

# **Knight Metals Ltd. (formerly Knight Resources Ltd.)**

**Quarterly Financial Statements  
For The Nine Months Ended June 30, 2011  
(Unaudited)**

## Notice to Reader

The accompanying unaudited financial statements of Knight Metals Ltd. (formerly Knight Resources Ltd.) (“the Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of the Company’s unaudited interim financial statements as at and for the nine months ended June 30, 2011.

# KNIGHT METALS LTD. (formerly Knight Resources Ltd.)

(An exploration stage company)

## Balance Sheets

(Unaudited)

(Canadian Dollars)

	June 30, 2011	September 30, 2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 723,382	\$ 1,655,070
Accounts receivable	9,875	21,772
Tax credits recoverable	328,269	541,326
Advances for exploration	28,814	-
Prepaid expenses	14,000	18,360
	1,104,340	2,236,528
<b>Property, plant and equipment</b>	6,305	9,217
	\$ 1,110,645	\$ 2,245,745
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 642	\$ 407,003
<b>Shareholders' equity</b>		
Share capital (note 4)	25,901,364	26,207,491
Contributed surplus (note 5)	6,117,431	5,728,719
Warrants (note 4)	241,102	649,281
Deficit	(31,149,894)	(30,746,749)
	1,110,003	1,838,742
	\$ 1,110,645	\$ 2,245,745

Nature of operations and basis of presentation (note 1)

Approved by the Directors:

"Harvey Keats"

"David Patterson"

# KNIGHT METALS LTD. (formerly Knight Resources Ltd.)

(An exploration stage company)

## Statements of Loss and Comprehensive Loss

(Unaudited)

(Canadian Dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2011	2010	2011	2010
<b>Exploration expenditures</b>				
West Raglan (schedule)(note 3)	\$ 74,064	\$ 932,986	\$ 400,691	\$ 1,166,023
Lagarde (schedule)	-	-	4,291	-
	74,064	932,986	404,982	1,166,023
<b>General and administrative expenditures</b>				
Administrative fees	15,000	23,250	48,000	72,750
Amortization	1,346	2,610	3,812	4,397
Directors fees	6,000	8,000	18,000	8,000
Filing fees	3,000	5,412	12,196	15,207
Management fees	18,700	48,112	60,685	141,839
Office and miscellaneous	13,815	6,867	37,017	30,247
Professional fees	3,803	5,749	18,389	21,668
Promotion	279	36,245	16,600	123,243
Rent	22,048	22,048	66,144	67,447
Stock-based compensation (note 5)	-	(2,797)	(19,467)	321,986
Telephone and communications	2,061	3,253	5,413	9,050
Transfer agent fees	1,025	2,166	7,349	7,851
Travel	-	6,816	333	19,758
	87,077	167,731	274,471	843,443
<b>Other Items</b>				
Interest income	(1,726)	(8,039)	(7,390)	(16,812)
Interest on flow-through shares	-	-	37,209	-
	(1,726)	(8,039)	29,819	(16,812)
<b>Loss before income taxes</b>	(159,415)	(1,092,678)	(709,272)	(1,992,654)
<b>Future income tax recovery</b>	-	-	306,127	769,006
<b>Loss and comprehensive loss for the period</b>	\$ (159,415)	\$ (1,092,678)	\$ (403,145)	\$ (1,223,648)
<b>Basic and diluted loss per share (note 4)</b>	\$ (0.02)	\$ (0.15)	\$ (0.05)	\$ (0.18)
<b>Weighted average number of common shares outstanding (note 4)</b>	7,570,463	7,464,559	7,570,463	6,687,767

See accompanying notes to the financial statements.

## KNIGHT METALS LTD. (formerly 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, 2010</b>	143,738,761	\$ 26,207,491	\$ 649,281	\$ 5,728,719	\$ (30,746,749)	\$ 1,838,742
19 for 1 share consolidation	(136,168,298)	-	-	-	-	-
Warrants expired	-	-	(408,179)	408,179	-	-
Stock-based compensation (note 5)	-	-	-	(19,467)	-	(19,467)
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(306,127)	-	-	-	(306,127)
Loss for the period	-	-	-	-	(403,145)	(403,145)
<b>Balance at June 30, 2011</b>	<b>7,570,463</b>	<b>\$ 25,901,364</b>	<b>\$ 241,102</b>	<b>\$ 6,117,431</b>	<b>\$ (31,149,894)</b>	<b>\$ 1,110,003</b>

	Common Shares		Warrants	Contributed surplus	Deficit	Total shareholders' equity
	Number of	Amount				
<b>Balance at September 30, 2009</b>	90,670,447	\$ 23,272,203	\$ -	\$ 5,384,351	\$ (26,615,908)	\$ 2,040,646
Common shares issued for cash:						
Private placements	53,068,314	3,999,429	645,392	-	-	4,644,821
Share issue costs on private placements	-	(295,135)	(46,699)	-	-	(341,834)
Warrants issued on private placements	-	-	50,588	-	-	50,588
Stock-based compensation	-	-	-	321,986	-	321,986
Future income tax impact of renunciation of Canadian Exploration Expenses pursuant to flow-through shares	-	(769,006)	-	-	-	(769,006)
Loss for the period	-	-	-	-	(1,223,648)	(1,223,648)
<b>Balance at June 30, 2010</b>	<b>143,738,761</b>	<b>\$ 26,207,491</b>	<b>\$ 649,281</b>	<b>\$ 5,706,337</b>	<b>\$ (27,839,556)</b>	<b>\$ 4,723,553</b>

See accompanying notes to the financial statements.

# KNIGHT METALS LTD. (formerly Knight Resources Ltd.)

(An exploration stage company)

## Statements of Cash Flows

(Unaudited)

(Canadian Dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2011	2010	2011	2010
<b>Cash Provided by (Used for):</b>				
<b>Operating Activities</b>				
Loss for the period	\$ (159,415)	\$ (1,092,678)	\$ (403,145)	\$ (1,223,648)
Items not involving cash:				
Amortization	1,346	2,610	3,812	4,397
Stock-based compensation	-	(2,797)	(19,467)	321,986
Future income tax recovery	-	-	(306,127)	(769,006)
Changes in non-cash operating working capital:				
Accounts receivable	7,528	(1,362)	11,897	16,529
Advances for exploration	19,817	(467,925)	(28,814)	(467,925)
Tax credits recoverable	455,563	223,687	213,057	451,841
Prepaid expenses	-	(857)	4,360	158
Accounts payable and accrued liabilities	(14,075)	(187,812)	(406,361)	(19,377)
	310,764	(1,527,134)	(930,788)	(1,685,045)
<b>Financing Activity</b>				
Common shares issued for cash	-	765,621	-	4,644,821
Share issue costs	-	(32,531)	-	(291,246)
	-	733,090	-	4,353,575
<b>Investing Activities</b>				
Purchase of property, plant and equipment	(900)	(5,029)	(900)	(6,529)
<b>Change in cash and cash equivalents</b>	309,864	(799,073)	(931,688)	2,662,001
<b>Cash and cash equivalents, beginning of period</b>	413,518	4,995,789	1,655,070	1,534,715
<b>Cash and cash equivalents, end of period</b>	\$ 723,382	\$ 4,196,716	\$ 723,382	\$ 4,196,716
<b>Cash provided by:</b>				
Interest income received	\$ 1,726	\$ 8,039	\$ 7,390	\$ 16,812
Tax credits received	\$ 452,355	\$ 223,608	\$ 452,355	\$ 436,518
<b>Supplementary cash flow information:</b>				
Finder's warrants for share issue costs	\$ -	\$ -	\$ -	\$ 50,588

See accompanying notes to the financial statements.

# **KNIGHT METALS LTD. (formerly Knight Resources Ltd.)**

(An exploration stage company)

## **Notes to the Financial Statements**

**June 30, 2011**

(Unaudited)

(Canadian Dollars)

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

Knight Metals Ltd. (formerly 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. The principal business of the Company is to explore natural resource properties.

On May 25, 2011, the Company consolidated its common shares on a 19 old common shares for 1 new common share basis and changed its name to Knight Metals Ltd.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. At June 30, 2011, the Company has a deficit of \$31,149,894 and has incurred losses since inception. The Company has not yet determined whether the Company’s mineral properties contain deposits that are economically recoverable. The continuing operations of the Company are dependent upon obtaining necessary financing to meet the Company’s commitments as they come due and to finance exploration and development of the properties, the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties and upon future profitable production or proceeds from disposition of the mineral and oil and gas properties. For these reasons, there exists doubt over the Company’s ability to continue as a going concern beyond the next fiscal year. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. Management is of the opinion that sufficient working capital will be obtained through the issuance of additional common shares to meet the Company’s liabilities and commitments as they come due.

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine month period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ended September 30, 2011. The balance sheet at September 30, 2010 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, 2010. 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, 2010.

# KNIGHT METALS LTD. (formerly Knight Resources Ltd.)

(An exploration stage company)

## Notes to the Financial Statements

June 30, 2011

(Unaudited)

(Canadian Dollars)

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### 3. Mineral Property

#### West Raglan Property

	June 30, 2011	September 30, 2010
<b>Cumulative expenditures</b>		
Exploration expenditures	\$ 26,405,633	\$ 25,814,783
Refundable tax credits and mining duties	(9,183,182)	(8,993,023)
	<u>\$ 17,222,451</u>	<u>\$ 16,821,760</u>

As at June 30, 2011, the Company owes Anglo American Exploration (Canada) Limited ('Anglo American') \$nil (September 30, 2010 - \$370,984), which amount is included in accounts payable and accrued liabilities.

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 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.

# KNIGHT METALS LTD. (formerly Knight Resources Ltd.)

(An exploration stage company)

## Notes to the Financial Statements

June 30, 2011

(Unaudited)

(Canadian Dollars)

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### 4. Share Capital and Warrants

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

	Warrants	Weighted-average exercise price	Weighted-average remaining life (years)
Balance at September 30, 2010	28,619,166	\$0.13	0.5
Expired	(22,153,125)	\$0.12	
19 for 1 share consolidation	(6,125,724)	\$0.20	
<b>Balance at June 30, 2011</b>	<b>340,317</b>	<b>\$3.80</b>	<b>0.8</b>

- c) The loss per share and weighted average number of commons shares outstanding have been presented on a retroactive basis as if the 19 for 1 share consolidation had occurred on October 1, 2009.

### 5. Stock-based Compensation

During the nine months ended June 30, 2011, 525,000 previously granted stock options vested resulting in a stock-based compensation credit of \$19,467. The Company recognized a credit because the exercise prices of these previously granted stock options were higher than the Company's common share market price on their vesting dates during fiscal 2011. The Company calculated the fair value of options vested using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 1.29%, a dividend yield of Nil, an expected volatility of the Company's share price of 98% and an expected life of the stock options of 1 year.

### 6. Related Party Transactions

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

- a) paid or accrued \$60,685 (2010 - \$141,839) for management fees including \$16,235 to a company controlled by the CEO, \$14,000 to a company controlled by the CFO, and \$30,450 to a company controlled by the Vice-President of Exploration;
- b) paid or accrued \$9,915 (2010 - \$40,416) for technical services relating to the West Raglan Property including \$5,165 to a company controlled by the CEO and \$4,750 to a company controlled by the Vice-President of Exploration;
- c) paid or accrued \$18,000 (2010 - \$8,000) for directors fees including \$9,000 to a company controlled by a director and \$9,000 to a director; and
- d) paid or accrued \$66,144 (2010 - \$67,447) for rent to companies where the CFO is a common director.

# KNIGHT METALS LTD. (formerly Knight Resources Ltd.)

(An exploration stage company)

## Notes to the Financial Statements

June 30, 2011

(Unaudited)

(Canadian Dollars)

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### 7. Financial Instruments

As at June 30, 2011, the Company's financial instruments are cash, accounts receivable, tax credits recoverable, and accounts payable and accrued liabilities. The fair value of cash is measured using level 1 of the fair value hierarchy. The amounts reflected in the balance sheet for accounts receivable, tax credits recoverable and accounts payable and accrued liabilities 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, accounts receivable and tax credits recoverable are exposed to credit risk. The credit risk on cash 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.

The aging of accounts receivable and tax credits recoverable are as follows:

	June 30, 2011	September 30, 2010
Accounts receivable		
0 to 60 days	\$ 931	\$ 885
61 to 120 days	8,944	20,887
> 120 days	-	-
	<u>\$ 9,875</u>	<u>\$ 21,772</u>
Tax credits recoverable		
0 to 365 days	\$ 328,269	\$ 498,898
> 365 days	-	42,428
	<u>\$ 328,269</u>	<u>\$ 541,326</u>

#### 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 is exposed to interest rate risk as the Company invests cash at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash. For the nine months ended June 30, 2011, if interest rates had been 0.25% lower, loss and comprehensive loss would have been \$1,245 higher and conversely if interest rates had been 0.25% higher, loss and comprehensive loss would have been \$1,245 lower.

# **KNIGHT METALS LTD. (formerly Knight Resources Ltd.)**

(An exploration stage company)

## **Notes to the Financial Statements**

**June 30, 2011**

(Unaudited)

(Canadian Dollars)

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### **7. Financial Instruments (cont'd)**

#### 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 all in 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.

### **8. Capital Management**

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern.
- To maintain appropriate cash reserves on hand to continue exploration of the Company's projects and to meet ongoing operating costs.
- To ensure that flow-through funds are spent on Canadian Exploration Expenditures in order to meet the required renunciation obligations.
- To invest cash on hand in highly liquid and highly rated financial instruments.

In the management of capital, the Company includes shareholders' equity and debt in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets, especially in regards to exploration results on its West Raglan Project. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to externally imposed capital requirements.

## KNIGHT METALS LTD. (formerly Knight Resources Ltd.)

(An exploration stage company)

### Schedule of Exploration Expenditures

(Unaudited)

(Canadian Dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2011	2010	2011	2010
<b>West Raglan Property</b>				
Drilling	\$ (1,021)	\$ 196,078	\$ 268,025	\$ 200,962
Geochemistry	662	2,973	26,534	3,838
Geology	213	175,408	59,877	258,913
Geophysics	-	185,821	44,344	202,051
Mobilization	11,303	100,302	59,040	143,367
Operator fees	2,057	85,071	56,504	108,087
Other	3,088	15,478	3,714	15,723
Property acquisition and maintenance	2,349	94	2,349	94
Safety and environment	1,166	155,492	60,548	177,328
Technical geological services	1,900	16,269	9,915	40,416
	21,717	932,986	590,850	1,150,779
Refundable tax credits	43,645	-	(173,545)	-
Mining duties refund	8,702	-	(16,614)	15,244
	74,064	932,986	400,691	1,166,023
<b>Lagarde Property</b>				
Property acquisition and maintenance	-	-	4,291	-
	\$ 74,064	\$ 932,986	\$ 404,982	\$ 1,166,023