

# **Knight Resources Ltd.**

## **Financial Statements**

**For The Years Ended September 30, 2007 and 2006**



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Knight Resources Ltd. as at September 30, 2007 and 2006 and the statements of operations, shareholders' equity and cash flows for the years ended September 30, 2007 and 2006. 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, 2007 and 2006 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 horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Accountants

Vancouver, Canada

December 7, 2007

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Balance Sheets

(Canadian Dollars)

	September 30, 2007	September 30, 2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,930,245	\$ 452,183
Accounts receivable	13,940	18,071
Tax credits recoverable	933,973	1,390,380
Prepaid expenses	21,063	10,500
	2,899,221	1,871,134
<b>Property, plant and equipment (note 3)</b>	12,699	13,299
	\$ 2,911,920	\$ 1,884,433
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5)	\$ 500,091	\$ 209,095
<b>Shareholders' equity</b>		
Share capital (note 6)	21,598,232	19,396,240
Contributed surplus (note 7)	3,439,760	2,689,917
Warrants (note 6)	660,072	-
Deficit	(23,286,235)	(20,410,819)
	2,411,829	1,675,338
	\$ 2,911,920	\$ 1,884,433

Nature of operations (note 1)

Subsequent events (note 12)

Approved on behalf of the Board:

"Harvey Keats"

"David Patterson"

See accompanying notes to the financial statements.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Statements of Operations

(Canadian Dollars)

	Years ended September 30,	
	2007	2006
<b>Exploration expenditures</b>		
West Raglan (schedule 1)(note 5)	\$ 1,669,082	\$ 1,202,935
<b>General and administrative expenditures</b>		
Accounting and audit	47,909	46,674
Administrative fees	98,500	95,000
Amortization	4,121	5,556
Directors fees (note 9)	14,000	24,000
Filing fees	10,415	9,248
Legal fees	8,381	20,921
Management fees (note 9)	137,442	137,419
Office and miscellaneous	56,676	53,121
Promotion	236,220	213,541
Rent (note 9)	34,298	33,262
Stock-based compensation expense (note 7)	702,128	281,446
Telephone and communications	32,928	12,750
Transfer agent	9,039	7,410
Travel	72,590	47,811
	1,464,647	988,159
<b>Other items</b>		
Interest income	68,052	37,005
Loss on disposal of equipment	(1,739)	-
	66,313	37,005
<b>Loss before income taxes</b>	(3,067,416)	(2,154,089)
<b>Future income tax recovery (note 10)</b>	192,000	93,088
<b>Loss and comprehensive loss for the year</b>	\$ (2,875,416)	\$ (2,061,001)
<b>Basic and diluted loss per share</b>	\$ (0.04)	\$ (0.03)
<b>Weighted average number of shares outstanding</b>	73,011,874	66,808,337

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, 2005</b>	65,580,040	\$ 19,208,832	\$ -	\$ 2,408,471	\$ (18,349,818)	\$ 3,267,485
Common shares issued for cash:						
Private placement ( <b>note 6</b> )	1,711,177	290,900	-	-	-	290,900
Share issue costs on private placement	-	(10,404)	-	-	-	(10,404)
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(93,088)	-	-	-	(93,088)
Stock-based compensation	-	-	-	281,446	-	281,446
Loss for the year	-	-	-	-	(2,061,001)	(2,061,001)
<b>Balance at September 30, 2006</b>	67,291,217	19,396,240	-	2,689,917	(20,410,819)	1,675,338
Common shares issued for cash:						
Private placements ( <b>note 6</b> )	11,289,730	2,521,866	715,053	-	-	3,236,919
Share issue costs on private placements	-	(296,125)	(54,981)	103,091	-	(248,015)
Exercise of stock options	650,000	168,251	-	(55,376)	-	112,875
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(192,000)	-	-	-	(192,000)
Stock-based compensation	-	-	-	702,128	-	702,128
Loss for the year	-	-	-	-	(2,875,416)	(2,875,416)
<b>Balance at September 30, 2007</b>	79,230,947	\$ 21,598,232	\$ 660,072	\$ 3,439,760	\$ (23,286,235)	\$ 2,411,829

See accompanying notes to the financial statements.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Statements of Cash Flows

(Canadian Dollars)

	Years ended September 30,	
	2007	2006
<b>Cash Provided by (Used for):</b>		
<b>Operating Activities</b>		
Loss for the year	\$ (2,875,416)	\$ (2,061,001)
Items not involving cash:		
Amortization	4,121	5,556
Stock-based compensation expense (note 7)	702,128	281,446
Loss on disposal of equipment	1,739	-
Future income tax recovery	(192,000)	(93,088)
Changes in non-cash operating working capital:		
Accounts receivable	4,131	(4,028)
Advances for exploration	-	342,076
Tax credits recoverable	456,407	863,304
Prepaid expenses	(10,563)	(2,256)
Accounts payable and accrued liabilities	290,996	146,950
	(1,618,457)	(521,041)
<b>Financing Activities</b>		
Common shares issued for cash	3,349,794	290,900
Share issue costs	(248,015)	(10,404)
	3,101,779	280,496
<b>Investing Activities</b>		
Redemption of short-term investments	-	42,745
Purchase of property, plant and equipment	(5,260)	-
	(5,260)	42,745
<b>Increase (decrease) in cash and cash equivalents</b>	1,478,062	(197,800)
<b>Cash and cash equivalents, beginning of year</b>	452,183	649,983
<b>Cash and cash equivalents, end of year</b>	\$ 1,930,245	\$ 452,183
<b>Cash and cash equivalents consists of:</b>		
Cash	\$ 918,905	\$ 154,236
Redeemable Guaranteed Investment Certificates	1,011,340	297,947
	\$ 1,930,245	\$ 452,183
<b>Cash provided by:</b>		
Interest received	\$ 68,052	\$ 37,005
Tax credits received	\$ 1,285,423	\$ 1,512,697
<b>Supplemental cash flow information:</b>		
Agent's options for share issue costs	\$ 103,091	\$ -
Stock-based compensation transferred to share capital on exercise of stock options	\$ 55,376	\$ -

See accompanying notes to the financial statements.

# KNIGHT RESOURCES LTD.

(An exploration stage company)

## Notes to the Financial Statements

September 30, 2007 and 2006

(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.

The Company is in the process of exploring mineral properties and has not yet determined whether these properties contain deposits that are economically recoverable. The continuing operations of the Company are dependent upon obtaining necessary financing to meet the Company's commitments as they come due and to finance exploration and development of the properties, the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties and upon future profitable production or proceeds from disposition of the mineral and oil and gas properties.

### 2. Significant Accounting Policies

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

a) Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit with banks or highly liquid short-term interest bearing securities with maturities at the purchase date of ninety days or less.

b) Short-term investments

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

c) Property, plant and equipment

Property, plant and equipment is recorded at cost and amortized over the estimated useful lives of the assets on the following basis:

Computer software	100% declining balance per annum
Computer hardware	30% declining balance per annum
Office furniture and equipment	20% declining balance per annum

The Company periodically evaluates the recoverability of its property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would 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.

d) Oil and gas properties

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

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

**KNIGHT RESOURCES LTD.**  
(An exploration stage company)  
**Notes to the Financial Statements**  
**September 30, 2007 and 2006**  
(Canadian Dollars)

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**2. Significant Accounting Policies (cont'd)**

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

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

All oil and gas properties have been written down to a carrying value of \$Nil as at September 30, 2007.

e) Mineral properties

All direct costs related to the acquisition of mineral property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized.

Gains and losses are recognized on property dispositions when the value of the consideration received exceeds or is less than, respectively, the carrying value of the property. Partial dispositions or option proceeds with respect to undeveloped properties are credited against the cost of the related property except that, when the proceeds exceed the cost, the excess is credited to operations. The aggregate costs related to abandoned properties are charged to operations.

The Company reviews the carrying values of mineral property interests on a regular basis by reference to the project economics, including the timing of the exploration work, the work programs and exploration results experienced by the Company and others. When the carrying value of a property exceeds its undiscounted estimated future cash flows, an impairment provision is made to reduce the carrying value to its fair value.

f) Loss per share

Basic loss per common share is computed by dividing earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. 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.

g) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, useful lives for depletion and amortization, stock-based compensation and income taxes. Actual results could differ from those estimates.

h) Foreign currency translation

Transactions in foreign currencies are translated at rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at the year end into Canadian dollars at the exchange rate in effect at the balance sheet date. Foreign exchange gains and losses are included in income.

i) Future income taxes

Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax basis of the assets and liabilities and for loss carryforwards, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is not more likely than not that the asset will be realized.

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

September 30, 2007 and 2006

(Canadian Dollars)

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#### 2. Significant Accounting Policies (cont'd)

j) Flow-through shares

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through shares issued, the tax benefits of the related expenditures are renounced to the share subscribers. The Company recognizes the foregone tax benefits to the Company and share capital is reduced for the tax benefits renounced to the subscribers. The tax effect of the renouncement is recorded upon filing of the renouncement documents provided that corresponding exploration expenditures are incurred or there is reasonable assurance that they will be incurred within the permitted time frame. When previously unrecognized future income tax assets exist, a corresponding future income tax recovery is recognized.

k) Stock-based compensation

The Company's stock-based compensation plan is described in note 7. The Company uses the fair value based method to account for stock-based transactions with employees, non-employees and directors. Accordingly, the fair value of the stock options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. Any consideration paid on exercise of stock options together with the related portion of contributed surplus is credited to share capital.

l) Asset retirement obligations

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets if a reasonable estimate of fair value can be made. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

The Company has no material asset retirement obligations as at September 30, 2007 and 2006.

m) Financial instruments

Effective October 1, 2006 the Company adopted the Canadian Institute of Chartered Accountants new Handbook Sections 1530 "*Comprehensive Income*" ("HB 1530"), 3855 "*Financial Instruments – Recognition and Measurement*" ("HB 3855"), 3861 "*Financial Instruments – Disclosure and Presentation*" ("HB 3861") and 3865 "*Hedges*" ("HB 3865").

The objective of these new standards is to account for more assets and liabilities at fair value including non-financial derivatives (note 8).

HB 1530 establishes standards for the reporting and display of comprehensive income (loss). Comprehensive income (loss) is defined as net income (loss) plus other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that are excluded from net income (loss), such as, unrealized gains and losses of available for sale securities.

HB 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

HB 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

## KNIGHT RESOURCES LTD.

(An exploration stage company)

### Notes to the Financial Statements

September 30, 2007 and 2006

(Canadian Dollars)

#### 2. Significant Accounting Policies (cont'd)

These standards require that financial assets be classified as either trading, available for sale, held-to-maturity or loans and receivables and financial liabilities be classified as either trading or other financial liabilities. Fair value is used for initial measurement for all classes. Fair value is used for subsequent measurement for all classes except for available-for-sale assets (where equity instruments do not have a quoted market price in an active market), loans and receivables and other financial liabilities where amortized cost using the effective interest method is used.

The adoption of these standards has resulted in the Company recognizing available-for-sale investments and all derivative and other financial instruments held for trading as assets or liabilities at fair value. As at October 1, 2006, there were no available-for-sale assets, derivative financial instruments or other financial instruments held for trading. Accordingly, there were no transitional adjustments in respect to these standards that were recorded to opening asset and liability balances and accumulated other comprehensive income (loss).

Gains and losses associated with items designated as trading are recorded in operations, separate from any interest or dividends earned on these items. Gains and losses associated with items designated as available-for-sale are recorded as unrealized within other comprehensive income (loss) until such time the item is disposed of or incurs a decline in fair value that is on an other than temporary basis, at which time any gains or losses are then realized and reclassified to operations.

HB 3865 establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity's exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item (or changes resulting from a particular risk exposure relating to those items). The Company has not undertaken hedging activities in the past or during the year ended September 30, 2007 and therefore the adoption of HB 3865 did not have any impact on the Company's financial position, operations or cash flows.

#### 3. Property, plant and equipment

	2007		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 8,556	\$ 4,157	\$ 4,399
Computer software	10,417	9,325	1,092
Office furniture and equipment	16,244	9,036	7,208
	<u>\$ 35,217</u>	<u>\$ 22,518</u>	<u>\$ 12,699</u>

  

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

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(Canadian Dollars)

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**4. Oil and Gas Properties**

Maycroft Property

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

**5. Mineral Property**

West Raglan Property

<b>Cumulative expenditures</b>	<u>2007</u>	<u>2006</u>
Exploration expenditures	\$ 16,865,925	\$ 14,367,827
Refundable tax credits and mining duties	(6,832,011)	(6,002,995)
<b>Net exploration expenditures</b>	<b>\$ 10,033,914</b>	<b>\$ 8,364,832</b>

As at September 30, 2007, the Company owes Anglo American Exploration (Canada) Limited ('Anglo American') \$453,292 (2006 - \$160,683), which amount is included in accounts payable and accrued liabilities.

The Company has a formal option and joint venture agreement with Anglo American, whereby the Company owns a 49% interest in the West Raglan Project ('the Project') located in northern Quebec, Canada.

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 from 51% to 70% by completing, at its own cost, a bankable feasibility study. At the Company's election, Anglo American can further increase its interest in the Project to 75% by arranging production financing for both parties.

The Company and Anglo American are required to contribute to project expenditures in accordance with their respective interests in the project from time to time. Failure to contribute will result in a party's interest being diluted. Should either party's interest fall below 10%, that interest will be reduced to a 1% net smelter royalty, purchasable at the discretion of the other party for \$2,000,000. The Company and Anglo American both have a right of first refusal to purchase all or any part of the other party's interest in the Project.

**6. Share Capital**

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

During the years ended September 30, 2007 and 2006, the Company completed the following private placements:

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

- i) On May 24, 2007, the Company closed a non-brokered private placement for gross proceeds of \$2,636,919. These funds were raised through the issuance of 6,643,230 flow-through units at a price of \$0.30 per unit and 2,146,500 non flow-through units at a price of \$0.30 per unit. Each flow-through unit was comprised of one flow-through common share and one non flow-through common share purchase warrant. Each non flow-through unit was comprised of one non flow-through common share and one non flow-through common share purchase warrant. The total proceeds were allocated to common shares in the amount of \$2,020,996 and to warrants in the amount of \$615,923, based on their relative fair values on the date of closing. For income tax purposes, subscription funds of \$1,992,969 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. No expenditures were renounced for these flow-through shares during the year ended September 30, 2007.

Each warrant entitles the holder to purchase one additional common share at an exercise price of \$0.40 per common share until May 24, 2008, and thereafter at a price of \$0.60 per common share until May 24, 2009.

The fair value of the warrants was \$0.10 and was determined based on the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 4.42%, an expected stock price volatility of 110% and an expected life of two years.

The Company incurred total issuance costs on the private placement of \$307,956, which were allocated to common shares in the amount of \$260,104 and to warrants in the amount of \$47,852 based on their relative fair values. Of these costs, \$204,865 was incurred in cash and \$103,091 was incurred through the issuance of 553,683 agent's options to finders (note 6(d)).

- ii) On October 19, 2006, the Company closed a non-brokered private placement for gross proceeds of \$600,000. These funds were raised through the issuance of 2,500,000 units at a price of \$0.24 per unit. Each unit was comprised of one flow-through common share and one-half of one common share purchase warrant. The total proceeds were allocated to common shares in the amount of \$500,870 and to warrants in the amount of \$99,130, based on their relative fair values on the date of closing. For income tax purposes, the subscription funds of \$600,000 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.

Each whole warrant entitles the holder to purchase one additional non flow-through common share at an exercise price of \$0.29 per common share expiring on October 18, 2007. These warrants expired unexercised on October 18, 2007.

The fair value of the warrants was \$0.10 and was determined based on the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 4.09%, an expected stock price volatility of 116% and an expected life of one year.

The Company incurred total issuance costs on the private placement of \$43,150, which were allocated to common shares in the amount of \$36,021 and to warrants in the amount of \$7,129 based on their relative fair values. All of these costs were incurred in cash.

- iii) During 2006, the Company issued 1,711,177 flow-through common shares through a non-brokered private placement at a price of \$0.17 per share for proceeds of \$290,900 less fees and costs of \$10,404. For income tax purposes, the subscription funds of \$290,900 have been applied towards carrying out exploration activities and the expenditures have been renounced in favour of the subscriber. Accordingly, the Company does not have available deductions from taxable income in respect of such expenditures.

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

c) Warrants:

	Warrants	Weighted-average exercise price	Weighted-average remaining life (years)
Balance at September 30, 2005	11,260,103	\$0.35	0.6
Expired	(7,586,769)	0.36	
Balance at September 30, 2006	3,673,334	0.35	0.6
Expired	(3,673,334)	0.35	
Issued	10,039,730	0.39	
Balance at September 30, 2007	10,039,730	\$0.39	1.5

Warrants exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2007		2006	
April 22, 2007	\$0.35	-	-	3,673,334	
October 18, 2007	\$0.29	1,250,000	-	-	
May 24, 2009	\$0.40/\$0.60	8,789,730	-	-	
		10,039,730	-	3,673,334	

d) Agent's options:

As at September 30, 2007, there are 553,683 (2006 – Nil) agent's options outstanding and exercisable entitling the holder to purchase 553,683 units at \$0.30 per unit (note 6(b)(i)). Each unit is comprised of one common share and one non-transferable share purchase warrant entitling the holder to purchase one additional common share for \$0.40 up to May 24, 2008 and thereafter for \$0.60 up to May 24, 2009. The agent's options, and the warrants issued upon their exercise, expire on May 24, 2009. The fair value of the agent's options was \$103,091 or \$0.19 per unit and was determined based on the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 4.42%, an expected stock price volatility of 110% and an expected life of two years.

**7. Stock Options**

a) Stock options outstanding

The Company has a stock option plan whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of stock options. The term of the stock options granted are fixed by the board of directors and are not to exceed ten years. The exercise prices of the stock options are determined by the board of directors but shall not be less than the closing price of the Company's common shares on the day preceding the day on which the directors grant the stock options, less any discount permitted by the TSX Venture Exchange. The stock options vest immediately on the date of grant unless otherwise required by the exchange, however, a four month hold period applies to all shares issued under each stock option, commencing on the date of grant. Other terms and conditions are as follows: all stock options are non-transferable; no more than 2% of the issued shares may be granted to a consultant, or an employee performing investor relations activities, in any 12 month period; disinterested shareholder approval must be obtained for (i) any reduction in the exercise price of an outstanding option, if the holder is an insider, (ii) any grant of stock options to insiders, within a 12 month period, exceeding 10% of the Company's issued shares; and stock options will be reclassified in the event of any consolidation, subdivision, conversion or exchange of the Company's common shares. A summary of the Company's stock options as at September 30, 2007 and 2006 and the changes during the years then ended is as follows:

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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, 2005	6,330,000	\$0.51	0.93
Cancelled	(626,000)	0.27	
Expired	(3,122,500)	0.72	
Granted	3,850,000	0.16	
Balance at September 30, 2006	6,431,500	0.23	1.06
Cancelled	(25,000)	0.17	
Expired	(2,357,500)	0.29	
Exercised	(650,000)	0.17	
Granted	4,495,000	0.29	
Balance at September 30, 2007	7,894,000	\$0.25	1.06

As at September 30, 2007, stock options exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2007		2006	
		Options Outstanding	Options Exercisable	Options Outstanding	Options Exercisable
January 16, 2007	\$0.25	-	-	715,000	715,000
January 17, 2007	\$0.25	-	-	50,000	50,000
March 1, 2007	\$0.25	-	-	250,000	250,000
May 30, 2007	\$0.35	-	-	340,000	340,000
June 18, 2007	\$0.30	-	-	1,002,500	1,002,500
<sup>1</sup> Five business days following the date the black-out period is lifted by the Company.	\$0.51	315,000	315,000	315,000	315,000
January 15, 2008	\$0.17	2,559,000	2,559,000	2,909,000	2,859,000
July 3, 2008	\$0.135	625,000	625,000	750,000	525,000
July 10, 2008	\$0.21	100,000	100,000	100,000	25,000
December 21, 2008	\$0.12	200,000	200,000	-	-
March 22, 2009	\$0.165	1,200,000	1,137,500	-	-
June 18, 2009	\$0.32	2,645,000	2,495,000	-	-
August 2, 2009	\$0.70	250,000	250,000	-	-
		7,894,000	7,681,500	6,431,500	6,081,500

<sup>1</sup>The holders of these options are subject to a black-out period. During the year, the Company extended the expiry date from July 28, 2007 to five business days following the date the black-out period is lifted.

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 2007 and 2006 grants and modifications was calculated by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

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

	<u>2007</u>	<u>2006</u>
Weighted average:		
Risk-free interest rate	4.42%	3.90%
Expected dividend yield	-	-
Expected stock price volatility	103%	97%
Expected option life in years	1.9	2.0

The weighted average fair value of options granted and modified during 2007 was \$0.15 (2006 - \$0.08).

**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 September 30, 2007, 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 interest rate risk, credit risk and currency risk is small.

**9. Related Party Transactions**

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The following is a summary of the related party transactions that occurred throughout the years ended September 30, 2007 and 2006:

- a) paid or accrued \$14,000 (2006 - \$24,000) for directors fees to a director and a company controlled by a director;
- b) paid or accrued \$137,442 (2006 - \$137,419) 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 \$88,932 (2006 - \$66,010) for technical services relating to the West Raglan Property to a company controlled by the CEO, to a company controlled by the Vice-President of Exploration, and to the Vice-President of Exploration;
- d) paid or accrued \$34,298 (2006 - \$33,262) for rent to a company where the CFO is a director and to a company controlled by the CFO.

**10. Income Taxes**

Substantially all of the difference between the actual income tax recovery of \$192,000 (2006 - \$93,088) 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 \$3,785,000 which may be deducted in the calculation of taxable income in future years. The losses expire on various dates to 2027. Also, the Company has approximately \$2,500,000 of capital losses and \$13,150,000 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 \$1,850,000 (2006 - \$1,846,000).

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**10. Income Taxes (cont'd)**

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

	2007	2006
Future income tax assets:		
Resource pools	\$ 3,997,600	\$ 3,838,908
Capital losses carried forward	381,356	413,971
Non-capital losses carried forward	1,150,584	895,850
Property, plant and equipment	10,196	8,553
Share issue costs	69,292	-
Valuation allowance	(5,609,028)	(5,157,282)
	\$ -	\$ -

Due to the uncertainty surrounding the realization of income tax assets in future years, the Company has provided for a full valuation allowance against its potential future income tax assets.

**11. 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.

**12. Subsequent Events**

- a) Subsequent to September 30, 2007, the Company issued 10,000,000 units through a non-brokered private placement at a price of \$0.40 per unit for proceeds of \$4,000,000 less commissions and fees of \$330,725. Each unit consists of one flow-through common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one additional non flow-through common share of the Company at a 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 common shares at \$0.55 per share up to November 19, 2008.
- b) Subsequent to September 30, 2007, a total of 745,000 common shares were issued on the exercise of stock options for total proceeds of \$128,300.

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**Schedule of Exploration Expenditures**

(Canadian Dollars)

	Years ended September 30,	
	2007	2006
<b>West Raglan Property</b>		
Drilling	\$ 1,505,360	\$ 664,728
Geochemistry	21,869	69,261
Geology	163,370	241,956
Geophysics	229,460	297,110
Mobilization	402,103	151,001
Other	142,328	379,140
Safety and environment	33,608	49,132
	2,498,098	1,852,328
Refundable tax credits	(697,506)	(545,189)
Mining duties refund	(131,510)	(104,204)
	\$ 1,669,082	\$ 1,202,935