

# **Knight Resources Ltd.**

**Quarterly Financial Statements  
For The Nine Months Ended June 30, 2010  
(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, 2010.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Balance Sheets

(Unaudited)

(Canadian Dollars)

	June 30, 2010	September 30, 2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,196,716	\$ 1,534,715
Accounts receivable	11,573	28,102
Tax credits recoverable	42,428	494,269
Advances for exploration	467,925	-
Prepaid expenses	16,108	16,266
	4,734,750	2,073,352
<b>Property, plant and equipment</b>	10,546	8,414
	\$ 4,745,296	\$ 2,081,766
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 21,743	\$ 41,120
<b>Shareholders' equity</b>		
Share capital (note 4)	26,207,491	23,272,203
Contributed surplus (note 5)	5,706,337	5,384,351
Warrants (note 4)	649,281	-
Deficit	(27,839,556)	(26,615,908)
	4,723,553	2,040,646
	\$ 4,745,296	\$ 2,081,766

Nature of operations and basis of presentation (note 1)

Approved by the Directors:

"Harvey Keats"

David Patterson"

## 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,	
	2010	2009	2010	2009
<b>Exploration expenditures</b>				
West Raglan (schedule)(note 3)	\$ 932,986	\$ 20,522	\$ 1,166,023	\$ 365,681
<b>General and administrative expenditures</b>				
Accounting and audit	-	-	14,574	10,574
Administrative fees	23,250	22,500	72,750	78,000
Amortization	2,610	888	4,397	2,663
Directors fees	8,000	-	8,000	-
Filing fees	5,412	749	15,207	9,344
Legal fees	5,749	287	7,094	4,884
Management fees	48,112	25,137	141,839	99,721
Office and miscellaneous	6,867	1,560	30,247	31,150
Promotion	36,245	21,697	123,243	112,686
Rent	22,048	21,000	67,447	51,167
Stock-based compensation (note 5)	(2,797)	7,173	321,986	28,980
Telephone and communications	3,253	3,383	9,050	7,875
Transfer agent fees	2,166	984	7,851	5,576
Travel	6,816	95	19,758	21,390
	167,731	105,453	843,443	464,010
<b>Other Items</b>				
Interest income	(8,039)	(604)	(16,812)	(8,364)
Interest on flow-through shares	-	-	-	821
	(8,039)	(604)	(16,812)	(7,543)
<b>Loss before income taxes</b>	(1,092,678)	(125,371)	(1,992,654)	(822,148)
<b>Future income tax recovery</b>	-	-	769,006	-
<b>Loss and comprehensive loss for the period</b>	\$ (1,092,678)	\$ (125,371)	\$ (1,223,648)	\$ (822,148)
<b>Basic and diluted loss per share</b>	\$ (0.01)	\$ -	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	141,826,621	90,670,447	127,067,575	90,670,447

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, 2009</b>	90,670,447	\$ 23,272,203	\$ -	\$ 5,384,351	\$ (26,615,908)	\$ 2,040,646
Common shares issued for cash:						
Private placements ( <b>note 4</b> )	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 on private placements	-	-	50,588	-	-	50,588
Stock-based compensation ( <b>note 5</b> )	-	-	-	321,986	-	321,986
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(769,006)	-	-	-	(769,006)
Loss for the period	-	-	-	-	(1,223,648)	(1,223,648)
<b>Balance at June 30, 2010</b>	<b>143,738,761</b>	<b>\$ 26,207,491</b>	<b>\$ 649,281</b>	<b>\$ 5,706,337</b>	<b>\$ (27,839,556)</b>	<b>\$ 4,723,553</b>
	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	-	-	-157,518	1,575,518	-	-
Stock-based compensation ( <b>note 5</b> )	-	-	-	28,980	-	28,980
Loss for the period	-	-	-	-	(822,148)	(822,148)
<b>Balance at June 30, 2009</b>	<b>90,670,447</b>	<b>\$ 23,272,203</b>	<b>\$ -</b>	<b>\$ 5,384,351</b>	<b>\$ (26,497,750)</b>	<b>\$ 2,158,804</b>

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,	
	2010	2009	2010	2009
<b>Cash Provided by (Used for):</b>				
<b>Operating Activities</b>				
Loss for the period	\$ (1,092,678)	\$ (125,371)	\$ (1,223,648)	\$ (822,148)
Items not involving cash:				
Amortization	2,610	888	4,397	2,663
Stock-based compensation expense	(2,797)	7,173	321,986	28,980
Future income tax recovery	-	-	(769,006)	-
Changes in non-cash operating working capital:				
Accounts receivable	(1,362)	4,869	16,529	2,278
Advances for exploration	(467,925)	-	(467,925)	-
Tax credits recoverable	223,687	1,335,143	451,841	1,069,028
Prepaid expenses	(857)	-	158	4,494
Accounts payable and accrued liabilities	(187,812)	(2,496)	(19,377)	(1,183,866)
	(1,527,134)	1,220,206	(1,685,045)	(898,571)
<b>Financing Activity</b>				
Common shares issued for cash	765,621	-	4,644,821	-
Share issue costs	(32,531)	-	(291,246)	-
	733,090	-	4,353,575	-
<b>Investing Activities</b>				
Purchase of property, plant and equipment	(5,029)	-	(6,529)	-
<b>Change in cash and cash equivalents</b>	(799,073)	1,220,206	2,662,001	(898,571)
<b>Cash and cash equivalents, beginning of period</b>	4,995,789	424,895	1,534,715	2,543,672
<b>Cash and cash equivalents, end of period</b>	\$ 4,196,716	\$ 1,645,101	\$ 4,196,716	\$ 1,645,101
<b>Cash provided by:</b>				
Interest income received	\$ 8,039	\$ 604	\$ 16,812	\$ 8,364
Tax credits received	\$ 223,608	\$ 1,321,976	\$ 436,518	\$ 1,321,976
<b>Supplementary cash flow information:</b>				
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**

**June 30, 2010**

(Unaudited)

(Canadian Dollars)

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

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.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. At June 30, 2010, the Company has a deficit of \$27,839,556 and has incurred losses since inception. 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. For these reasons, there exists doubt over the Company's ability to continue as a going concern beyond the next fiscal year. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. Management is of the opinion that sufficient working capital will be obtained through the issuance of additional common shares to meet the Company's liabilities and commitments as they come due.

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, 2010 are not necessarily indicative of the results that may be expected for the year ended September 30, 2010. The balance sheet at September 30, 2009 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, 2009. 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, 2009.

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

June 30, 2010

(Unaudited)

(Canadian Dollars)

### 3. Mineral Property

#### West Raglan Property

	June 30, 2010	September 30, 2009
<b>Cumulative expenditures</b>		
Exploration expenditures	\$ 22,594,101	\$ 21,443,322
Refundable tax credits and mining duties	(8,494,125)	(8,509,369)
	<u>\$ 14,099,976</u>	<u>\$ 12,933,953</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. 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 have 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.

### 4. Share Capital and Warrants

a) During the nine months ended June 30, 2010, 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 \$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.

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

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

**June 30, 2010**

(Unaudited)

(Canadian Dollars)

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#### **4. Share Capital and Warrants (cont'd)**

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.

- 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 \$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 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 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 \$3,279,200 on Canadian Exploration Expenditures by December 31, 2011.

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.

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

June 30, 2010

(Unaudited)

(Canadian Dollars)

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#### 4. Share Capital and Warrants (cont'd)

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.

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.

b) Warrants:

	Warrants	Weighted-average exercise price	Weighted-average remaining life (years)
Balance at September 30, 2009	-	\$0.00	0.0
Issued	28,619,166	\$0.13	
Balance at June 30, 2010	28,619,166	\$0.13	0.7

#### 5. Stock-based Compensation

During the nine months ended June 30, 2010, the Company granted 12,150,000 stock options (2009 – 387,500) with a weighted average grant date fair value of \$0.03. The Company recognized \$321,986 of stock-based compensation (2009 - \$28,980). The Company calculated the fair value of options granted using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 0.53%, a dividend yield of Nil, an expected volatility of the Company's share price of 118% and an expected life of the stock options of 1 year.

#### 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 \$141,839 (2009 - \$99,721) 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 \$40,416 (2009 - \$35,820) 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 \$8,000 (2009 - \$Nil) for directors fees to a company controlled by a director and to a director; and
- d) paid or accrued \$67,447 (2009 - \$51,167) for rent to companies where the CFO is a common director.

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

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

**June 30, 2010**

(Unaudited)

(Canadian Dollars)

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

As at June 30, 2010, the Company's financial instruments are cash, accounts receivable, tax credits recoverable, advances for exploration 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 – held-for-trading
- Accounts receivable – loans and receivables
- Tax credits recoverable – loans and receivables
- Advances for exploration – held-for-trading
- 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, accounts receivable and tax credits recoverable are exposed to credit risk. The credit risk on cash 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, 2010, if interest rates had been 0.25% lower, loss and comprehensive loss would have been \$8,132 higher and conversely if interest rates had been 0.25% higher, loss and comprehensive loss would have been \$8,132 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.

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

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

**June 30, 2010**

(Unaudited)

(Canadian Dollars)

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#### **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,	
	2010	2009	2010	2009
<b>West Raglan Property</b>				
Drilling	\$ 196,078	\$ -	\$ 200,962	\$ 226,659
Geochemistry	2,973	-	3,838	11,173
Geology	175,408	-	258,913	106,230
Geophysics	185,821	-	202,051	61,133
Mobilization	100,302	-	143,367	56,884
Other	116,818	7,355	164,226	116,407
Property filing fees	94	-	94	2,885
Safety and environment	155,492	-	177,328	37,258
	932,986	7,355	1,150,779	618,629
Refundable tax credits	-	79	-	(223,608)
Mining duties refund	-	13,088	15,244	(29,340)
	\$ 932,986	\$ 20,522	\$ 1,166,023	\$ 365,681