

# **Knight Resources Ltd.**

## **Financial Statements**

**For The Years Ended September 30, 2009 and 2008**



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Knight Resources Ltd. as at September 30, 2009 and 2008 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Vancouver, Canada

November 20, 2009, except as to note 13  
which is as of December 15, 2009

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Balance Sheets

(Canadian Dollars)

	September 30, 2009	September 30, 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,534,715	\$ 2,543,672
Accounts receivable	28,102	9,696
Tax credits recoverable	494,269	1,563,297
Prepaid expenses	16,266	18,508
	2,073,352	4,135,173
<b>Property, plant and equipment (note 4)</b>	8,414	11,570
	\$ 2,081,766	\$ 4,146,743
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5)	\$ 41,120	\$ 1,194,771
<b>Shareholders' equity</b>		
Share capital (note 6)	23,272,203	23,272,203
Contributed surplus (note 7)	5,384,351	3,779,853
Warrants (note 6)	-	1,575,518
Deficit	(26,615,908)	(25,675,602)
	2,040,646	2,951,972
	\$ 2,081,766	\$ 4,146,743

Nature of operations (note 1)

Subsequent event (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 Loss and Comprehensive Loss

(Canadian Dollars)

	Years ended September 30,	
	2009	2008
<b>Exploration expenditures</b>		
West Raglan (schedule 1)(note 5)	\$ 373,561	\$ 2,526,478
<b>General and administrative expenditures</b>		
Accounting and audit	45,574	56,975
Administrative fees	97,500	126,000
Amortization	4,249	5,125
Filing fees	9,444	15,426
Legal fees	4,884	10,051
Management fees (note 10)	123,771	190,552
Office and miscellaneous	39,629	71,046
Promotion	130,947	225,518
Rent (note 10)	72,167	38,000
Stock-based compensation expense (note 7)	28,980	362,721
Telephone and communications	11,123	27,339
Transfer agent	6,600	11,224
Travel	21,479	77,614
	596,347	1,217,591
<b>Other items</b>		
Interest income	10,388	128,675
Sale of seismic data	22,247	-
Loss on disposal of equipment	(2,212)	-
Interest on flow-through shares (note 11)	(821)	(102,635)
	29,602	26,040
<b>Loss before income taxes</b>	(940,306)	(3,718,029)
<b>Future income tax recovery (note 11)</b>	-	1,328,662
<b>Loss and comprehensive loss for the year</b>	\$ (940,306)	\$ (2,389,367)
<b>Basic and diluted loss per share</b>	\$ (0.01)	\$ (0.03)
<b>Weighted average number of shares outstanding</b>	90,670,447	88,800,280

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				
<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 (note 6)	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	-	-
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(1,328,662)	-	-	-	(1,328,662)
Stock-based compensation	-	-	-	362,721	-	362,721
Loss for the year	-	-	-	-	(2,389,367)	(2,389,367)
<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	-	-	-	28,980	-	28,980
Loss for the year	-	-	-	-	(940,306)	(940,306)
<b>Balance at September 30, 2009</b>	90,670,447	\$ 23,272,203	\$ -	\$ 5,384,351	\$ (26,615,908)	\$ 2,040,646

See accompanying notes to the financial statements.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Statements of Cash Flows

(Canadian Dollars)

	Years ended September 30,	
	2009	2008
<b>Cash Provided by (Used for):</b>		
<b>Operating Activities</b>		
Loss for the year	\$ (940,306)	\$ (2,389,367)
Items not involving cash:		
Amortization	4,249	5,125
Stock-based compensation expense (note 7)	28,980	362,721
Loss on disposal of equipment	2,212	-
Future income tax recovery	-	(1,328,662)
Changes in non-cash operating working capital:		
Accounts receivable	(18,406)	4,244
Tax credits recoverable	1,069,028	(629,324)
Prepaid expenses	2,242	2,555
Accounts payable and accrued liabilities	(1,153,651)	694,680
	<u>(1,005,652)</u>	<u>(3,278,028)</u>
<b>Financing Activities</b>		
Common shares issued for cash	-	4,226,175
Share issue costs	-	(330,724)
	-	<u>3,895,451</u>
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(3,305)	(3,996)
<b>Increase in cash and cash equivalents</b>	<u>(1,008,957)</u>	<u>613,427</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>2,543,672</u>	<u>1,930,245</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,534,715</u>	<u>\$ 2,543,672</u>
<b>Cash provided by:</b>		
Interest received	\$ 10,388	\$ 128,675
Tax credits received	\$ 1,321,976	\$ 795,086
<b>Supplemental cash flow information:</b>		
Agent's options for share issue costs	\$ -	\$ 92,677
Stock-based compensation transferred to share capital on exercise of stock options	\$ -	\$ 114,629

See accompanying notes to the financial statements.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Notes to the Financial Statements

September 30, 2009 and 2008

(Canadian Dollars)

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### 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.

These financial statements have been prepared on the going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. At September 30, 2009, the Company has a deficit of \$26,615,908 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.

### 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. An impairment loss would then 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.

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

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

**September 30, 2009 and 2008**

(Canadian Dollars)

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#### **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 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 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 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.

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

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

**September 30, 2009 and 2008**

(Canadian Dollars)

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#### **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, 2009 and 2008.

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

September 30, 2009 and 2008

(Canadian Dollars)

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#### 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

- a) Effective October 1, 2008, the Company adopted the CICA amended Handbook Section 1400 "*General Standards of Financial Statement Presentation*" ("HB 1400"). The objective of this standard is to include requirements to assess an entity's ability to continue as a going-concern and disclose any material uncertainties that cast doubt on its ability to continue as a going-concern. This new standard did not impact the Company's financial results at adoption and the relevant disclosures are provided in note 1.
- b) Effective October 1, 2008, the Company adopted the CICA Handbook Section 3064 "*Goodwill and Intangible Assets*" ("HB 3064"). HB 3064 replaces CICA Handbook Section 3062 "*Goodwill and Other Intangible Assets*" ("HB 3062") and CICA Handbook Section 3450 "*Research and Development Costs*". HB 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous HB 3062. This new standard did not impact the Company's financial results in any period presented.
- c) In March 2009, the Emerging Issues Committee ("EIC") issued EIC-174 "*Mining Exploration Costs*", which provides guidance on capitalization of exploration costs related to mining properties. It also provides guidance for development and exploration stage entities that cannot estimate future cash flows from its properties in assessing whether impairment in such properties is required. EIC-174 also provides additional discussion on recognition for long lived assets. EIC-174 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance of EIC-174. The Company adopted this recommendation in its fair value determinations effective for the year ended September 30, 2009. This new standard did not impact the Company's financial results in any period presented.
- d) In January 2009, the EIC issued EIC-173 "*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*", which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance of EIC-173. The Company adopted this recommendation effective for the year ended September 30, 2009. This new standard did not impact the Company's financial results in any period presented.

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

September 30, 2009 and 2008

(Canadian Dollars)

### 3. Changes in Accounting Policies (cont'd)

#### *Recent accounting pronouncements*

- e) 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 International Financial Reporting Standards ("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 or after January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.
- f) 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.

### 4. Property, plant and equipment

	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>

  

	2008		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 10,164	\$ 5,718	\$ 4,446
Computer software	12,396	11,406	990
Office furniture and equipment	16,653	10,519	6,134
	<u>\$ 39,213</u>	<u>\$ 27,643</u>	<u>\$ 11,570</u>

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

September 30, 2009 and 2008

(Canadian Dollars)

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#### 5. Mineral Property

##### West Raglan Property

<b>Cumulative expenditures</b>	<u>2009</u>	<u>2008</u>
Exploration expenditures	\$ 21,443,322	\$ 20,816,813
Refundable tax credits and mining duties	(8,509,369)	(8,256,421)
<b>Net exploration expenditures</b>	<b>\$ 12,933,953</b>	<b>\$ 12,560,392</b>

As at September 30, 2009, the Company owes Anglo American Exploration (Canada) Limited ('Anglo American') nil (2008 - \$1,039,280), which amount is included in accounts payable and accrued liabilities.

The Company has a formal option and joint venture agreement with Anglo American. As at September 30, 2008, the Company owned a 49% interest in the West Raglan Project ('the Project') located in northern Quebec, Canada. The Company elected not to participate in the calendar 2009 field program and as such, its interest in the Project has been diluted to 45.87% as at September 30, 2009.

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 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

- a) Authorized: Unlimited common shares without par value
- b) Private placements:

During the years ended September 30, 2009 and 2008, the Company completed the following private placement:

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

September 30, 2009 and 2008

(Canadian Dollars)

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#### 6. Share Capital (cont'd)

On November 19, 2007 and November 28, 2007, the Company closed a non-brokered private placement for gross proceeds of \$3,700,000 and \$300,000 respectively. These funds were raised through the issuance of 9,250,000 units and 750,000 units at a price of \$0.40 per unit respectively. Each unit is comprised of one flow-through common share and one non flow-through common share purchase warrant. The total proceeds of \$4,000,000 were allocated to common shares in the amount of \$2,975,460 and to warrants in the amount of \$1,024,540, based on their relative fair values on the date of closing. For income tax purposes, the subscription funds of \$4,000,000 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. The Company spent all of \$4,000,000 on Canadian Exploration Expenditures by December 31, 2008. Accordingly, the Company does not have available deductions from taxable income in respect of such expenditures.

Each share purchase warrant entitles the holder to purchase one additional non flow-through common share at an exercise price of \$0.55. There were 9,250,000 share purchase warrants that expired on November 19, 2008 and 750,000 share purchase warrants that expired on November 28, 2008. The Company also issued 830,000 agent's warrants which entitled the holder to purchase 830,000 non flow-through common shares at \$0.55 per share up to November 19, 2008, which expired unexercised.

The fair values of the warrants were \$0.11 and were determined based on the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 3.63%, an expected stock price volatility of 127% and an expected life of one year.

The Company incurred total issuance costs on the private placement of \$423,401, which were allocated to common shares in the amount of \$313,631 and to warrants in the amount of \$109,770 based on their relative fair values. Of these costs, \$330,724 was incurred in cash and \$92,677 was incurred through the issuance of 830,000 non flow-through warrants to investment dealers and finders.

#### c) Warrants:

	Warrants	Weighted-average exercise price	Weighted-average remaining life (years)
Balance at September 30, 2007	10,039,730	\$0.39	1.5
Expired	(1,250,000)	0.29	
Issued	10,830,000	0.55	
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

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### Notes to the Financial Statements

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(Canadian Dollars)

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#### 6. Share Capital (cont'd)

Warrants exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2009	2008
November 19, 2008	\$0.55	-	10,080,000
November 28, 2008	\$0.55	-	750,000
May 24, 2009	\$0.60	-	8,789,730
		-	19,619,730

d) Agent's options:

As at September 30, 2009, there are Nil (2008 – 553,683) agent's options outstanding and exercisable. These agent's options expired unexercised on May 24, 2009.

#### 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, 2009 and 2008 and the changes during the years then ended is as follows:

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### Notes to the Financial Statements

September 30, 2009 and 2008

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#### 7. Stock Options (cont'd)

	Number of Shares	Weighted- average exercise price	Weighted- average remaining life (years)
Balance at September 30, 2007	7,894,000	\$0.25	1.06
Cancelled	(100,000)	0.32	
Expired	(2,835,500)	0.20	
Exercised	(1,439,500)	0.16	
Granted	4,300,000	0.18	
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

As at September 30, 2009 and 2008, stock options exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2009		2008	
		Options Outstanding	Options Exercisable	Options Outstanding	Options Exercisable
January 17, 2009	\$0.18	-	-	4,119,000	3,806,500
March 22, 2009	\$0.165	-	-	805,000	805,000
June 18, 2009	\$0.32	-	-	2,545,000	2,545,000
June 18, 2009	\$0.26	-	-	100,000	25,000
August 2, 2009	\$0.70	-	-	250,000	250,000
		-	-	7,819,000	7,431,500

#### 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 2008 grants and modifications was calculated by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2008
Weighted average:	
Risk-free interest rate	3.23%
Expected dividend yield	-
Expected stock price volatility	126%
Expected option life in years	1.0

The weighted average fair value of options granted and modified during 2009 was nil (2008 - \$0.08).

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

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

**September 30, 2009 and 2008**

(Canadian Dollars)

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#### **8. Financial Instruments**

As at September 30, 2009, the Company's financial instruments are cash and cash equivalents, accounts receivable, tax credits recoverable 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.

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.

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, 2009, if interest rates had been 1% lower, loss and comprehensive loss would have been \$9,608 higher and conversely if interest rates had been 1% higher, loss and comprehensive loss would have been \$9,608 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**

**September 30, 2009 and 2008**

(Canadian Dollars)

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#### **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.

#### **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, 2009 and 2008:

- a) paid or accrued \$123,771 (2008 - \$190,552) 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 \$43,700 (2008 - \$77,120) 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 \$72,167 (2008 - \$38,000) for rent to companies where the CFO is a common director.

#### **11. Income Taxes**

Interest on flow-through shares of \$821 (2008 - \$102,635) 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 nil (2008 - \$1,328,662) 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 \$3,500,000 which may be deducted in the calculation of taxable income in future years. The losses expire on various dates to 2029. Also, the Company has approximately \$2,500,000 of capital losses and \$13,700,000 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 \$1,730,000 (2008 - \$1,929,500).

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

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

September 30, 2009 and 2008

(Canadian Dollars)

#### 11. Income Taxes (cont'd)

	2009	2008
Future income tax assets:		
Resource pools	\$ 3,694,995	\$ 3,199,720
Capital losses carried forward	337,449	337,449
Non-capital losses carried forward	940,541	1,015,590
Property, plant and equipment	12,139	10,401
Share issue costs	80,625	115,452
Valuation allowance	(5,065,749)	(4,678,612)
	\$ -	\$ -

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.

#### 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 Event

Subsequent to September 30, 2009, the Company closed a non-brokered private placement in two tranches for gross proceeds totaling \$3,279,200. The funds were raised by issuing 40,990,000 flow-through units ("FT Unit") at a price of \$0.08 per FT Unit. Each FT Unit consists of one flow-through common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one non-flow-through common share at a price of \$0.12 per share. 16,100,000 warrants will expire on November 19, 2010 and 4,395,000 warrants will expire on December 9, 2010. However, in the event the closing price of the Company's common shares on the TSX Venture Exchange is at least \$0.25 for ten consecutive trading days (at any time following four months from the date of closing) the Company may reduce the remaining exercise period of the warrants to not less than 30 days from the date of providing notice of such reduced exercise period.

The funds raised by way of the financing will be used for exploration of the West Raglan Project, located in northern Québec.

## KNIGHT RESOURCES LTD.

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### Schedule of Exploration Expenditures

(Canadian Dollars)

	Years ended September 30,	
	2009	2008
<b>West Raglan Property</b>		
Drilling	\$ 226,659	\$ 1,782,937
Geochemistry	11,173	5,369
Geology	106,230	251,195
Geophysics	61,133	580,390
Mobilization	56,884	793,653
Other	124,287	344,774
Property filing fees	2,885	66,097
Safety and environment	37,258	126,473
	626,509	3,950,888
Refundable tax credits	(223,608)	(1,202,765)
Mining duties refund	(29,340)	(221,645)
	\$ 373,561	\$ 2,526,478