

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

	As at June 30, 2008	As at September 30, 2007
Assets		
Current		
Cash	\$ 28,807	\$ 33,859
Accounts receivable	62	47
Prepaid expenses and other assets	167	133
Restricted cash (note 5)	730	-
Asset held for sale (note 6)	-	3,322
	29,766	37,361
Total current assets	29,766	37,361
Deferred costs (note 7)	1,180	-
Advances to suppliers (note 8)	212	-
Capital assets, net (note 9)	555	578
Mineral interests (notes 1 and 10)	8,022	5,044
	\$ 39,735	\$ 42,983
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,218	\$ 501
Future tax liability (note 6)	-	822
	1,218	1,323
Total current liabilities	1,218	1,323
Commitments and contingencies (note 16)		
Shareholders' Equity		
Capital stock (note 11)	70,131	68,661
Deficit	(31,614)	(27,001)
	38,517	41,660
	\$ 39,735	\$ 42,983

The accompanying notes form an integral part of these interim 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
(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)
(Unaudited)

	Three months ended		Nine months ended		Cumulative
	June 30,		June 30,		from
	2008	2007	2008	2007	inception on
					October 1,
					2002 to
					June 30,
					2008
Revenue					
Interest	\$ 178	\$ 385	\$ 568	\$ 653	\$ 1,781
Expenses					
General corporate	775	612	2,947	1,978	9,971
Mongolian operations	214	60	631	175	1,324
Amortization	37	11	107	33	195
Stock-based compensation (note 12)	421	690	1,316	3,674	10,210
Foreign exchange loss (gain)	144	(287)	180	(524)	(931)
Sale of asset (note 6)	-	-	822	-	797
Write-off of assets	-	43	-	43	9,742
	<u>1,591</u>	<u>1,129</u>	<u>6,003</u>	<u>5,379</u>	<u>31,308</u>
Loss before taxes	(1,413)	(744)	(5,435)	(4,726)	(29,527)
Future tax recovery (note 6)	-	-	822	-	3,394
Net loss and comprehensive loss for the period	(1,413)	(744)	(4,613)	(4,726)	(26,133)
Deficit, beginning of period	(30,201)	(17,567)	(27,001)	(11,416)	-
Equity financing costs	-	63	-	(2,106)	(5,481)
Deficit, end of period	<u>\$ (31,614)</u>	<u>\$ (18,248)</u>	<u>\$ (31,614)</u>	<u>\$ (18,248)</u>	<u>\$ (31,614)</u>
Weighted average number of common shares outstanding (in thousands) - basic and diluted (note 14)	<u>54,143</u>	<u>52,769</u>	<u>54,094</u>	<u>46,470</u>	
Net loss per share - basic and diluted (note 14)	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>	

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

	Three months ended June 30,		Nine months ended June 30,		Cumulative from inception on October 1, 2002 to June 30, 2008
	2008	2007	2008	2007	
Operating Activities					
Net loss for the period	\$ (1,413)	\$ (744)	\$ (4,613)	\$ (4,726)	\$ (26,133)
Items not affecting cash:					
Amortization	37	11	107	33	195
Stock-based compensation	421	690	1,316	3,674	10,210
Sale of asset (note 6)	-	-	822	-	825
Future tax recovery (note 6)	-	-	(822)	-	(3,394)
Unrealized foreign exchange (gain) loss	118	(332)	224	(620)	(856)
Write-off of assets	-	43	-	43	9,762
	<u>(837)</u>	<u>(332)</u>	<u>(2,966)</u>	<u>(1,596)</u>	<u>(9,391)</u>
Changes in non-cash working capital balances related to operations (note 15)	<u>192</u>	<u>(133)</u>	<u>(133)</u>	<u>(351)</u>	<u>(372)</u>
Cash used in operating activities	<u>(645)</u>	<u>(465)</u>	<u>(3,099)</u>	<u>(1,947)</u>	<u>(9,763)</u>
Investing Activities					
Proceeds from sale of assets	-	-	2,500	-	2,500
Restricted cash	-	-	(725)	-	(725)
Advances to suppliers	(212)	-	(212)	-	(212)
Deferred costs	(500)	-	(500)	-	(500)
Purchase of capital assets	(49)	(313)	(83)	(393)	(754)
Mineral interests	(1,769)	(901)	(2,857)	(1,591)	(8,235)
Payment of property acquisition liability	-	-	-	-	(1,667)
Cash used in investing activities	<u>(2,530)</u>	<u>(1,214)</u>	<u>(1,877)</u>	<u>(1,984)</u>	<u>(9,593)</u>
Financing Activities					
Capital stock issued	-	1,959	154	30,081	51,968
Equity financing costs	-	(228)	-	(1,737)	(4,619)
Cash provided by financing activities	<u>-</u>	<u>1,731</u>	<u>154</u>	<u>28,344</u>	<u>47,349</u>
Foreign exchange gain (loss) on cash	<u>(123)</u>	<u>332</u>	<u>(230)</u>	<u>620</u>	<u>814</u>
Net increase (decrease) in cash during the period	(3,298)	384	(5,052)	25,033	28,807
Cash, beginning of period	<u>32,105</u>	<u>33,416</u>	<u>33,859</u>	<u>8,767</u>	<u>-</u>
Cash, end of period	<u>\$ 28,807</u>	<u>\$ 33,800</u>	<u>\$ 28,807</u>	<u>\$ 33,800</u>	<u>\$ 28,807</u>

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

Khan Resources Inc.
Notes to Interim Consolidated Financial Statements
June 30, 2008
(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)
(Unaudited)

1. Nature of Operations

Khan Resources Inc. (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 interests 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 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 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 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 disclosures required by GAAP for annual consolidated financial statements. These 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, 2007 and should be read in conjunction with those audited financial statements and notes thereto.

These 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.

Capital assets

Effective April 1, 2008, the Company determined that the estimated useful life of buildings should be reduced from 10 years to 5 years. Buildings are recorded at cost and amortized over their estimated useful lives using the straight-line method. This change in accounting estimate has been applied prospectively to the financial statements and has resulted in an increase in amortization expense of approximately \$7 for the three and nine months ended June 30, 2008. The estimated annual impact of this change in accounting estimate is an increase in amortization expense of approximately \$28 per year in future periods.

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Accounting Policy Changes

Effective October 1, 2007, the Company adopted the new CICA accounting sections: 1535 (Capital Disclosures), 3862 (Financial Instruments – Disclosure) and 3863 (Financial Instruments – Presentation). The only impact of adopting these sections are the additional disclosures required in the Company's consolidated financial statements.

- (i) Capital Disclosures (CICA 1535)
This standard establishes the requirements for the disclosure of information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences for non-compliance. The required disclosure is included in note 3 to these interim consolidated financial statements.

- (ii) Financial Instruments – Disclosure (CICA 3862)
This standard requires disclosure of information related to the significance of financial instruments to a company's financial position and performance. A company is also required to disclose information related to the risks of its use of financial instruments and how those risks are managed. The required disclosure is included in note 4 to these interim consolidated financial statements.

- (iii) Financial Instruments – Presentation (CICA 3863)
This standard establishes the requirements for presentation of financial instruments. It deals with the presentation of financial instruments and the circumstances in which financial assets and financial liabilities are offset.

3. Capital Management

The Company's objectives for managing capital are to safeguard the entity's ability to continue as a going concern and to bring the Dornod Uranium Project ("Project") in Mongolia into production. The Company's strategy remains unchanged from the previous year.

The capital structure of the Company currently consists of common shares, warrants and agents' options and was \$62,857 as at June 30, 2008 (September 30, 2007 - \$62,606). The Company has issued common shares, warrants and agents' options to advance the Project through various stages of development; however, debt may be required to bring the Project into production. In order to meet the Company's objectives for managing capital, new common shares, warrants, agents' options and/or debt may be issued.

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4. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, restricted cash and accounts payable and accrued liabilities.

(a) Fair Value

Cash and restricted cash are designated as held-for-trading and therefore carried at fair value with the unrealized gains or losses recorded in the Statement of Operations. Accounts receivable are designated as loans and receivables and therefore carried at amortized cost with the gains and losses recognized in the Statement of Operations in the period that the asset is derecognized or impaired. Accounts payable and accrued liabilities are designated as other financial liabilities and therefore carried at amortized cost with the gains or losses recognized in the Statement of Operations when the financial liability is derecognized or impaired. The estimated fair values of accounts receivable and accounts payable and accrued liabilities approximate their respective carrying values.

(b) Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts and guaranteed investment certificates, whose balance at June 30, 2008 was \$29,537. Bank accounts are held with major banks in Canada and Mongolia. As the majority of the Company's cash is held by a Canadian bank and all the guaranteed investment certificates are also held by the same Canadian bank, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to credit risk is on its accounts receivable. This risk is minimal as accounts receivable consist primarily of refundable government sales taxes.

Currency Risk

The Company operates in Canada and Mongolia and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The majority of these transactions are in Canadian dollars. The Company's cash, accounts receivable, restricted cash and accounts payable and accrued liabilities that are held in Canadian dollars and Mongolian togrogs are subject to fluctuation against the United States dollar. A +/- 5% change in the exchange rates between the Canadian and United States dollars would, everything else being equal, have an effect on the net loss before income taxes for the three months ended June 30, 2008, of approximately +/- \$1,112.

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Interest Rate Risk

The Company is exposed to interest rate risk as bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short term interest rates. The income earned on these bank accounts is subject to the movements in interest rates. A +/- 1% change in interest rates would, everything else being equal, have an effect on the net loss before income taxes for the three months ended June 30, 2008, of approximately +/- \$76.

The Company also records transaction costs related to the acquisition or issue of held-for-trading financial instruments to the consolidated statement of operations as incurred. Transaction costs related to financial instruments not designated as held-for-trading are included in the financial instrument's initial recognition amount.

Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash. As at June 30, 2008, the Company was holding cash of \$28,807.

5. Restricted Cash

Restricted cash consists of guaranteed investment certificates pledged as security for an international letter of credit for a contractor and a corporate credit card facility. These guaranteed investment certificates have a maturity date of less than one year.

6. Asset held for sale

In August 2007, the Company entered into an agreement for the sale of the issued and outstanding common shares of Ikh Tokhoirol XXK, which held the Company's mining licenses for the Big Bend Gold Property, to Berleg Mining XXK, a Mongolian company, for \$2,500 in cash. The acquisition and deferred development costs that were in excess of the sale price were written off for an amount of \$9,476 as at September 30, 2007. The sale closed on October 11, 2007 and the Company received \$2,500 in cash. During the nine months ended June 30, 2008, the Company recorded a loss on the sale of \$822 and a future tax recovery of \$822. At the time of acquisition of this asset, the accounting value of the asset exceeded the tax value, and a future tax liability was recorded.

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7. Deferred Costs

On May 12, 2008, the Company filed a formal offer and take-over bid circular (the "Offer") for the acquisition of all the outstanding common shares of Western Prospector Group Ltd. The Offer was open for acceptance until June 20, 2008. On June 19, 2008, the Company extended the Offer to July 15, 2008. The costs related to this Offer have been deferred until such time as the Offer is accepted or withdrawn. If the Offer is accepted, the costs will be capitalized with the cost of the common shares acquired. If the Offer is withdrawn the costs will be charged to income.

8. Advances to Suppliers

The Company has provided funds to certain suppliers in advance of consulting services that will be performed at the Dornod Uranium Project. The costs of these services when performed will be capitalized to mineral interests.

9. Capital Assets

Capital assets consist of the following:

	As at June 30, 2008	As at September 30, 2007
Buildings, equipment and vehicles	\$ 750	\$ 666
Less: accumulated amortization	<u>195</u>	<u>88</u>
	<u>\$ 555</u>	<u>\$ 578</u>

10. Mineral Interests

	As at June 30, 2008	As at September 30, 2007
Dornod Uranium Project, Mongolia		
Acquisition costs	\$ 447	\$ 447
Deferred development costs	<u>7,575</u>	<u>4,597</u>
	<u>\$ 8,022</u>	<u>\$ 5,044</u>

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11. Capital Stock

Capital stock consists of the following:

	As at June 30, 2008	As at September 30, 2007
Common shares (a)	\$ 61,471	\$ 61,220
Warrants (c)	996	996
Agents' options (d)	390	390
Contributed surplus (e)	<u>7,274</u>	<u>6,055</u>
	<u>\$ 70,131</u>	<u>\$ 68,661</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 nine months ended June 30, 2008 are as follows:

	Number of common shares (000's)	Amount
Balance, September 30, 2007	54,016	\$ 61,220
Exercise of stock options (b)	<u>127</u>	<u>251</u>
Balance, June 30, 2008	<u>54,143</u>	<u>\$ 61,471</u>

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(b) Stock options

A summary of the stock option transactions during the nine months ended June 30, 2008 is as follows:

	Number of options (000's)		Weighted Average Exercise Price (Cdn\$)
Balance, September 30, 2007	4,108	\$	2.44
Granted	528		1.16
Exercised	(127)		1.17
Expired	(286)		2.86
	<u>4,223</u>		<u>2.28</u>
Balance, June 30, 2008	<u>4,223</u>	\$	<u>2.28</u>

The following tables summarize information about the stock options outstanding and exercisable as at June 30, 2008:

Options outstanding

Exercise prices (Cdn\$)	Number outstanding at June 30, 2008 (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price (Cdn\$)
1.00 to 1.89	1,623	3.41	1.38
2.37 to 2.39	1,570	4.07	2.37
3.53 to 4.69	1,030	3.68	3.57
	<u>4,223</u>	<u>3.72</u>	<u>2.28</u>

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Options exercisable

Exercise prices (Cdn\$)	Number exercisable at June 30, 2008 (000's)	Weighted average exercise price (Cdn\$)
1.00 to 1.89	1,211	1.43
2.37 to 2.39	667	2.38
<u>3.53 to 4.69</u>	<u>1,030</u>	<u>3.57</u>
<u>1.00 to 4.69</u>	<u>2,908</u>	<u>2.41</u>

(c) Warrants

There was no change in the warrants account during the nine months ended June 30, 2008. The account balance is as follows:

	Number of warrants (000's)	Amount
Balance, September 30, 2007 and June 30, 2008	<u>1,507</u>	<u>\$ 996</u>

The warrants outstanding at June 30, 2008 entitle the holder to purchase one common share at a price of Cdn\$1.90 until August 2, 2008.

(d) Agents' options

There was no change in the agents' options account during the nine months ended June 30, 2008. The account balance is as follows:

	Number of agents' options (000's)	Amount
Balance, September 30, 2007 and June 30, 2008	<u>294</u>	<u>\$ 390</u>

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The agents' options outstanding at June 30, 2008 comprise 68,000 options granted on August 2, 2006 and 226,000 options granted on March 1, 2007. The options granted on August 2, 2006 entitle the holder to purchase one unit at a price of 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. The options granted on March 1, 2007 entitle the holder to acquire a common share at a price of Cdn\$3.70 per share until August 2, 2008.

(e) Contributed surplus

A summary of the transactions in the contributed surplus account during the nine months ended June 30, 2008 is as follows:

	Amount
Balance, September 30, 2007	\$ 6,055
Stock options granted to directors, officers and Employees	1,316
Stock options exercised	<u>(97)</u>
Balance, June 30, 2008	<u>\$ 7,274</u>

12. Stock-based Compensation

The stock-based compensation expense during the three and nine months ended June 30, 2008 was \$421 (2007 - \$690) and \$1,316 (2007 - \$3,674) respectively 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 nine months ended June 30, 2008 was estimated on the date of issue using the Black-Scholes option 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 nine months ended June 30, 2008 was Cdn\$1.02 (2007 – Cdn\$2.46).

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13. Related Party Transaction

There were no related party transactions for the three and nine months ended June 30, 2008. During the three and nine months ended June 30, 2007, the Company incurred legal fees of \$Nil and \$58 respectively, for services provided by a director of the Company. The 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. The director resigned on February 15, 2007.

14. 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 54,143,000 and 54,094,000 respectively, during the three and nine months ended June 30, 2008 (2007 – 52,769,000 and 46,470,000). Any potential common shares whose effect is anti-dilutive have not been reflected in the calculation of diluted loss per share.

15. Supplemental Cash Flow Information

	Three months ended		Nine months ended		Cumulative
	June 30,		June 30,		from
	2008	2007	2008	2007	inception on
					October 1,
					2002 to
					June 30,
					2008
Changes in non-cash working capital balances related to operations					
Accounts receivable	\$ (10)	\$ (50)	\$ (15)	\$ (61)	\$ (62)
Prepaid expenses and other assets	(22)	(77)	(34)	(34)	(167)
Accounts payable and accrued liabilities	224	(6)	(84)	(256)	(143)
	<u>\$ 192</u>	<u>\$ (133)</u>	<u>\$ (133)</u>	<u>\$ (351)</u>	<u>\$ (372)</u>
Non-cash financing activities:					
Equity financing costs settled by issue of agents' options	\$ -	\$ -	\$ -	\$ 369	\$ 604

The Company did not pay income taxes and interest during the three and nine months ended June 30, 2008 and 2007.

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16. Commitments and Contingencies

On February 12, 2008, the Company announced that it had reached a settlement of all outstanding litigation with Wallace M. Mays ("Mays"), WM Mining Company, LLC ("WM Mining") and Nueces Investments Ltd. (together, the "Mays Parties").

The Company received a payment in respect of certain of its costs incurred in connection with the litigation. The payment received was credited to general corporate expenses.

17. Subsequent Events

- (a) Subsequent to June 30, 2008, 12,000 stock options were issued.
- (b) On July 10, 2008, the Company extended the Offer to July 25, 2008 (see Note 7).
- (c) On July 23, 2008, the Company extended the Offer to August 8, 2008 (see Note 7).
- (d) On August 2, 2008, 1,507,000 warrants and 294,000 agents' options expired.
- (e) On August 8, 2008, the Company extended the Offer to August 19, 2008 (see Note 7).

18. Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 interim consolidated financial statements.