

**KIT RESOURCES LTD.**  
**(A Development Stage Company)**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006**

(The accompanying financial statements have been prepared by management and have not been reviewed by the Company's auditors)

**KIT RESOURCES LTD.**  
**BALANCE SHEETS**  
**AS AT**  
**(UNAUDITED)**

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
<b>ASSETS</b>		
CURRENT		
Cash and cash equivalents	\$ 3,019,580	\$ 2,775,012
GST receivable	3,030	2,024
Prepaid expenses	1,450	-
	<u>3,024,060</u>	<u>2,777,036</u>
MINERAL PROPERTY COSTS <i>(Note 3a)</i>	<u>290,277</u>	<u>289,019</u>
	<u>\$ 3,314,337</u>	<u>\$ 3,066,055</u>
<b>LIABILITIES</b>		
CURRENT		
Accounts payable	\$ 19,207	\$ 13,857
Due to related parties <i>(Notes 5a &amp; 5b)</i>	15,214	94,693
	<u>34,421</u>	<u>108,550</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL <i>(Note 4a)</i>	56,234,132	52,999,632
SHARE SUBSCRIPTIONS	-	2,759,750
CONTRIBUTED SURPLUS <i>(Note 4c(iii))</i>	489,000	-
DEFICIT	<u>(53,443,216)</u>	<u>(52,801,877)</u>
	<u>3,279,916</u>	<u>2,957,505</u>
	<u>\$ 3,314,337</u>	<u>\$ 3,066,055</u>

APPROVED BY THE DIRECTORS:

“Matthew J. Mason”  
Matthew J. Mason – Director

“Peter D. Leitch”  
Peter D. Leitch – Director

See accompanying notes

**KIT RESOURCES LTD.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE PERIODS ENDED**  
**(UNAUDITED)**

	<b>Three months ended September 30, 2006</b>	<b>Three months ended September 30, 2005</b>	<b>Nine months ended September 30, 2006</b>	<b>Nine months ended September 30, 2005</b>
<b>OTHER (INCOME) EXPENSES</b>				
Interest and investment income	\$ <b>(28,336)</b>	\$ -	\$ <b>(39,998)</b>	\$ (53)
<b>EXPENSES</b>				
Administrative fees	-	3,461	-	11,122
Consulting	<b>32,708</b>	-	<b>52,708</b>	-
General corporate expenses	<b>3,378</b>	2,873	<b>10,336</b>	8,602
Professional fees	<b>10,624</b>	2,243	<b>45,761</b>	12,784
Management fees <i>(Note 5b)</i>	<b>7,500</b>	15,000	<b>22,500</b>	45,000
Office administration <i>(Note 5b)</i>	<b>7,500</b>	6,500	<b>22,500</b>	22,500
Rent	<b>4,511</b>	4,484	<b>13,461</b>	13,483
Shareholder communication	-	-	<b>1,251</b>	1,638
Stock option compensation <i>(Note 4c(iii))</i>	<b>143,000</b>	-	<b>489,000</b>	-
Transfer agent and regulatory fees	<b>5,871</b>	1,806	<b>23,820</b>	10,569
	<b>215,092</b>	36,367	<b>681,337</b>	125,698
<b>LOSS FOR THE PERIOD</b>	<b>186,756</b>	36,367	<b>641,339</b>	125,645
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>53,256,460</b>	52,770,571	<b>52,801,877</b>	52,681,293
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 53,443,216</b>	\$ 52,806,938	<b>\$ 53,443,216</b>	\$ 52,806,938
<b>LOSS PER SHARE</b>	<b>\$ 0.00</b>	\$ 0.00	<b>\$ 0.01</b>	\$ 0.00

See accompanying notes

**KIT RESOURCES LTD.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED**  
**(UNAUDITED)**

	<b>Three months ended September 30, 2006</b>	<b>Three months ended September 30, 2005</b>	<b>Nine months ended September 30, 2006</b>	<b>Nine months ended September 30, 2005</b>
<b>CASH PROVIDED BY (USED FOR):</b>				
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ (186,756)	\$ (36,367)	\$ (641,339)	\$ (125,645)
Items not affecting cash:				
Stock option compensation	143,000	-	489,000	-
Changes in non-cash working capital:				
(Increase) decrease in GST receivable	1,362	1,185	(1,006)	3,740
(Increase) decrease in prepaid expenses	2,792	763	(1,450)	(765)
Increase (decrease) in accounts payable	17,707	-	5,350	(6,302)
	<u>(21,895)</u>	<u>(34,419)</u>	<u>(149,445)</u>	<u>(128,972)</u>
<b>FINANCING ACTIVITIES</b>				
Issuance of share capital	4,000	-	474,750	-
Increase (decrease) in related party loans	(12,626)	33,807	(79,479)	80,250
	<u>(8,626)</u>	<u>33,807</u>	<u>395,271</u>	<u>80,250</u>
<b>INVESTING ACTIVITIES</b>				
Resource assets	-	-	(1,258)	(136)
<b>INCREASE (DECREASE) IN CASH</b>	<b>(30,521)</b>	<b>(612)</b>	<b>244,568</b>	<b>(48,858)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>3,050,101</b>	<b>2,081</b>	<b>2,775,012</b>	<b>50,327</b>
<b>CASH, END OF PERIOD</b>	<b>\$ <u>3,019,580</u></b>	<b>\$ <u>1,469</u></b>	<b>\$ <u>3,019,580</u></b>	<b>\$ <u>1,469</u></b>

See accompanying notes

**KIT RESOURCES LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**  
**(UNAUDITED)**

**1. ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada and follow the same accounting policies and methods of application as per the December 31, 2005 annual audited financial statements. These interim financial statements do not contain all the information that is presented in annual audited financial statements. They should be read in conjunction with the most recent annual audited financial statements of the Company, prepared as of December 31, 2005.

**2. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, GST receivable, amounts due to related parties and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity for prompt liquidation.

**3. MINERAL PROPERTY COSTS**

- a) The Company has the following mineral properties that it is exploring. Details of accumulated costs are as follows:

	<b>September 30, 2006</b>			December 31, 2005	
	Acquisition	Deferred Exploration	<b>Total</b>	Total	
Copperline Property, B.C.	\$ 23,750	\$ 217,833	\$ <b>241,583</b>	\$	240,325
Molly Property, B.C.	48,694	-	<b>48,694</b>		48,694
	<b>\$ 72,444</b>	<b>\$ 217,833</b>	<b>\$ 290,277</b>	\$	289,019

- b) **Copperline Property, B.C.**

By letter of agreement dated May 28, 2001 and as amended, the Company acquired a 60% interest in the Copperline property from a company with directors in common. Under the agreement, the Company issued 25,000 common shares and incurred \$200,000 of exploration expenditures on the property.

- c) **Molly Property, B.C.**

During the year ended December 31, 2003, the Company acquired, from a director and officer of the Company, a 100% interest in certain mineral claims located in the Omineca Mining Division, B.C.

**KIT RESOURCES LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**  
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**4. SHARE CAPITAL**

a) Details are as follows:

	Number of Shares		Amount	
	September 30, 2006	December 31, 2005	September 30, 2006	December 31, 2005
Authorized:				
Unlimited common shares without par value				
Issued and fully paid:				
Balance - Beginning of period	39,873,550	39,873,550	\$ 52,999,632	\$ 52,999,632
Issued during the period:				
- private placement	40,000,000	-	2,786,000	-
- warrants	510,000	-	51,000	-
- stock options	2,650,000	-	397,500	-
Balance - End of period	83,033,550	39,873,550	\$ 56,234,132	\$ 52,999,632

b) During the period, the Company closed a non-brokered private placement of 40,000,000 units at \$0.07 per unit. Gross proceeds of the offering were CAD\$2.8 million. Each unit consists of one common share and one warrant, with each warrant giving the holder the right to purchase one common share at CAD \$0.10, exercisable by January 9, 2008. No commission was paid. 40,000,000 common shares were issued from the treasury of the Company.

c) **Share Options**

The Company has an established share purchase option plan ("Plan") whereby a committee of the Company's board of directors may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. The number of shares under option at any specific time to any one optionee shall not exceed 5% of the issued and outstanding common shares of the Company. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the TSX Venture Exchange ("the Exchange") on the last trading day preceding the grant date, less the applicable discount, provided that the exercise price will not be less than \$0.10 per share. The options will have certain hold restrictions as imposed by the Exchange at the date of grant.

i) During the period ended September 30, 2006, the Company granted third Party options to purchase 500,000 shares of the Company at \$0.76 per share, exercisable by March 1, 2011 (*Note 6*), and 250,000 shares at \$0.75 per share, exercisable by September 26, 2011.

ii) As at September 30, 2006, the Company has the following share purchase options outstanding:

Option Holder	Number	Exercise Price	Expiry Date
Officers	250,000	\$ 0.15	July 24, 2008
Third party ( <i>Note 6</i> )	500,000	\$ 0.76	March 1, 2011
Third party	250,000	\$ 0.75	September 26, 2011
	<u>1,000,000</u>		
Options vested as at Sept. 30, 2006	<u>1,000,000</u>		

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**4. SHARE CAPITAL (continued)**

**iii) Stock Based Compensation:**

The Company recognizes compensation expense on stock options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The current period stock option compensation expense is calculated using the Black-Scholes Option Pricing Model with the following assumptions from the date of grant:

	Grant date <u>March 2, 2006</u>	Grant date <u>September 26, 2006</u>
Expected dividend yield	-	-
Risk-free interest rate	4.08%	3.75%
Expected stock price volatility	166.00%	109.46%
Expected option life in years	4	5

The current period stock option compensation expense amounted to \$489,000.

**d) Warrants**

As at September 30, 2006, the Company had share purchase warrants outstanding to purchase 39,490,000 shares at \$0.10 per share, exercisable by January 9, 2008.

**e) Escrow Shares**

The remaining 4,185,000 common shares were released from escrow on July 24, 2006.

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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**  
**(UNAUDITED)**

**5. RELATED PARTY TRANSACTIONS**

Except as disclosed elsewhere in these financial statements, related party transactions are as follows:

- a) An amount of \$15,214 due to a company controlled by directors consists of administrative costs incurred for the three months ended September 30, 2006.
- b) During the period ended September 30 2006, the Company:
  - i) paid or accrued \$22,500 (2005 - \$45,000) for management fees to a company controlled by a director.
  - ii) paid or accrued \$22,500 (2005 - \$33,622) for secretarial and administration services to an officer of the Company and to a company controlled by a director.
  - iii) paid or accrued legal fees of \$21,018 (2005- \$3,390) to a law firm that has a partner who was a director of the Company until April 18, 2006.

**6. CONSULTING**

During the period, the Company signed a one-year agreement with a third party for consulting services at \$5,000 per month. In addition, the third party may earn other fees dependent upon the occurrence of certain capital and/or investing transactions. The Company also granted the third party an option to purchase 500,000 shares of the Company at an exercise price of \$0.76 per share by March 1, 2011 (*Note 4c*).

**7. INCOME TAXES**

As at December 31, 2005, the Company had approximately \$1,645,000 of losses carried forward, available to be offset against future taxable income. These losses, if not utilized, expire by 2015. The Company has mineral exploration and development expenditures of approximately \$3,199,000 available to reduce taxable income of future years. The Company has deferred share issuance costs of \$93,000 which are deductible for income tax purposes over five years.

Future income tax benefits, which may arise as a result of these losses, resource expenditures and deferred share issuance costs, have not been recognized in these financial statements.

**8. SUBSEQUENT EVENT**

Subsequent to September 30, 2006, 75,000 shares were issued from Treasury at \$0.10 per share, pursuant to exercise of share purchase warrants, leaving a balance of 39,415,000 shares exercisable at \$0.10 per share by January 9, 2008.