

Knight Resources Ltd.

**Quarterly Financial Statements
For The Three Months Ended December 31, 2010
(Unaudited)**

Notice to Reader

The accompanying unaudited financial statements of 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 three months ended December 31, 2010.

KNIGHT RESOURCES LTD.

(An exploration stage company)

Balance Sheets

(Unaudited)

(Canadian Dollars)

	December 31, 2010	September 30, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 607,666	\$ 1,655,070
Accounts receivable	40,191	21,772
Tax credits recoverable	771,385	541,326
Advances for exploration	26,042	-
Prepaid expenses	16,260	18,360
	1,461,544	2,236,528
Property, plant and equipment	7,984	9,217
	\$ 1,469,528	\$ 2,245,745
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 52,585	\$ 407,003
Shareholders' equity		
Share capital (note 4)	26,207,491	26,207,491
Contributed surplus (note 5)	6,119,159	5,728,719
Warrants	241,102	649,281
Deficit	(31,150,809)	(30,746,749)
	1,416,943	1,838,742
	\$ 1,469,528	\$ 2,245,745

Nature of operations and basis of presentation (note 1)

Subsequent events (note 9)

Approved on behalf of the Board:

"Harvey Keats"

Director

"David Patterson"

Director

KNIGHT RESOURCES LTD.

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Statements of Loss and Comprehensive Loss

(Unaudited)

(Canadian Dollars)

	Three months ended December 31,	
	2010	2009
Exploration expenditures		
West Raglan (schedule)(note 3)	\$ 309,357	\$ 10,033
Lagarde (schedule)	4,291	-
	313,648	10,033
General and administrative expenditures		
Accounting and audit fees	2,450	6,574
Administrative fees	18,000	28,500
Amortization	1,233	893
Directors fees	6,000	-
Filing fees	3,796	4,095
Legal fees	451	1,345
Management fees	22,285	48,403
Office and miscellaneous	17,750	21,161
Promotion	13,255	40,863
Rent	23,096	21,000
Stock-based compensation (note 5)	(17,739)	193,517
Telephone and communications	2,364	3,616
Transfer agent fees	1,287	1,374
Travel	225	981
	94,453	372,322
Loss before other item	408,101	382,355
Other item		
Interest income	(4,041)	(3,389)
Loss and comprehensive loss for the period	\$ (404,060)	\$ (378,966)
Basic and diluted loss per share	\$ -	\$ -
Weighted average number of common shares outstanding	143,738,761	107,917,937

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	Amount				
Balance at September 30, 2010	143,738,761	\$ 26,207,491	\$ 649,281	\$ 5,728,719	\$ (30,746,749)	\$ 1,838,742
Warrants expired	-	-	(408,179)	408,179	-	-
Stock-based compensation (note 5)	-	-	-	(17,739)	-	(17,739)
Loss for the period	-	-	-	-	(404,060)	(404,060)
Balance at December 31, 2010	143,738,761	\$ 26,207,491	\$ 241,102	\$ 6,119,159	\$ (31,150,809)	\$ 1,416,943
Balance at September 30, 2009	90,670,447	\$ 23,272,203	\$ -	\$ 5,384,351	\$ (26,615,908)	\$ 2,040,646
Common shares issued for cash:						
Private placements	40,989,990	2,875,613	403,587	-	-	3,279,200
Share issue costs on private placements	-	(208,212)	(28,964)	-	-	(237,176)
Warrants issued on private placements	-	-	33,556	-	-	33,556
Stock-based compensation	-	-	-	193,517	-	193,517
Loss for the period	-	-	-	-	(378,966)	(378,966)
Balance at December 31, 2009	131,660,437	\$ 25,939,604	\$ 408,179	\$ 5,577,868	\$ (26,994,874)	\$ 4,930,777

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.

(An exploration stage company)

Statements of Cash Flows

(Unaudited)

(Canadian Dollars)

	Three months ended December 31,	
	2010	2009
Cash Provided by (Used for):		
Operating Activities		
Loss for the period	\$ (404,060)	\$ (378,966)
Items not involving cash:		
Amortization	1,233	893
Stock-based compensation expense	(17,739)	193,517
Changes in non-cash operating working capital:		
Accounts receivable	(18,419)	17,471
Tax credits recoverable	(230,059)	-
Prepaid expenses	2,100	-
Advances for exploration	(26,042)	-
Accounts payable and accrued liabilities	(354,418)	20,681
	<u>(1,047,404)</u>	<u>(146,404)</u>
Financing Activities		
Issuance of common shares	-	3,279,200
Share issue costs	-	(203,620)
	-	<u>3,075,580</u>
Investing Activity		
Purchase of property, plant and equipment	-	(1,500)
Change in cash and cash equivalents	<u>(1,047,404)</u>	<u>2,927,676</u>
Cash and cash equivalents, beginning of period	<u>1,655,070</u>	<u>1,534,715</u>
Cash and cash equivalents, end of period	<u>\$ 607,666</u>	<u>\$ 4,462,391</u>
Cash provided by:		
Interest received	\$ 4,041	\$ 3,389
Tax credits received	\$ -	\$ -
Supplemental cash flow information:		
Finder's warrants for share issue costs	\$ -	\$ 33,556

See accompanying notes to the financial statements.

KNIGHT RESOURCES LTD.

(An exploration stage company)

Notes to the Financial Statements

December 31, 2010

(Unaudited)

(Canadian Dollars)

1. Nature of Operations and Basis of Presentation

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.

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 December 31, 2010, the Company has a deficit of \$31,146,518 and has incurred losses since inception. 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. 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 three month period ended December 31, 2010 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 RESOURCES LTD.

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Notes to the Financial Statements

December 31, 2010

(Unaudited)

(Canadian Dollars)

3. Mineral Property

West Raglan Property

	December 31, 2010	September 30, 2010
Cumulative expenditures		
Exploration expenditures	\$ 22,594,101	\$ 25,814,783
Refundable tax credits and mining duties	(8,494,125)	(8,993,023)
	<u>\$ 14,099,976</u>	<u>\$ 16,821,760</u>

As at December 31, 2010, 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.

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	
Balance at December 31, 2010	<u>6,466,041</u>	<u>\$0.15</u>	<u>1.3</u>

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(An exploration stage company)

Notes to the Financial Statements

December 31, 2010

(Unaudited)

(Canadian Dollars)

5. Stock-based Compensation

During the three months ended December 31, 2010, 325,000 previously granted stock options vested resulting in a stock-based compensation credit \$17,739. The Company recognized a credit because of the vesting of underwater stock options granted in fiscal 2010. 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 1.23%, a dividend yield of Nil, an expected volatility of the Company's share price of 97% 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 three months ended December 31:

- a) paid or accrued \$22,285 (2009 - \$48,403) for management fees including \$3,000 to a company controlled by the CEO, \$5,985 to a company controlled by the CFO, and \$13,300 to a company controlled by the Vice-President of Exploration;
- b) paid or accrued \$7,065 (2009 - \$10,033) for technical services relating to the West Raglan Property including \$5,165 to a company controlled by the CEO and \$1,900 to a company controlled by the Vice-President of Exploration;
- c) paid or accrued \$6,000 (2009 - \$Nil) for directors fees including \$3,000 to a company controlled by a director and \$3,000 to a director; and
- d) paid or accrued \$23,096 (2009 - \$21,000) for rent to companies where the CFO is a common director.

7. 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 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:

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Notes to the Financial Statements

December 31, 2010

(Unaudited)

(Canadian Dollars)

7. Financial Instruments (cont'd)

	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.

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Notes to the Financial Statements

December 31, 2010

(Unaudited)

(Canadian Dollars)

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.

9. Subsequent Events

- a) 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.
- b) Subsequent to December 31, 2010, 3,100,000 stock options with an exercise price of \$0.11 per share expired unexercised.

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Schedule of Exploration Expenditures

(Unaudited)

(Canadian Dollars)

	Three months ended December 31,	
	2010	2009
West Raglan Property		
Drilling	\$ 266,009	\$ -
Geochemistry	24,696	-
Geology	47,129	-
Geophysics	44,344	-
Mobilization	44,157	-
Operator fees	51,356	-
Other	626	-
Safety and environment	54,034	-
Technical services	7,065	10,033
	539,416	10,033
Refundable tax credits	(206,043)	-
Mining duties refund	(24,016)	-
	309,357	10,033
Lagarde Property		
Property acquisition and maintenance	4,291	-
	\$ 313,648	\$ 10,033