

**Khan Resources Inc.**  
**Interim Consolidated Balance Sheets**  
**(Unaudited)**  
**(Expressed in United States dollars)**  
**(All figures are in thousands)**

	<b>As at March 31, 2007</b>	<b>As at September 30, 2006</b>
<b>Assets</b>		
Current		
Cash	\$ 33,416	\$ 8,767
Accounts receivable	88	77
Prepaid expenses	46	89
	33,550	8,933
Capital assets, net (note 3)	148	90
Mineral interests (notes 1 and 4)	15,652	14,732
	\$ 49,350	\$ 23,755
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 692	\$ 470
Future tax liability	2,667	2,667
Total Liabilities	3,359	3,137
Commitments and contingencies (note 10)		
<b>Shareholders' Equity</b>		
Capital stock (note 5)	63,558	32,034
Deficit	(17,567)	(11,416)
	45,991	20,618
	\$ 49,350	\$ 23,755

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Board:

Signed "James B.C. Doak"  
Director

Signed "Martin Quick"  
Director

**Khan Resources Inc.**  
**Interim Consolidated Statements of Operations and Deficit**  
**(Unaudited)**  
**(Expressed in United States dollars)**  
**(All figures are in thousands except for per share amounts)**

	<b>Three months ended</b>		<b>Six months ended</b>		<b>Cumulative</b>
	<b>March 31,</b>		<b>March 31,</b>		<b>from</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>inception on</b>
					<b>October 1,</b>
					<b>2002</b>
<b>Revenue</b>					
Interest	\$ 174	30	\$ 268	\$ 41	\$ 437
Gain on sale of assets	-	-	-	-	25
	<u>174</u>	<u>30</u>	<u>268</u>	<u>41</u>	<u>462</u>
<b>Expenses</b>					
General corporate	579	333	1,366	736	5,490
Amortization	7	2	22	2	39
Stock-based compensation (note 6)	2,165	601	2,984	1,030	7,173
Mongolian operations	71	(29)	115	74	517
Foreign exchange loss (gain)	(259)	(7)	(237)	1	(262)
Write-off of mineral interests	-	-	-	-	266
	<u>2,563</u>	<u>900</u>	<u>4,250</u>	<u>1,843</u>	<u>13,223</u>
<b>Loss before taxes</b>	(2,389)	(870)	(3,982)	(1,802)	(12,761)
Future tax recovery	-	-	-	-	763
	<u>(2,389)</u>	<u>(870)</u>	<u>(3,982)</u>	<u>(1,802)</u>	<u>(11,998)</u>
Net loss for the period	(2,389)	(870)	(3,982)	(1,802)	(11,998)
Deficit, beginning of period	(13,009)	(7,512)	(11,416)	(6,580)	-
Equity financing costs	(2,169)	-	(2,169)	-	(5,569)
	<u>(17,567)</u>	<u>(8,382)</u>	<u>(17,567)</u>	<u>(8,382)</u>	<u>(17,567)</u>
<b>Deficit, end of period</b>	<u>\$ (17,567)</u>	<u>\$ (8,382)</u>	<u>\$ (17,567)</u>	<u>\$ (8,382)</u>	<u>\$ (17,567)</u>
Weighted-average number of common shares outstanding - basic and diluted (note 8)	<u>45,191</u>	<u>35,344</u>	<u>43,321</u>	<u>34,960</u>	
Net loss per share - basic and diluted (note 8)	<u>\$ (0.05)</u>	<u>(0.02)</u>	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>	

The accompanying notes form an integral part of these consolidated financial statements.

**Khan Resources Inc.**  
**Interim Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**(Expressed in United States dollars)**  
**(All figures are in thousands)**

	<b>Three months ended</b>		<b>Six months ended</b>		<b>Cumulative</b>
	<b>March 31,</b>		<b>March 31,</b>		<b>from</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>inception on</b>
					<b>October 1,</b>
					<b>2002</b>
<b>Operating Activities</b>					
Net loss for the period	\$ (2,389)	(870)	\$ (3,982)	\$ (1,802)	\$ (11,998)
Items not affecting cash:					
Loss on disposal of assets	-	-	-	-	3
Amortization expense	7	2	22	2	39
Stock-based compensation expense	2,165	601	2,984	1,030	7,173
Foreign exchange loss	-	1	-	1	6
Write-off of deferred financing costs	-	-	-	-	20
Write-off of mineral interests	-	-	-	-	266
Future tax recovery	-	-	-	-	(763)
	<u>(217)</u>	<u>(266)</u>	<u>(976)</u>	<u>(769)</u>	<u>(5,254)</u>
Changes in non-cash working capital balances related to operations (note 9)	<u>(350)</u>	<u>(272)</u>	<u>(218)</u>	<u>(876)</u>	<u>(595)</u>
Cash used in operating activities	<u>(567)</u>	<u>(538)</u>	<u>(1,194)</u>	<u>(1,645)</u>	<u>(5,849)</u>
<b>Investing Activities</b>					
Payment of property acquisition liability	-	-	-	-	(1,667)
Mineral interests	(134)	(454)	(690)	(986)	(3,032)
Purchase of capital assets	<u>(2)</u>	<u>(68)</u>	<u>(80)</u>	<u>(69)</u>	<u>(192)</u>
Cash used in investing activities	<u>(136)</u>	<u>(522)</u>	<u>(770)</u>	<u>(1,055)</u>	<u>(4,891)</u>
<b>Financing Activities</b>					
Capital stock issued	27,767	-	28,122	1,584	48,384
Equity financing costs	<u>(1,509)</u>	<u>(208)</u>	<u>(1,509)</u>	<u>(626)</u>	<u>(4,228)</u>
Cash provided by (used by) financing activities	<u>26,258</u>	<u>(208)</u>	<u>26,613</u>	<u>958</u>	<u>44,156</u>
Net (decrease) increase in cash during the period	25,555	(1,268)	24,649	(1,742)	33,416
Cash, beginning of period	<u>7,861</u>	<u>4,890</u>	<u>8,767</u>	<u>5,364</u>	<u>-</u>
<b>Cash, end of period</b>	<u>\$ 33,416</u>	<u>\$ 3,622</u>	<u>\$ 33,416</u>	<u>\$ 3,622</u>	<u>\$ 33,416</u>

The accompanying notes form an integral part of these consolidated financial statements.



**Khan Resources Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**(Unaudited)**  
**(Expressed in United States dollars)**  
**(All figures are in thousands, except for per share amounts)**  
**March 31, 2007**

**1. Nature of Operations**

Khan Resources Inc. ("Khan" or the "Company") is in the process of acquiring, exploring and developing its mineral properties and is thus considered to be a development stage company. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, upon future profitable production and/or the proceeds from the disposition thereof. To date, the Company has not earned significant revenues.

These unaudited interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These unaudited interim consolidated financial statements do not contain any adjustments related to the carrying value and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

**2. Summary of Significant Accounting Policies**

These unaudited interim consolidated financial statements and accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for the preparation of interim financial statements. They do not include all the information and disclosure required by GAAP for annual consolidated financial statements. These unaudited interim consolidated financial statements have been prepared in accordance with the accounting policies and methods set forth in the Company's audited consolidated financial statements as at and for the year ended September 30, 2006 and should be read in conjunction with those audited financial statements and notes thereto.

These unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries. All references to the Company should be treated as references to the Company and its subsidiaries. Inter-company accounts and transactions have been eliminated on consolidation.

**3. Capital Assets**

Capital assets consist of the following:

	<b>As at March 31, 2007</b>	<b>As at September 30, 2006</b>
Equipment and vehicles	\$ 187	\$ 107
Less: Accumulated amortization	39	17
	<u>\$ 148</u>	<u>\$ 90</u>

**Khan Resources Inc.**  
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**4. Mineral Interests**

	<b>As at March 31, 2007</b>	<b>As at September 30, 2006</b>
<b>Acquisition costs</b>		
Big Bend Gold Property	\$ 11,597	\$ 11,597
Dornod Uranium Property (a)	447	447
	<u>12,044</u>	<u>12,044</u>
<b>Deferred development costs</b>		
Big Bend Gold Property	1,055	1,055
Dornod Uranium Property (a)	2,553	1,633
Ogmoor Gold Property (b)	-	-
	<u>3,608</u>	<u>2,688</u>
	<u>\$ 15,652</u>	<u>\$ 14,732</u>

- (a) The 2006 Minerals Law provides the Mongolia government with certain rights to become an equity participant with any private legal entity in the exploitation of any mineral deposit that has been designated as of "strategic importance". On February 5, 2007, the economic standing committee of the Mongolian Parliament proposed a draft parliamentary resolution setting out a proposed list of 15 deposits that are considered to be of strategic importance to Mongolia, which list includes the Dornod Uranium Property. For the official designation of the Dornod Uranium Property to be of "strategic importance" under Mongolian law, the draft parliamentary resolution must be approved by the Mongolian Parliament. The deposits at the Dornod Uranium Property have been included on the list of properties published by the government of Mongolia that have been funded from the state budget and, accordingly, the equity participation that can be acquired by Mongolia may be up to 50%.
- (b) In April 2005, the Company entered into an earn-in agreement with Khos Khas Ltd., a Mongolian company pursuant to which the Company could acquire a 60% controlling interest in three gold mining licences through a minimal expenditure of \$150 by December 31, 2006. The Company made more than the minimum expenditure; however as a result of unsatisfactory drilling results, the Company determined not to pursue these licences and the earn-in provisions have been dropped. Consequently, the deferred development costs of \$266 incurred up to September 30, 2006 were written off at September 30, 2006 and the Company's 100% interest in Altangol Exploration Ltd. was transferred to Khos Khas Ltd. on November 30, 2006.

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**5. Capital Stock**

Capital stock consists of the following:

	<b>As at March 31, 2007</b>	<b>As at September 30, 2006</b>
Common shares (a)	\$ 55,998	\$ 26,293
Warrants (c)	1,575	1,520
Agent options (d)	503	235
Contributed surplus (e)	<u>5,482</u>	<u>3,986</u>
	<u>\$ 63,558</u>	<u>\$ 32,034</u>

(a) Common shares

Authorized capital stock of the Company consists of an unlimited number of no par value common shares.

Changes in the issued and outstanding common shares during the six months ended March 31, 2007 are as follows:

	<b>Number of common shares</b>	<b>Amount</b>
Balance, September 30, 2006	41,425	\$ 26,293
Prospectus financing (i)	8,150	25,746
Exercise of stock options (b)	2,024	3,510
Exercise of warrants (c)	50	128
Exercise of agent options (d)	<u>209</u>	<u>321</u>
Balance, March 31, 2007	<u>51,858</u>	<u>\$ 55,998</u>

- (i) On March 1, 2007, the Company closed a prospectus financing of 8,150 common shares at a price of Cdn\$3.70 per share for aggregate gross proceeds of \$25,746 (Cdn\$30,155).

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(b) Stock options

A summary of the stock option transactions during the six months ended March 31, 2007 is as follows:

	Number of options	Weighted- average exercise price Cdn\$
Balance, September 30, 2006	4,188	\$ 1.30
Granted to service providers	250	2.55
Granted to directors, officers and employees	1,413	3.29
Exercised	(2,024)	1.16
Expired	(200)	1.50
	<hr/>	<hr/>
Balance, March 31, 2007	<u>3,627</u>	<u>\$ 2.22</u>

The following tables summarize information about the stock options outstanding and exercisable at March 31, 2007:

Options outstanding

Exercise prices Cdn\$	Number outstanding at March 31, 2007	Weighted- average remaining contractual life years	Weighted- average exercise price Cdn\$
1.00	310	2.7	\$ 1.00
1.37 to 1.50	1,654	3.6	1.49
1.89 to 3.53	<hr/> 1,663	4.7	<hr/> 3.18
1.00 to 3.53	<hr/> <u>3,627</u>	4.0	<hr/> <u>\$ 2.22</u>

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Options exercisable

<b>Exercise prices Cdn\$</b>	<b>Number exercisable at March 31, 2007</b>	<b>Weighted- average exercise price Cdn\$</b>
1.00	310	\$ 1.00
1.37 to 1.50	1,315	1.50
1.89 to 3.53	1,463	3.21
	<hr/>	<hr/>
1.00 to 3.53	3,088	\$ 2.26
	<hr/>	<hr/>

(c) Warrants

A summary of the transactions in the warrants account during the six months ended March 31, 2007 is as follows:

	<b>Number of warrants</b>	<b>Amount</b>
Balance, September 30, 2006	2,367	\$ 1,520
Exercise of agent options	105	102
Exercise of warrants	(50)	(47)
	<hr/>	<hr/>
Balance, March 31, 2007	2,422	\$ 1,575
	<hr/>	<hr/>

The warrants outstanding at March 31, 2007 entitle the holder to purchase one common share at a price of Cdn\$1.90 until August 2, 2008.

(d) Agent options

A summary of the transactions in the agent options account during the six months ended March 31, 2007 is as follows:

	<b>Number of agent options</b>	<b>Amount</b>
Balance, September 30, 2006	327	\$ 235
Grant of agent options (i)	244	418
Exercise of agent options	(209)	(150)
	<hr/>	<hr/>

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	<u>362</u>	<u>\$ 503</u>
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(i) On March 1, 2007, the Company closed a prospectus financing of 3,150 common shares at a price of Cdn\$3.70 per share for aggregate gross proceeds of \$25,746 (Cdn\$30,155). The agent for the prospectus financing was granted options to acquire 244 common shares at Cdn\$3.70 per share until August 2, 2008. The fair value of the agent options issued was \$418 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

Expected life in years: 1.5  
Risk free interest rate: 4.5 %  
Expected volatility: 100 %  
Dividend yield: 0 %

The agent options outstanding at March 31, 2007 comprise 118 options granted on August 2, 2006 and 244 options granted on March 1, 2007. The options granted on August 2, 2006 entitle the holder to purchase one unit at a price Cdn\$1.50 per unit until August 2, 2008. Each unit consists of one common share and one-half of a share purchase warrant with each full warrant entitling the holder to purchase a common share at a price of Cdn\$1.90 until August 2, 2008.

(e) Contributed surplus

A summary of the transactions in the contributed surplus account during the six months ended March 31, 2007 is as follows:

		<b>Amount</b>
Balance, September 30, 2006	\$	3,986
Stock options granted to directors, officers and employees		2,792
Stock options granted to service providers		192
Stock options exercised		<u>(1,488)</u>
Balance, March 31, 2007	\$	<u>5,482</u>

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**6. Stock-based Compensation**

The stock-based compensation expense during the six months ended March 31, 2007 was \$2,984 (2006 - \$1,030) and this amount was credited to contributed surplus. In the case of options which vest immediately, the fair value of the options is expensed immediately. In the case of options which vest over time, the graded vesting method is used to expense compensation over the vesting period.

The fair value of the stock options granted during the six months ended March 31, 2007 was estimated on the date of issue using the Black-Scholes pricing model with the following weighted average assumptions:

Expected life in years: 5  
Risk free interest rate: 4.5 %  
Expected volatility: 100 %  
Dividend yield: 0 %

The weighted average fair value per option of options granted during the six months ended March 31, 2007 is Cdn\$2.43.

**7. Related Party Transaction**

During the six months ended March 31, 2007, the Company incurred legal fees of \$58 (2006 -\$115) provided by a former director of the Company, of which \$18 was included in accounts payable and accrued liabilities at March 31, 2007. This amount was expensed as legal expense incurred in the ordinary course of business and was measured at the exchange amount, which was the amount of consideration established and agreed to by the related party.

**8. Loss per Share**

Basic and diluted loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period.

Basic and diluted loss per share has been calculated using the weighted average number of common shares outstanding of 45,191 and 43,320, respectively, during the three and six months ended March 31, 2007 (2006 – 35,344 and 34,960). Any potential common shares whose effect is anti-dilutive have not been reflected in the calculation of diluted loss per share.

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**9. Supplemental Cash Flow Information**

	<b>Three months ended</b>		<b>Six months ended</b>		<b>Cumulative</b>
	<b>March 31,</b>		<b>March 31,</b>		<b>from</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>inception on</b>
					<b>October 1,</b>
					<b>2002</b>
Changes in non-cash working capital balances related to operations					
Accounts receivable	\$ (51)	(18)	\$ (11)	\$ (73)	\$ (88)
Prepaid expenses	24	8	43	13	(46)
Accounts payable and accrued liabilities	<u>(323)</u>	<u>(262)</u>	<u>(250)</u>	<u>(816)</u>	<u>(461)</u>
	<u>\$ (350)</u>	<u>\$ (272)</u>	<u>\$ (218)</u>	<u>\$ (876)</u>	<u>\$ (595)</u>
 Non-cash financing activities					
Equity financing costs settled by issue of Agents' Options	\$ <u>418</u>	\$ <u>-</u>	\$ <u>418</u>	\$ <u>-</u>	\$ <u>653</u>

The Company did not pay income taxes and interest during the six months ended March 31, 2007 and 2006.

**10. Commitments and Contingencies**

- (a) On September 15, 2006, Mr. Mays, WM Mining and Nueces Investments Ltd. ("Nueces") issued a Statement of Claim in the Ontario Superior Court of Justice (the "Mays Claim") under Section 248 of the OBCA against Khan, Khan Bermuda, certain current and former directors and shareholders of Khan and others. In the Mays Claim, Mr. Mays asserts that he is the victim of a deceit and conspiracy to deprive him of his interests in certain mining properties in Mongolia. Mr. Mays also asserts that he has been oppressed as a shareholder of Khan as a result of Khan allegedly: (i) depriving him of the opportunity to play an active role in the management of the business; (ii) failing to satisfy financial obligations that he had incurred through WM Mining; (iii) failing to pursue the development of its gold properties; and (iv) failing to secure a loan or loan guarantee from Overseas Private Investment Company for the development of the Big Bend Gold Property.

The relief sought as against Khan and Khan Bermuda in the Mays Claim includes: (i) a declaration that the business and affairs of Khan and Khan Bermuda have been carried on in a manner oppressive of, unfairly prejudicial to, or that unfairly disregards the interests of the plaintiffs; (ii) an order setting aside the Share Exchange Agreement; (iii) an order setting aside the issuance of common shares of Khan pursuant to the exercise of certain share purchase warrants granted or extended by the Board on October 3, 2004; (iv) an

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**March 31, 2007**

order requiring Khan to indemnify Mr. Mays and WM Mining for all expenses, costs and liabilities incurred by them in connection with the business, operations and affairs of Khan; (v) an order requiring the Company to take immediate steps to develop the Big Bend and Ogmoor gold properties in Mongolia; (vi) compensation for oppressive conduct in the amount of Cdn \$150,000; and (vii) damages for knowing assistance in breach of trust and breach of fiduciary duty in the amount of Cdn \$150,000.

On November 13, 2006, Khan and Khan Resources Bermuda Ltd. filed a Statement of Defence denying the allegations set out in the Mays Claim and denying that the Plaintiffs are entitled to the relief claimed therein.

In the opinion of management, these claims have no merit and will be defended vigorously.

- (b) On October 3, 2006, Khan and its subsidiaries issued a Statement of Claim against Mr. Mays, WM Mining and Nueces in the Ontario Superior Court of Justice. As against Mr. Mays, the plaintiffs seek equitable compensation resulting from his alleged breach of fiduciary duties in the amount of Cdn \$10,000. As against all of the defendants, the plaintiffs seek, among other things: (i) general damages resulting from the alleged torts of injurious falsehood and unlawful interference with economic interests in the amount of Cdn \$10,000; (ii) damages and/or reimbursement in the amount of the \$550 relating to a debt owed by the defendants to AATA; (iii) aggravated, exemplary and punitive damages in the amount of Cdn \$5,000; and (iv) an interim, interlocutory and permanent injunction restraining the defendants and their servants or agents from dealing or purporting to deal with or interfering with, among other things, any mineral property or interest owned by any of the plaintiffs. On January 12, 2007, the Defendants filed a Statement of Defence.

#### **11. Subsequent Events**

Subsequent to March 31, 2007, 646 stock options, 3 warrants and 50 agents' options were exercised.