

Khan Resources Inc.

Condensed Interim Consolidated Financial Statements

December 31, 2012

In thousands of Canadian dollars
(unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM STATEMENTS

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Condensed Consolidated Balance Sheet
(unaudited)

	Notes	Dec 31 2012	Sep 30 2012
ASSETS			
Current Assets			
Cash and cash equivalents	4	4,021	4,680
Accounts receivable		27	19
Prepaid expenses and other assets		39	72
Investments	5	2,251	2,173
Restricted cash	4	52	52
Total current assets		6,390	6,996
Non-current assets			
Property, Plant and Equipment	6	3	5
Total non-current assets		3	5
Total assets		6,393	7,001
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		759	262
Provisions	7	38	50
Total current liabilities		797	312
Total liabilities		797	312
Net assets		5,596	6,689
EQUITY			
Share capital		75,934	75,934
Contributed surplus		11,931	11,902
Accumulated other comprehensive income	8	37	(44)
Deficit		(82,306)	(81,103)
Total equity		5,596	6,689

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

The financial statements were approved by the Board of Directors on February 13 and signed on its behalf by:

Signed: "James B. C. Doak"
Director

Signed: "Grant A. Edey"
Director

Condensed Consolidated Statement of Comprehensive Income

For the three months ended December 31

(unaudited)

	Notes	2012	2011
Revenue			
Other income		-	11
Finance income		11	13
Total revenue		11	24
Expenses			
Legal expenses		(880)	(422)
General corporate		(256)	(331)
Mongolian operations		(39)	(57)
Amortization	6	(14)	(24)
Share-based compensation	9	(29)	(61)
Gain (loss) on investments		-	(36)
Foreign exchange gain (loss)		(3)	(23)
Total expenses		(1,221)	(954)
Income (loss) before income tax		(1,210)	(930)
Income tax	12	7	(2)
Net income (loss)		(1,203)	(932)
Other comprehensive income			
Foreign currency translation differences - foreign operations		13	(1,503)
Net change in fair value of available-for-sale financial assets		78	(78)
Income tax on other comprehensive income	12	(10)	-
Other comprehensive income net of income tax		81	(1,581)
Total comprehensive income (loss)		(1,122)	(2,513)
Earnings per share			
Basic earnings per share (\$)		(0.02)	(0.02)
Diluted earnings per share (\$)		(0.02)	(0.02)
Weighted average number of shares outstanding - Basic		68,125,445	54,525,445
Weighted average number of shares outstanding - Diluted		68,125,445	54,525,445

The accompanying notes form part of these financial statements.

Condensed Consolidated Cash Flow Statement

For the three months ended December 31
(unaudited)

	Notes	2012	2011
Operating Activities			
Income (loss) before income tax		(1,210)	(930)
Adjustments for:			
Amortization	6	14	24
Share-based compensation	9	29	61
Gain (loss) on investments		-	36
Unrealized foreign exchange loss (gain)		(5)	(18)
Financial income and expenses		(11)	(13)
Changes in:			
Accounts receivable		(8)	(12)
Accounts payable and accrued liabilities		497	37
Prepaid expenses and other assets		33	(117)
Cash used in operations		(661)	(932)
Interest received		10	13
Income tax paid		-	(2)
Net operating cash flows		(651)	(921)
Investing activities			
Development expenditure		-	(15)
Purchases of plant and equipment		-	(1)
Restoration of Dornod property	7	(11)	-
Net investing cash flows		(11)	(16)
Financing activities			
		-	-
Net financing cash flows		-	-
Net increase (decrease) in cash and cash equivalents		(662)	(937)
Cash and cash equivalents at the beginning of the period		4,680	5,927
Effect of foreign currency exchange rate changes on cash and cash equivalents		3	15
Cash and cash equivalents at the end of the period		4,021	5,005

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

Condensed Consolidated Statement of Changes in Equity

For the period ended December 31, 2012

(unaudited)

Notes	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
	Number of shares	Amount				
Balance as at October 1, 2012	68,125,445	75,934	11,902	(44)	(81,103)	6,689
Total comprehensive income (loss)	-	-	-	81	(1,203)	(1,122)
Transactions with owners:						
Employee share options:						
Value of services recognized	9	-	29	-	-	29
Balance as at December 31, 2012	68,125,445	75,934	11,931	37	(82,306)	5,596
Balance as at October 1, 2011	54,525,445	73,622	11,621	(1,395)	(59,480)	24,368
Total comprehensive income (loss)	-	-	-	1,351	(21,623)	(20,272)
Transactions with owners:						
Employee share options:						
Value of services recognized	9	-	281	-	-	281
Proceeds on issuance in private placement		13,600,000	-	-	-	2,312
Balance as at September 30, 2012	68,125,445	75,934	11,902	(44)	(81,103)	6,689

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

Notes to Financial Statements

1 Corporate information

Khan Resources Inc., along with its subsidiary companies (collectively the “Company”), is involved in acquiring, exploring and developing mineral properties, primarily in Mongolia. The Company has initiated an international arbitration action case against the Government of Mongolia and its state-owned uranium company, MonAtom LLC, for the Government of Mongolia’s failure to reissue the Company’s mining and exploration licenses.

With cash of \$4,021 on hand and positive working capital at December 31, 2012, the Company believes that it has sufficient liquidity to cover its obligations, including the cost of the international arbitration and other litigation, over the next year and therefore there is not significant doubt about the Company’s ability to continue as a going concern for the foreseeable future.

The Company is a publicly listed company incorporated in Canada under the legislation of the Province of Ontario. The Company’s shares are listed on the Canadian National Stock Exchange.

The address of the Company’s corporate office and principal place of business is 141 Adelaide Street West, Suite 1007, Toronto, Ontario, Canada, M5H 3L5.

2 Basis of preparation

a. Statement of compliance

These condensed interim consolidated financial statements for the three months ended December 31, 2012 have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended September 30, 2012, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Certain prior year amounts have been reclassified to conform to the current year presentation.

The Board of Directors authorized these condensed consolidated financial statements for issue on February 13, 2013.

b. Use of estimates and judgments

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended September 30, 2012.

3 Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year. There are no new IFRS standards, amendments and interpretations that are effective for the first time for this interim period that would be expected to have a material impact on the Company.

4 Cash, cash equivalents and restricted cash

As at December 31, 2012 and 2011, the Company did not have any cash equivalents.

Restricted cash consists of a guaranteed investment certificate pledged as security for a corporate credit card facility. This guaranteed investment certificate has a maturity date of less than one year.

5 Investments

	Dec 31, 2012		Sep 30, 2012	
	Fair value	Carrying amount	Fair value	Carrying amount
Investments by classification				
Available-for-sale financial assets (a)	2,251	2,173	2,173	2,173
Financial assets designated at fair value through profit and loss (b)	-	298	-	298
Total investments	2,251	2,471	2,173	2,471

The Company held the above financial assets measured at fair value at each reporting period using quoted market prices.

(a) Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income.

(b) Changes in the fair value through profit and loss are recognized in income before tax.

6 Property, plant and equipment

	Mineral properties	Equipment	Assets under construction	Total
Cost at October 1, 2011	13,022	659	3,462	17,143
Additions	115	3	-	118
Disposals	-	(413)	-	(413)
Exchange differences	(1,642)	(51)	(437)	(2,130)
Cost at September 30, 2012	11,495	198	3,025	14,718
Additions	-	12	-	12
Disposals	-	-	(903)	(903)
Exchange differences	204	1	48	253
Cost at December 31, 2012	11,699	211	2,170	14,080
Depreciation and impairment as at October 1, 2011	-	(533)	-	(533)
Depreciation	-	(33)	-	(33)
Disposals	-	402	-	402
Impairment losses	(12,659)	(89)	(3,335)	(16,083)
Exchange differences	1,164	60	310	1,534
Depreciation and impairment as at September 30, 2012	(11,495)	(193)	(3,025)	(14,713)
Depreciation	-	(14)	-	(14)
Disposals	-	-	903	903
Exchange differences	(204)	(1)	(48)	(253)
Depreciation and impairment as at December 31, 2012	(11,699)	(208)	(2,170)	(14,077)
Net book value as at September 30, 2012	-	5	-	5
Net book value as at December 31, 2012	-	3	-	3

7 Provisions

	Restoration
At the beginning of the financial year	50
Used (incurred and charged against the provision)	(11)
Exchange differences	(1)
	38

8 Accumulated other comprehensive income

	Dec 31 2012	Sep 30 2012
Currency translation account (a)		
Balance at the beginning of the financial year	(44)	558
Exchange differences on translation of foreign operations taken to equity	13	(602)
Exchange differences on translation of foreign operations transferred to income before tax	-	-
	(31)	(44)
Financial assets account (b)		
Balance at the beginning of the financial year	-	(1,953)
Net valuation (losses)/gains on available for sale investments taken to equity	78	-
Net valuation (gains)/losses on available for sale investments transferred to income before tax	-	1,953
Deferred tax relating to revaluations	(10)	-
	68	-
Accumulated other comprehensive income	37	(44)

(a) The foreign currency translation account represents exchange differences arising on the translation of non-CAD functional currency operations within the Company into CAD.

(b) The financial assets account represents the revaluation of available for sale financial assets. Where a revalued financial asset is sold or impaired, the relevant portion of the account is transferred to income before tax.

9 Share-based compensation

The following table summarizes information about share options outstanding at December 31, 2012:

Grants listed by expiry date	Exercise price (\$)	Remaining life (years)	Fair value per option (\$)	Number outstanding	Number vested	Number unvested
February 19, 2013	1.40	0.39	1.07	200,000	200,000	-
May 14, 2013	0.89	0.62	0.68	200,000	200,000	-
December 17, 2013	0.20	1.21	0.15	753,334	753,334	-
August 16, 2015	0.29	2.87	0.21	1,200,000	1,200,000	-
February 16, 2015	0.20	2.38	0.10	1,400,000	933,332	466,668
February 16, 2016	0.55	3.38	0.39	1,100,000	733,333	366,667
				4,853,334	4,019,999	833,335

See the consolidated statement of comprehensive income for the share-based compensation expense recognized during the period for share options granted to directors and employees.

10 Management compensation

	2012	2011
Directors' fees	28	39
Salaries and short-term benefits	79	92
Share-based compensation	26	56
Total management compensation	147	187

11 Related party transactions

An officer of the Company is a partner in a firm that provides legal services to the Company. The Company paid an aggregate of \$20 for the three months ended December 31, 2012 (2011 - \$7). At December 31, 2012, the balance outstanding was \$17 (2011 - \$4) and is included in accounts payable and accrued liabilities.

12 Income tax

	2012	2011
Current income tax expense (a)	(3)	(2)
Deferred income tax expense related to reversal of deferred taxes (b)	10	-
Income tax expense	7	(2)
Income tax recognized in other comprehensive income	(10)	-
Total income tax expense	(3)	(2)

(a) The Government of Mongolia withholds income tax related to intercompany interest expense. The Company has not tax-benefited pre-tax losses. More information about non-capital losses is set out below.

(b) Reversal of deferred taxes originated in other comprehensive income.

Non-capital losses

At September 30, 2012, the Company had Canadian non-capital and capital tax losses of approximately \$29,714 (2011 - \$26,896) and \$977 (2011 - nil), respectively, available for deduction against future taxable income. If unutilized, non-capital losses will expire from 2014 to 2032 whereas capital losses can be carried forward indefinitely. Mongolian tax losses of approximately \$372 (2011 - \$838) available for deduction against future taxable income and these losses, if unutilized, will expire from 2013 to 2014; and Netherlands tax losses of approximately \$290 (2011 - \$204) available for deduction against future taxable income and these losses, if unutilized, will expire from 2017 to 2021. None of the tax losses have been tax-benefited.

13 Commitments and contingencies

As disclosed in note 1, the Company has initiated an international arbitration action case against the Government of Mongolia and its state-owned uranium company, MonAtom LLC for the Government of Mongolia's failure to reissue the Company's mining and exploration licenses. As at the date of approval of these consolidated financial statements, it is not possible to reliably estimate the amount, if any, of such damages that the Company may be awarded.