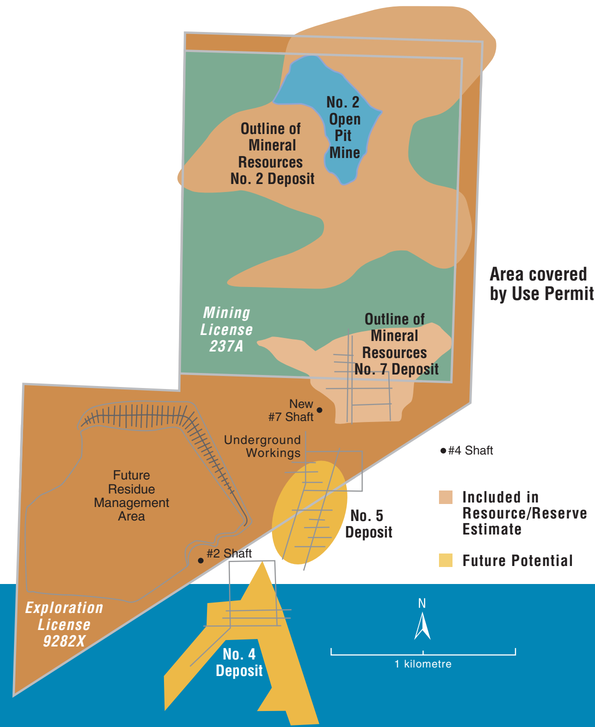
Khan Resources

Building our Future in the New Mongolia

KHAN
RESOURCES INC.

DORNOD URANIUM PROJECT

The project is located in northeastern Mongolia approximately 650 km east of the capital city, Ulaan Baatar. Khan has a 58 per cent interest in the Main Dornod Property (No. 2 and a portion of No. 7 Deposits) and a 100 per cent interest in the adjacent property, known as the Additional Dornod Property (which contains a portion of the No. 7 Deposit).




Power line tower awaiting line installation (December 2008)

Highlights of 2008

- Commenced Definitive Feasibility Study
- Received three year renewal of Exploration License
- Submitted reserve calculation according to Mongolian standards required for conversion of Exploration License to Mining License
- Commenced construction of power line and sedimentation pond

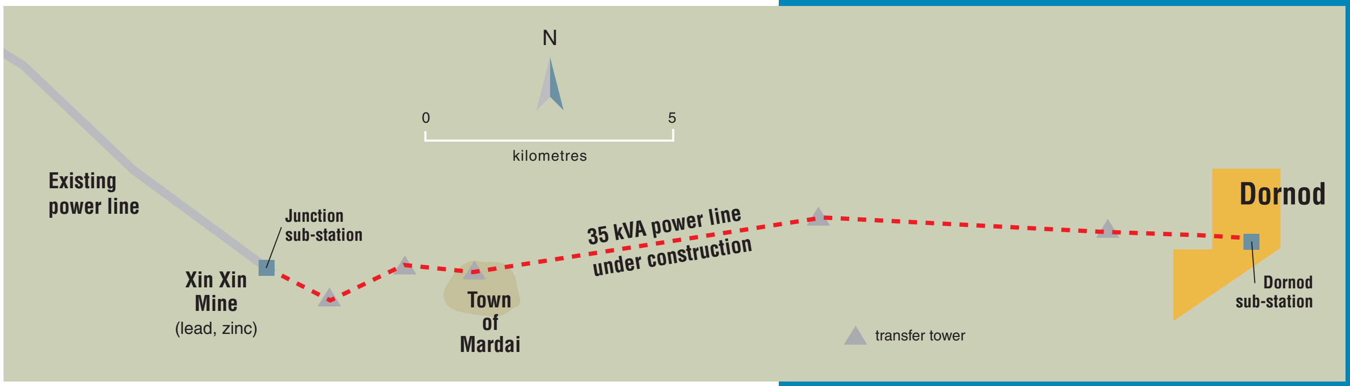
Objectives for 2009

- Convert Exploration Licence to Mining License
- Complete construction of power line and sedimentation pond
- Complete Definitive Feasibility Study
- Negotiate Investment Agreement with the Government of Mongolia

Power Line Construction

The $3.4 million power line will extend 26 km from nearby Xin Xin Mine which was recently connected to a power line from Choibalsan, approximately 120 km to the south.

The power line will supply up to 15 MW of electricity to the Dornod Uranium Project which is sufficient for the planned dewatering and rehabilitation of the underground mine workings.



KHAN
RESOURCES INC.

Cover:
A memorial complex honouring Ghengis Khan has been built on Tsonjin Boldig Hill, 53 km from Ulaan Baatar. The 40-metre high steel statue provides visitors with a panoramic view of the surrounding area.

Khan Resources Inc.

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Building our Future in the New Mongolia

LETTER TO SHAREHOLDERS

From the President and CEO

KHAN RESOURCES IS IN THE ENVIABLE POSITION OF HAVING SUFFICIENT CASH TO RIDE OUT THE NEXT TWO YEARS, AND STILL BE IN A POSITION TO ENTER THE M&A MARKET

It is my pleasure to give you this update, which I do with considerable optimism. In the face of the on-going global financial meltdown, the resulting credit crunch and expected long and deep recession, Khan Resources is in the enviable position of having sufficient cash to ride out the next two years, and still be in a position to enter the M&A market should a suitable opportunity occur. In the interim, the Company has taken steps to reduce expenditures and conserve cash through this period of severely depressed equity markets.

Despite the global recession and drastic drop in most metal prices, the spot price of uranium has continued to remain firm, and has actually increased from a low of $44 per lb U_3O_8 in mid-October to $53 as of December 15, 2008. The main reason for the recent increase, which is expected to continue in 2009, is the shortfall in budgeted production from major producers, and the delay and/or cancellation of new projects. Unfortunately, the good news on the uranium price has not translated into an increase in Khan's stock price which continues to struggle due to the "Mongolia Effect."

Mongolian Political Situation

The MPRP government was elected in June 2008 holding a solid majority in the Great Hural. We expected the new government to move quickly to untangle the paralysis of the past three years in the mining sector, and at least pass legislation enabling the massive Oyu Tolgoi gold and copper project in the Gobi Desert to move forward. Instead, the MPRP chose to form a coalition with the opposition Democratic Party, and has been unable to move this key project forward in a timely manner. In the meantime, Rio Tinto/Ivanhoe has virtually shut-down all remaining activities at the minesite, and could easily choose to wait out the recession.

The parliamentary Working Group, charged with the responsibility of revising the 2006 Minerals Law, recommended that no changes be made until after the Oyu Tolgoi and Tavan Tolgoi (the world's largest coal coking project) receive their Investment Agreements. Draft agreements for these two projects are expected to be presented to parliament before February 1, 2009. Once these two huge projects have been dealt with by the Great Hural, revisions to the Minerals Law may be forthcoming.

Directors gathered at a recent meeting *(from left)* Stephen Harapiak, James Doak, Robert Kaplan, Martin Quick, Grant Edey and Peter Hooper. Missing from the photo are Jean-Pierre Chauvin and David McAusland.

Mongolia's Prime Minister, Mr. Bayar Sanjaa, has taken a very close personal interest in a proposal to construct a nuclear power plant in Mongolia, and has placed all nuclear related activities directly under his purview. The head of the Mongolian Nuclear Energy Commission now reports directly to the PM, and it is part of the mandate of this group to formulate a new nuclear policy, which may include regulating uranium mining and processing under the direct control of the Commission.

The nationalistic fervour to own and control the development and operation of new mineral deposits, which was apparent prior to the general election in June, has abated. The talk around parliament is more rational now, with less attention given to owning and controlling resources, and more thought given to using market principles and conventional taxation systems (including royalties) which will improve investor confidence. The tax burden on gold companies has been eased by raising the threshold level for the windfall tax on gold from $700 to $850 per ounce to increase the volume of gold sold to the Central Bank of Mongolia. Small mining enterprises have been hoarding or otherwise disposing of their gold production to avoid paying the hefty tax, which has created a shortfall in anticipated revenues by the government.

Although the mining sector is of great importance for the country's economic stability, Mongolia has missed the boom in commodity prices, and has little, if anything to fall back on to stimulate the economy. The country will likely suffer a large fiscal deficit this coming year and into future years, mainly due to the drop in the price of copper. The losses will be compounded with reduced investment in commercial real estate and tourism, which are essential ingredients to sustain growth and improve the living standards of its people.

NUCLEAR POWER IS A "SUSTAINABLE DEVELOPMENT" TECHNOLOGY BECAUSE ITS FUEL WILL BE AVAILABLE FOR MULTIPLE CENTURIES

Projects

The construction projects outlined below are prerequisites for the dewatering and rehabilitation of the underground mine workings. Both projects meet the objectives of sustainable development and minimize the environmental impact of a producing mine at the Dornod site.

Power Line

The $3.7 million project was awarded to the Yuanda Group, a Mongolian-Chinese joint venture company, in September 2008. The 26 km electric power line will be completed in the spring of 2009 (after a planned two month suspension of work due to winter conditions). At the end of November, $1.7 million had been expended with 40 per cent of the concrete work for the sub-station completed, and the power line poles and transition towers are currently being installed. The sub-station is being built in Beijing, and will be ready for installation by the end of January 2009.

Sedimentation Pond

The project for the lined sedimentation pond was awarded in September 2008 to the Prestige Group, a Mongolian company with substantial experience in the construction of sedimentation ponds for mining operations. The sedimentation pond will allow for the settlement and retention of sediments before the water pumped from the underground workings is released into the flooded open pit.

Definitive Feasibility Study

The Definitive Feasibility Study ("DFS") was awarded to Aker Solutions in December 2007, and work began on the project in January 2008. The DFS was originally due to be completed in September 2008 but the work was halted in June 2008 after Khan Resources made its take-over bid for Western Prospector Group's uranium project in northeastern Mongolia. Work did not resume until October 2008, and the study will now be completed by March/April 2009. The overall cost of the DFS project, which includes the Environmental Impact Assessment, is estimated to be $3.4 million.

During the course of the processing test work, the resin-in-pulp ("RIP") method used in gold processing was examined as a less expensive alternative for uranium extraction than conventional methods to achieve greater than 90 per cent recovery from our main underground No. 7 orebody.

The mining camp at the Dornod Uranium Project can accommodate 80 employees including medical staff.

Considerable research into commercial uranium RIP has been conducted in South Africa. Our processing consultants have met with scientists and engineers in Johannesburg and verified that this method would work well at our proposed Dornod processing plant. An important benefit of the RIP process is the elimination of solvent extraction which is costly and a potential fire hazard.

Marubeni

Khan Resources has signed a Letter of Intent with Marubeni Corporation of Japan in October for the two companies to work closely together to move the Dornod Uranium Project forward. Khan hopes to benefit from Marubeni's political clout in Mongolia since the corporation works very closely with the Japanese government, which is the largest provider of foreign aid to Mongolia.

2009 Budget and Work Plan

The need to conserve cash is of paramount importance to the Company. With the exception of the Power Line and the Sedimentation Pond, no further work will be undertaken in this fiscal year unless there is a strong indication that the Government of Mongolia is prepared to grant our Company an Investment Agreement.

Cash on hand at September 30, 2008 was $24.6 million. The 2009 Budget will require cash of $10.2 million.

I would like to thank the Board of Directors and staff at Khan for their strong support this past year. Although 2008 was a difficult and frustrating period for the Company, the unwavering optimism and professionalism shown by both our board and staff members will be a huge positive factor to the future success of the Company, and to our objective of becoming a near term uranium producer.

Martin Quick
President and CEO

December 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Khan Resources Inc. (the "Company" or "Khan") for the years ended September 30, 2008 and September 30, 2007 and the related notes thereto. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise indicated, all amounts in this MD&A are expressed in United States dollars.

The date of this MD&A is December 12, 2008.

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the financial year ended September 30, 2008, an evaluation was carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of September 30, 2008 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

Management's Assessment of Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system is designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the consolidated financial statements. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Chief Executive Officer and Chief Financial Officer have reviewed the internal control procedures in existence as of September 30, 2008, and concluded that the Company's internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). During the most recent fiscal year, there have been no changes in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Cautionary Note Regarding Forward-Looking Information

This management's discussion and analysis contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, its subsidiaries and its projects, the future price of uranium, the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending litigation and regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements have been prepared for internal planning purposes and may not be appropriate for other purposes. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; the impact of Mongolian minerals laws on the Company’s licenses, operations and capital structure; the Company’s ability to renew its existing licenses; fluctuations in the value of United States and Canadian dollars relative to the Mongolian Togrog; changes in project parameters as plans continue to be refined; future prices of uranium; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability, insurrection or war and delays in obtaining governmental approvals or financing or in the completion of development or construction activities; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Mongolia, Bermuda, the British Virgin Islands or the Netherlands, as well as other risks associated with resource exploration and mine development described under the heading “Risk Factors” in the Company’s Annual Information Form to be filed on SEDAR on or before December 31, 2008. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, undue reliance should not be placed on these statements. Forward-looking statements contained herein are made as of the date of this document and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Background

Khan is a Canadian-based mineral exploration and development company engaged in the acquisition, exploration and development of uranium in Mongolia. The Company is currently engaged in the exploration and development of certain uranium properties, one of which is a former-producer, and all of which are located in the Dornod district of north eastern Mongolia, which contains a number of uranium deposits. Khan’s assets consist of its interest in the Dornod Uranium Project which is held through a 58 per cent interest in the “Main Dornod Property” (defined below) and a 100 per cent interest in the “Additional Dornod Property” (defined below). The Main Dornod Property is comprised of an open pit mine (“Dornod Deposit No. 2”) from which 590,000 tonnes of material at an average grade of 0.118 per cent uranium oxide (“U_30_8”) was extracted between 1988 and 1995. It also comprises an underground deposit (“Dornod Deposit No. 7”), which remains partially developed by two underground shafts and approximately 20,000 metres of drifts extending into the Additional Dornod Property. The Additional Dornod Property consists of an exploration licence contiguous to the Main Dornod Property and contains approximately one-third of Deposit No. 7 and part of another underground deposit. The Company disposed of its 100 per cent interest in the Big Bend Gold Property, which consisted of exploration licenses in the Zaamar goldfield district of Mongolia, through the sale of its 100 per cent interest in Ikh Tokhoirol XXK, the holder of the gold exploration licenses, in October 2007.

Overall Performance

Financial

Total assets of the Company at September 30, 2008 were $36,184,000 compared with $42,983,000 at September 30, 2007. The decrease of $6,799,000 resulted from the decrease in current assets by $11,824,000 offset by advances to suppliers of $97,000, and the increases in capital assets of $1,365,000 and mineral interests of $3,563,000. The decrease in current assets was primarily due to the cash used in operating and investing activities during the year ended September 30, 2008, and the loss on the sale of the Big Bend Gold Property. The advances to suppliers were funds provided to certain suppliers prior to services being performed. The increase in capital assets was due to the cost of new equipment that was purchased. The increase in mineral interests was due to development costs incurred on the Dornod Uranium Project.

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 $2,500,000 in cash. The sale closed on October 11, 2007, the Company received $2,500,000 in cash and recorded a loss on the sale of assets of $822,000 and a related future tax recovery of $822,000.

During the year ended September 30, 2008, the Company incurred a net loss of $7,923,000 or $0.15 per share compared with $13,504,000 or $0.28 per share in the comparable period of 2007. The decrease of $5,581,000 was primarily due to the decrease in stock-based compensation expense of $3,027,000 and write-off of assets of $9,476,000 offset by the decrease in interest income of $322,000, increases in general corporate expense of $534,000, Mongolian operations expense of $505,000, amortization expense of $75,000, foreign exchange loss of $2,084,000, loss on sale of assets of $822,000, the expenses of $1,593,000 related to the offer of purchase for all the issued and outstanding shares of Western Prospector Group Ltd. ("Western Prospector") and the decrease in future tax recovery of $987,000.

During the year ended September 30, 2008, cash and cash equivalents decreased by $9,259,000 compared with an increase of $25,092,000 in the comparable period of 2007. The cash used in operating activities was $5,083,000 in 2008 compared with $2,009,000 in 2007. The net increase of $3,074,000 was due to the decrease in interest income of $322,000, the increases in general corporate expense of $534,000 and Mongolian operations expense of $505,000, the expenses of $1,593,000 related to the offer of purchase for all the issued and outstanding shares of Western Prospector and the increase in cash required for changes in non-cash working capital balances related to operations of $183,000, offset by the realized foreign exchange gain of $63,000. The cash used in investing activities was $3,269,000 compared with $3,595,000 in 2007, a net decrease of $326,000. In 2008, proceeds from the sale of assets were $2,500,000 and there was no comparable amount in 2007. The restricted cash of $732,000 was the cost of guaranteed investment certificates pledged as security for credit facilities and the advances to suppliers of $97,000 were funds provided to certain suppliers. There were no comparable amounts for restricted cash and advances to suppliers in 2007. The purchase of capital assets in 2008 was $1,511,000 compared with $559,000 in 2007. In 2008, the construction of a power line and sedimentation pond commenced and costs of $1,401,000 were incurred. In 2007, a new camp was constructed and additional vehicles were acquired. In 2008, cash used for mineral interests was $3,429,000 compared with $3,036,000 in 2007. The cash provided by financing activities was $154,000 in 2008 compared with $29,652,000 in 2007. In 2008, cash was provided from the exercise of stock options. In 2007, cash was provided from the public offering of shares, net of equity financing costs, that closed on March 1, 2007 and the exercise of stock options, warrants and agents' options. In 2008, there was a foreign exchange loss on cash of $1,061,000 compared with a foreign exchange gain on cash of $1,044,000 in 2007. Cash comprises primarily Canadian and United States dollars. The foreign exchange loss on cash in 2008 was due to the decrease in value of the Canadian dollars in terms of the United States dollar during the year. The foreign exchange gain on cash in 2007 was due to the increase in value of the Canadian dollar in terms of the United States dollar during the year.

Operations

In November 2007, a contract was awarded to Aker Kvaerner E&C of Toronto, Ontario to undertake a NI 43-101 compliant Definitive Feasibility Study ("DFS") for the Dornod Uranium Project. The mine design component of the Study was subcontracted to P&E Mining Consultants Inc. of Mississauga, Ontario. The resource consultants continued to be Scott Wilson Roscoe Postle Associates Inc. of Toronto, Ontario, who were also responsible for the resource component of the earlier Scoping and Pre-Feasibility studies. The Environmental Impact Assessment associated with the DFS was awarded to Golder Associates. The 9 month DFS was commenced in January 2008 but was halted from June through September 2008 when the acquisition of Western Prospector by Khan was being sought. The original budget for the DFS was Cdn$2,920,000, but this was subsequently increased to Cdn$3,930,000, due to additional time, the need for additional process test work, and the subsequent change in the process design from conventional counter current decantation (CCD)-solvent extraction to resin-in-pulp. The Study is expected to be completed by March 2009.

In early February 2008, Khan announced that it had received a three year renewal for its 100% owned Exploration License No. 9282X (Additional Dornod Property) from the Mineral Resources and Petroleum Authority of Mongolia ("MRPAM").

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"). In connection with the settlement, Mays and WM Mining have signed a letter addressed to the State Property Committee of Mongolia which retracts a previous claim to ownership of a 58% interest in Central Asian Uranium Company, Ltd. (the "Share Interest"), confirms that Mays and WM Mining are not asserting any ownership interest in, or claim to, the Share Interest.

At the Company's Annual Meeting of Shareholders held on February 14, 2008, Stephen W. Harapiak was elected to the Board of Directors. Mr. Harapiak holds a degree in mechanical engineering from the University of Manitoba and has over 48 years of experience in mining, project management and engineering.

On April 23, 2008, David L. McAusland was appointed to the Board of Directors. Mr McAusland is a graduate of the Faculty of Law of McGill University and was called to the Bar in Quebec in 1978. He has 30 years of experience in corporate management, international business and legal, financial and regulatory matters.

On May 12, 2008, Khan filed an offer (the "Offer"), with the securities regulatory authorities, to acquire all of the outstanding common shares of Western Prospector in order to consolidate its position in the Saddle Hills district of Mongolia and achieve significant synergies from the joint development of the Company's Dornod uranium deposit and Western Prospector's Gurvanbulag uranium deposit in that district. Pursuant to the Offer, Western Prospector shareholders would receive 0.685 of a Khan common share for each Western Prospector share.

On May 27, 2008, Western Prospector filed a Directors' Circular, with the securities regulatory authorities, which recommended rejection of the Company's Offer.

On May 28, 2008, Khan responded to the Directors' Circular issued by Western Prospector by reaffirming its Offer and providing comment and clarification on key points in the Directors' Circular.

On June 2, 2008, the Company announced that Mr. S. Bayer, Prime Minister of Mongolia, and Mr. S.V. Kiryenko, General Director of the Russian state-owned corporation "Rossatom" visited Khan's Dornod Uranium Project on May 26, 2008. During the one day visit, Khan provided a presentation on the status of the project, the results from the Pre-Feasibility Study and Environmental Impact Assessment, progress on the Definitive Feasibility Study and the Mongolian resource and reserve calculations.

On June 19, 2008, Khan announced the extension of its Offer until July 15, 2008 at 8:00 p.m.

On June 29, 2008, a general election was held in Mongolia. The Mongolian People's Revolutionary Party (MPRP) won the majority of seats in the Great Hural, which is the parliament of Mongolia.

On July 10, 2008, the Company announced that Western Prospector had irrevocably waived the application of its shareholder rights plan to Khan's Offer as it may be amended or varied, in order to allow Khan to take up shares of Western Prospector on or after July 25, 2008. In connection with the waiver, Khan agreed to the extension of its Offer until July 25, 2008 at 8:00 p.m.

On July 15, 2008, Western Prospector and Tinpo Holdings Industrial Company Limited ('Tinpo") announced the execution of a definitive agreement for Tinpo to acquire all the outstanding common shares of Western Prospector for Cdn$1.34 per share in cash. Formal documentation relating to the takeover bid was expected to be mailed by Tinpo on or before July 29, 2008. On July 30, 2008, Western Prospector announced that the formal documentation had been delayed due to technical matters and a further update would be provided at the appropriate time.

On July 23, 2008, Khan announced the extension of its Offer until August 8, 2008 at 8:00 p.m. and provided comments on the Tinpo offer.

On August 5, 2008, Western Prospector announced that the formal documentation relating to the Tinpo offer had been mailed to the shareholders of Western Prospector. The Tinpo offer to acquire all the outstanding common shares of Western Prospector for Cdn$1.34 per share in cash would be open for acceptance until 5:00 p.m. on September 11, 2008.

On August 8, 2008, Khan announced the extension of its Offer until August 19, 2008 at 8:00 p.m. and on August 19, 2008, Khan announced the extension of its Offer until September 3, 2008 at 8:00 p.m.

On September 3, 2008, Khan announced that its Offer would expire and it would not acquire any shares pursuant to the Offer.

In early September 2008, the Company submitted the reserve calculation of the Dornod Uranium Project, prepared in accordance with Mongolian standards and requirements, to the Mineral Resource and Petroleum Authority of Mongolia ("MPRAM"). It is expected that this submission will receive approval by the MPRAM reserve committee in the near future. Approval of the reserve will facilitate the process that leads to the negotiations with the Government of Mongolia for the Investment Agreement on the Dornod Uranium Project. The Dornod Uranium Project has a NI 43-101 compliant indicated mineral reserve of 64.3 million lbs U_3O_8 and Khan has an overall interest in this resource of 69%, or about 44.4 million lbs U_3O_8. The Mongolian reserve calculation results, while very similar to the NI 43-101 results, have been calculated on different criteria established by MRPAM.

In mid September 2008, Khan announced that it had entered into contracts for the construction of a power line and sedimentation pond for the Dornod Uranium Project. The electric power line will be constructed from the Xin Xin Mine to the Dornod Uranium Property, a distance of about 26 kilometres and an electrical substation will be constructed at the site. The Xin Xin Mine is connected to an electric power line from the Choilbalsan generating plant, approximately 120 kilometres to the south. The contractor for the power line and substation is Yuanda Group Ltd., a Mongolian Chinese joint venture company, which has completed many projects of this kind in Mongolia. In conjunction with the contract for the power line, an agreement for the supply of up to 15 MW of electricity has been entered into with the Choilbalsan generating plant. The availability of electrical power from this plant will eliminate the use of diesel powered generators at the site and provide sufficient electricity for the planned dewatering and rehabilitation of the underground mine workings in the spring of 2009. The lined sedimentation pond will be constructed at the site of the Dornod Uranium Project. Water from the underground mine workings will be pumped to the pond to allow for the settlement and retention of sediments and particulate matter before the water is released into the environment. The contractor is Prestige Group Co., Ltd., a Mongolian company, which has substantial experience in the construction of lined ponds for mining operations.

On October 1, 2008, Western Prospector announced that it had been notified by Tinpo that it was withdrawing its offer to acquire all of the common shares of Western Prospector.

In early October 2008, the Company learned that a special committee within the Mongolian Nuclear Energy Commission (NEC) had been formed to draft a new nuclear policy including uranium mining and processing. Furthermore, according to the head of the NEC it is likely that the NEC will assume full responsibility for regulating uranium mining and processing. Although no formal announcements have been made by the Mongolian government about this proposed change it is likely that the proposal will be presented to parliament in the near future. Khan intends to provide input and submissions on potential uranium policy and regulations and expects that other uranium exploration and development companies operating in Mongolia will do the same.

On October 21, 2008, Khan announced that the Toronto Stock Exchange ("TSX") has accepted a notice filed by the Company of its intention to make a normal course issuer bid. The Company had 54,143,279 common shares outstanding at that time. The notice provides that under the normal course issuer bid, Khan may purchase up to 4,056,828 common shares, being 10% of the public float. In addition, the notice provided that the aggregate number of shares that Khan may purchase during any trading day will not exceed 22,978 shares, being 25% of the average daily trading volume of the shares based on their trading volume on the TSX for the most recently completed six calendar months preceding the date of the notice of intention, subject to the Company's ability to make "block" purchases through the facilities of the TSX in accordance with the TSX rules. Khan Resources had not purchased any of its shares during the past 12 month period. The normal course issuer bid commenced on October 23, 2008 and will terminate on October 22, 2009, or on such earlier date as the Company may complete its purchases under the bid.

On December 4, 2008, Khan announced that it had signed a Letter of Intent (LOI) with Marubeni Corporation of Japan relating to uranium exploration and mining in Mongolia. The Energy Division of Marubeni is a multi-national trading company that has been most successful in investing in the oil, gas and uranium sectors, and is interested in working with the Company on the Mongolian Dornod uranium project. Marubeni will work to improve the mining investment climate in Mongolia and Khan will provide Marubeni access to due diligence information on a confidential basis.

Khan plans to commence the negotiation of, and enter into, an Investment Agreement with the Government of Mongolia by the earliest practicable date. Khan commenced discussions with its joint venture partners in the Main Dornod Property late in 2007. Khan's goal is to negotiate an updated joint venture development agreement as soon as practicable. The successful negotiation of an updated joint venture development agreement and an Investment Agreement is considered by Khan to be a prerequisite to any major mine development work. There can be no certainty as to the timing to complete negotiations with the Government of Mongolia and Khan's joint venture partners.

Subject to entering into an updated joint venture development agreement and an Investment Agreement with the Government of Mongolia and completion of the Definitive Feasibility Study, Khan intends to bring the Dornod Uranium Project into production and to construct on-site modern milling and processing facilities.

Khan's share value has been adversely affected due to the continued political instability in Mongolia and the proposed introduction of new government policies relating to the uranium industry, which have yet to be formulated. The proposed revocation of a number of exploration licenses including that of Khan, and subsequent reinstatement of these licenses in August 2007, also heightened adverse investor sentiment towards Mongolia.

The failure of the Great Hural (Mongolian parliament) to ratify the Investment Agreement ("IA") of Rio Tinto and Ivanhoe for their huge copper/gold Oyu Tolgoi project, which was approved by the National Council and Cabinet in July 2007, has been a major disappointment, and has also contributed to the reduction in investment climate. It is still not known if and when new negotiations will begin for the IA.

The volatility in the spot uranium price in the second half of the year has also been a factor in the fall of Khan's share value as well as that of many other uranium exploration and mining companies. This is especially true in the case of the decline in the price which occurred throughout most of 2008 when the spot price dropped from its high of $90 per lb U_3O_8 in early January 2008, to $44 per lb U_3O_8 in mid October 2008. However, the modest recovery of the spot price to $55 per lb U_3O_8 in November 2008 did not appear to have any significant positive effect on Khan's share value or that of many other uranium exploration and mining companies.

Selected Annual Information

The following table provides a brief summary of Khan's financial operations. For more detailed information, refer to Khan's consolidated financial statements.

	September 30, 2008 *000's*	September 30, 2007 *000's*	September 30, 2006 *000's*
Year ended			
Revenue	**$ 722**	$ 1,044	$ 148
Expenses	**$ 9,467**	$ 16,357	$ 3,801
Loss before taxes	**$ (8,745)**	$ (15,313)	$ (3,653)
Future tax recovery	**$ 822**	$ 1,809	$ 763
Net loss	**$ (7,923)**	$ (13,504)	$ (2,890)
Net loss per share - basic and diluted	**$ (0.15)**	$ (0.28)	$ (0.08)
As at			
Cash	**$ 24,600**	$ 33,859	$ 8,767
Working capital	**$ 24,922**	$ 36,038	$ 8,463
Total assets	**$ 36,184**	$ 42,983	$ 23,755

Results of Operations

As a development stage company, Khan has no operating history and has incurred losses in the years ended September 30, 2008 and September 30, 2007. Based on the current exploration and development plans for the Dornod Uranium Project, the Company expects to incur losses for the foreseeable future and will require additional funds to finance exploration and development activities. The Company's objective is to become a uranium producer by bringing the Dornod Uranium Project into commercial production.

Revenue

Total revenue decreased by $322,000 during the year ended September 30, 2008 from the comparable period in 2007 due to the decrease in interest income resulting from lower cash balances on hand and lower interest rates. The Company maintains cash balances principally in Canadian and US dollars.

Expenses

Total expenses decreased by $6,890,000 during the year ended September 30, 2008 from the comparable period in 2007 due to the decreases in stock-based compensation of $3,027,000 and write-off of assets of $9,476,000, offset by the increases in general corporate expense of $534,000, Mongolian operations expense of $505,000 and amortization expense of $75,000, the change in foreign exchange of $2,084,000, from a gain of $1,086,000 in 2007 to a loss of $998,000 in 2008, the loss on sale of asset of $822,000 and the expenses of the offer for Western Prospector of $1,593,000.

General corporate expense increased in 2008 compared with 2007. The following table illustrates the major items included in general corporate expense:

	Year ended September 30, 2008 *000's*	Year ended September 30, 2007 *000's*
Accounting and audit	**$ 98**	$ 208
Investor relations	**384**	424
Insurance	**61**	83
Legal	**733**	464
Management remuneration	**1,209**	1,091
Office and travel	**949**	630
	$ 3,434	$ 2,900

The factors responsible for the year over year changes in general corporate expense were as follows:

- Accounting and audit expense decreased by $110,000 as accounting consultants were replaced by full time staff.
- The investor relations expense decreased by $40,000 due to a lower level of activity.
- The insurance expense decreased by $22,000 due to a reduction in insurance policy premiums.
- Legal fees increased by $269,000 due to increased corporate activities and the proceedings involving Wallace Mays, a former promoter and director of Khan.
- Management remuneration increased by $118,000 due to payroll tax on stock option benefits arising from stock options exercised.
- Office and travel expenses increased by $319,000 due to corporate development activity and additional trips to Mongolia.

Mongolian operations expense increased in 2008 compared with 2007 due to a higher level of activity related to the Dornod Uranium Project, opening of a new office in Ulaan Baatar, Mongolia and hiring of additional staff.

Amortization expense increased in 2008 compared with 2007 as the cost of capital assets increased.

Stock-based compensation expense decreased as 540,000 stock options were granted in 2008 versus 3,394,000 stock options granted in 2007.

The change in foreign exchange was primarily due to the fluctuation in value of the Canadian dollar in terms of the United States dollar and the amount of Canadian cash on hand. In 2008, at the beginning of the fiscal year, the Canadian dollar was $1.0052 in terms of the United States dollar compared with $0.9397 at the end of the fiscal year. In 2007, at the beginning of the fiscal year, the Canadian dollar was $0.8947 in terms of the United States dollar compared with $1.0052 at the end of the fiscal year. The average Canadian cash on hand was 40% of total cash during 2008 compared with 14% of total cash during 2007.

The sale of assets resulted from 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 $2,500,000 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 $2,500,000 in cash, recorded a loss on sale of asset of $822,000 and a related future tax recovery of $822,000.

The expenses related to the offer of purchase for all the issued and outstanding common shares of Western Prospector were $1,593,000. The offer was made in May 2008 and allowed to expire in September 2008.

Mineral interests

During the year ended September 30, 2008, the deferred development costs, consisting mainly of the Definitive Feasibility Study and Environmental Impact Assessment, incurred on the Dornod Uranium Project, were $3,563,000. The following table sets out the change in deferred development costs:

	As at September 30, 2007 *000's*	Costs incurred during the year ended September 30, 2008 *000's*	**As at September 30, 2008** *000's*
Deferred development costs			
Dornod Uranium Project, Mongolia	$ 4,597	$ 3,563	**$ 8,160**

Summary of Quarterly Results

The following table sets out the financial results for Khan's eight most recently completed quarters. The results are expressed in thousands of United States dollars except per share amounts.

	Quarter ended September 30, 2008	Quarter ended June 30, 2008	Quarter ended March 31, 2008	Quarter ended December 31, 2007
Revenue	$ 154	$ 178	$ 236	$ 154
Expenses	$ 3,464	$ 1,591	$ 1,717	$ 2,695
Net loss	$ (3,310)	$ (1,413)	$ (1,481)	$ (1,719)
Net loss per share	$ (0.06)	$ (0.03)	$ (0.03)	$ (0.03)

	Quarter ended September 30, 2007	Quarter ended June 30, 2007	Quarter ended March 31, 2007	Quarter ended December 31, 2006
Revenue	$ 391	$ 385	$ 174	$ 94
Expenses	$ 10,978	$ 1,129	$ 2,563	$ 1,687
Net loss	$ (8,778)	$ (744)	$ (2,389)	$ (1,593)
Net loss per share	$ (0.18)	$ (0.01)	$ (0.05)	$ (0.04)

Over the past eight quarters, variations in the quarterly loss are usually caused by fluctuations in general corporate expense, stock-based compensation expense and other expense items. General and corporate expense has increased primarily due to increases in legal fees, management remuneration and office and travel expenses. Stock-based compensation expense varies from quarter to quarter depending on the number of stock options granted in the quarter. During the three months ended September 30, 2007, the Company recorded a write-off of $9,476,000 for the Big Bend Gold Property. During the three months ended December 31, 2007, the Company received $2,500,000 in cash from the sale of the Big Bend Gold Property and recorded a loss on sale of $822,000 and a related future tax recovery of $822,000. In the three months ended September 30, 2008, the Company incurred expenses of $1,593,000 related to the offer of purchase for all the issued and outstanding common shares of Western Prospector.

Liquidity and Capital Resources

As at September 30, 2008, the Company had working capital of $24,922,000 (September 30, 2007 - $36,038,000) which comprised cash of $24,600,000 (September 30, 2007 - $33,859,000), accounts receivable in the amount of $79,000 (September 30, 2007 - $47,000), prepaid expenses and other assets in the amount of $126,000 (September 30, 2007 - $133,000), restricted cash in the amount of $732,000 (September 30, 2007 - nil) and current liabilities of $615,000 (September 30, 2007 - $1,323,000). The amount related to the Big Bend Gold Property held for sale of $3,322,000 was part of the working capital as at September 30, 2007. There is no comparable amount as at September 30, 2008 as the asset was sold during the first quarter of the fiscal year.

The Company earns no income from operations and any significant improvement in working capital results from the issuance of share capital. For the year ended September 30, 2008, the operating activities of Khan used cash of $5,083,000 (2007 - $2,009,000), the investing activities, which consisted of restricted cash, advances to suppliers, purchase of capital assets and mineral interests assets, less the proceeds from sale of assets, used cash of $3,269,000 (2007 - $3,595,000), the financing activities provided cash of $154,000 (2007 - $29,652,000) and the foreign exchange loss on cash was $1,061,000 (2007 - foreign exchange gain on cash - $1,044,000). The Company's primary financing activity in the last two years was on March 1, 2007, when the Company completed a public offering of 8,150,000 Common Shares, which were issued pursuant to a prospectus dated February 21, 2007. The Common Shares were issued at a price of Cdn$3.70 each, for total proceeds of Cdn$30,155,000.

The Company believes that it has sufficient financial resources to pay its ongoing general corporate and Mongolian operations expenses and development costs and to meet its liabilities for at least the next fiscal year. This expectation is based on the forecasted costs associated with the current exploration and development plans for the Dornod Uranium Project (the "Project"). The subsequent development of the Project beyond September 30, 2009 will depend on the Company's ability to obtain additional financing. The Company has issued common shares, warrants and agents' options from time to time to advance the Project through various stages of development; however, debt may be required to bring the Project into production. There can be no assurance that the Company will be successful in raising the required financing.

The Company's capital resources are also dependent on the existence of a profitable market for the sale of mineralized material which it may discover or acquire. There can be no assurance that the uranium price will sustain a level that will enable the Dornod Uranium Project to be mined at a profit.

As well, Khan's operations are exposed to risks of changing political stability and government regulation in Mongolia. Any changes in regulations or shifts in political conditions are beyond the Company's control and may adversely affect Khan's business. The Company also considers the successful negotiation of an Investment Agreement with the Government of Mongolia and an updated joint venture agreement with its joint venture partners to be a prerequisite to any major mine development work.

In addition, the ultimate development of the Dornod Uranium Project is a large, complex undertaking that will require substantial engineering, construction and operating expertise and execution. Potential cost overruns and completion delays are significant risks in projects of this size.

The Company does not have any contractual obligations, including those in the nature of long-term debt, capital lease obligations, operating leases, purchase obligations or other long-term obligations other than a five-year lease for office space that commenced on March 1, 2006, with an annual cost of approximately $85,000 per year.

Fourth Quarter

For the three months ended September 30, 2008, the Company incurred a net loss of $3,310,000 or $0.06 per share compared with $8,778,000 or $0.18 per share in the comparable period of 2007.

Total revenue decreased by $237,000 during the quarter ended September 30, 2008 from the comparable period in 2007. Interest decreased due to lower cash balances on hand and lower interest rates in 2008 compared with 2007. The Company maintains cash balances principally in Canadian and US dollars.

Total expenses decreased by $7,514,000 during the quarter ended September 30, 2008 from the comparable period in 2007 primarily due to the decreases in general corporate expense of $435,000, stock-based compensation of $669,000 and write-off of assets of $9,433,000, offset by the increases in Mongolian operations expense of $49,000, the change in foreign exchange of $1,380,000, from a gain of $562,000 in 2007 to a loss of $818,000 in 2008 and the expenses of the offer for Western Prospector of $1,593,000.

During the quarter ended September 30, 2007, a future tax recovery of $1,809,000 was recorded which was related to the write-off of mineral interests for Big Bend Gold Property. There was no comparable amount in 2008.

Transactions with Related Parties

There were no transactions with related parties during the year ended September 30, 2008. During the year ended September 30, 2007, the Company incurred legal fees of $58,000, 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 the consideration established and agreed to by the related party. The director did not stand for election at the Annual and Special Meeting of Shareholders held on February 15, 2007.

Critical Accounting Estimates

The Company's significant accounting policies are described in note 2 to the audited consolidated financial statements for the year ended September 30, 2008. Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Management uses its judgment and knowledge from past experience as a basis for estimates and other assumptions in connection with the preparation of the financial statements. Management's estimates and assumptions are evaluated and updated regularly. The actual results of the Company may materially differ if management were to use different estimates and assumptions. The following accounting estimates are what management considers to be the more critical in the preparation of the Company's financial statements.

Mineral interests

The carrying values for development and exploration properties are cost less any write down to recognize impairment. Management reviews properties when events or changes in circumstances suggest that the carrying value of certain long-lived assets may not be recoverable. An asset impairment charge will be required if the undiscounted cash flows do not exceed the carrying value of the asset tested. The charge to earnings will be the difference between the asset's fair value and the carrying value. Future cash flows are estimated by management based on estimated uranium prices, operating costs, production volume, reclamation costs, capital expenditures and mineral reserves. Each of these variables is subject to uncertainty and risk.

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.

Asset retirement obligations
The Company is subject to environmental protection laws governing reclamation of its development and exploration properties. These laws are continually changing and these changes may affect the procedures and costs required to complete reclamation obligations. Estimates of the fair value of the liabilities for asset retirement obligations are recognized in the period they are incurred. Actual future reclamation costs may be materially different from the costs estimated by the Company.

Contingencies
An estimated contingent loss is recorded when it is determined from available information that a loss is probable and that the amount can be reasonably estimated. Contingent liabilities involve the exercise of judgment and an estimate of future outcomes.

Stock-based compensation expense
The Company has a stock-based compensation plan. The Company accounts for stock options using the fair value method. The determination of the fair value of stock options issued requires management to estimate future stock volatility and a risk-free rate of return. Management uses the Black-Scholes option pricing model to calculate the fair value of Khan's stock options. The assumptions made may change from time to time.

Changes in Accounting Policies Including Initial Adoption

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 consolidated financial statements and has resulted in an increase in amortization expense of approximately $14,000 for the year ended September 30, 2008. The estimated annual impact of this change in accounting estimate is an increase in amortization expense of approximately $33,000 per year.

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

Financial Instruments and Other Instruments

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities are reviewed by management on a monthly basis for risk exposures. Likewise, since 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, the trends of exchange rates are regularly monitored.

The Company only invests cash in bank deposits and/or instruments that are deemed to be very low risk and does not believe that there is any significant price, credit, or liquidity risk nor is there a risk to Khan's financial position, results, and cash flows.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed 2011 as the official changeover date for publicly listed Canadian companies to start using International Financial Reporting Standards ("IFRS"). The transition will affect interim and annual financial statements relating to years beginning on or after January 1, 2011. For the Company, the first annual IFRS financial statements would be prepared for the year ended September 30, 2012 and the first interim financial statements under IFRS would be for the three months ended December 31, 2011. These financial statements would also include comparative amounts for the 2011 fiscal year prepared on an IFRS basis. The Company is currently assessing the potential impacts of IFRS and the conversion process that will be required.

Risks and Uncertainties

Khan's success depends upon a number of factors, many of which are beyond its control. Typical risk factors include, among others, political risk, financing risk, title risks, exploration and development risks, joint venture risks, commodity price, and currency exchange rate risks, operating and environmental hazards encountered in the mining business and changing laws and public policies. Risk factors are more fully described in Khan's Annual Information Form ("AIF") which is available by accessing the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

Additional Information

Additional information, including the AIF of the Company, is available by accessing SEDAR.

Outstanding Share Data

The following table sets forth particulars of the fully-diluted share capitalization of Khan as at December 12, 2008:

Securities	Number of Common Shares
Issued and outstanding common shares	53,975,279
Shares issuable upon exercise of stock options	3,909,800
Total	57,885,079

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 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 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.

Martin Quick
President and Chief Executive Officer

Paul D. Caldwell
Chief Financial Officer

Toronto, Ontario
December 4, 2008

AUDITORS' REPORT

To the Shareholders of Khan Resources Inc.

We have audited the consolidated balance sheets of Khan Resources Inc. as at September 30, 2008 and 2007 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, 2008. 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, 2008 and 2007 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, 2008 in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 4, 2008

Khan Resources Inc.

CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars) (All dollar amounts are in thousands)

	As at September 30, 2008	As at September 30, 2007
Assets		
Current		
Cash	**$ 24,600**	$ 33,859
Accounts receivable	**79**	47
Prepaid expenses and other assets	**126**	133
Restricted cash (note 5)	**732**	–
Asset held for sale (note 6)	**–**	3,322
Total current assets	**25,537**	37,361
Advances to suppliers (note 8)	**97**	–
Capital assets, net (note 9)	**1,943**	578
Mineral interests (notes 1 and 10)	**8,607**	5,044
	$ 36,184	$ 42,983
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 615**	$ 501
Future tax liabilities (note 14)	**–**	822
Total current liabilities	**615**	1,323
Commitments and contingencies (notes 10 and 17)		
Shareholders' Equity		
Capital stock (note 11)	**70,493**	68,661
Deficit	**(34,924)**	(27,001)
	35,569	41,660
	$ 36,184	$ 42,983

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

On behalf of the Board:

James B. C. Doak
Director

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 2008	2007	Cumulative from inception on October 1, 2002
Revenue			
Interest	$ 722	$ 1,044	$ 1,935
Expenses (income)			
General corporate	3,434	2,900	10,458
Mongolian operations	796	291	1,489
Amortization	146	71	234
Stock-based compensation (note 12)	1,678	4,705	10,572
Foreign exchange loss (gain)	998	(1,086)	(113)
Sale of assets (note 6)	822	–	797
Offer for Western Prospector Group Ltd. (note 7)	1,593	–	1,593
Write-off of assets (note 6)	–	9,476	9,742
	9,467	16,357	34,772
Loss before taxes	(8,745)	(15,313)	(32,837)
Future tax recovery (note 14)	822	1,809	3,394
Net loss and comprehensive loss for the period	(7,923)	(13,504)	(29,443)
Deficit, beginning of period	(27,001)	(11,416)	–
Equity financing costs (note 11)	–	(2,081)	(5,481)
Deficit, end of period	$ (34,924)	$ (27,001)	$ (34,924)
Weighted average number of common shares outstanding (thousands) - basic and diluted (note 15)	54,106	48,363	
Net loss per share - basic and diluted (note 15)	$ (0.15)	$ (0.28)	

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars) (All dollar amounts are in thousands)

	Years ended September 30 2008	2007	Cumulative from inception on October 1, 2002
Operating Activities			
Net loss for the period	**$ (7,923)**	$ (13,504)	$ (29,443)
Items not affecting cash:			
Amortization expense	**146**	71	234
Stock-based compensation	**1,678**	4,705	10,572
Sale of assets (note 6)	**822**	–	825
Future tax recovery (note 14)	**(822)**	(1,809)	(3,394)
Unrealized foreign exchange loss (gain)	**1,061**	(1,086)	(19)
Write-off of assets (note 6)	**–**	9,476	9,762
	(5,038)	(2,147)	(11,463)
Changes in non-cash working capital balances related to operations (note 16)	**(45)**	138	(284)
Cash used in operating activities	**(5,083)**	(2,009)	(11,747)
Investing Activities			
Proceeds from sale of assets	**2,500**	–	2,500
Restricted cash	**(732)**	–	(732)
Advances to suppliers	**(97)**	–	(97)
Purchase of capital assets	**(1,511)**	(559)	(2,182)
Mineral interests	**(3,429)**	(3,036)	(8,807)
Payment of property acquisition liability	**–**	–	(1,667)
Cash used in investing activities	**(3,269)**	(3,595)	(10,985)
Financing Activities			
Capital stock issued for cash	**154**	31,552	51,968
Equity financing costs	**–**	(1,900)	(4,619)
Cash provided by financing activities	**154**	29,652	47,349
Foreign exchange (loss) gain on cash	**(1,061)**	1,044	(17)
Net (decrease) increase in cash during the period	**(9,259)**	25,092	24,600
Cash, beginning of period	**33,859**	8,767	–
Cash, end of period	**$ 24,600**	$ 33,859	$ 24,600

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2008

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

1. Nature of Operations

Khan Resources Inc. ("Khan" or the "Company") is in the process of acquiring, exploring and developing 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 and upon future profitable production and/or the proceeds from the disposition thereof. To date, the Company has not earned any revenues from its properties.

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%
Khan Resources B.V.	Netherlands	Dec. 27, 2007	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.

Cash

Cash consists of cash on deposit with banks.

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

Buildings:	5 years
Equipment, fixtures, furniture and vehicles:	5 years
Computer equipment:	3 years

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 consolidated financial statements and has resulted in an increase in amortization expense of approximately $14 for the year ended September 30, 2008. The estimated annual impact of this change in accounting estimate is an increase in amortization expense of approximately $33 per year.

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 licenses 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. 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 and 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, 2008.

Foreign currency translation

The Company considers all of its foreign operations to be integrated and therefore, they 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 balance sheet 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 year. 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 year.

Loss per share

The 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 the benefit of the future income tax assets will not be realized.

Financial Instruments

The Company has adopted the Canadian Institute of Chartered Accountants ("CICA") accounting sections: 3855 (Financial Instruments - Recognition and Measurement), 3861 (Financial Instruments - Disclosure and Presentation), 3865 (Hedges) and 1530 (Comprehensive Income).

(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 (CICA 3865)*
This standard specifies how hedge accounting is to be applied and what disclosures are to be required.

(iv) *Comprehensive Income (CICA 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.

Accounting policy changes
Effective October 1, 2007, the Company adopted the new CICA accounting sections: 1535 (Capital Disclosures), 3862 (Financial Instruments - Disclosures) and 3863 (Financial Instruments - Presentation). These accounting policy changes have been adopted prospectively with no restatement of comparative consolidated financial statements. 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 consolidated financial statements.

(ii) Financial Instruments - Disclosures (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 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. The adoption of this standard has no impact on the Company's financial statements.

Recent accounting pronouncements
Effective October 1, 2008, the Company will adopt the new CICA accounting section: 3064 (Goodwill and Intangible Assets). Section 3064 provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or are developed internally. The Company is currently evaluating the effect of adopting this standard.

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for publicly accountable companies. The official change over date is for interim and annual financial statements for fiscal years beginning on or after January 11, 2011. IFRS will be required for Khan's interim and annual consolidated financial statements for the fiscal year beginning on October 1, 2011. The Company is currently formulating and developing an implementation plan to comply with the new standards and its future reporting requirements.

3. Capital Management

The Company's objectives for managing capital are to safeguard its 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 at September 30, 2008 consists of common shares and was $61,471 as at September 30, 2008 (September 30, 2007 - $61,220). The Company has issued common shares, warrants and agents' options from time to time 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.

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 consolidated statement of operations and deficit. Accounts receivable are designated as loans and receivables and therefore carried at amortized cost with the gains and losses recognized in the consolidated statement of operations and deficit 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 consolidated statements of operation and deficit 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 September 30, 2008 was $25,332. 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, Euros and Mongolian togrogs are subject to fluctuation against the United States dollar. A +/- 1% change in the exchange rates between the Canadian and United States dollars would, based on the Company's consolidated financial statements at September 30, 2008, have an effect on the loss before taxes of approximately +/- $187.

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 have an effect on the loss before taxes for the year ended September 30, 2008 of approximately +/- $292.

The Company also records transaction costs related to the acquisition or issue of held for trading financial instruments to the consolidated statement of operations and deficit 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 September 30, 2008, the Company was holding cash of $24,600.

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. The international letter of credit expires on February 26, 2009 as the services are expected to be completed by this date.

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 year ended September 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.

7. Offer for Western Prospector Group Ltd.

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. The Company extended the Offer on June 19, 2008, July 10, 2008, July 23, 2008 and August 8, 2008. On August 19, 2008, the Company extended the Offer to September 3, 2008. On September 3, 2008, the Company announced that it would allow the Offer to expire.

As the Offer expired without acceptance, the costs related to it have been 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 September 30, 2008	As at September 30, 2007
Buildings, equipment, fixtures, furniture and vehicles	**$ 776**	$ 666
Less: accumulated amortization	**234**	88
	542	578
Construction in progress	**1,401**	–
	$ 1,943	$ 578

10. Mineral Interests

		As at September 30, 2008		As at September 30, 2007
Dornod Uranium Project, Mongolia				
Acquisition costs	$	447	$	447
Deferred development costs		8,160		4,597
	$	8,607	$	5,044

(a) The Minerals Law of Mongolia ("MLM") 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 license, 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 license 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 MLM. 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 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 license 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 license holder may receive and dispose of income from such sales, and provisions with respect to the amount and term of the license holder's investment.

On February 6, 2007, the Dornod Uranium Project ("Project") was designated by Parliament Decree 27 as a "mineral deposit of strategic importance". The deposits at the 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 Project as a "minerals deposit of strategic importance" complies with the requirements of the MLM and is investigating whether the Project was in fact defined by the exploration activities funded by the State Budget.

11. Capital Stock

Capital stock consists of the following:

	As at September 30, 2008	As at September 30, 2007
Common shares (a)	$ 61,471	$ 61,220
Warrants (b)	–	996
Agents options (c)	–	390
Contributed surplus (d)	9,022	6,055
	$ 70,493	$ 68,661

(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, 2008 and 2007 are as follows:

	Number of common shares *(000's)*	Amount
Balance, September 30, 2006	41,425	$ 26,293
Prospectus financing (i)	8,150	25,746
Exercise of stock options (ii)	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
Exercise of stock options (ii)	127	251
Balance, September 30, 2008	54,143	$ 61,471

(i) 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 gross proceeds of $25,746 (Cdn$30,155) with expenses of $2,081.

(ii) 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 24 months. Compensation expense was recognized for the options issued in 2007 and 2008. At September 30, 2008, there were 1,505,000 options available for grant under the plan.

The summary of the stock option transactions in 2007 and 2008 is as follows:

	Number of options *(000's)*	Weighted average exercise price *(Cdn$)*
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
Granted to directors, officers and employees	540	1.15
Exercised	(127)	1.17
Expired	(611)	2.16
Balance, September 30, 2008	3,910	$ 2.34

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

Options outstanding

Exercise prices *(Cdn$)*	Number outstanding at September 30, 2008 *(000's)*	Weighted average remaining contractual life *(years)*	Weighted average exercise price *(Cdn$)*
1.00 to 1.89	1,435	3.45	1.43
2.37 to 2.39	1,445	3.67	2.37
3.53 to 4.69	1,030	3.43	3.57
1.00 to 4.69	3,910	3.53	$ 2.34

Options exercisable

Exercise prices *(Cdn$)*	Number exercisable at September 30, 2008 *(000's)*	Weighted average exercise price *(Cdn$)*
1.00 to 1.89	1,074	1.53
2.37 to 2.39	1,035	2.37
3.53 to 4.69	1,030	3.57
1.00 to 4.69	3,139	$ 2.48

(b) *Warrants*

The summary of the transactions in the warrants account in 2007 and 2008 is as follows:

	Number of warrants *(000's)*	Amount
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
Expiry of warrants	(1,507)	(996)
Balance, September 30, 2008	–	$ –

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

(c) Agents options

The summary of the transactions in the agents options account in 2007 and 2008 is as follows:

	Number of agents options *(000's)*		Amount
Balance, September 30, 2006	327	$	235
Grant of agents options (i)	244		369
Exercise of agents options	(277)		(214)
Balance, September 30, 2007	294		390
Expiry of agents options	(294)		(390)
Balance, September 30, 2008	–	$	–

(i) 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 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:

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 comprised 68,000 options granted on August 2, 2006 and 226,000 options granted on March 1, 2007. The options granted on August 2, 2006 entitled the holder to purchase one unit at a price of Cdn$1.50 per unit until August 2, 2008. Each unit consisted 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

The summary of the transactions in the contributed surplus account in 2007 and 2008 is as follows:

		Amount
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
Stock options granted to directors, officers and employees		1,678
Stock options exercised		(97)
Warrants expired		996
Agents options expired		390
Balance, September 30, 2008	$	9,022

12. Stock-based Compensation

The stock-based compensation expense during the year ended September 30, 2008 was $1,678 (2007 - $4,705) 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 year ended September 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 year ended September 30, 2008 is Cdn$0.89 (2007 - Cdn$2.09).

13. Related Party Transactions

There were no related party transactions for the year ended September 30, 2008. During the year ended September 30, 2007, the Company incurred legal fees of $58 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 did not stand for election at the Annual and Special Meeting of Shareholders held on February 15, 2007.

14. 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 33.9% (2007 - 36.1%) were as follows:

	2008	2007
Loss before income taxes	$ 8,745	$ 15,313
Expected income tax benefit based on statutory tax rate	$ 2,962	$ 5,528
Stock-based compensation expense	(568)	(1,699)
Foreign exchange (loss) gain	(338)	392
Sale of assets	617	–
Offering costs for Western Prospectors Group Ltd.	(540)	–
Write-off of assets	–	(559)
Reduction in future tax rates	(595)	–
Tax assets previously not recognized	1,422	–
Foreign tax rate differential	(272)	(1,100)
Tax benefit	2,688	2,562
Current year valuation allowance	(1,866)	(753)
Recovery of income taxes	$ 822	$ 1,809

(b) Future tax assets and liabilities

The tax effects of temporary differences that give rise to future tax assets as at September 30, 2008 and 2007 are as follows:

		2008		2007
Future tax assets				
Non-capital losses	$	4,748	$	2,377
Capital assets		20		20
Equity financing costs		900		1,405
	$	5,668	$	3,802
Future tax liabilities				
Accounting value of mineral properties exceeding tax value	$	–	$	(822)
Total future tax assets				
Future tax assets	$	5,668	$	3,802
Valuation allowance for future tax assets		(5,668)		(3,802)
	$	–	$	–
Total future tax liabilities	$	–	$	(822)

At September 30, 2008, the Company had Canadian non-capital losses of approximately $16,185 (2007 - $7,269) available for deduction against future taxable income and these losses, if unutilized, will expire from 2023 to 2028; and Mongolian non-capital losses of approximately $536 (2007 - $143) available for deduction against future taxable income and these losses, if unutilized, will expire from 2009 to 2010.

15. Loss per Share

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

Basic and diluted loss per share has been calculated using the weighted average number of common shares outstanding of 54,106,252 during the year ended September 30, 2008 (2007 - 48,363,000). Any potential common shares whose effect is anti-dilutive have not been reflected in the calculation of diluted loss per share.

16. Supplemental Cash Flow Information

		Years ended September 30 2008		2007		Cumulative from inception on October 1, 2002
Changes in non-cash working capital balances related to operations:						
Accounts receivable	$	(32)	$	30	$	(79)
Prepaid expenses and other assets		7		(44)		(126)
Accounts payable and accrued liabilities		(20)		152		(79)
	$	(45)	$	138	$	(284)
Non-cash financing activities:						
Equity financing costs settled by issue of agents options	$	–	$	369	$	604

The Company did not pay income taxes or interest during the years ended September 30, 2008 and 2007.

17. Commitments and Contingencies

(a) Litigation

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

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

(b) 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.

(c) Letter of Credit

In April 2008, the Company established an international letter of credit for a contractor in the amount of $673 with respect to a contract for professional services. A guaranteed investment certificate in the amount of $673 was pledged as security. The international letter of credit expires on February 26, 2009 as the services are expected to be completed by this date.

18. Subsequent Events

a) On October 21, 2008, the Company announced that the Toronto Stock Exchange ("TSX") had accepted a notice filed by the Company of its intention to make a normal course issuer bid.

The Company had 54,143,279 common shares issued and outstanding at September 30, 2008. The notice provides that under the normal course issuer bid, the Company may purchase up to 4,056,828 common shares, being 10% of the public float. In addition, the notice provides that the aggregate number of common shares that the Company may purchase during any trading day will not exceed 22,978 shares, being 25% of the average daily trading volume of the shares based on their trading volume on the TSX for the most recently completed six calendar months preceding the date of the notice of intention, subject to the Company's ability to make "block" purchases through the facilities of the TSX in accordance with the TSX rules.

As of December 4, 2008, the Company had purchased 168,000 common shares.

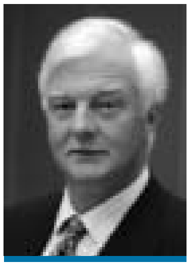
b) On December 4, 2008 the Company announced that it had signed a Letter of Intent with Marubeni Corporation of Japan ("Marubeni") relating to uranium exploration and mining in Mongolia. Maurbeni and the Company will discuss the possibility of a transaction related to the Company's interest in its properties and, if such a transaction was considered desirable by both parties, intend to conclude such agreements as are necessary at that time. The Letter of Intent is non-binding on both parties and each party shall be responsible for and bear all of its own costs and expenses incurred at any time in connection with its obligations under this Letter of Intent and in connection with pursuing or consummating the possible transaction.

This Letter of Intent, unless extended by mutual agreement, shall terminate upon the first to occur of (1) October 31, 2009, (2) the execution of a definitive agreement with respect to the possible transaction or (3) written notice by either party to the other party setting forth its intentions to terminate this Letter of Intent.

19. Comparative Consolidated Financial Statements

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

DIRECTORS' BIOGRAPHIES



James B. C. Doak *Chairman of the Board and Director*

James Doak has over 25 years experience as a chartered financial analyst. He has served as the President and Managing Partner of Megantic Asset Management Inc., a Toronto-based investment company, since 2002. Mr. Doak is a Director of Cascades Inc. and Purepoint Uranium Group Inc. In addition, he is a former Director of PetroKazakhstan Inc., Superior Propane Inc. and Spar Aerospace Inc. Mr. Doak has held senior positions at ScotiaMcLeod Inc., First Marathon Securities Ltd., McLeod Young Weir Ltd., and he was a founder of Enterprise Capital Management Inc. where he served as President and Managing Partner from 1997 to 2002. Mr. Doak is a past President and Director of the Toronto Society of Financial Analysts and a past Chair and Director of the Toronto French School. Mr. Doak has published a number of columns in two Canadian financial publications. He holds a Diplôme des études collégiales from McGill University and a BA in Economics from the University of Toronto.

Jean-Pierre Chauvin *Director and Chairman of the Compensation Committee*

Jean-Pierre has over 30 years of experience in mining and construction. Since July 2006, Mr. Chauvin has served as Chief Operating Officer of Globestar Mining Corp. and was promoted to President in October 2006. Prior to March 2006, he was President, Chief Executive Officer and a Director of Patricia Mining Corporation since 2004. Mr. Chauvin has also acted as President and Senior Consultant of Chauvin Engineering Ltd. based in Oakville, Ontario since 2001. The consulting company focuses on operational reviews and feasibility studies in the mining industry. Prior to 2001, Mr. Chauvin has served as a Director of Battle Mountain Canada Ltd., Crown Butte Resources Ltd., the Mining Association of Canada and the Ontario Mining Association. He has also served as General Manager of Canadian Operations for Battle Mountain Gold Co. Mr. Chauvin holds a BSc in Mining Engineering from Queen's University.

Grant A. Edey *Director and Chairman of the Audit and Finance Committee*

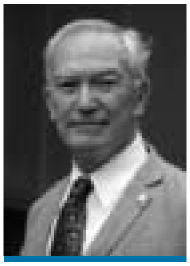
Grant Edey has over 30 years of financial experience primarily in the mining industry. He recently retired from IAMGOLD Corporation where he was Chief Financial Officer from 2003 to 2007. From 1996 to 2002, he was Vice President, Finance, Chief Financial Officer and Corporate Secretary of Repadre Capital Corporation. Prior to 1996, he held senior positions with Strathcona Mineral Services Limited, TransCanada Pipelines Limited, Eldorado Nuclear Limited, Rio Algom Limited and INCO Limited. Mr. Edey is also a director of Breakwater Resources Ltd. and Baffinland Iron Mines Corporation. Mr. Edey holds a BSc in Mining Engineering from Queen's University and an MBA from the University of Western Ontario.

Stephen W. Harapiak *Director*

Stephen Harapiak is a graduate in Mechanical Engineering from the University of Manitoba and has spent his entire career in the minerals industry. Mr. Harapiak has worked in the uranium, potash, iron, base metal and gold sectors and his experience spans the entire range of activity from engineering, construction and project management to operation of mining, milling and refining facilities. Mr. Harapiak has also served in senior executive positions in major companies in Canada and abroad. Canadian companies include Noranda, Denison Mines and Potash Corporation of Saskatchewan where he served as President and Chief Executive Officer. His international experience includes engineering assignments in Chile, Cuba and Russia. Additionally, Mr. Harapiak has headed up major mineral projects in Zambia as Director of Operations for Zambia Consolidated Copper Mines, in Russia as General Director of Kubaka Gold Mine, a Russian American joint venture green fields project and in Kazakhstan as Senior Vice President of Kazzinc, a Glencore company, with responsibility for all operations and new projects for this integrated mining, smelting and refining company. Most recently, Mr. Harapiak was retained as a consultant to the International Finance Corporation (World Bank Group) overseeing mining supply chain development projects in Russia. He is currently employed by Victory Nickel Inc. in the capacity of President and Chief Operating Officer. His previous directorships include Belmoral Gold Mines, Potash Corporation of Saskatchewan and Software Innovation, a Kitchener based software development company. Mr. Harapiak is past president of the CIM and is a member of the Professional Engineers of Ontario. He also has served on various industry, government, professional and educational advisory boards.

Peter J. M. Hooper *Director and Chairman of the Technical Advisory Committee*

Mr. Hooper is a senior mining executive with broad-based experience in production, engineering, reorganization and training, contracting, exploration and corporate affairs. He has a long track record in the mining industry in South Africa, Canada, Australia and Ghana. Currently, Mr. Hooper is Chief Executive Officer of Macusani Yellowcake, a company he was instrumental in founding in 2006. From April 2004 to September 2005, Mr. Hooper served as the Chief Operating Officer for AFCAN Mining Corporation. From 2002 until 2004, Mr. Hooper served as Managing Director of mineral resources at Kingsdale Capital Corporation. He also served as President of Valencia Ventures Inc. from 2000 to 2005. From 1999 to 2001, Mr. Hooper provided consulting engineering services through his company, Hooper Mining Services Inc. His senior management experience includes uranium production in Canada with Eldorado Nuclear Uranium Mines Ltd., gold production in South Africa and Ghana, and copper and zinc production in Canada. Mr. Hooper has been a senior mining executive with Consolidated Rio Australia Ltd., J.S. Redpath Mining Engineering Ltd. and Dynatec Engineering Ltd. His consulting engineering projects have been conducted in Canada, the United States, Cuba, Colombia, Venezuela, Mexico, Chile, South Africa, Zimbabwe, Ghana, Zambia, Australia, Kyrgyzstan, Kazakhstan, Uzbekistan, Russia, Saudi Arabia and France. He is also a director and/or officer of several public mining companies. Mr. Hooper holds a BSc in Mining Engineering from the University of the Witwatersrand, South Africa.



Hon. Robert P. Kaplan *Director and Chairman of the Corporate Governance and Nominating Committee*

The Hon. Robert Kaplan has over 40 years of experience as a lawyer, businessman and elected politician. In 1993, Mr. Kaplan retired from a 25-year career in federal politics. He was a Member of Parliament and Cabinet Minister in the Governments of the Rt. Hon. Pierre-Elliott Trudeau and Rt. Hon. John N. Turner. Mr. Kaplan is a director of Advanced Explorations, Inc. and a trustee of H&R REIT. As well, he is a former Director and Chairman of PetroKazakhstan, Inc. Mr. Kaplan is a founding Trustee of the State Hermitage Museum Foundation of Canada, one of five international foundations which support the Hermitage Museum in St Petersburg, Russia. He has also been honoured by being named a Chevalier of the Legion of Honour by the President of France. He has served as the Honourary Consul General of Kazakhstan for Canada for the last 15 years. Mr. Kaplan holds a BA in Sociology and an LLB from the University of Toronto. He was called to the Ontario Bar in 1963.

David L. McAusland *Director*

David McAusland is a consultant, lawyer and corporate director. A graduate of the Faculty of Law of McGill University, he practiced law for over 20 years at a prominent Montreal law firm. In 1999, he joined Alcan Inc. and served as Senior Vice President for Mergers and Acquisitions of Alcan Inc. and Chief Legal Officer since October 2000 and Executive Vice President, Corporate Development since February 2005. Mr. McAusland's responsibilities included worldwide legal and regulatory affairs, mergers, acquisitions and major transactions as well as corporate development initiatives until the sale of Alcan Inc. in 2007 to Rio Tinto PLC. Mr. McAusland is a Director of Cascades Inc., Cogeco Inc., a Director of Cogeco Cable Inc. and Equinox Minerals Ltd. and is a member of the governance committees for all four of these corporations. He is the Chairman of the Foundation of the National Circus School and a director of Centraide of Greater Montreal.

Martin Quick *President, Chief Executive Officer and Director*

Martin Quick joined the Corporation on January 16, 2006. He has over 45 years of worldwide mining experience in both underground and open pit operations holding senior mining production and engineering positions in Africa, Australia, Fiji, the United States and Canada. Mr. Quick has also acted in the capacity of mining consultant for gold operations in Central and South America. From August 2004 until December 2005, Mr. Quick was President and Chief Operating Officer of Power Resources Inc., a wholly-owned subsidiary of Cameco Corporation, a global producer of uranium for the nuclear power industry. Mr. Quick's responsibilities included the operation, development and expansion of the company's in situ leach uranium mines at Smith Ranch/Highlands in Wyoming, Crow Butte in Nebraska and the Inkai project in Kazakhstan. Prior to this appointment, Mr. Quick was Vice President - Mining with Cameco Corporation, based in Saskatoon, from March 2001 to July 2004, where he was responsible for Cameco's Northern Saskatchewan operations including the world's largest uranium mine at McArthur River/Key Lake, as well as the restart of the Eagle Point Mine at Rabbit Lake and the planning and development of the Cigar Lake project. Prior to joining Cameco, Mr. Quick held positions as General Manager of Cogema's Cluff Lake uranium mine in Northern Saskatchewan and Rio Algom's now decommissioned Quirke and Stanleigh uranium mines in Northern Ontario, Canada. He is a Professional Engineer in the province of Saskatchewan and a graduate of the Camborne School of Metalliferous Mining in the United Kingdom.

Khan Resources Inc.

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Jean-Pierre Chauvin
Director

Grant A. Edey
Director

Stephen W. Harapiak
Director

Peter J. M. Hooper
Director

Hon. Robert P. Kaplan
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David L. McAusland
Director

Martin Quick
Director

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Printed in Canada on recycled paper. Production: Walter J. Mishko & Co. Inc. Design: Goodhoofd Inc. Editorial Services: Lembi Buchanan

Environmental and Social Impact Study

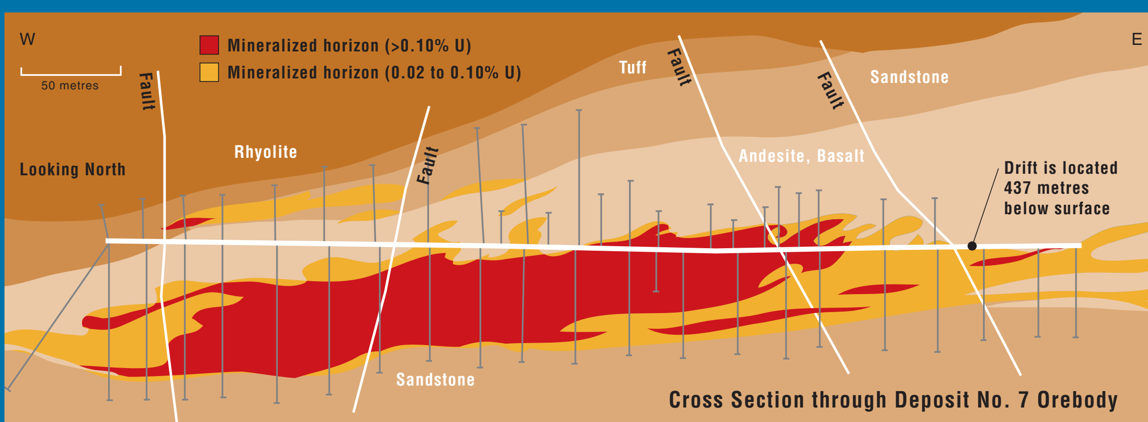
On-site baseline sampling of the water in the open pit and air at a number of locations were carried out in June 2008 to establish the conditions at the site prior to resuming mining activity. A radiological survey of the minesite and surrounding area was also completed to determine the level of background radiation.

Socio-economic surveys included interviews with residents living near the Dornod Uranium Project and also with representatives of government agencies and NGOs in the town of Dashbalbar, 60 km to the north and the city of Choibalsan, 120 km to the south.

Water from the underground mine workings will be pumped to the sedimentation pond currently under construction. This will allow for the settlement and retention of sediments before the water is released into the flooded open pit.

DORNOD

HIGH-QUALITY DEPOSIT | EXCELLENT ECONOMIC RETURN



Probable Mineral Reserve

Location	Category	Tonnes (million)	$\%U_3O_8$	lb U_3O_8 (million)
No. 7 Deposit	Probable	11.28	0.156	38.9
No. 2 Deposit	Probable	6.94	0.067	10.2
Total	Probable	18.22	0.122	49.1

Indicated Mineral Resource

Location	Category	Tonnes (million)	$\%U_3O_8$	lb U_3O_8 (million)
No. 7 Deposit	Indicated	14.36	0.154	48.6
No. 2 Deposit	Indicated	10.95	0.065	15.7
Total	Indicated	25.31	0.116	64.3

Notes: The Probable Mineral Reserve is part of the Indicated Mineral Resource.
See www.khanresources.com for qualifying information.

www.khanresources.com

KHAN RESOURCES INC.

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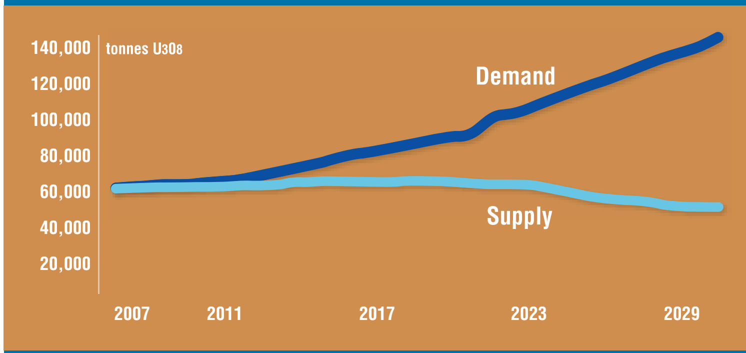
Uranium's Future

While the spot price for uranium has been volatile during the past year, long-term purchase contracts have remained relatively stable. Current annual demand is estimated at 185 million pounds which is substantially greater than the primary mine supply of 125 million pounds. The shortfall continues to come from government enriched uranium sources and stockpiles but most of this supply will be depleted by 2012.

World Supply and Demand Projection for Uranium



The supply/demand balance favours companies such as Khan Resources that have long-term resources. Current reserves and resources will generate 64.3 million pounds of U_3O_8 over a period of more than 15 years. There is also ample opportunity to expand the uranium resource in the Dornod Uranium Project.

Nuclear power is a "sustainable development" technology because its fuel will be available for multiple centuries. Spent fuel rods can be reprocessed and waste mill tailings can be enriched. Nuclear energy also supports environmental responsibility since it causes virtually no greenhouse gases or pollution and the nuclear waste can be managed over the long-term. Nuclear power plants also have an excellent safety record - both for plant workers and the public.

The Skytower, rising above the Choijin Lama's Museum in the city streets of Ulaan Baatar, is a symbol of the future economic growth and prosperity in Mongolia. The office building is in stark contrast to the bleak and uninspiring architecture of the Soviet era that dominates the city.