

## **KNIGHT RESOURCES LTD.**

Management's Discussion and Analysis  
Three months ended December 31, 2010

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The following discussion and analysis of the results of operations and financial condition ("MD&A") for Knight Resources Ltd. ("the Company") should be read in conjunction with the audited financial statements for the three month ended December 31, 2010 and related notes thereto. The financial information in this MD&A is derived from the Company's financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is February 24, 2011.

For the purposes of this MD&A, the following terms are defined as follows:

Current Period	Three months ended December 31, 2010
Prior Period	Three months ended December 31, 2009
Q1/2011	Three months ended December 31, 2010
Q1/2010	Three months ended December 31, 2009

This MD&A may contain forward looking statements based on assumptions and judgments of management regarding events or results that may prove to be inaccurate as a result of exploration or other risk factors beyond its control. Actual results may differ materially from the expected results.

### **Description of Business**

The Company is an exploration company engaged in the acquisition and exploration of natural resource properties with potential for nickel, copper, cobalt, platinum and palladium deposits. The Company's sole property is the West Raglan Project, located in the Province of Quebec, Canada. The Company is currently seeking additional resource property opportunities. The Company is a reporting issuer in British Columbia and Alberta and its shares are listed on the TSX Venture Exchange and the Frankfurt Stock Exchange under the symbols KNP and KRL respectively.

As described in detail in the Company's Information Circular dated January 10, 2011, the Company has proposed a consolidation of its common shares on an up to 19 old common shares for 1 new common share basis. The Company has also proposed to change its name to Knight Metals Ltd. Both of these proposals were approved by the shareholders at the Company's Annual General Meeting held on February 17, 2011. As of the date of this report, these changes have not yet been implemented.

The Company's general and administrative expenditures are related to the level of financing and exploration activities that are being conducted, which may in turn depend on the Company's recent exploration activities and prospects, as well as general market conditions relating to the availability of funding for exploration-stage resource companies. There may not be predictable or observable trends in the Company's business activities and comparisons of financial operating results with prior years may not be meaningful.

### **Risks and Uncertainties**

The Company's principal activity of mineral exploration is considered to be very high risk. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, commodity prices, political and economic, with some of the most significant risks being:

1. Substantial expenditures are required to explore for mineral reserves and the chances of identifying economical reserves are extremely small;
2. The junior resource market, where the Company raises funds, is extremely volatile and there is no guarantee that the Company will be able to raise funds as it requires them;

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3. Although the Company has taken steps to verify title to the mineral properties it has an interest in or is earning into, there is no guarantee that the property will not be subject to title disputes or undetected defects; and
4. The Company is subject to the laws and regulations relating to environmental matters, including provisions relating to reclamation, discharge of hazardous material and other matters. The Company conducts its exploration activities in compliance with applicable environmental protection legislation and is not aware of any existing environmental problems related to its properties that may cause material liability to the Company.

### **Exploration Projects**

#### West Raglan, Quebec

The Company is party to a joint venture agreement with Anglo American Exploration (Canada) Ltd. ('Anglo American') concerning the West Raglan Project (the "Project") located in the Cape Smith Belt in northern Quebec.

The Cape Smith Belt is host to in excess of 35 million tonnes grading 2.9% nickel in 140 mineralized zones in 10 distinct areas on Xstrata's Raglan property located 90 kilometres east of the Company's West Raglan property. Exploration work carried out by Anglo and Knight over the past seven years (2003 – 2010), including 194 drill holes, has been successful in discovering 12 mineralized zones in one area, known as Frontier. The objective of the West Raglan Project is to identify sufficient resources to justify a stand-alone mine and mill operation.

As at December 31, 2009, the Company's interest in the Project had been diluted to 45.32% from 49% (September 30, 2008). Dilution of the Company's interest commenced on April 1, 2009 and ended on December 31, 2009. Effective January 1, 2010, the Company and Anglo American agreed to allow the Company the right to earn back its 49% interest in the Project during 2010 by incurring all of the first \$3,232,959 of exploration expenditures. In September 2010, the Company earned back its 49% interest in 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. Anglo American is a wholly owned subsidiary of Anglo American plc, of London, England.

#### *2010 Program*

Based on the results from the 2009 program, a budget of \$5,750,000 was approved for 2010. At the completion of the program, Knight had earned back its original 49% interest (completed, see above) in the project by funding an increased contribution to the 2010 budget. The objective of the program was to build on the success in the Frontier Area by discovering other centres of mineralization on the property to contribute to the objective of identifying sufficient resources to justify a standalone mine and mill operation.

On July 5, 2010 the Company reported that drilling had commenced. Drilling was completed in September 2010 and on October 4, 2010, the Company reported preliminary results from the 2010 program and assay results were reported on December 14, 2010.

A total of 21 diamond drill holes (4998 metres) were drilled during the program. Ultramafic rocks were intersected in 19 of 21 drill holes. Sulphide mineralization, where present within ultramafic rocks, was generally described as weakly disseminated and patchy. Mineralization of this nature was intersected in Terrace, Green Zone, CDC and Rain Day areas. No new centers of nickel-copper were discovered, however a different style of mineralization was encountered in diamond drill hole WR-10-189 which intersected 1.70% copper, 3.56% zinc and 0.36g/t gold over

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3.2 metres in massive sulphides. This mineralization occurred in basalts approximately 30 metres above the targeted ultramafic unit in the Green Zone located immediately west of the Frontier area. This style of mineralization is indicative of volcanogenic massive sulphides which are known to occur locally within the Cape Smith Belt. This is the first occurrence of copper-zinc-gold mineralization in drilling from the West Raglan property and its potential, if any, is unknown. No program is planned for the summer of 2011, however, methods of moving the project forward are being evaluated.

Exploration programs have been carried out on the West Raglan Project in each summer since 2003. This news release and other Company news releases, may be viewed on the Company's web site, [www.knightresources.ca](http://www.knightresources.ca), or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Results of Operations**

The Company reported a loss of \$399,769 (2009 - \$378,966) and a loss per share of \$Nil (2009 - \$Nil) for the Current Period.

#### *Exploration*

##### West Raglan

Exploration expenditures were \$313,648 (2009 - \$10,033) for the Current Period. The Company elected not to participate in the 2009 West Raglan exploration program in order to avoid excessive share dilution and to conserve cash.

The largest component of the 2010 costs was for drilling with subordinate regional geophysics, geology and prospecting. Safety and environmental costs were significantly higher than previous periods due to increased environmental compliance, project audits and contractor training.

Management provided \$7,065 (2009 - \$10,033) of technical geological services in the Current Period.

Refundable tax credits and mining duties refund directly correspond to the amounts spent on exploration during the period adjusted for Canadian exploration expenditures ("CEE") renounced to Quebec based flow-through share subscribers which are not eligible for the Quebec tax credits. The Company did not raise any flow-through financing during the Current Period and as such will not be renouncing any CEE to Quebec based flow-through share subscribers. The Company has met all of its calendar 2010 CEE renunciation obligations.

##### Lagarde

During the Current Period the Company incurred \$4,291 of costs on an historical oil and gas property in which the Company held rights. The Company has farmed out its interest in the property for an overriding royalty interest and has no ongoing liabilities or obligations.

#### *General and Administrative*

Differences in general and administrative expenses between the Current and Prior Periods include the following:

- The Company paid an arms-length private company \$18,000 (2009 - \$28,500) for accounting, secretarial and general administrative services.
- The Company incurred \$6,000 (2009 - \$Nil) of directors fees paid to its independent directors.
- Management billed the Company \$22,285 (2009 - \$48,403) for management services during the Current Period. Management devotes a portion of their time to the Company and a portion of their time to other

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companies where they are directors and/or officers. Accordingly, management invoices the Company based on the percentage of time each of the individuals devote to the Company.

- Office and miscellaneous decreased by \$3,411 during the Current Period due to less business activity.
- Promotion decreased by \$27,608 during the Current Period. The Company stopped incurring third-party investor relations fees and cut back on other promotional services starting in November 2010.
- Stock-based compensation was \$211,256 higher in the Prior Period as a result of the Company granting 9,050,000 stock options to directors, officers, employees and consultants in the Prior Period compared to nil stock options in the Current Period.

#### *Other Revenue and Expenses*

- Interest income was similar in the Current Period compared to the Prior Period due to similar amounts of cash on hand during these times as well similar interest rates.

#### **Financial Condition, Liquidity and Capital Resources**

The Company's working capital position was \$1,408,959 (September 30, 2010 - \$1,829,525) as at December 31, 2010.

The Company's cash position has decreased by \$1,047,404 during the Current Period. The main source of cash in the Current Period was the receipt of \$4,041 of interest income.

The main uses of cash in the Current Period were the expenditure of \$1,047,404 on operating activities which include exploration expenditures, general and administrative expenditures, and the payment of accounts payable and accrued liabilities of \$358,709.

The Company currently does not have any revenue producing assets and therefore will be dependent on additional equity financing in order to continue operations and to finance any future exploration on the West Raglan Project. There are no assurances that the Company will be able to finance on acceptable terms.

The Company has sufficient capital to fully meet the remainder of its exploration commitments for calendar 2010 and is confident that it has sufficient capital to meet its operating commitments for Fiscal 2011. However, the Company will most likely have to seek additional financing if it continues exploration of the West Raglan Project.

#### **Financial Instruments**

As at December 31, 2010, the Company's financial instruments are cash and cash equivalents, accounts receivable, tax credits recoverable, advances for exploration and accounts payable and accrued liabilities. The fair value of cash and cash equivalents 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 and cash equivalents, accounts receivable and tax credits recoverable are exposed to credit risk. The credit risk on cash and cash equivalents is not considered significant because the counterparties are highly rated financial institutions. The credit risk on accounts

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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:

	December 31, 2010	September 30, 2010
Accounts receivable		
0 to 60 days	\$ 885	\$ 885
61 to 120 days	39,306	20,887
> 120 days	-	-
	<u>\$ 40,191</u>	<u>\$ 21,772</u>
Tax credits recoverable		
0 to 365 days	\$ 728,957	\$ 498,898
> 365 days	42,428	42,428
	<u>\$ 771,385</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 and cash equivalents are exposed to interest rate risk as the Company invests cash and cash equivalents at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash and cash equivalents. For the three months ended December 31, 2010, if interest rates had been 0.25% lower, loss and comprehensive loss would have been \$594 higher and conversely if interest rates had been 0.25% higher, loss and comprehensive loss would have been \$594 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.

### Off-Balance Sheet Arrangements

The Company has not engaged in any off-balance sheet arrangements such as obligations under guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity, any obligation under derivative instruments or any obligation under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company or engages in leasing or hedging services with the Company.

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### Selected Quarterly Information

The following selected consolidated financial data has been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the Company's audited consolidated financial statements. All dollar amounts are in Canadian dollars.

Fiscal Quarter Ended	Interest Income	Earnings/ (Loss)	Basic & Diluted Loss/Share
December 31, 2010	\$ 4,041	\$ (399,769)	\$ -
September 30, 2010	\$ 6,028	\$ (2,907,193)	\$ (0.02)
June 30, 2010	\$ 8,039	\$ (1,092,678)	\$ (0.01)
March 31, 2010	\$ 5,384	\$ 247,996	\$ -
December 31, 2009	\$ 3,389	\$ (378,966)	\$ -
September 30, 2009	\$ 2,024	\$ (118,158)	\$ -
June 30, 2009	\$ 604	\$ (125,371)	\$ -
March 31, 2009	\$ 1,590	\$ (225,160)	\$ -

The December 31, 2010 loss is comprised primarily of West Raglan exploration expenditures of \$309,357. The quarterly loss for September 2010 was significantly more than prior periods due to large exploration expenditures incurred during the summer months of July, August and September. During the three months ended June 30, 2010, the Company incurred \$932,986 of exploration expenditures on its West Raglan exploration project. The earnings reported for the three months ended March 31, 2010 are the result of a large future income tax recovery from the renunciation of \$3,259,200 of Canadian Exploration Expenses to flow-through share subscribers. The quarterly loss reported for December 2009 was higher than the previous three quarters due to \$193,517 of stock-based compensation incurred on the grant of 9,050,000 stock options. The quarterly losses from March 2009 to September 2009 steadily decreased as the Company reduced exploration expenditures and general and administrative expenditures. Interest income fluctuates with the amount of cash on hand the Company has to invest in short-term interest-bearing investments as well as the rates of interest.

### International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim financial statements for the three months ended December 31, 2011, which must include the interim results for the prior period ended December 31, 2010 prepared on the same basis. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosure. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

The Company believes it will be able to manage the transition to IFRS from Canadian GAAP using internal resources with limited external assistance.

This conversion project will consist of three phases: 1) general planning and scoping, 2) detailed assessment of accounting policy differences and detailed conversion planning, and 3) implementation, parallel reporting and review.

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The Company has and will continue to review financial statement preparation, IT infrastructure, control environment and accounting policy choices available under IFRS in regards to the current operations of the Company.

During the Company's scoping of existing IFRS compared to Canadian GAAP, the following areas have been identified as having the highest potential impact on the Company's financial reporting: initial adoption of IFRS under the policies set forth in *IFRS 1 "First-Time Adoption of IFRS"* ("IFRS"), exploration and development expenditures, asset retirement obligations, property plant and equipment, impairment of assets, accounting for flow-through shares and stock-based compensation.

The Company has reviewed its IT infrastructure and believes that it will not have to drastically change or update its IT infrastructure in order to comply with IFRS standards.

The Company is still completing Phase 1, and Phase 2 and 3 are not expected to start until later in 2011. As of the date of this report, the Company believes it will be able to transition to IFRS without encountering any undue hardship.

### Related Party Transactions

Management fees of \$3,000 (2009 - \$31,000) were paid or accrued to a company owned by Mr. David Patterson. Management fees of \$5,985 (2009 - \$10,968) were paid or accrued to a company owned by Mr. Harvey Keats. Management fees of \$13,300 (2009 - \$6,435) were paid or accrued to a company owned by Mr. Robin Adair.

Management fees in relation to technical geological services of \$5,165 (2009 - \$6,458) were paid or accrued to a company owned by Mr. Harvey Keats. Management fees in relation to technical geological services of \$1,900 (2009 - \$3,575) were paid or accrued to a company owned by Mr. Robin Adair.

Directors fees of \$3,000 (2009 - \$nil) were paid or accrued to a company owned by Mr. Kerry Sparkes. Directors fees of \$3,000 (2009 - \$nil) were paid or accrued to Mr. David Gower.

Rent of \$23,096 (2009 - \$21,000) was paid or accrued to a company where Mr. David Patterson is a director.

### Outstanding Share Data

As at February 24, 2011, the Company had the following securities issued and outstanding:

	Number	Exercise Price	Expiry Date
Common shares	143,738,761	n/a	n/a
Warrants	3,094,862	\$0.15/\$0.20	March 31, 2012
Warrants	1,646,179	\$0.15/\$0.20	April 20, 2012
Warrants	825,000	\$0.15/\$0.20	April 26, 2012
Warrants	900,000	\$0.15/\$0.20	May 10, 2012
<b>Fully Diluted</b>	<b>150,204,802</b>		

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### **Directors and Officers**

David Patterson	Director and CFO	Robin Adair	Director and VP of Exploration
Harvey Keats	Director and CEO	David Gower	Director
Kerry Sparkes	Director	Erin Walmesley	Secretary

### **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

In connection with Exemption Orders issued November 2007 and revised in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the audited annual financial statements and respective accompanying Management Discussion and Analysis.

In contrast to the certificates under NI 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109.

### **Additional Information**

Additional information is provided in the Company's audited financial statements for the years ended September 30, 2010 and 2009. These documents are available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information relating to the Company's operations and activities can also be found by visiting the Company's website at [www.knightresources.ca](http://www.knightresources.ca).