

# **Knight Resources Ltd.**

## **Quarterly Financial Statements For The Six Months Ended March 31, 2008 (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 six months ended March 31, 2008.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Balance Sheets

(Unaudited)

(Canadian Dollars)

	March 31, 2008	September 30, 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,600,671	\$ 1,930,245
Accounts receivable	10,812	13,940
Tax credits recoverable	260,698	933,973
Advances for exploration	153,496	-
Prepaid expenses	10,787	21,063
	5,036,464	2,899,221
<b>Property, plant and equipment</b>	12,504	12,699
	\$ 5,048,968	\$ 2,911,920
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 19,783	\$ 500,091
<b>Shareholders' equity</b>		
Share capital (note 5)	23,126,740	21,598,232
Contributed surplus (note 6)	3,801,230	3,439,760
Warrants	1,575,518	660,072
Deficit	(23,474,303)	(23,286,235)
	5,029,185	2,411,829
	\$ 5,048,968	\$ 2,911,920

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 Operations**

(Unaudited)

(Canadian Dollars)

	Three months ended March 31,		Six months ended March 31,	
	2008	2007	2008	2007
<b>Exploration expenditures</b>				
West Raglan (schedule 1)(note 4)	\$ 651,681	\$ 394,553	\$ 821,024	\$ 549,473
<b>General and administrative expenditures</b>				
Accounting and audit	8,000	8,000	16,975	16,909
Administrative fees	33,000	21,000	65,000	45,000
Amortization	1,211	893	2,174	1,665
Directors fees	-	4,000	-	10,000
Filing fees	10,578	8,065	15,026	8,565
Legal fees	6,102	2,898	7,529	5,631
Management fees	47,350	33,355	97,495	63,095
Office and miscellaneous	9,180	12,412	39,057	37,112
Promotion	52,920	50,610	112,339	106,842
Rent	9,500	9,131	19,000	16,631
Stock-based compensation (note 6)	316,323	107,564	334,215	132,484
Telephone and communications	5,893	4,168	17,720	11,409
Transfer agent	4,452	2,990	7,343	4,915
Travel	22,576	5,888	41,354	10,533
	527,085	270,974	775,227	470,791
<b>Other Items</b>				
Interest income	(43,774)	(8,436)	(79,521)	(19,954)
<b>Loss before income taxes</b>	(1,134,992)	(657,091)	(1,516,730)	(1,000,310)
<b>Future income tax recovery</b>	1,328,662	192,000	1,328,662	192,000
<b>Earnings (loss) and comprehensive earnings (loss) for the period</b>	\$ 193,670	\$ (465,091)	\$ (188,068)	\$ (808,310)
<b>Basic and diluted loss per share</b>	\$ -	\$ (0.01)	\$ -	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	89,987,370	69,791,217	87,212,010	69,543,964

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, 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 placement (note 5)	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	758,500	195,341	-	(64,746)	-	130,595
Expiry of warrants	-	-	(92,001)	92,001	-	-
Stock-based compensation (note 6)	-	-	-	334,215	-	334,215
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	-	-	-	-	(188,068)	(188,068)
<b>Balance at March 31, 2008</b>	<b>89,989,447</b>	<b>\$ 23,126,740</b>	<b>\$ 1,575,518</b>	<b>\$ 3,801,230</b>	<b>\$ (23,474,303)</b>	<b>\$ 5,029,185</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 March 31,		Six months ended March 31,	
	2008	2007	2008	2007
<b>Cash Provided by (Used for):</b>				
<b>Operating Activities</b>				
Earnings (loss) for the period	\$ 193,670	\$ (465,091)	\$ (188,068)	\$ (808,310)
Items not involving cash:				
Amortization	1,211	893	2,174	1,665
Stock-based compensation	316,323	107,564	334,215	132,484
Future income tax recovery	(1,328,662)	(192,000)	(1,328,662)	(192,000)
Changes in non-cash operating working capital:				
Accounts receivable	5,647	2,313	3,128	(1,636)
Tax credits recoverable	806,112	380,252	673,275	737,036
Advances for exploration	(153,496)	-	(153,496)	-
Prepaid expenses	159	1,794	10,276	(4,885)
Accounts payable and accrued liabilities	(45,196)	240,727	(480,308)	65,578
	(204,232)	76,452	(1,127,466)	(70,068)
<b>Financing Activities</b>				
Issuance of common shares	2,295	-	4,130,595	556,850
Share issue costs	-	-	(330,724)	-
	2,295	-	3,799,871	556,850
<b>Investing Activities</b>				
Purchase of property, plant and equipment	(1,979)	(722)	(1,979)	(722)
<b>Decrease in cash and cash equivalents</b>	<b>(203,916)</b>	<b>75,730</b>	<b>2,670,426</b>	<b>486,060</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,804,587</b>	<b>862,513</b>	<b>1,930,245</b>	<b>452,183</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,600,671</b>	<b>\$ 938,243</b>	<b>\$ 4,600,671</b>	<b>\$ 938,243</b>
<b>Cash provided by:</b>				
Interest received	\$ 43,774	\$ 8,436	\$ 79,521	\$ 19,954
Tax credits received	\$ 697,427	\$ 255,241	\$ 697,427	\$ 736,245
<b>Supplemental cash flow information:</b>				
Agent's warrants for share issue costs	\$ -	\$ -	\$ 92,677	\$ -
Stock-based compensation transferred to share capital on exercise of stock options	\$ 1,047	\$ -	\$ 64,746	\$ -

See accompanying notes to the financial statements.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Notes to the Financial Statements

March 31, 2008

(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 six month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ended September 30, 2008. The balance sheet at September 30, 2007 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, 2007 (except as described in note 3). 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, 2007.

### 3. Changes in Accounting Policies

- a) Effective October 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants new Handbook Sections 1535 "*Capital Disclosures*" ("HB 1535"). The objective of this new standard is to disclose information concerning the Company's capital and how it is managed (note 9). The adoption of this standard had no effect on the Company's financial position, operations or cash flows.
- b) Effective October 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants new Handbook Sections 3862 "*Financial Instruments – Disclosures*" ("HB 3862") and 3863 "*Financial Instruments – Presentation*" ("HB 3863"). The objective of these new standards is to provide more information for users of the Company's financial statements to understand the significance of financial instruments to the Company's financial position, performance and cash flows (note 8). These new standards have superseded HB 3861 "*Financial Instruments – Disclosure and Presentation*". The adoption of these standards had no impact on the Company's financial position, operations or cash flows.

### 4. Mineral Property

#### West Raglan Property

	March 31, 2008	September 30, 2007
<b>Cumulative expenditures</b>		
Exploration expenditures	\$ 17,711,101	\$ 16,865,925
Refundable tax credits and mining duties	(6,856,163)	(6,832,011)
	<u>\$ 10,854,938</u>	<u>\$ 10,033,914</u>

The Company has a 49% 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.

**KNIGHT RESOURCES LTD.**  
(An exploration stage company)  
**Notes to the Financial Statements**  
**March 31, 2008**  
(Unaudited)  
(Canadian Dollars)

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**5. Share Capital**

The Company completed the following private placements during the six months ended March 31, 2008:

- a) 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 common share purchase warrant. The total proceeds of \$4,000,000 was 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. As at March 31, 2008, the Company has spent approximately \$550,000 of the \$4,000,000 on Canadian Exploration Expenditures. The Company will be required to spend the remainder of the funds on Canadian Exploration Expenditures throughout calendar 2008 in order to ensure that the subscribers receive the full benefit of the amounts renounced to them.

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

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 \$107,770 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.

**6. Stock-based Compensation**

The Company uses the fair value based method of accounting for all stock-based awards. During the six months ended March 31, 2008, 212,500 stock options previously granted to investor relations consultants vested with a compensation cost of \$30,445. Also, the Company granted 4,200,000 stock options to employees, officers, directors and consultants with a compensation cost of \$361,939. Of this amount, \$58,169 relates to unvested stock options granted to investor relations consultants. The Company calculated the compensation cost by using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 3.23%, a dividend yield of nil, an expected volatility of 126% and expected life of the stock options of one year.

**7. 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 six months ended March 31:

- a) paid or accrued \$Nil (2007 - \$10,000) for directors fees to a director and a company controlled by a director;
- b) paid or accrued \$97,495 (2007 - \$63,095) 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;
- c) paid or accrued \$27,305 (2007 - \$28,605) 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
- d) paid or accrued \$19,000 (2007 - \$16,631) for rent to a company where the CFO is a director.

## **KNIGHT RESOURCES LTD.**

(An exploration stage company)

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

**March 31, 2008**

(Unaudited)

(Canadian Dollars)

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

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. A financial asset is any asset that is i) cash; ii) a contractual right to receive cash or another financial asset from another party; iii) a contractual right to exchange financial instruments with another party under conditions that are potentially favorable to the entity; or iv) an equity instrument of another entity. A financial liability is any liability that is a contractual obligation to i) deliver cash or another financial asset to another party; or ii) exchange financial instruments with another party under conditions that are potentially unfavorable to the entity. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

As at March 31, 2008, 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. These financial instruments are classified as follows:

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

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 banks. The credit risk on accounts receivable and tax credits recoverable are small because the counterparties are the Government of Canada (GST input tax credits recoverable) and the Government of Quebec (tax credits recoverable from exploration programs).

##### **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. As at March 31, 2008, if interest rates had been 1% lower, earnings (loss) and comprehensive earnings (loss) would have been \$23,003 higher ( $\$4,600,671 \times 1\% / 2$ ) and conversely if interest rates had been 1% higher, loss and comprehensive loss would have been \$23,003 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.**

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

**March 31, 2008**

(Unaudited)

(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 (excluding accumulated other comprehensive income (loss)), cash and cash equivalents and short-term investments 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 March 31,		Six months ended March 31,	
	2008	2007	2008	2007
<b>West Raglan Property</b>				
Drilling	\$ 41,087	\$ (1,009)	\$ 116,576	\$ 43,503
Geochemistry	-	2,124	2,390	19,843
Geology	36,501	35,221	93,083	90,899
Geophysics	3,244	4,563	10,379	42,818
Mobilization	333,431	184,024	427,124	223,321
Other	60,065	40,945	118,773	120,055
Property filing fees	65,968	-	66,092	4,365
Safety and environment	2,700	4,465	10,759	4,669
	542,996	270,333	845,176	549,473
Refundable tax credits	91,369	104,443	(20,289)	-
Mining duties refund	17,316	19,777	(3,863)	-
	\$ 651,681	\$ 394,553	\$ 821,024	\$ 549,473