Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Khan Resources Inc. are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include estimates based on the experience and judgement of management in order to ensure that the financial statements are presented fairly, in all material respects.

The management of the Company and its subsidiaries developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfills its responsibilities for financial reporting with the assistance of the Audit Committee.

The Audit Committee is appointed by the Board and all its members are independent. The Audit Committee meets periodically to review quarterly financial statements and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The committee reviews the Company's quarterly and annual financial statements and recommends their approval to the Board of Directors.

These consolidated financial statements have been audited by Ernst & Young LLP on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

(Signed)

Martin Quick
President and Chief Executive Officer

(Signed)

Paul D. Caldwell
Chief Financial Officer

Toronto, Ontario
December 17, 2007

Auditors' Report

To the Shareholders of Khan Resources Inc.

We have audited the consolidated balance sheets of Khan Resources Inc. as at September 30, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended and for the cumulative period from inception on October 1, 2002 to September 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended and for the cumulative period from inception on October 1, 2002 to September 30, 2007 in accordance with Canadian generally accepted accounting principles.

("Signed")

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 17, 2007

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

	As at September 30	
	2007	**2006**
Assets		
Current		
Cash	$ 33,859	$ 8,767
Accounts receivable	47	77
Prepaid expenses and other assets	133	89
Asset held for sale (note 4)	3,322	-
Total current assets	37,361	8,933
Capital assets, net (note 3)	578	90
Asset held for sale (note 4)	-	12,652
Mineral interests (notes 1 and 5)	5,044	2,080
	$ 42,983	$ 23,755
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 501	$ 470
Future tax liability (note 9)	822	-
	1,323	470
Future tax liability (note 9)	-	2,667
Total liabilities	1,323	3,137
Commitments and contingencies (notes 4 and 13)		
Shareholders' Equity		
Capital stock (note 6)	68,661	32,034
Deficit	(27,001)	(11,416)
	41,660	20,618
	$ 42,983	$ 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.
Consolidated Statements of Operations and Deficit
(Expressed in United States dollars)
(All dollar amounts are in thousands except for per share amounts)

	Years ended September 30		
	2007	**2006**	**Cumulative From inception on October 1, 2002**
Revenue			
Interest	$ 1,044	$ 148	$ 1,213
Gain on sale of assets	-	-	25
	1,044	148	1,238
Expenses (income)			
General corporate	2,900	1,921	7,024
Amortization	71	15	88
Stock-based compensation (note 7)	4,705	1,433	8,894
Mongolian operations	291	181	693
Foreign exchange loss (gain)	(1,086)	(15)	(1,111)
Write-off of assets (note 4 and note 5(d))	9,476	266	9,742
	16,357	3,801	25,330
Loss before taxes	(15,313)	(3,653)	(24,092)
Future tax recovery (note 9)	1,809	763	2,572
Net loss and comprehensive loss for the Period	(13,504)	(2,890)	(21,520)
Deficit, beginning of period	(11,416)	(6,580)	-
Equity financing costs (note 6)	(2,081)	(1,946)	(5,481)
Deficit, end of period	$ (27,001)	$ (11,416)	$ (27,001)
Weighted average number of common shares outstanding (thousands) - basic and diluted (note 10)	48,363	36,161	
Net loss per share - basic and diluted (note 10)	$ (0.28)	$ (0.08)	

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

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

	Years ended September 30		
	2007	**2006**	**Cumulative From inception on October 1, 2002**
Operating Activities			
Net loss for the period	$ (13,504)	$ (2,890)	$ (21,520)
Items not affecting cash:			
Amortization expense	71	15	88
Stock-based compensation	4,705	1,433	8,894
Write-off of assets (note 4 and 5 (d))	9,476	266	9,742
Future tax recovery (note 9)	(1,809)	(763)	(2,572)
Unrealized foreign exchange gain	(1,086)	-	(1,080)
Loss of disposal of assets	-	-	3
Write-off of deferred financing costs	-	-	20
	(2,147)	(1,939)	(6,425)
Changes in non-cash working capital Balances related to operations (note 11)	138	(650)	(239)
Cash used in operating activities	(2,009)	(2,589)	(6,664)
Investing Activities			
Purchase of capital assets	(559)	(99)	(671)
Mineral interests	(3,036)	(1,673)	(5,378)
Payment of property acquisition liability	-	-	(1,667)
Cash used in investing activities	(3,595)	(1,772)	(7,716)
Financing Activities			
Capital stock issued for cash	31,552	9,385	51,814
Equity financing costs	(1,900)	(1,621)	(4,619)
Cash provided by financing activities	29,652	7,764	47,195
Foreign exchange gain on cash	1,044	-	1,044
Net increase in cash during the period	25,092	3,403	33,859
Cash, beginning of period	8,767	5,364	-
Cash, end of period	$ 33,859	$ 8,767	$ 33,859

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

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

1. Nature of Operations

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 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 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

The accounting policies of the Company and its subsidiaries are in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Company are summarized as follows:

Basis of consolidation

These 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.

Entity	Jurisdiction incorporated	Date acquired or incorporated	Percentage ownership
Khan Resources Bermuda Ltd.	Bermuda	July 31, 2003	100%
Khan Resources XXK	Mongolia	May 5, 2003	100%
Ikh Tokhoirol XXK (note 4(b))	Mongolia	August 7, 2003	100%
Omnod Zaamar XXK	Mongolia	August 7, 2003	100%
CAUC Holding Company Limited	British Virgin Islands	July 31, 2003	100%
Central Asian Uranium Company XXK	Mongolia	July 31, 2003	58%
Khan Resources U.S.A., Inc.	United States	August 27, 2003	100%

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Management has made a number of significant estimates and valuation assumptions, including the useful lives of capital assets, the recoverability of investments in mining interests, and the future costs associated with environmental remediation and site restoration matters and fair value of financial instruments. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as an assumption about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives using the straight-line method as follows:

Buildings: 10 years
Furniture and fixtures: 5 years
Computer and office equipment: 3 years

Mineral interests

The exploration activities of the Company are directed towards the search, evaluation and development of mineral properties. Major expenditures are required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site.

The cost of acquiring mineral interests and related exploration costs are deferred until the properties to which they relate are placed into production, sold or the related licences or permits are allowed to lapse. These costs will be amortized on a unit-of-production basis over the estimated useful lives of the properties following commencement of commercial production or will be written off if the properties are sold or the related licences or permits are allowed to lapse. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures that are not directly related to property maintenance are charged to operations as incurred.

The recoverability of the amounts recorded as mineral properties is dependent upon discovery of economically recoverable reserves, confirmation of the Company's interest in the mineral claims, the ability to obtain necessary financing to complete development and the future profitable production or proceeds from disposition. Management evaluates the carrying value of the Company’s interest in each property and when the carrying value is less than its net recoverable value, as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset when quoted market prices are not readily available, is below the asset's carrying value. The Company's estimates of future cash flows are subject to risks and uncertainties.

Assets held for sale are separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are not depreciated while they are classified as held for sale.

Stock-based compensation plan

The Company has a stock-based compensation plan. The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes valuation model and recognized over the vesting period of the options granted.

Asset retirement obligations

Asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to remeasurement at each reporting period. The liability is accreted over time through periodic charges to income. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and accounted for in the same manner as for mineral interests. No amount has been recorded in these consolidated financial statements for future site cleanup, reclamation or remediation obligations as no such obligations were incurred as at September 30, 2007.

Foreign currency translation

The Company considers all of its foreign operations to be integrated and therefore are translated using the temporal method. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the rate of exchange prevailing at the consolidated financial statement date. Non-monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at historical exchange rates. Revenue and expense items, other than amortization, are translated at the average rate of exchange prevailing during the period. An exchange gain or loss that arises on translation or settlement of a foreign currency denominated monetary item is included in the determination of net loss for the period.

Loss per share

Basic loss per share amounts are calculated using the weighted average number of common shares outstanding during the year. The treasury method is used to determine the dilutive effect of any dilutive instruments.

Income taxes

The Company follows the liability method of accounting for income taxes. Under the liability method of tax allocation, future income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantively enacted tax rates and laws in which the income tax assets and liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Accounting policy changes

Effective October 1, 2006, the Company adopted the new CICA accounting sections: 3855 (Financial Instruments - Recognition and Measurement), 3861 (Financial Instruments - Disclosure and Presentation), 3865 (Hedges) and 1530 (Comprehensive Income). These accounting policy changes have been adopted prospectively with no restatement of comparative consolidated financial statements.

(i) Financial Instruments – Recognition and Measurement (CICA 3855)

This standard specifies when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and what measures are to be used, and how gains and losses in respect of these financial instruments are to be presented.

(ii) Financial Instruments – Disclosure and Presentation (CICA 3861)

This standard establishes the requirements for the disclosure and presentation of financial instruments and non-financial derivatives.

(iii) Hedges (Section 3865)

This standard specifies how hedge accounting is to be applied and what disclosures are to be required.

(iv) Comprehensive Income (Section 1530)

This standard specifies how comprehensive income is to be reported and presented. Comprehensive income is the change in shareholders' equity of a company other than those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations. As there are no comprehensive income items, comprehensive loss is equal to net loss.

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

Recent Accounting Pronouncements

Capital Disclosures

The Accounting Standards Board of the Institute of Chartered Accountants of Canada ("AcSB") issued CICA 1535, which requires that a company disclose information that enables users of its financial statements to evaluate its objectives, policies and procedures for managing capital including disclosures of any externally imposed capital requirements and the consequences for non-compliance. The Company is currently evaluating the effect of adopting this standard.

Financial Instruments – Disclosure

The AcSB issued CICA 3862, which 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 Company is currently evaluating the effect of adopting this standard.

Financial Instruments – Presentation

The AcSB issued CICA 3863, which establishes standards 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. The Company is currently evaluating the effect of adopting this standard.

3. Capital Assets

Capital assets consist of the following:

	2007	2006
Buildings, equipment and vehicles	$ 666	$ 107
Less: Accumulated amortization	88	17
	$ 578	$ 90

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

4. Asset Held for Sale

Asset held for sale consists of the Big Bend Gold Property.

Balance, September 30, 2006	$	12,652
Development costs incurred		146
Write off		(9,476)
		3,322
Less: current portion		3,322
Balance, September 30, 2007	$	-

In August 2007, the Company entered into an agreement for the sale of the issued and outstanding common shares of Ikh Tokhoirol XXK, which holds the 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 at September 30, 2007. The sale closed on October 11, 2007 and the Company received $2,500 in cash.

5. Mineral Interests

		2007		2006
Acquisition costs				
Dornod Uranium Project (b) (c)	$	447	$	447
Deferred development costs				
Dornod Uranium Project (b) (c)		4,597		1,633
Ogmoor Gold Property (d)		-		-
		4,597		1,633
	$	5,044	$	2,080

(a) The Minerals Law of Mongolia provides for a royalty at the rate of 5% with respect to the sales value of minerals (other than coal and construction minerals) that are sold, shipped for sale or otherwise used. The income tax rates applicable to business entities in Mongolia are 10% on the first 3 billion togrogs and 25% on amounts in excess of this amount.

(b) The Company has a 58% interest in the Main Dornod Property which consists of a mining licence, a surface uranium deposit and an underground uranium deposit. The Company has a 100% interest in the Additional Dornod Property which consists of an exploration licence and surface rights contiguous with and surrounding the Main Dornod Property. In respect of this interest, the Company has a royalty obligation equal to 3% on revenues generated from any mineral product mined from this property which is in addition to the royalty under the Minerals Law of Mongolia. The Company intends to negotiate an Investment Agreement with the Government of Mongolia (“GOM”) and will commence any major mine development work on the Dornod Uranium Project once the agreement is in place.

(c) On July 8, 2006, the Mongolian parliament adopted a revised version of the Minerals Law of Mongolia ("MLM"). The revised law specifies that the GOM has a right to participate in mining projects with companies that are deemed to have a deposit considered to be a "mineral deposit of strategic importance". Where a deposit of strategic importance has been defined by activities funded by the GOM, the MLM provides that the GOM may participate in the exploitation of the deposit in partnership with a private business entity and hold up to a 50% interest in the project. Where a deposit of strategic importance has been defined by activities funded other than by the GOM, the MLM provides that the GOM may participate in the exploitation of the deposit in partnership with a private business entity and hold up to a 34% interest in the project. Mining Licence holders that undertake to invest amounts greater than the threshold amounts over the first five years of a mining project may apply to the GOM to enter into an investment agreement ("Investment Agreement") concerning the stability of tax rates, the right to sell products at international market prices, a guarantee that the licence holder may receive and dispose of income from such sales, and provisions with respect to the amount and term of the licence holder's investment.

On February 6, 2007, the Dornod Uranium Property was designated by Parliament Decree 27 as a "mineral deposit of strategic importance". The deposits at the Dornod Uranium Project have been included on the list of properties published by the GOM that have been funded by the State Budget. The Company is investigating whether the designation of the Dornod Uranium Project as a "minerals deposit of strategic importance" complies with the requirements of the MLM and is investigating whether the Dornod Uranium Project was in fact defined by the exploration activities funded by the State Budget.

(d) 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 were 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.

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

6. Capital Stock

Capital stock consists of the following:

		2007		**2006**
Common shares (a)	$	61,220	$	26,293
Warrants (b)		996		1,520
Agents' options (c)		390		235
Contributed surplus (d)		6,055		3,986
	$	68,661	$	32,034

(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 years ended September 30, 2007 and 2006 are as follows:

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

	Number of common shares (000's)	Amount
Balance, September 30, 2005	21,249	$ 11,573
Conversion of warrants for no additional consideration		
Purchaser Special Warrants	6,425	3,212
Initial Special Warrants	55	25
Series A Special Warrants	308	140
Series C Special Warrants	262	111
Series D Special Warrants	4,209	3,164
Compensation Warrants (from Initial and Series A Special Warrants)	66	-
Exercise of Compensation Warrants (from Series D Special Warrants) for cash	593	477
Exercise of B Purchase Warrants for cash	1,979	990
Exercise of C Purchase Warrants for cash	779	584
Exercise of D Purchase Warrants for cash	466	626
Prospectus financing (i)	3,067	3,101
Private placement (ii)	1,667	1,686
Exercise of stock options (iv)	300	604
Balance, September 30, 2006	41,425	26,293
Prospectus financing (iii)	8,150	25,746
Exercise of stock options (iv)	3,174	6,267
Exercise of warrants (b)	990	2,424
Exercise of agent options (c)	277	490
Balance, September 30, 2007	54,016	61,220

(i) On August 2, 2006, the Company closed a prospectus financing of 3,067,000 units at a price of Cdn$1.50 per unit for aggregate gross proceeds of $4,086 (Cdn$4,600). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole purchase warrant entitles the holder to purchase one common share at a price of Cdn$1.90 until August 2, 2008. For accounting purposes, the Company allocated Cdn$1.14 to each common share and Cdn$0.36 to each one-half of one warrant.

(ii) On August 2, 2006, the Company closed a private placement of 1,667,000 units at a price of Cdn$1.50 per unit for aggregate gross proceeds of $2,221 (Cdn$2,501). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole purchase warrant entitles the holder to purchase one common share at a price of Cdn$1.90 until August 2, 2008. For accounting purposes, the Company allocated Cdn$1.14 to each common share and Cdn$0.36 to each one-half of one warrant.

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

(iii) On March 1, 2007, the Company closed a prospectus financing of 8,150,000 common shares at a price of Cdn$3.70 per share for aggregate gross proceeds of $25,746 (Cdn$30,155).

(iv) The Company has a stock option plan providing for the issuance of stock options to directors, officers, employees and service providers. The number of shares that may be acquired under an option granted to a participant is determined by the Board of Directors. The exercise price of the options granted shall comply with the requirements of the stock exchange or exchanges on which the Company's common shares are listed. The maximum term of any option may not exceed five years. Generally, options vest over 18 months. Compensation expense was recognized for the options issued in 2006 and 2007. At September 30, 2007 there were 1,148,000 options available for grant under the plan.

A summary of the stock option transactions in 2006 and 2007 is as follows:

	Number of options (000's)	Weighted-average exercise price (Cdn$)
Balance, September 30, 2005	3,478	$ 1.21
Granted to directors, officers and employees	1,370	1.49
Granted to service providers	130	1.50
Exercised	(300)	1.50
Expired	(490)	1.16
Balance, September 30, 2006	4,188	1.30
Granted to directors, officers and employees	3,094	2.76
Granted to service providers	300	2.84
Exercised	(3,174)	1.30
Expired	(300)	2.18
Balance, September 30, 2007	4,108	$ 2.44

The following tables summarize information about the stock options outstanding and exercisable at September 30, 2007:

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

Options outstanding

Exercise prices (Cdn$)	Number outstanding at September 30, 2007 (000's)	Weighted-average remaining contractual life (years)	Weighted-average exercise price (Cdn$)
1.00 to 1.89	1,239	3.40	1.46
2.37 to 2.39	1,700	4.85	2.37
3.53 to 4.69	1,168	4.67	3.57
1.00 to 4.69	4,108	4.36	$ 2.44

Options exercisable

Exercise prices (Cdn$)	Number exercisable at September 30, 2007 (000's)	Weighted-average exercise price (Cdn$)
1.00 to 1.89	887	1.42
2.37 to 2.39	708	2.38
3.53 to 4.69	1,168	3.57
1.00 to 4.69	2,763	$ 2.57

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

(b) Warrants

A summary of the transactions in the warrants account in 2006 and 2007 is as follows:

	Number of warrants (000's)		Amount
Balance, September 30, 2005	-	$	-
Prospectus financing (i)	1,534		985
Private placement (i)	833		535
Balance, September 30, 2006	2,367		1,520
Exercise of agent options	130		127
Exercise of warrants	(990)		(651)
Balance, September 30, 2007	1,507	$	996

(i) The fair value of the warrants issued on August 2, 2006 was $1,520 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

Expected life in years: 2
Risk free interest rate: 3.9 %
Expected volatility: 100 %
Dividend yield: 0 %

The warrants outstanding at September 30, 2007 have an exercise price of Cdn$1.90 and an expiry date of August 2, 2008.

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

(c) Agents' options

A summary of the transactions in the agents' options account in 2006 and 2007 is as follows:

	Number of agents' options (000's)	Amount
Balance, September 30, 2005	-	$ -
Prospectus financing (i)	235	169
Private placement (i)	92	66
Balance, September 30, 2006	327	235
Grant of agents' options (ii)	244	369
Exercise of agents' options	(277)	(214)
Balance, September 30, 2007	294	$ 390

(i) As part of the prospectus financing and private placement that closed on August 2, 2006, the agents were granted options to acquire 327,000 units exercisable at Cdn$1.50 per unit expiring on 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 acquire a further common share priced at Cdn$1.90 expiring on August 2, 2008.

The fair value of the agents' options issued was $235 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

Expected life in years: 2
Risk free interest rate: 3.9 %
Expected volatility: 100 %
Dividend yield: 0 %

(ii) On March 1, 2007, the Company closed a prospectus financing of 8,150,000 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 244,000 common shares at Cdn$3.70 per share until August 2, 2008. The fair value of the agent options issued was $369 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

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

The agents' options outstanding at September 30, 2007 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 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.

(d) Contributed surplus

A summary of the transactions in the contributed surplus account in 2006 and 2007 is as follows:

		Amount
Balance, September 30, 2005	$	2,756
Stock options granted to directors, officers, and employees		1,310
Stock options granted to service providers		123
Stock options exercised		(203)
Balance, September 30, 2006		3,986
Stock options granted to directors, officers, and employees		4,284
Stock options granted to service providers		421
Stock options exercised		(2,636)
Balance, September 30, 2007	$	6,055

7. Stock-based Compensation

The stock-based compensation expense during the year ended September 30, 2007 was $4,705 (2006 - $1,433) 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 in 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 2007 is Cdn$2.09.

The fair value of the stock options granted in 2006 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: 3.9 %
Expected volatility: 100 %
Dividend yield: 0 %

The weighted average fair value per option of options granted during 2006 is Cdn$1.14.

8. Related Party Transaction

During the year ended September 30, 2007, the Company incurred legal fees of $58 (2006 - $227) provided by a director, of which $58 was paid during the year. 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 and the Company.

9. Income Taxes

The Company utilizes the liability method of accounting for income taxes.

(a) Recovery of (provision for) income taxes

Major items causing the Company's income tax rate to differ from the combined federal and provincial statutory rate of 36.1% (2006 - 36.1%) were as follows:

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

	2007	2006
Loss before income taxes	$ 15,313	$ 3,653
Expected income tax benefit based on statutory tax rate	$ 5,528	$ 1,319
Foreign exchange gain	392	-
Stock-based compensation expense	(1,699)	(517)
Write off of mineral interests	(559)	-
Effect of change in foreign tax rate	-	763
Foreign tax rate differential	(1,100)	(9)
Tax benefit	2,562	1,556
Current year valuation allowance	(753)	(793)
Recovery of (provision for) income taxes	$ 1,809	$ 763

(b) Future tax assets and liabilities

The tax effects of temporary differences that give rise to future income tax assets as at September 30, 2007 and 2006 are as follows:

	2007	2006
Future tax assets		
Non-capital losses	$ 2,377	$ 1,776
Capital assets	20	-
Equity financing costs	1,405	668
	$ 3,802	$ 2,444
Future tax liabilities		
Accounting value of mineral properties exceeding tax value	$ (822)	$ (2,667)
Total future tax assets		
Future tax assets	$ 3,802	$ 2,444
Valuation allowance for future tax assets	(3,802)	(2,444)
	$ -	$ -
Total future tax liabilities	$ (822)	$ (2,667)

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

As at September 30, 2007, the Company had Canadian non-capital losses of approximately $7,269 (2006 - $4,920) available for deduction against future taxable income and Mongolian non-capital losses of approximately $143 (2006 - $nil) available for deduction against future taxable income. These losses, if unutilized, begin to expire in 2009.

10. 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 48,363,000 during the year ended September 30, 2007 (2006 - 36,161,000). Any potential common shares whose effect is anti-dilutive have not been reflected in the calculation of diluted loss per share.

11. Supplemental Cash Flow Information

	Years ended September 30		Cumulative from inception on October 1,
	2007	**2006**	**2002**
Changes in non-cash working capital balances related to operations:			
Accounts receivable	$ 30	$ (42)	$ (47)
Prepaid expenses and other assets	(44)	(50)	(133)
Accounts payable and accrued liabilities	152	(558)	(59)
	$ 138	$ (650)	$ (239)
Non-cash financing activities:			
Equity financing costs settled by issue of Agents' Options	$ 369	$ 235	$ 604

The Company did not pay income taxes or interest during the years ended September 30, 2007 and 2006.

12. Financial Instruments

(a) Fair value

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these amounts.

(b) Foreign exchange risk

Certain of the Company's monetary assets and liabilities are denominated in Canadian and Mongolian currency and are therefore subject to gains or losses due to fluctuations in those currencies.

13. Commitments and Contingencies

(a) Mays Claim

On September 15, 2006, Wallace Mays, WM Mining Company, LLC ("WM Mining"), a company controlled by Mr. Mays, 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 Ontario Business Company Act ("OBCA") against Khan, Khan Resources Bermuda Ltd. ("Khan Bermuda"), a wholly owned subsidiary of Khan, 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 a number of other actions allegedly taken by Khan.

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 a 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 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 Corporation 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 Bermuda 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.

On September 28, 2007, Mr. Mays, WM Mining and Nueces amended the Mays Claim (the "Amended Mays Claim") and withdrew their claim to set aside the Share Exchange Agreement. Instead the Amended Mays Claim seeks (i) an order varying the Share Exchange Agreement such that Mr. Mays is the only party entitled to the issuance of purchaser special warrants (the "Purchase Warrants") under that agreement; (ii) an order setting aside all issuances of Purchase Warrants to recipients other than Mr. Mays (the "Recipients") and an order issuing those Purchase Warrants to Mays as of July 31, 2003; (iii) an order requiring Khan to issue to Mr. Mays that number of Khan common shares into which the Purchase Warrants received by the Recipients were exercisable; and (iv) an order rectifying the securities and other records of Khan to reflect that Mr. Mays is the registered owner of all Khan securities that have been issued to the Recipients as a result of the exercise of Purchase Warrants.

Management believes that the Amended Mays Claim is frivolous and without foundation and will vigorously defend itself against it.

As a result of the proceedings for contempt of court against Mr. Mays and WM Mining, the action by Mr. Mays and WM Mining against Khan and others has been adjourned by the court and cannot proceed until the contempt proceedings against Mr. Mays and WM Mining have been dealt with.

(b) Khan Claim

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 Cdn.$550 relating to a debt owed by the defendants to AATA; (iii) aggravated, exemplary and punitive damages in the amount of Cdn.$5,000; (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. Mr. Mays, WM Mining and Nueces served a defence to this claim in January 2007.

(c) Mays and WM Mining Contempt Proceedings

Khan has commenced contempt of court proceedings in the Ontario Superior Court of Justice against Mr. Mays and WM Mining. Khan alleges that by signing and delivering to the State Property Commission ("SPC") of the Government of Mongolia a September 3, 2007 letter, Mr. Mays and WM Mining breached the terms of an October 12, 2006 consent order of the Superior Court of Justice. Following submissions to the Court on December 17, 2007, Mr. Mays on behalf of WM Mining, executed and delivered to Khan a further letter revoking the September 3, 2007 letter.

Khan has obtained an order setting a hearing of the motion for contempt of court for February 14, 2008. Contempt of court, in these circumstances, is a quasi-criminal offence that, if substantiated, may carry with it a term of incarceration.. Khan intends to vigorously pursue this case.

(d) Lease

The Company has entered into a five-year lease for its head office premises at the rate of $85 per year that commenced on March 1, 2006.

14. Subsequent Events

Subsequent to September 30, 2007, 42,000 stock options were exercised.

15. Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 financial statements.