619,730 warrants with an initial value of \$1,575,518 expired unexercised. These warrants had a weighted-average exercise price of \$0.57 per warrant.

### 5. Stock-based Compensation

The Company uses the fair value based method of accounting for all stock-based awards. During the nine months ended June 30, 2009, the Company incurred \$28,980 of compensation cost pursuant to 387,500 stock options granted in fiscal 2008 that vested during the period.

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

### **Notes to the Financial Statements**

**June 30, 2009**

(Unaudited)

(Canadian Dollars)

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#### **6. 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 nine months ended June 30

- a) paid or accrued \$99,721 (2008 - \$140,027) 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 \$35,820 (2008 - \$48,890) 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; and
- c) paid or accrued \$51,167 (2008 - \$28,500) for rent to a company where the CFO is a director.

#### **7. Financial Instruments**

As at June 30, 2009, the Company's financial instruments are cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The amounts reflected in the balance sheet are carrying amounts and approximate their fair values due to the short-term nature and negligible credit losses. These financial instruments are classified as follows:

Cash and cash equivalents – held-for-trading  
Accounts receivable – loans and receivables  
Accounts payable and accrued liabilities – other financial liabilities

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 small.

##### 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 small because the counterparties are highly rated financial institutions. The credit risk on accounts receivable and tax credits recoverable are small because the counterparties are federal and provincial governments.

##### 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 nine months ended June 30, 2009, if interest rates had been 1% lower, loss and comprehensive loss would have been \$5,676 higher and conversely if interest rates had been 1% higher, loss and comprehensive loss would have been \$5,676 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.

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

### **Notes to the Financial Statements**

**June 30, 2009**

(Unaudited)

(Canadian Dollars)

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#### **7. Financial Instruments (cont'd)**

##### 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.

#### **8. 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.

**KNIGHT RESOURCES LTD.**

(An exploration stage company)

**Schedule of Exploration Expenditures**

(Unaudited)

(Canadian Dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2009	2008	2009	2008
<b>West Raglan Property</b>				
Drilling	\$ -	\$ 117,022	\$ 226,659	\$ 233,598
Geochemistry	-	368	11,173	2,758
Geology	-	40,424	106,230	133,507
Geophysics	-	82,330	61,133	92,709
Mobilization	-	52,183	56,884	479,307
Other	7,355	58,526	116,407	177,299
Property filing fees	-	5	2,885	66,097
Safety and environment	-	35,398	37,258	46,157
	7,355	386,256	618,629	1,231,432
Refundable tax credits	79	(140,152)	(223,608)	(160,441)
Mining duties refund	13,088	(26,584)	(29,340)	(30,447)
	\$ 20,522	\$ 219,520	\$ 365,681	\$ 1,040,544