

## **KNIGHT RESOURCES LTD.**

Management's Discussion and Analysis  
Six Months March 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 unaudited interim financial statements for the six months ended March 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 May 14, 2010.

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

Current Period	Six months ended March 31, 2010
Prior Period	Six months ended March 31, 2009
Q1/2010	Three months ended December 31, 2009
Q2/2010	Three months ended March 31, 2010
Q1/2009	Three months ended December 31, 2008
Q2/2009	Three months ended March 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 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.

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;
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;

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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; and

### **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, including 173 drill holes, has been successful in discovering 12 mineralized zones in just 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.

#### *2009 Program*

Anglo American undertook a \$3.5 million exploration program for nickel-copper-PGE mineralization on the Project in the summer of 2009. In light of the uncertainty in the capital markets at the time, the Company decided not to fund its 49% share of the 2009 program in order to avoid excessive share dilution and to conserve cash.

The 2009 program consisted of surface geophysical surveys utilizing conventional electromagnetic ("EM") systems, the Squid EM low temperature system and magnetometer survey in conjunction with geological, geochemical and prospecting surveys on the extensive occurrences of ultramafic rocks that occur throughout the 710 square kilometre joint venture property. The objective of the program was to develop a pipeline of new drill-ready targets outside of the known Frontier mineralized area. This entailed 1) evaluating and surveying the ultramafic rocks within the 65 kilometre length of the Raglan trend covered on the West Raglan property; and 2) investigating selected areas of ultramafic rocks in the Povungnituk group in the southern parts of the property.

On November 5, 2009 the Company reported that the 2009 program had identified eighteen high priority drill targets in five new prospective areas that are characterized by strongly positive indications of nickel mineralization along the Raglan Horizon and within the Povungnituk Group. On these results, the joint venture technical committee has approved a \$5,750,000 summer program for 2010 that will focus on drill follow-up of the new targets. The Company intends to fund its share of the 2010 program. No drilling was conducted in 2009.

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 have agreed to allow the Company the right to earn back its 49% interest in the Project during 2010.

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.

Exploration programs have been carried out on the West Raglan Project in 2003, 2004, 2005, 2006, 2007, 2008 and 2009. The Company reported the results of the 2009 program in its news release dated November 5, 2009. This

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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 \$130,970 (2009 - \$696,777) and a loss per share of \$Nil (2009 - \$Nil) for the Prior Period. The Company's Current Period loss is lower than the Prior Period primarily due to \$769,006 of future income tax recovery reported in Q2/2010 as a result of renouncing \$3,259,200 of Canadian Exploration Expenses.

#### *Exploration*

Exploration expenditures were \$223,004 for Q2/2010 compared to \$50,406 for Q2/2009 and \$233,037 for the Current Period compared to \$345,159 for Prior 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. Effective January 1, 2010, the Company is participating in the 2010 West Raglan exploration program and will earn back its 49% interest in the Project.

Management provided \$24,147 (2009 - \$28,465) of technical geological services in the Current Period. These expenditures are included in other expenditures which also include Anglo American project management fees of \$23,015 (2009 - \$77,920).

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 renounced \$2,354,000 (2009 - \$Nil) of CEE to Quebec based flow-through share subscribers during Q2/2010.

#### *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 \$49,500 (2009 - \$55,500) for accounting, secretarial and general administrative services.
- Management billed the Company \$93,727 (2009 - \$74,584) 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 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. The amounts have increased in the Current Period due to the increased activities of the Company.
- Promotion decreased by \$3,991 during the Current Period as the Company has slightly cut back on promotional expenditures. However, starting in November 2009, the Company is incurring \$11,500 per month for third party investor relations services.
- Rent increased by \$15,232 during the Current Period as a result of the Company moving into new premises in January 2009.
- Stock-based compensation was \$302,976 higher in the Current Period as a result of the Company granting 12,150,000 stock options granted to directors, officers, employees and consultants in the Current Period compared to Nil stock options in the Prior Period.
- Travel has decreased by \$8,353 during the Current Period primarily as a result of management attending fewer resource and investment conferences.

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### *Other Revenue and Expenses*

- Interest income decreased by \$1,013 during the Current Period due to more cash on hand to earn interest income.
- Interest on flow-through shares of \$Nil (2009 - \$821) is wholly composed of Part XII.6 tax which is incurred on the issuance of flow-through shares using the look-back rule. These charges are the result of the Company renouncing \$4,000,000 of exploration expenditures to flow-through share subscribers with an effective date of December 31, 2007. The Company incurred these exploration expenditures during the calendar year ended December 31, 2008.

### *Income Taxes*

A portion of the Company's exploration activities are 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 flow-through share subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to the subscribers. The tax effect of the renouncement is recorded upon filing of the renouncement documents provided that the corresponding exploration expenditures are incurred or there is a reasonable assurance that they will be incurred within the permitted time frame. As a result of renouncing \$3,259,200 (Q2/2009 - \$Nil) of Canadian Exploration Expenses during Q2/2010, the Company recorded a reduction in share capital of \$769,006 (Q2/2009 - \$Nil) with a corresponding recovery of future income taxes.

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

The Company's working capital position was \$5,077,811 (September 30, 2009 - \$2,032,232) as at March 31, 2010.

The Company's cash position has increased by \$3,461,074 during the Current Period. The main sources of cash in the Current Period were: 1) the receipt of \$3,620,485 of net proceeds from the completion of private placements; 2) the receipt of \$212,910 of tax credits recoverable; and 3) the receipt of \$8,773 of interest income.

The main uses of cash in the Current Period were the expenditure of approximately \$160,000 on operating activities.

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 future exploration on the West Raglan Project. There are no assurances that the Company will be able to finance on acceptable terms.

During the Current Period, the Company has raised \$3,879,200 of flow-through funds through private placements. Subsequent to March 31, 2010, the Company has raised a further \$765,621 of flow-through funds through private placements.

The \$4,644,821 of flow-through funds will be used to fund the Company's share of the anticipated \$5,750,000 2010 West Raglan Project exploration program. Effective January 1, 2010, the Company and Anglo have agreed to allow the Company the right to earn back its 49% interest in the Project during 2010 from the Company's 45.32% interest as at December 31, 2010. As such, the Company anticipates its share of the 2010 program to be approximately \$4,400,000.

The Company expects to have sufficient capital to fully meet its exploration and operating commitments for Fiscal 2010 and calendar 2010.

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### Financial Instruments

As at March 31, 2010, the Company's financial instruments are cash, 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 credit risk, interest rate risk and currency risk is small.

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 are not considered significant because the counterparties are federal and provincial governments.

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.

### 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
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)	\$ -
December 31, 2008	\$ 6,170	\$ (471,617)	\$ (0.01)
September 30, 2008	\$ 18,346	\$ (1,802,270)	\$ (0.02)
June 30, 2008	\$ 30,808	\$ (399,029)	\$ -

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

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stock-based compensation incurred on the grant of 9,050,000 stock options. The quarterly losses from December 2008 to September 2009 steadily decreased as the Company reduced exploration expenditures and general and administrative expenditures. The quarterly loss for September 2008 was significantly more than prior and subsequent periods due to large exploration expenditures incurred during the summer months of July, August and September. The Company did not participate in an exploration program for 2009 which in turn resulted in a much smaller quarterly loss for September 2009 compared to September 2008. 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.

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 and stock-based compensation.

The Company is still completing Phase 1 and Phase 2 and 3 are not expected to start until later in 2010.

### **Related Party Transactions**

Management fees of \$53,000 (2009 - \$34,000) were paid or accrued to a company owned by Mr. David Patterson. Management fees of \$25,727 (2009 - \$21,115) were paid or accrued to a company owned by Mr. Harvey Keats. Management fees of \$15,000 (2009 - \$19,469) were paid or accrued to a company owned by Mr. Robin Adair.

Management fees in relation to technical geological services of \$16,297 (2009 - \$19,885) were paid or accrued to a company owned by Mr. Harvey Keats. Management fees in relation to technical geological services of \$7,850 (2009 - \$8,580) were paid or accrued to a company owned by Mr. Robin Adair.

Rent of \$45,399 (2009 - \$30,167) was paid or accrued to companies where Mr. David Patterson is a director.

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### Outstanding Share Data

As at May 14, 2010, the Company had the following securities issued and outstanding:

	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Common shares	143,738,761	n/a	n/a
Warrants <sup>1</sup>	16,100,000	\$0.12	November 19, 2010
Warrants <sup>1</sup>	1,218,750	\$0.12	November 19, 2010
Warrants <sup>1</sup>	4,395,000	\$0.12	December 9, 2010
Warrants <sup>1</sup>	439,375	\$0.12	December 9, 2010
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
Stock options	9,050,000	\$0.10	November 4, 2010
Stock options	3,100,000	\$0.11	February 11, 2011
<b>Fully Diluted</b>	<b>184,507,927</b>		

<sup>1</sup> In the event the closing price of the Company's common shares on the TSX Venture Exchange is at least \$0.25 for ten consecutive trading days (at any time following four months from the date of closing) the Company may reduce the remaining exercise period of the warrants to not less than 30 days from the date of providing notice of such reduced exercise period.

### 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, 2009 and 2008. These documents are available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information relating

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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).