KHAN
RESOURCES INC.

MOVING AHEAD AT DORNOD

2009
ANNUAL
REPORT

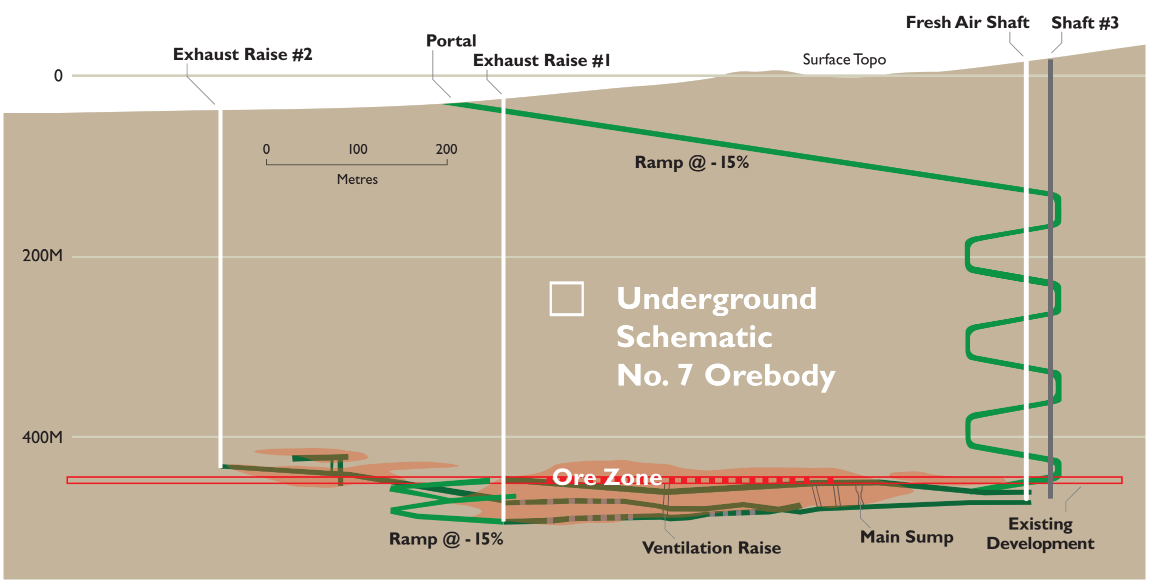
DORNOD DEFINITIVE FEASIBILITY STUDY COMPLETED

The Study, completed in March of 2009 confirmed that the Dornod Uranium Project is a robust, world-class project, and the key highlights are shown in the summary table below:

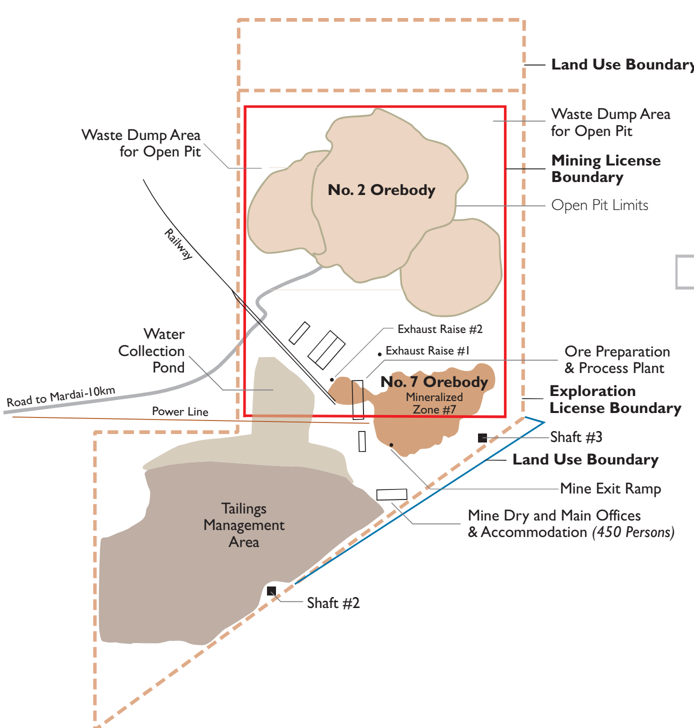
Production Level	3500 tpd or 1.2 M tpa
Life of Mine	15 Years
Total lbs U_3O_8 Produced	45.3 M (Mill Recovery 88%)
Tonnes Milled and Grade of No. 7 Orebody	10.6 M @ 0.174% U_3O_8
Tonnes Milled and Grade of No. 2 Orebody	7.4 M @ 0.074% U_3O_8
Capital Costs	$332 Million
Operating Costs	$58.26/t or 23.22/lb U_3O_8
Manpower *(average)*	933
Life of Mine *(LOM)* Revenue	$2,943 Million
Total Operating Costs *(LOM)*	$1,175 Million
Income Tax *(LOM)*	$317 Million
After Tax Cumulative Cash Flow	$925 Million
IRR Post Tax/Payback	29.1%/2.3 yrs
Assumed Long-term Uranium Price	$65/lb U_3O_8

All dollar figures above are in US dollars, and all tonnage figures are in tonnes (t)

"Dornod…a robust, world-class project"



Underground schematic showing the relationship of the main No. 7 orebody to the surface, and to the proposed access ramp from surface and ventilation shafts.



KHAN RESOURCES INC.

Dornod Uranium Project Site Plan

Site plan illustrates the small footprint of the project and shows the orebodies and tailings management area in relation to the proposed surface treatment and other facilities.

DORNOD QUALITY ASSET

Probable Mineral Reserve

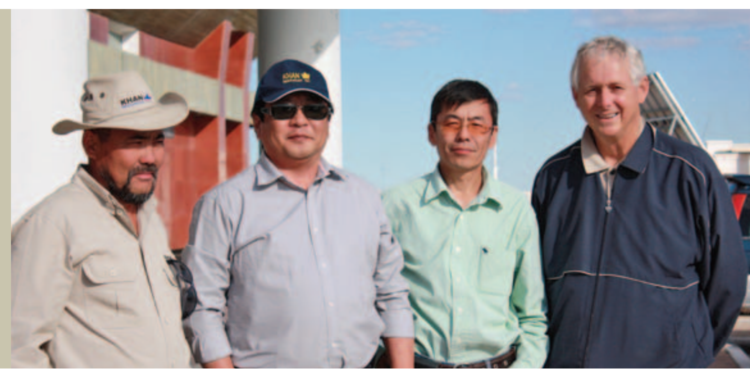
Location	Category	Tonnes (million)	$\%U_3O_8$	lb U_3O_8 (million)
No. 7 Deposit	Probable	10.63	0.174	40.8
No. 2 Deposit	Probable	7.41	0.074	12.1
Total	Probable	18.04	0.122	52.9

Indicated Mineral Resource

Location	Category	Tonnes (million)	$\%U_3O_8$	lb U_3O_8 (million)
No. 7 Deposit	Indicated	14.36	0.174	40.8
No. 2 Deposit	Indicated	10.95	0.074	12.1
Total	Indicated	25.31	0.122	52.9

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

This lined pond which was completed in June 2009, will receive water pumped from the underground workings during the de-watering and rehabilitation process which is projected to commence in the Fall of 2010.



Staff members Batmunkh *(left)* and Erdenebileg *(3rd from left)* with Mongolian Executive Director Enkhbayar and CEO Martin Quick at the Choibalsan airport during a site visit in July 2009.

OUR MACUSANI INVESTMENT

In December of 2009, Khan purchased an 18% interest in Macusani Yellowcake Inc. Macusani controls over 240 km² of land located on the Macusani Plateau in the Puno District of southern Peru, which include several significant advanced stage exploration properties. In December 2008, Macusani announced indicated resources of 1.3 million lbs of U_3O_8 at a grade of 0.37 lbs of U_3O_8 per short ton and inferred resources of 9.8 million lbs of U_3O_8 at a grade of 0.38 lbs per short ton on its Colibri II and Colibri III properties. In June 2009, Macusani acquired the Corapachi and Kihitian Concessions, two highly prospective properties on the Plateau where higher grade U_3O_8 has been identified. Khan understands that Macusani has conducted an exploration program on these properties subsequent to their acquisition and it is in the process of preparing a National Instrument 43-101 compliant resource estimate for these concessions.

A drill rig at Macusani, Peru.

The Macusani Project is located in Puno, Southern Peru.

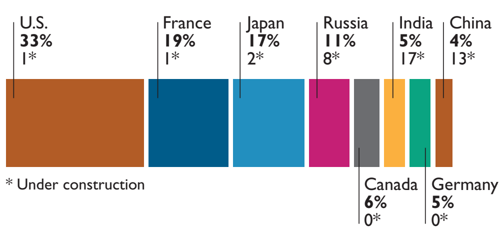
Surface uranium mineralization at Macusani.

URANIUM GLOBAL OVERVIEW

While the spot price of U_3O_8 remained flat during 2009 and traded in the range of $45 to $55 per lb, the overall fundamentals for the future demand of the radioactive metal remains strong. The long-term price of uranium ended the year at $62.50 per lb. The shortage of primary supply due to the increasing demand from utilities in the next few years, will mean continued upward pressure on the price of uranium. Most of the shortfall in mine supply over demand in 2009 was made up by increased amounts of down-blended fuel being placed into the system from nuclear weapons, particularly from the USA. However, this is likely only a temporary phenomena and a real shortage of supply is expected after 2012 unless global mine production increases substantially.

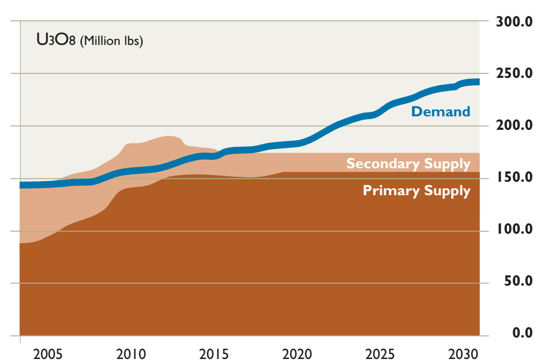
Thus the supply/demand balance favours companies such as Khan Resources that have near-term production capabilities and will come into production during this shortfall period as the number of operational nuclear power plants continues to increase. There are currently 436 nuclear reactors in operation worldwide with 53 under construction and over 142 in the planning stage.

Reactors per Country (% of World Total)



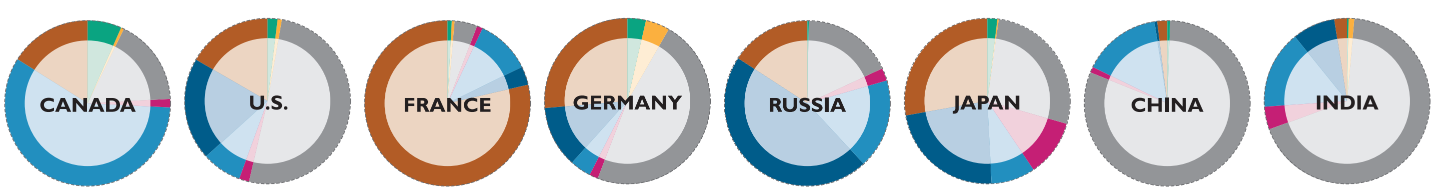
* Under construction

Uranium Supply and Demand (Global Projection)



*National Post - August 1, 2009

Electricity Production Source



	Canada	U.S.	France	Germany	Russia	Japan	China	India
Nuclear	16.0%	16.0%	78.4%	26.3%	15.7%	27.6%	1.9%	2.5%
Gas	0.1%	19.5%	3.8%	11.9%	46.0%	23.1%	0.5%	8.3%
Hydro	58.0%	7.4%	10.6%	4.3%	17.6%	8.7%	15.2%	15.3%
Oil	1.5%	1.9%	1.2%	1.5%	2.4%	11.0%	1.2%	4.2%
Coal	17.1%	49.5%	4.6%	47.5%	18.0%	27.2%	80.4%	68.3%
Wind	0.4%	0.6%	0.4%	4.8%	0.0%	0.2%	0.1%	1.1%
Other	6.9%	2.1%	1.0%	3.7%	0.3%	2.2%	0.7%	0.3%

CORPORATE INFORMATION

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Grant A. Edey

Stephen W. Harapiak

Peter J. Hooper

Robert P. Kaplan

David L. McAusland

Martin Quick

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Letter to Shareholders

It is again my pleasure to present this update on the activities of Khan Resources Inc. during 2009, as well as to summarize the latest developments in the hostile take-over offer by ARMZ and the subsequent friendly offer by CNNC. This has been a roller coaster year for Khan once again, which for the most part has been dictated by the political events in Mongolia. Before going into the offers for the Company which are now on the table, I would like to review the technical and project aspects of the year under review, and to mention Khan's new involvement with an uranium exploration project in southern Peru.

DEFINITIVE FEASIBILITY STUDY

The key technical development of 2009 was the completion in March of the Definitive Feasibility Study by our consultants Aker Solutions Canada Inc. of Toronto, and their subcontractors P&E Mining Consultants Inc. and AATA International, Inc. The Study re-confirmed the robustness of the Dornod uranium project, and clearly demonstrated its world-class credentials. Based on a milling rate of 3,500 tonnes per day, the study showed that the mine will produce an average of 3.0 million lbs of U_3O_8 per year over a minimum 15 year mine life at an average operating cost of just over US$22 per lb U_3O_8. The project also showed an impressive 29% internal rate of return, using a long-term uranium price of US$65. The initial capital cost was estimated to be US$333 million. In preparation for the de-watering of the mine, two lined settling ponds were installed in 2009, and the majority of the work associated with the installation of a 26 kilometre power line and sub-station was completed. This line is now scheduled to be powered-up in the summer of 2010.

MACUSANI YELLOWCAKE

In November 2009, Khan entered into a subscription agreement with Macusani Yellowcake Inc. for the purchase of 10 million Macusani shares at a price of Cdn$0.20 per share. This represented a 17.9% interest in Macusani, which was later reduced to 16.6% after a subsequent private placement which Khan did not participate in due to the ARMZ hostile bid. Macusani controls over 220 square kilometres of land on the Macusani Plateau in southern Peru which includes several significant advanced-stage uranium exploration properties. In December 2008, Macusani announced Indicated Resources of 1.3 million lbs of U_3O_8 at a grade of 0.37 lbs of U_3O_8 per short ton, and Inferred Resources of 9.8 million lbs of U_3O_8 at a grade of 0.38 lbs per short ton, on one of its several properties. We are optimistic that ongoing exploration work at other Macusani-owned properties in the area will likely increase these figures significantly later in 2010.

NUCLEAR ENERGY LAW OF MONGOLIA - JULY 2009

By far the most important piece of legislation in 2009 to affect Khan was the passage of the Nuclear Energy Law that classifies all radioactive mineral deposits as strategic and regulates the nuclear energy industry in Mongolia which includes exploration, mining, processing and sale of uranium. Existing license holders were required to submit applications to re-register their existing licenses and agree to accept the State's 51% (in our case) or 34% share in the ownership of the license. Khan submitted the applications for the renewal and re-registration in a timely manner but is still awaiting the re-issuance of these two licenses. Earlier in the year, Khan received notice of suspension of its key mining license at Dornod due to an alleged breach of applicable laws, but this suspension was later lifted by the regulatory authority.

KHAN IN PLAY

In late November, Atomredmedzoloto (ARMZ) made an unsolicited conditional offer to purchase all the outstanding shares of Khan for Cdn$0.65 per share. After careful consideration of the offer, your Board of Directors unanimously recommended that shareholders reject the offer because of the low price and conditionality of the bid. In our opinion the ARMZ offer is highly prejudicial and opportunistic and exposes Khan to serious risks. Since the launch of this hostile offer, the Special Committee of the Board has spent considerable time looking for possible alternatives that would maximize value for you, our shareholders. A particular focus was on a possible deal that involved MonAtom (the state-run Mongolian nuclear company) and the Mongolian Government, in an attempt to find a mutually satisfactory transaction that would comply with the Nuclear Energy Law while providing Khan with the stable ownership and regulatory framework within which it could develop Dornod. These efforts initially culminated in the entering into of a non-binding Memorandum of Understanding (MOU) with MonAtom, which created the necessary framework for bringing the project into operation. Khan's primary objectives were to maintain control of the operating subsidiary in Mongolia and remain as operator of the project. This would protect and preserve value for Khan's shareholders in light of the restrictive rules contained in the Nuclear Energy Law, the status of the licenses, and the hostile bid by AMRZ.

However, subsequent to entering into the MOU, certain essential conditions to the MOU were not satisfied by MonAtom within the prescribed period. In light of this and news reports circulating that the Nuclear Energy Agency of Mongolia (NEA) considered the MOU to be invalid and unenforceable, Khan's Board determined that it was necessary to seek other strategic alternatives to the MOU with MonAtom, resulting in its entering into discussions with CNNC, a Chinese state-owned nuclear energy corporation. This culminated in the signing of a definitive agreement whereby CNNC agreed to acquire all of Khan's outstanding shares for Cdn$0.96 per share. This represents a premium of 118% to the closing price prior to the ARMZ bid, and a 48% premium to ARMZ's bid. Khan's Board unanimously recommends that shareholders accept the CNNC offer, as it is in the best interests of Khan and is currently the most attractive option for its shareholders. The intention is to formally present this offer to you by mail before the end of February. This is the current status of developments as I write this letter on February 12, 2010.

As mentioned in my report last year, the Company has taken urgent steps to reduce expenditures and conserve cash, and as of December 31, 2009, there was US$14.2 million in cash in the bank with no outstanding debts. This was after the expenditure of US$1.9 million for the purchase of the Macusani Yellowcake shares.

I would like to thank the Board of Directors and staff at Khan for their unwavering support this past year. In particular, I would like to recognize the Special Committee of the Board for their expertise and monumental effort to position the Company to receive the best value for our shareholders during the current bidding process. Although 2009 was once again a difficult and frustrating time for the Company, the patient professionalism and diligence shown by both our Board and staff members will no doubt translate into the best possible outcome for our shareholders.

Martin Quick
President and
Chief Executive Officer

February 12, 2010

KHAN
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KHAN RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS

2009
ANNUAL
REPORT

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Khan Resources Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") provides a discussion and analysis of the financial condition and results of operations of Khan Resources Inc. (the "Company" or "Khan") for the years ended September 30, 2009 and 2008 and is intended to be read in conjunction with the audited consolidated financial statements of the Company for the years ended September 30, 2009 and 2008 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 11, 2009.

DESCRIPTION OF THE BUSINESS

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 that are located in the Dornod district of north eastern Mongolia, a district that contains a number of known uranium deposits. These uranium properties are known as the Dornod Uranium Project and consist, prior to the passage of the new Nuclear Energy Law (see Overall Performance - Operations - Nuclear Energy Law), of a 58% interest in the "Main Dornod Property" (defined below) and a 100% interest in the "Additional Dornod Property" (defined below). The Company expects its interests in the Main Dornod Property and the Additional Dornod Property to decrease as a result of the new Nuclear Energy Law; however, the Company has not been able to determine its new interests at this time. On November 30, 2009, the Company acquired an approximate 17.9% interest in Macusani Yellowcake Inc., a Canadian company, which holds uranium properties in the Macusani Plateau district of Peru.

The Main Dornod Property consists of an open pit mine ("Dornod Deposit No. 2") and approximately two-thirds of an underground deposit ("Dornod Deposit No. 7"). From 1988 to 1995, JSC Priargunsky Industrial Mining and Chemical Production Association ("Priargunsky"), a Russian state-owned company, extracted approximately 590,000 tonnes of ore at an average grade of 0.118 per cent uranium oxide ("U_3O_8") from Dornod Deposit No. 2. At Dornod Deposit No. 7, two shafts have been built to depths of 510 and 500 metres and approximately 20,000 metres of development drifts, which extend onto the Additional Dornod Property, have been constructed. The mining license in respect of the Main Dornod Property is registered in the name of Central Asian Uranium Company LLC ("CAUC"), a Mongolian company, in which the Company holds a 58% interest through a subsidiary. The other shareholders of CAUC, who each hold a 21% interest are MonAtom LLC ("MonAtom"), a Mongolian state-owned company and Priargunsky. The Company expects the interests of the shareholders of CAUC will change as a result of the new Nuclear Energy Law; however, the Company has not been able to determine the new interests at this time. Khan operates the Main Dornod Property through a joint venture with MonAtom and Priargunsky.

The Additional Dornod Property is contiguous to the Main Dornod Property and consists of approximately one-third of Deposit No. 7 and part of another underground deposit. The exploration license in respect of the Additional Dornod Property is registered in the name of Khan Resources LLC ("KRL"), a Mongolian company, in which the Company, prior to the passage of the new Nuclear Energy Law, held a 100% interest through subsidiaries. The Company expects its interest in KRL to decrease as a result of the new Nuclear Energy Law; however, the Company has not been able to determine its new interest at this time.

OVERALL PERFORMANCE

FINANCIAL

Total assets of the Company at September 30, 2009 were $32,589,000 compared with $36,184,000 at September 30, 2008. The decrease of $3,595,000 resulted from the decreases in current assets of $8,483,000 and advances to suppliers of $97,000 offset by the increases in capital assets of $1,967,000 and mineral interests of $3,018,000. The decrease in current assets was primarily due to the cash used in operating and investing activities during the year ended September 30, 2009. The increase in capital assets was due to the cost of new equipment that was purchased for the Dornod Uranium Project and the increase in mineral interests was due to development costs incurred on the Dornod Uranium Project.

During the year ended September 30, 2009, the Company incurred a net loss of $3,827,000 or $0.07 per share compared with $7,923,000 or $0.15 per share in the comparable period of 2008. The net decrease of $4,096,000 was due to the decreases in general corporate expense of $1,389,000, Mongolian operations expense of $248,000, stock-based compensation expense of $1,059,000, foreign exchange loss of $362,000, loss on sale of assets of $837,000 and the expenses of $1,593,000 related to the offer of purchase for all the issued and outstanding shares of Western Prospector Group Ltd., offset by the decrease in interest income of $552,000, the increase in amortization expense of $18,000 and the decrease in future tax recovery of $822,000.

During the year ended September 30, 2009, cash decreased by $7,806,000 compared with $9,259,000 in the comparable period of 2008.

The cash used in operating activities was $2,622,000 in 2009 compared with $5,083,000 in 2008. The decrease of $2,461,000 was due to the decreases in general corporate expense of $1,389,000, Mongolian operations expense of $248,000 and the expenses of $1,593,000 for the offer for Western Prospectors Group Ltd. offset by the decrease in interest income of $552,000 and the increases in realized foreign exchange loss of $113,000 and cash required for changes in non-cash working capital balances related to operations of $104,000.

The cash used in investing activities was $4,543,000 in 2009 compared with $3,269,000 in 2008, an increase of $1,274,000. Proceeds from the sale of investments were $36,000 and there was no comparable amount in 2008. In 2008, proceeds from the sale of mineral interests were $2,500,000 and there was no comparable amount in 2009. Purchase of investments used cash of $21,000 and there was no comparable amount in 2008. Restricted cash provided cash of $683,000 compared to using cash of $732,000 in 2008. Advances to suppliers provided cash of $97,000 compared to using cash of $97,000 in 2008. The purchase of capital assets was $2,131,000 compared with $1,511,000 in 2008. The increase of $620,000 resulted from the construction of a power line and sedimentation pond at the Dornod Uranium Project. Mineral interests used cash of $3,207,000 compared with $3,429,000 in 2008. The decrease of $222,000 resulted from the completion of the Definitive Feasibility Study for the Dornod Uranium Project in March 2009.

The cash used by financing activities was $56,000 in 2009 compared with cash provided by financial activities of $154,000 in 2008. In 2009, cash used to purchase Khan common shares under the normal course issuer bid was partially offset by cash provided from exercise of stock options; in 2008 cash was provided from the exercise of stock options.

In 2009, there was a foreign exchange loss on cash of $585,000 compared with $1,061,000 in 2008. Cash comprises primarily Canadian and United States dollars. The foreign exchange loss on cash was due to the decrease in value of the Canadian dollar in terms of the United States dollar during the periods.

OPERATIONS

Power Line and Sedimentation Pond

In 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, a zinc mine owned by a Chinese company, 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. 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 future dewatering and rehabilitation of the underground mine workings. The lined sedimentation pond was constructed at the site of the Dornod Uranium Project. Water from the future dewatering of 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 power line is expected to be completed in the spring of 2010 and the sedimentation pond was completed in June 2009.

Normal Course Issuer Bid

On October 21, 2008, Khan 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 outstanding at that time. The notice provided 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 12 month period preceding the date of the notice of intention. The normal course issuer bid commenced on October 23, 2008 and terminated on October 22, 2009. The Company purchased 249,500 common shares under the normal course issuer bid and these shares were cancelled.

Definitive Feasibility Study

On March 11, 2009, Khan announced the results of its Definitive Feasibility Study ("DFS") for its Dornod Uranium Project in north eastern Mongolia. The study, jointly completed by engineering consultants, Aker Metals, a division of Aker Solutions Canada Inc. ("Aker Solutions"), and resource consultants, Scott Wilson Roscoe Postle Associates Inc. ("Scott Wilson RPA"), has resulted in a study confirming the previous economic robustness of the Dornod Uranium Project.

The DFS was based on the National Instrument 43-101 ("NI 43-101") compliant indicated mineral resource previously reported for the project, prepared by Scott Wilson RPA, of 25.3 million tonnes at an average grade of 0.116% uranium oxide (U_3O_8) for 64.3 million lbs of U_3O_8 and an inferred mineral resource of 2.2 million tonnes at an average grade of 0.050% U_3O_8 for 2.4 million lbs of U_3O_8.

The 2008 probable mineral reserve, prepared by P&E Mining Consultants Inc., for the No. 2 open pit and No. 7 underground deposits is 18.0 million tonnes at an average grade of 0.133% U_3O_8 for 52.9 million lbs of U_3O_8 out of the 64.3 million lbs of indicated mineral resources. Khan currently has a 58% interest in the No. 2 deposit and two-thirds of the No. 7 deposit, plus a 100% interest in the remaining one-third of the No. 7 deposit. This current ownership gives Khan an overall interest of approximately 69% of the uranium contained in both deposits. The Company expects its interests in the deposits to decrease as a result of the new Nuclear Energy Law; however, the Company has not been able to determine its new interests at this time.

The DFS assumes a long-term uranium price of $65 per lb U_3O_8, and a through-put of 3,500 tonnes per day over a 15 year mine life, which will generate an average annual production rate of 3.0 million lbs U_3O_8, at a cost of $23.22 per lb U_3O_8 or $58.26 per tonne of ore. Almost half of the total uranium production is in the first five years. The initial capital cost of the project is projected to be approximately $333 million. The above parameters yield a project internal rate of return ("IRR") after tax of 29.1%, a net present value (NPV) at a 10% discount rate of $276 million and a payback period of 2.3 years. The after tax NPV at 10% using a uranium price of $70 per lb U_3O_8 is $339 million and the IRR after tax increases to 32.5%.

The Dornod project implementation schedule is conservatively estimated to be approximately 36 months from the start of the Detail Engineering to the start of plant production. While this timeline is predicated on the purchase of new equipment, Khan expects to reduce the time-frame significantly by the purchase of used equipment. In addition, the results of the DFS will be further optimized with respect to cost and schedule during Detail Engineering. This step is expected to commence in 2010, assuming successful negotiations for an Investment Agreement with the Government of Mongolia.

On April 24, 2009, the complete Technical Report (NI 43-101) on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia, dated April 22, 2009, was posted and is available on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

As previously disclosed by Khan, Hrayr Agnerian, P.Geo., Associate Consulting Geologist at Scott Wilson RPA, E.J. (Gene) Puritch, P.Eng. and Malcolm Buck, P.Eng., P&E Mining Consultants Inc., and Les Heymann, P.Eng., Senior Process Consultant, Aker Solutions, are the qualified persons (as defined under NI 43-101) on the Dornod Uranium Project and supervised the preparation of the scientific and technical information contained in the prior news release issued by Khan on March 11, 2009 in respect of the results of the DFS, which forms the basis for the scientific and technical information reproduced in this MD&A.

Suspension of Mining License

On July 15, 2009, Khan reported that it had received notice from the Mineral Resources Authority of Mongolia ("MRAM") that the mining license for the Main Dornod Property, held by Khan's 58% owned Mongolian subsidiary Central Asian Uranium Company LLC ("CAUC"), had been suspended. Subsequently, following communications with MRAM and the State Specialized Inspection Agency of the Government of Mongolia, Khan was informed that the mining license was suspended based on the conclusions of the State Inspector who determined that CAUC was allegedly in violation of applicable laws by reason of it not having registered its deposit reserves with the State Integrated Registry for approval by the Minerals Council.

CAUC submitted its reserve calculations to MRAM for registration in accordance with Mongolian law initially in 2007 and again in 2008. The MRAM formal report on such reserve and resource calculations is still pending as of the date of this MD&A. Notwithstanding its continued efforts to register its reserves, CAUC is still awaiting approval and registration of its reserves in respect of the Main Dornod Property. Having submitted its reserve calculations as required, obtaining approval and registration of its reserves continues to lie within the purview and control of the Minerals Council of Mongolia. Khan continues to believe that CAUC has complied with the terms of the mining license and applicable laws in all material respects and, accordingly, the Minerals Council should register the reserves.

Nuclear Energy Law

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009.

The Nuclear Energy Law gives the Mongolian Government the right to take ownership without payment of not less than 51% of the shares of a project or joint venture if uranium resources were determined through exploration with State funding, or not less than 34% if State funding was not used during exploration to determine the resource. It is not yet certain whether or on what terms Mongolia would seek to acquire additional equity in the license holders, or the amount of such additional equity.

The law gives the State Administrative Authority the responsibility over the implementation and enforcement of State policy on the exploitation of radioactive minerals and nuclear energy, including the power to grant, suspend or revoke any licenses granted pursuant to the Nuclear Energy Law. The Nuclear Energy Law requires licenses to be obtained to conduct a variety of activities relating to radioactive minerals and nuclear energy, including an exploration license to prospect and explore for radioactive minerals, and a mining license to exploit radioactive minerals.

To obtain an exploration license, the law provides that the applicant must, among other things, conduct its activities in a transparent and stable manner, be financially capable to conduct exploration activity of radioactive minerals and reclamation, conduct responsible mining, and have sufficient experience in the field of mining. Exploration licenses will be issued to persons who best meet the conditions set out in the Nuclear Energy Law, and agree to accept the state ownership of the required percentage of shares of the license holder, discussed above.

In addition to satisfying the conditions applicable to exploration licenses, an applicant for a mining license must also, among other things, hold a stable and leading position producing and selling radioactive minerals on the world market, be financially independent and have the capacity to sell radioactive minerals for peaceful purposes at the world market price, have the financial capacity to mine radioactive minerals and have many years of experience in mining radioactive minerals.

The Nuclear Energy Law requires that a holder of a mining license conclude a mining agreement with the State Administrative Authority within 60 days from issuance of the mining license, setting out, among other things, the reasons for mining radioactive minerals, the term of exploitation, the type and grade of deposit and deposit reserves, the technology, production capacity and quantity of products to be mined as reflected in the feasibility study, conditions of sale, an environmental protection and reclamation plan including the associated implementation costs, a mine closure plan, and the other rights, obligations and responsibilities of the parties. The State Administrative Authority can revoke the license if a mining agreement is not concluded within the 60-day period.

The Nuclear Energy Law also provides that an investment agreement may be concluded between the State and a mining license holder for up to a 10-year term. The law further provides that an investment agreement may be extended for a further term of up to 10 years.

In connection with the passing of the Nuclear Energy Law, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit an application to the State Administrative Authority to renew and re-register their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants must comply with all of the conditions and requirements set out in the Nuclear Energy Law, including acceptance of the State's 51% or 34% share participation in the license holder, as applicable. Any licenses that are not re-registered as required will be considered suspended. Khan submitted the applications for the renewal and re-registration of the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property on November 10, 2009. Khan has not been able to determine as to how the State's share participation will be achieved for the mining and exploration licenses.

Purchase of interest in Macusani Yellowcake Inc.

On November 26, 2009, Khan entered into a subscription agreement with Macusani Yellowcake Inc. ("Macusani"), a Canadian company, to acquire by way of a private placement 10 million Macusani common shares at a subscription price of CDN$0.20 per share. The subscription closed on November 30, 2009 and resulted in the Company acquiring approximately 17.9% of the outstanding common shares of Macusani immediately following closing of the subscription. Under separate agreement, Khan will have the right to maintain it's pro rata ownership of the company in certain subsequent treasury issuances for a period of two and a half years. Khan has acquired the shares for investment purposes and subject to its pre-emptive rights does not presently have any further intention to acquire ownership of, or control over, additional securities of Macusani.

Macusani controls over 220 square kilometres of land located on the Macusani Plateau in the Puno District of southern Peru which include several significant advanced stage exploration properties. In December 2008, Macusani announced indicated resources of 1.3 million lbs of U_3O_8 at a grade of 0.37 lbs of U_3O_8 per short ton and inferred resources of 9.8 million lbs of U_3O_8 at a grade of 0.38 lbs per short ton on its Colibri II and Colibri III properties. In June 2009, Macusani acquired the Corapachi and Kihitian Concessions, two properties on the plateau where higher grade U_3O_8 has been identified. Macusani has conducted an exploration program on these properties subsequent to their acquisition and the Company understands that it is in the process of preparing a NI 43-101 compliant resource estimate for these concessions.

ARMZ Offer for the Company

On November 27, 2009, Khan announced that it was informed that Atomredmetzoloto JSC ("ARMZ"), a Russian state-owned nuclear energy corporation, which in turn owns Priargunsky, intended to make an unsolicited offer to purchase all of the outstanding common shares of Khan for Cdn $0.65 per share (the "Offer"). On November 30, 2009, ARMZ filed a copy of its offer to purchase and related take-over bid circular (the "Circular") on SEDAR and published an advertisement formally commencing its Offer.

The Offer is subject to a number of conditions, including the minimum tender condition that at least $66\frac{2}{3}$% of the outstanding common shares of the Company, calculated on a fully-diluted basis, be tendered to the Offer and that there has been validly deposited to the Offer and not withdrawn more than 50% of the then outstanding common shares held by "Independent Shareholders" (as such term is defined under the amended and restated shareholder rights plan of the Company dated as of November 14, 2006 (the "Rights Plan")). The Offer is only for common shares of the Company (together with the associated rights issued under the Company's Rights Plan) and is not made for any options, convertible securities or other rights (other than the rights issued under the Rights Plan) to acquire common shares. The initial expiry time of the Offer is stated in the Circular to be 5:00 p.m. (Toronto time) on February 1, 2010, unless the Offer is withdrawn or extended.

On December 2, 2009, Khan announced that it has a Special Committee of directors established that will be carefully considering and evaluating the Offer by ARMZ, along with identifying and evaluating any alternative strategic transactions that are in the best interests of Khan and its shareholders, taking into account the reality of the circumstances in, and the laws and policies of, Mongolia and address the interests of all relevant stakeholders, in addition to enhancing value for shareholders. The Special Committee has engaged Haywood Securities Inc. as its financial advisor in connection with the above process and Davies Ward Phillips & Vineberg LLP is acting as legal counsel. Georgeson Shareholder Communications Canada Inc. has also been retained as information agent.

In accordance with applicable securities laws, the Company intends to file and mail a directors' circular, setting out any recommendation of the Board of Directors of the Company in response to the ARMZ Offer and the reasons for such recommendation, on or before December 15, 2009. A copy of the directors' circular will be mailed to shareholders and will be publicly filed and available on SEDAR at www.sedar.com.

Joint Venture Development Agreement

As the Definitive Feasibility Study has been completed, Khan has initiated discussions with its joint venture partners in the Main Dornod Property regarding an updated joint venture development agreement. The successful negotiation of an updated joint venture development agreement is one of the prerequisites for major mine development work. In the fall of 2009, Khan held several meetings with its joint venture partners; however, there can be no certainty as to the timing to complete negotiations with its joint venture partners, particularly in light of the unsolicited Offer made by ARMZ.

Investment Agreement

The holder of a mining license that undertakes to invest more than certain threshold amounts over the first five years of a mining project may apply to the Government of Mongolia to enter into an investment agreement ("Investment Agreement") concerning the stability of tax rates, the right to sell products at international prices, a guarantee that the license holder may receive and dispose of income from such sales and provision with respect to the amount and term of the licenses holder's investment. Khan currently intends to commence negotiation of an Investment Agreement with the Government of Mongolia at the earliest practicable date. The successful negotiation of an Investment Agreement is considered by Khan to be one of the prerequisites for major mine development work. There can be no certainty as to the timing to complete negotiations with the Government of Mongolia. Subject to re-registering the mining and exploration licenses under the Nuclear Energy Law, entering into an updated joint venture development agreement and an Investment Agreement with the Government of Mongolia and arranging project financing, Khan intends to construct on-site modern milling and processing facilities and bring the Dornod Uranium Project into production.

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, 2009 000's		September 30, 2008 000's		September 30, 2007 000's
Year ended						
Revenue	$	170	$	722	$	1,044
Expenses	$	3,997	$	9,467	$	16,357
Loss before taxes	$	(3,827)	$	(8,745)	$	(15,313)
Future tax recovery	$	–	$	822	$	1,809
Net loss	$	(3,827)	$	(7,923)	$	(13,504)
Net loss per share - basic and diluted	$	(0.07)	$	(0.15)	$	(0.28)
As at						
Cash	$	16,794	$	24,600	$	33,859
Working capital	$	16,770	$	24,922	$	36,038
Total assets	$	32,589	$	36,184	$	42,983

RESULTS OF OPERATIONS

As a development stage company, Khan has no operating history and has incurred losses in the years ended September 30, 2009 and September 30, 2008. 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 $552,000 during the year ended September 30, 2009 from the comparable period in 2008 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 United States dollars.

EXPENSES

Total expenses decreased by $5,470,000 during the year ended September 30, 2009 from the comparable period in 2008 due to the decreases in general corporate expense of $1,389,000, Mongolian operations expense of $248,000, stock-based compensation of $1,059,000, foreign exchange loss of $362,000, loss on sale of assets of $837,000 and the expenses of $1,593,000 for the offer for Western Prospectors Group Ltd., offset by the increase in amortization expense of $18,000.

General corporate expense decreased by $1,389,000 in 2009 compared with 2008. The following table illustrates the major items included in general corporate expense:

	Year ended September 30, 2009 000's	Year ended September 30, 2008 000's
Accounting and audit	$ 156	$ 98
Investor relations	158	384
Insurance	102	61
Legal	410	733
Management remuneration	702	1,209
Office and travel	517	949
	$ 2,045	$ 3,434

A major factor responsible for the overall decrease was the change in exchange rates between the Canadian dollar and the United States dollar as the majority of this expense is incurred in Canadian dollars. The Canadian dollar averaged $0.8474 in terms of the United States dollar during the year ended September 30, 2009 and averaged $0.9907 in terms of the United States dollar during the year ended September 30, 2008, a decrease of 14%.

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

- Accounting and audit increased due to higher audit fees.
- Investor relations decreased due to a lower level of activity.
- Insurance increased due to additional liability and property coverage.
- Legal decreased due to the decrease in corporate development and litigation activities.
- Management remuneration decreased due to fewer staff and reduction of bonuses.
- Office and travel decreased due to the decrease in the corporate development activity and fewer trips to Mongolia.

Mongolian operations expense decreased by $248,000 in 2009 compared with 2008 due to a lower level of activity and the change in exchange rates between the Mongolian Togrog and the United States dollar as the majority of this expense is incurred in Mongolian Togrogs. The Mongolian Togrog averaged $0.00072 terms of the United States dollar during the year ended September 30, 2009 and averaged $0.00086 in terms of the United States dollar during the year ended September 30, 2008, a decrease of 16%.

Amortization expense increased by $18,000 in 2009 compared with 2008 due to the increase in capital assets.

Stock-based compensation expense decreased by $1,059,000 in 2009 compared with 2008 due to the lower expense for the vesting of options. A significant portion of options granted in prior years were fully vested by September 30, 2008; thus a lower expense for the vesting of options was recorded in 2009 than the comparable period in 2008. In 2009, 1,435,000 stock options were granted compared with 540,000 stock options granted in 2008.

The foreign exchange loss decreased by $362,000 in 2009 compared to 2008 primarily due to the fluctuation in value of the Canadian dollar in terms of the United States dollar and the amount of Canadian dollars on hand. In 2009, at the beginning of the fiscal period, the Canadian dollar was $0.9397 in terms of the United States dollar compared with $0.9340 at the end of the fiscal period; however, the range during the year was from $0.9416 to $0.7698. In 2008, at the beginning of the fiscal period, the Canadian dollar was $1.0052 in terms of the United States dollar compared with $0.9397 at the end of the fiscal period. The average Canadian dollars on hand was 80% of cash during 2009 compared with 40% during 2008.

The gain on sale of assets in 2009 resulted from the sale of marketable securities. Marketable securities were purchased at a cost of $21,000 and sold for proceeds of $36,000 generating a gain on the sale of $15,000.

The loss on sale of assets in 2008 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.

In 2008, 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, 2009, the deferred development costs, consisting mainly of the Definitive Feasibility Study and Environmental Impact Assessment, incurred on the Dornod Uranium Project, were $3,018,000. The following table sets out the change in deferred development costs:

	As at September 30, 2008 000's	Costs incurred during the year ended As at September 30, 2008 000's	As at September 30, 2009 000's
Deferred development costs			
Dornod Uranium Project, Mongolia	$ 8,160	$ 3,018	$ 11,178

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, 2009	Quarter ended June 30, 2009	Quarter ended March 31, 2009	Quarter ended December 31, 2008
Revenue	$ 20	$ 30	$ 38	$ 82
Expenses	$ (304)	$ (310)	$ 1,469	$ 3,142
Net income (loss)	$ 324	$ 340	$ (1,431)	$ (3,060)
Net income (loss) per share	$ 0.01	$ 0.01	$ (0.03)	$ (0.06)

	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 income (loss)	$ (3,310)	$ (1,413)	$ (1,481)	$ (1,719)
Net income (loss) per share	$ (0.06)	$ (0.03)	$ (0.03)	$ (0.03)

Over the past eight quarters, variations in the quarterly loss are usually caused by fluctuations in general corporate expense, stock-based compensation expense, foreign exchange gain or loss and other expense items. General and corporate expense varies according to the level of activity in the head office. Stock-based compensation expense varies from quarter to quarter depending on the number of stock options granted in the quarter. The foreign exchange gain or loss arises from the translation of amounts denominated in foreign currencies to United States dollars. 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, 2009, the Company had working capital of $16,770,000 (September 30, 2008 - $24,922,000) which comprised cash of $16,794,000 (September 30, 2008 - $24,600,000), accounts receivable in the amount of $67,000 (September 30, 2008 - $79,000), prepaid expenses and other assets in the amount of $144,000 (September 30, 2008 - $126,000), restricted cash in the amount of $49,000 (September 30, 2008 - $732,000) and current liabilities of $284,000 (September 30, 2008 - $615,000).

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, 2009, the operating activities of Khan used cash of $2,622,000 (2008 - $5,083,000), the investing activities, which consisted of the purchase of investments, capital assets and mineral interests, less the proceeds from sale of assets, and the proceeds from restricted cash and advances to suppliers, used cash of $4,543,000 (2008 - $3,269,000), the financing activities used cash of $56,000 (2008 - provided cash of $154,000) and the foreign exchange loss on cash was $585,000 (2008 - $1,061,000). The Company's last primary financing activity 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, 2010 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 re-registration of mining and exploration licenses, 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, 2009, the Company recorded net income of $324,000 or $0.01 per share compared with a net loss of $3,310,000 or $0.06 per share in the comparable period of 2008.

Total revenue decreased by $134,000 during the quarter ended September 30, 2009 from the comparable period in 2008. Interest decreased due to lower cash balances on hand and lower interest rates in 2009 compared with 2008. The Company maintains cash balances principally in Canadian and United States dollars.

Total expenses decreased by $3,768,000 during the quarter ended September 30, 2009 from the comparable period in 2008 primarily due to the decreases in Mongolian operations expense of $26,000, stock-based compensation of $260,000, foreign exchange loss of $1,983,000 and the expenses of the offer for Western Prospector of $1,593,000, offset by the increases in general corporate expense of $93,000.

During the quarter ended September 30, 2008, the Company incurred expenses of $1,593,000 related to the offer for Western Prospector. There was no comparable amount in 2009.

OUTSTANDING SHARE DATA

The following table sets forth particulars of the fully-diluted share capitalization of Khan as at December 11, 2009:

Securities	Number of Common Shares
Issued and outstanding common shares	53,963,779
Shares issuable upon exercise of stock options	4,930,800
Total	58,894,579

TRANSACTIONS WITH RELATED PARTIES

There were no transactions with related parties during the years ended September 30, 2009 and 2008.

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, 2009. 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 being 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.

On July 15, 2009, the mining license for the Main Dornod Property was suspended as the deposit reserves had not been registered with the State Integrated Registry for approval by the Minerals Council. The deposit reserve calculations have been submitted to the Mineral Resources Authority of Mongolia ("MRAM") for registration in accordance with Mongolian law initially in 2007 and again in 2008. The MRAM formal report on such reserve and resource calculations is still pending as of the date of this MD&A. Having submitted its deposit reserve calculations as required, obtaining approval and registration of its reserves continues to lie within the purview and control of the Minerals Council of Mongolia. The Company is confident that it has complied with the terms of the mining license and applicable laws in all material respects and, accordingly, the Minerals Council should register the reserves.

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009. In connection with the passing of the Nuclear Energy Law, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit an application to the State Administrative Authority and renew and re-register their existing licenses by November 15, 2009. Khan submitted the applications for the renewal and re-registration of the mining license and exploration license on November 10, 2009. If the mining license and exploration license are not renewed and re-registered, there will be a material impairment charge on the capital assets and mineral interests that are related to the licenses.

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 $33 for the year ended September 30, 2009 (2008 - $14). The estimated annual impact of this change in accounting estimate is an increase in amortization expense of approximately $33 per year.

INITIAL ADOPTION

Goodwill and Intangible Assets

Effective October 1, 2008, the Company adopted the new Canadian Institute of Chartered Accountants ("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 adoption of this section did not have any impact on the Company's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective, January 4, 2009, the Company adopted the CICA Emerging Issues Committee ("EIC") 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which is effective for interim and annual financial statements for periods ending on or after January 20, 2009. This EIC clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, rather than using a risk free rate. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA approved abstract EIC-174, Mining Exploration Costs, which provides guidance on the capitalization of exploration costs related to mining properties in particular and on the impairment of long-lived assets in general. The adoption of this abstract did not have any impact on 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.

Management has begun assessing the implications of IFRS adoption and will prepare a comprehensive IFRS conversion plan in 2010 to identify the key considerations, resources, business implications and timelines associated with the conversion. The project is under the supervision of the Chief Financial Officer. At this time, the Company is not able to quantify the effects of adopting IFRS.

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 the Company's Annual Information Form to be filed on SEDAR on or before December 31, 2009.

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, 2009, 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, 2009 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, 2009, 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 and information 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, performance or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements and information have been prepared for internal planning purposes and may not be appropriate for other purposes. Forward-looking statements and information involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, events 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 and information. Such risks, uncertainties and factors include, among others: significant business, economic, competitive, political and social uncertainties; the impact of Mongolian and Canadian laws and regulatory requirements on Khan's business, licenses, operations and capital structure and the ARMZ Offer; Khan's ability to re-register its existing licenses; regulatory uncertainty and obtaining governmental approvals; legislative, political, social, regulatory and economic developments or changes in jurisdictions in which Khan, Macusani and ARMZ carry on business; the speculative nature of mineral exploration and development; changes in project parameters as plans continue to be refined; the actual results of exploration or reclamation activities; possible variations in ore grades or recovery rates; changes in market conditions; changes or disruptions in the securities markets and market fluctuations in prices for Khan's securities; the lack of any alternative transactions or the terms and conditions of any alternative transactions not being acceptable; the method of funding and availability of potential alternative strategic transactions involving Khan, including those transactions that may produce superior strategic value to shareholders; changes in the worldwide price of certain commodities such as uranium, coal, fuel, electricity and fluctuations in resource prices; currency exchange rates and interest rates, including fluctuations in the value of United States and Canadian dollars relative to the Mongolian Togrog; inflationary pressures; the occurrence of natural disasters, hostilities, acts of war or terrorism; the need to obtain and maintain licenses and permits and comply with national and international laws, regulations or other regulatory requirements; risks involved in the exploration, development and mining business; operating or technical difficulties in connection with mining or development activities, including conducting such activities in remote locations with limited infrastructure; employee relations and shortages of skilled personnel and contractors; and uncertainty in the estimation of mineral reserves and resources that will be encountered if any property is developed; failure of plant, equipment or processes to operate as anticipated; 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, 2009. Although the Company believes that the assumptions inherent in the forward-looking statements and information are reasonable, undue reliance should not be placed on these statements and information. Forward-looking statements and information contained herein are made as of the date of this document and the Company disclaims any obligation to update any forward-looking statements or information, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements or information will prove to be accurate, as actual results, performance, achievements and events could differ materially from those anticipated in such statements and information. Accordingly, readers should not place undue reliance on forward-looking statements or information.

ADDITIONAL INFORMATION

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

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 consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include estimates based on the experience and judgement of management in order to ensure that the consolidated 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 of Directors and all its members are independent. The Committee meets periodically to review interim consolidated financial statements and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The committee reviews the Company's interim and annual consolidated financial statements and recommends their approval to the Board of Directors.

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

Martin Quick

D.O. Caldwell

MARTIN QUICK
President and Chief Executive Officer

PAUL D. CALDWELL
Chief Financial Officer

Toronto, Ontario
December 2, 2009

AUDITORS' REPORT

To the Shareholders of Khan Resources Inc.

We have audited the consolidated balance sheets of Khan Resources Inc. as at September 30, 2009 and 2008 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, 2009. 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, 2009 and 2008 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, 2009 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 2, 2009

Khan Resources Inc.

CONSOLIDATED BALANCE SHEETS

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

	As at September 30, 2009	As at September 30, 2008
ASSETS		
Current		
Cash	$ 16,794	$ 24,600
Accounts receivable	67	79
Prepaid expenses and other assets	144	126
Restricted cash *(note 5)*	49	732
Total current assets	17,054	25,537
Advances to suppliers	–	97
Capital assets, net *(note 6)*	3,910	1,943
Mineral interests *(notes 1 and 7)*	11,625	8,607
	$ 32,589	$ 36,184
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 284	$ 615
Commitments and contingencies *(notes 7 and 15)*		
SHAREHOLDERS' EQUITY		
Capital stock *(note 8)*	71,056	70,493
Deficit	(38,751)	(34,924)
	32,305	35,569
	$ 32,589	$ 36,184

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 2009	2008	Cumulative from inception on October 1, 2002
REVENUE			
Interest	$ 170	$ 722	$ 2,105
EXPENSES (INCOME)			
General corporate	2,045	3,434	12,503
Mongolian operations	548	796	2,037
Amortization	164	146	398
Stock-based compensation *(note 9)*	619	1,678	11,191
Foreign exchange loss	636	998	523
(Gain) loss on sale of assets *(note 10)*	(15)	822	782
Offer for Western Prospector Group Ltd. *(note 11)*	–	1,593	1,593
Write-off of assets	–	–	9,742
	3,997	9,467	38,769
Loss before income taxes	(3,827)	(8,745)	(36,664)
Recovery of income taxes *(note 12)*	–	822	3,394
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(3,827)	(7,923)	(33,270)
Deficit, beginning of period	(34,924)	(27,001)	–
Equity financing costs	–	–	(5,481)
DEFICIT, END OF PERIOD	$ (38,751)	$ (34,924)	$ (38,751)
Weighted average number of common shares outstanding (thousands) - basic and diluted *(note 13)*	54,005	54,106	
Net loss per share - basic and diluted *(note 13)*	$ (0.07)	$ (0.15)	

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

Khan Resources Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years ended September 30 2009	2008	Cumulative from inception on October 1, 2002
OPERATING ACTIVITIES			
Net loss for the period	$ (3,827)	$ (7,923)	$ (33,270)
Items not affecting cash:			
Amortization expense	164	146	398
Stock-based compensation	619	1,678	11,191
(Gain) loss on sale of assets *(note 10)*	(15)	822	810
Future tax recovery *(note 12)*	–	(822)	(3,394)
Unrealized foreign exchange loss	586	1,061	1,963
Write-off of mineral interests	–	–	9,762
	(2,473)	(5,038)	(12,540)
Changes in non-cash working capital balances related to operations *(note 14)*	(149)	(45)	(433)
Cash used in operating activities	(2,622)	(5,083)	(12,973)
INVESTING ACTIVITIES			
Proceeds from sale of investments	36	–	36
Proceeds from sale of mineral interests	–	2,500	2,500
Purchase of investments	(21)	–	(21)
Restricted cash	683	(732)	(49)
Advances to suppliers	97	(97)	–
Purchase of capital assets	(2,131)	(1,511)	(4,313)
Mineral interests	(3,207)	(3,429)	(12,014)
Payment of property acquisition liability	–	–	(1,667)
Cash used in investing activities	(4,543)	(3,269)	(15,528)
FINANCING ACTIVITIES			
Capital stock issued for cash	11	154	51,979
Capital stock purchased for cash	(67)	–	(67)
Equity financing costs	–	–	(4,619)
Cash (used in) provided by financing activities	(56)	154	47,293
FOREIGN EXCHANGE LOSS ON CASH	(585)	(1,061)	(1,998)
Net (decrease) increase in cash during the period	(7,806)	(9,259)	16,794
Cash, beginning of period	24,600	33,859	–
CASH, END OF PERIOD	$ 16,794	$ 24,600	$ 16,794

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

Khan Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2009

(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.

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009. In connection with the passing of the Nuclear Energy Law, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit an application to the State Administrative Authority and renew and re-register their existing licenses by November 15, 2009. Khan submitted the applications for the renewal and re-registration of its mining license and exploration license on November 10, 2009 (note 7(d)). If the mining license and exploration license are not renewed and re-registered, there will be a material impairment charge on the capital assets and mineral interests that are related to the licenses.

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 ("GAAP"). 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 B.V.	Netherlands	Dec. 27, 2007	100%
Khan Resources LLC	Mongolia	May 5, 2003	100%
CAUC Holding Company Limited	British Virgin Islands	July 31, 2003	100%
Central Asian Uranium Company LLC	Mongolia	July 31, 2003	58%

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with GAAP 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 assumptions 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 $33 for the year ended September 30, 2009 (2008 - $14). 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 sheets 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, 2009.

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 dates. 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 period. 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.

ACCOUNTING POLICY CHANGES

Goodwill and Intangible Assets

Effective October 1, 2008, the Company adopted the new Canadian Institute of Chartered Accountants ("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 adoption of this section did not have any impact on the Company's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective, January 4, 2009, the Company adopted the CICA Emerging Issues Committee ("EIC") 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which is effective for interim and annual financial statements for periods ending on or after January 20, 2009. This EIC clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, rather than using a risk free rate. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA approved abstract EIC-174, Mining Exploration Costs and withdrew EIC-126, Accounting by Mining Enterprises for Exploration Costs. The publication of EIC-174 covers all guidance in EIC-126 and provides additional guidance for mining exploration enterprises in circumstances where a test for impairment is required. The adoption of this abstract did not have any impact on the Company's consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

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 1, 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.

In January 2009, the CICA issued accounting section 1582 (Business Combinations), which will replace accounting section 1581 (Business Combinations). The CICA also issued accounting sections 1601 (Consolidated Financial Statements) and 1602 (Non-Controlling Interests), which will replace accounting section 1600 (Consolidated Financial Statements). The new sections are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The objective of the new sections is to harmonize Canadian GAAP for business combinations and consolidated financial statements with the International and United States accounting standards. The new sections are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new sections will not be adjusted upon application of these new sections. The Company is currently assessing the potential impact of these new sections.

In April 2009, the CICA amended accounting section 3855 (Financial Instruments - Recognition and Measurement). The amendment included a paragraph relating to embedded prepayment options. This amendment is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. The adoption of this standard is not expected to have any impact on the Company's consolidated financial statements.

In June 2009, the CICA amended accounting section 3862 (Financial Instruments - Disclosures), which adopted the amendments recently issued by the IASB to IFRS 7 - Financial Instruments: Disclosures, which was issued in March 2009. The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk, of financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. The adoption of this standard is not expected to have any impact on the Company's consolidated financial statements.

In August 2009, the CICA amended accounting section 3855 (Financial Instruments - Recognition and Measurement) and concurrently accounting section 3025 (Impaired Loans). These amendments affect the classifications that are required or allowed for debt instruments, as well as the impairment model for held-to-maturity financial assets. The amendments are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008. The adoption of this standard is not expected to have any impact on the Company's consolidated financial statements.

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 currently consists of common shares and was $61,209 as at September 30, 2009 (September 30, 2008 - $61,471). 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, common shares, warrants, agents' options and debt may be issued in the future.

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 statements 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 statements 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 certificate, whose balance at September 30, 2009 was $16,843. 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 the guaranteed investment certificate is 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 +/- 5% change in the exchange rates between the Canadian and United States dollars would, based on the Company's consolidated financial statements at September 30, 2009, have an effect on the loss before taxes of approximately +/- $708.

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 change of 100 basis points in interest rates would have an effect on the loss before taxes for the year ended September 30, 2009 of approximately +/- $207.

The Company also records transaction costs related to the acquisition or issue of held-for-trading financial instruments to the consolidated statements 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, 2009, the Company was holding cash of $16,794.

5. RESTRICTED CASH

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

6. CAPITAL ASSETS

Capital assets consist of the following:

	As at September 30, 2009	As at September 30, 2008
Buildings, equipment, fixtures, furniture and vehicles	$ 1,896	$ 776
Less: accumulated amortization	398	234
	1,498	542
Construction in progress	2,412	1,401
	$ 3,910	$ 1,943

7. MINERAL INTERESTS

	As at September 30, 2009	As at September 30, 2008
Dornod Uranium Project, Mongolia		
Acquisition costs	$ 447	$ 447
Deferred development costs	11,178	8,160
	$ 11,625	$ 8,607

(a) The Dornod Uranium Project, prior to the passage of the new Nuclear Energy Law (see (d) below) consisted of a 58% interest in the Main Dornod Property which consists of a mining license, a surface uranium deposit and an underground uranium deposit and a 100% interest in the Additional Dornod Property which consists of an exploration license contiguous with and surrounding the Main Dornod Property and an underground uranium deposit. The Company expects its interests in the Main Dornod Property and Additional Dornod Property to decrease as a result of the new Nuclear Energy Law; however, the Company has not been able to determine its new interests at this time. The Company intends to negotiate an Investment Agreement with the Government of Mongolia and may commence any major mine development work on the Dornod Uranium Project once an agreement can be successfully negotiated.

(b) 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. In respect of the Additional Dornod Property, 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 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.

(c) On July 15, 2009, the mining license for the Main Dornod Property was suspended as the deposit reserves had not been registered with the State Integrated Registry for approval by the Minerals Council of Mongolia. The deposit reserve calculations have been submitted to the Mineral Resources Authority of Mongolia for registration in accordance with Mongolian law in 2007 and 2008. Having submitted its deposit reserve calculations as required, obtaining approval and registration of its reserves continues to lie within the purview and control of the Minerals Council of Mongolia. The Company believes that it has complied with the terms of the mining license and applicable laws in all material respects.

(d) On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009.

The Nuclear Energy Law gives the Government of Mongolia the right to take ownership without payment of not less than 51% of the shares of a project or joint venture if uranium resources were determined through exploration with State funding, or not less than 34% if State funding was not used during exploration to determine the resource. It is not yet certain whether or on what terms Mongolia would seek to acquire additional equity in the license holders, or the amount of such additional equity.

The law gives the State Administrative Authority the responsibility over the implementation and enforcement of State policy on the exploitation of radioactive minerals and nuclear energy, including the power to grant, suspend or revoke any licenses granted pursuant to the Nuclear Energy Law. The Nuclear Energy Law requires licenses to be obtained to conduct a variety of activities relating to radioactive minerals and nuclear energy, including an exploration license to prospect and explore for radioactive minerals, and a mining license to exploit radioactive minerals.

To obtain an exploration license, the law provides that the applicant must, among other things, conduct its activities in a transparent and stable manner, be financially capable to conduct exploration activity of radioactive minerals and reclamation, conduct responsible mining, and have sufficient experience in the field of mining. Exploration licenses will be issued to persons who best meet the conditions set out in the Nuclear Energy Law, and agree to accept the state ownership of the required percentage of shares of the license holder, discussed above.

In addition to satisfying the conditions applicable to exploration licenses, an applicant for a mining license must also, among other things, hold a stable and leading position producing and selling radioactive minerals on the world market, be financially independent and have the capacity to sell radioactive minerals for peaceful purposes at the world market price, have the financial capacity to mine radioactive minerals and have many years of experience in mining radioactive minerals.

The Nuclear Energy Law requires that a holder of a mining license conclude a mining agreement with the State Administrative Authority within 60 days from issuance of the mining license, setting out, among other things, the reasons for mining radioactive minerals, the term of exploitation, the type and grade of deposit and deposit reserves, the technology, production capacity and quantity of products to be mined as reflected in the feasibility study, conditions of sale, an environmental protection and reclamation plan including the associated implementation costs, a mine closure plan, and the other rights, obligations and responsibilities of the parties. The State Administrative Authority can revoke the license if a mining agreement is not concluded within the 60-day period.

The Nuclear Energy Law also provides that an investment agreement may be concluded between the State and a mining license holder for up to a 10-year term. The law further provides that an investment agreement may be extended for a further term of up to 10 years.

In connection with the passing of the Nuclear Energy Law, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit an application for the renewal and re-registration of their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants must comply with all of the conditions and requirements set out in the Nuclear Energy Law. Khan submitted the applications for the renewal and re-registration of the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property on November 10, 2009. Khan has not been able to determine as to how the State's share participation will be achieved for the mining and exploration licenses.

8. CAPITAL STOCK

Capital stock consists of the following:

	As at September 30, 2009	As at September 30, 2008
Common shares *(a)*	$ 61,209	$ 61,471
Warrants *(b)*	–	–
Agents options *(c)*	–	–
Contributed surplus *(d)*	9,847	9,022
	$ 71,056	$ 70,493

(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, 2009 and 2008 are as follows:

	Number of common shares (000's)		Amount
Balance, September 30, 2007	54,016	$	61,220
Exercise of stock options *(ii)*	127		251
Balance, September 30, 2008	54,143		61,471
Cancellation of common shares *(i)*	(249)		(282)
Exercise of stock options *(ii)*	70		20
Balance, September 30, 2009	53,964	$	61,209

(i) 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 to commence on October 23, 2008.

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.

During the twelve months ended September 30, 2009, the Company purchased 249,000 common shares under the normal course issuer bid and these shares were cancelled.

(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 2008 and 2009. At September 30, 2009, there were 441,577 options available for grant under the plan.

The summary of the stock option transactions in 2008 and 2009 is as follows:

	Number of options (000's)		Weighted average exercise price (Cdn$)
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
Granted to directors, officers and employees	1,435		0.20
Exercised	(70)		0.20
Expired	(320)		2.02
Balance, September 30, 2009	4,955	$	1.77

The following tables summarize information about the stock options outstanding and exercisable at September 30, 2009:

Options outstanding

Exercise prices (Cdn$)	Number outstanding at September 30, 2009 (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price (Cdn$)
0.20	1,365	4.21	0.20
0.89 to 1.70	1,165	2.39	1.39
2.37 to 4.69	2,425	2.67	2.84
0.20 to 4.69	4,955	3.03	$ 1.77

Options exercisable

Exercise prices (Cdn$)	Number exercisable at September 30, 2009 (000's)	Weighted average exercise price (Cdn$)
0.20	465	0.20
0.89 to 1.70	1,024	1.43
2.37 to 4.69	2,425	2.84
0.20 to 4.69	3,914	$ 2.16

(b) Warrants

The summary of the transactions in the warrants account in 2008 and 2009 is as follows:

	Number of warrants (000's)	Amount
Balance, September 30, 2007	1,507	$ 996
Expiry of warrants	(1,507)	(996)
Balance, September 30, 2008 and 2009	–	$ –

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 2008 and 2009 is as follows:

	Number of agents options (000's)	Amount
Balance, September 30, 2007	294	$ 390
Expiry of agents options	(294)	(390)
Balance, September 30, 2008 and 2009	–	$ –

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 2008 and 2009 is as follows:

		Amount
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
Stock options granted to directors, officers and employees		619
Stock options exercised		(9)
Normal course issuer bid *(i)*		215
Balance, September 30, 2009	$	9,847

(i) The excess of the value of common shares cancelled after being purchased under the normal course issuer bid over the purchase price is charged to the contributed surplus.

9. STOCK-BASED COMPENSATION

The stock-based compensation expense during the year ended September 30, 2009 was $619 (2008 - $1,678) 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, 2009 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:	2.49%
Expected volatility:	100%
Dividend yield:	0%

The weighted average fair value per option of options granted during the year ended September 30, 2009 is Cdn$0.15 (2008 - Cdn$0.89).

10. SALE OF ASSETS

In November 2008, the Company purchased marketable securities at a cost of $21. In February 2009, the Company sold these marketable securities and received proceeds of $36. During the year ended September 30, 2009, the Company recorded a gain on the sale of $15.

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 in October 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.

11. 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 ultimately open for acceptance until September 3, 2008. On that date, the Company announced that it would allow the Offer to expire.

As the Offer expired without acceptance, the costs related to it were recorded as an expense during the year ended September 30, 2008.

12. 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 33.1% (2008 - 33.9%) were as follows:

		2009		2008
Loss before income taxes	$	3,827	$	8,745
Expected income tax benefit based on statutory tax rate	$	1,268	$	2,962
Stock-based compensation expense		(205)		(568)
Foreign exchange loss		(211)		(338)
Sale of assets		5		617
Offering costs for Western Prospectors Group Ltd.		–		(540)
Foreign tax rate differential		(161)		(272)
Reduction in future tax rates		(143)		(595)
Mongolian losses expired		(14)		–
Tax assets previously not recognized		393		917
Tax benefit		932		2,183
Current year valuation allowance		(932)		(1,361)
Recovery of income taxes	$	–	$	822

(b) Future tax assets and liabilities

The tax effects of temporary differences that give rise to future tax assets as at September 30, 2009 and 2008 are as follows:

		2009		2008
Future tax assets				
Non-capital losses	$	5,461	$	4,243
Capital assets		37		20
Equity financing costs		598		900
	$	6,096	$	5,163
Future tax liabilities				
Accounting value of mineral properties exceeding tax value	$	–	$	–
Total future tax assets				
Future tax assets	$	6,096	$	5,163
Valuation allowance for future tax assets		(6,096)		(5,163)
	$	–	$	–
Total future tax liabilities	$	–	$	–

At September 30, 2009, the Company had Canadian non-capital losses of approximately $18,539 (2008 - $14,445) available for deduction against future taxable income and these losses, if unutilized, will expire from 2013 to 2029; Mongolian non-capital losses of approximately $667 (2008 - $536) available for deduction against future taxable income and these losses, if unutilized, will expire from 2010 to 2011; and Netherlands non-capital losses of approximately $91 (2008 - $50) available for deduction against future taxable income and these losses, if unutilized, will expire from 2017 to 2018.

13. LOSS PER SHARE

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

Basic and diluted loss per share has been calculated using the weighted average number of common shares outstanding of 54,005,000 during the year ended September 30, 2009 (2008 - 54,106,000). Any potential common shares whose effect is anti-dilutive have not been reflected in the calculation of diluted loss per share.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Years ended September 30		Cumulative from inception on October 1,
	2009	2008	2002
Changes in non-cash working capital balances related to operations:			
Accounts receivable	$ 12	$ (32)	$ (67)
Prepaid expenses and other assets	(18)	7	(144)
Accounts payable and accrued liabilities	(143)	(20)	(222)
	$ (149)	$ (45)	$ (433)
Non-cash financing activities:			
Equity financing costs settled by issue of agents options	$ –	$ –	$ 604

The Company did not pay income taxes or interest during the years ended September 30, 2009 and 2008.

15. COMMITMENTS AND CONTINGENCIES

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.

16. SUBSEQUENT EVENTS

(a) On October 22, 2009, the normal course issuer bid that had commenced on October 23, 2008 expired. The Company did not purchase any shares under the normal course issuer bid subsequent to September 30, 2009.

(b) On November 26, 2009, the Company entered into a subscription agreement with Macusani Yellowcake Inc. for 10 million common shares at a price of CDN$0.20 per share. The subscription agreement closed on November 30, 2009 and resulted in the Company acquiring approximately 17.9% of the issued and outstanding common shares of Macusani Yellowcake Inc. at that time.

(c) On November 27, 2009, the Company was informed that Atomredmetzoloto JSC ("ARMZ") intends to make an unsolicited offer to purchase all the outstanding common shares of Khan for CDN$0.65 per share, the "Offer". On November 30, 2009, ARMZ formally commenced its Offer by way of advertisement and filing its offer to purchase and related take-over bid circular (the "Circular") with the Canadian securities regulatory authorities. The Offer is subject to a number of conditions, including the minimum tender condition that at least 66 2/3% of the outstanding common shares of the Company, calculated on a fully-diluted basis, be tendered to the Offer and that there has been validly deposited to the Offer and not withdrawn more than 50% of the then outstanding common shares held by "Independent Shareholders" (as such term is defined under the amended and restated shareholder rights plan of the Company dated as of November 14, 2006 (the "Rights Plan")). The Offer is only for common shares of the Company (together with the associated rights issued under the Company's Rights Plan) and is not made for any options, convertible securities or other rights (other than the rights issued under the Rights Plan) to acquire common shares. The initial expiry time of the Offer is stated in the Circular to be 5:00 p.m. (Toronto time) on February 1, 2010, unless the Offer is withdrawn or extended.

Khan Resources Inc.
Consolidated Financial Statements
Years ended September 30, 2009 and 2008

Corrigendum

The Auditors' Report has been dual dated and Note 16 to the Consolidated Financial Statements has been updated to February 26, 2010.

Auditors' Report

To the Shareholders of Khan Resources Inc.

We have audited the consolidated balance sheets of Khan Resources Inc. as at September 30, 2009 and 2008 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, 2009. 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, 2009 and 2008 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, 2009 in accordance with Canadian generally accepted accounting principles.

(Signed)

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 2, 2009 (except as to Note 16 which is dated February 26, 2010)

16. Subsequent Events

(a) Subsequent to September 30, 2009, 50,000 common shares were cancelled, 2,425,000 stock options were cancelled and 24,000 stock options expired.

(b) On October 22, 2009, the normal course issuer bid that had commenced on October 23, 2008 expired. The Company did not purchase any shares under the normal course issuer bid subsequent to September 30, 2009.

(c) On November 26, 2009, the Company entered into a subscription agreement with Macusani Yellowcake Inc. for 10 million common shares at a price of CDN$0.20 per share. The subscription agreement closed on November 30, 2009 and resulted in the Company acquiring approximately 17.9% of the issued and outstanding common shares of Macusani Yellowcake Inc. at that time.

(d) On November 27, 2009, the Company announced that it was informed that Atomredmetzoloto JSC ("ARMZ"), a Russian state-owned nuclear energy corporation, which in turn owns Priargunsky (as defined below), intended to make an unsolicited offer to purchase all of the outstanding common shares of the Company for Cdn$0.65 per share (the "ARMZ Offer"). On November 30, 2009, ARMZ filed a copy of its offer to purchase and related take-over bid circular (the "Circular") on SEDAR at www.sedar.com and published an advertisement formally commencing the ARMZ Offer. Subsequently, on February 1, 2010, ARMZ filed a notice of extension, extending the ARMZ Offer until 5:00 p.m. (Toronto time) on March 1, 2010, unless further extended or withdrawn. On February 26, 2010, ARMZ announced that it would not increase or extend the ARMZ Offer.

(e) On January 11, 2010, the Company announced that its 58% owned Mongolian subsidiary, Central Asian Uranium Company LLC ("CAUC"), the holder of the mining license for the Main Dornod Property of the Dornod Uranium Project, had received a formal notice from the State Property Committee of Mongolia ("SPC") requiring CAUC to propose to its shareholders a resolution to approve an increase of the Mongolian State ownership in CAUC to 51%. CAUC is currently 58% owned by the Company, 21% owned by MonAtom LLC, a Mongolian state owned company, and 21% owned by JSC Priargunsky Industrial Mining and Chemical Union ("Priargunsky"), a Russian state owned company. The notice provides that if a favourable resolution is not provided to SPC by January 31, 2010, the mining license held by CAUC may be in danger of revocation. In response to the SPC notice, effective January 25, 2010, each of MonAtom LLC ("MonAtom") and CAUC Holding Company Limited ("CAUC Holding"), the subsidiary through which the Company holds its interest in CAUC, on the basis of their collective 79% holding of the outstanding capital of CAUC, authorized and approved an increase in MonAtom's ownership interest in CAUC from 21% to 51%, with a corresponding dilution of ownership interests of CAUC Holding and Priargunsky. The CAUC shareholders' resolution was subsequently submitted to the SPC by the January 31, 2010 deadline. Priargunsky, one of the existing 21% shareholders and a voting member of CAUC, abstained from voting in respect of each of the aforementioned CAUC shareholders' resolutions. As of the date of these interim consolidated financial statements, Khan Resources LLC, the holder of the exploration license for the Additional Dornod Property of the Dornod Uranium Project, has not yet received a similar notice from the SPC in respect of its exploration licence.

(f) On January 14, 2010, the Company announced that a settlement had been reached with the Mineral Resources Authority of Mongolia (“MRAM”) whereby the suspension of the mining license for the Main Dornod Property has been terminated. The reinstatement of the mining license is a prerequisite to re-registration of the license under the Nuclear Energy Law.

(g) On January 25, 2010, the Company announced that it had signed a non-binding memorandum of understanding ("MOU") with MonAtom, the Mongolian state-owned uranium development company. The MOU sought to establish the principal elements of a joint venture transaction which could finalize the ownership structure surrounding the Dornod Uranium Project and create a framework for developing the Project and bringing it into operation. The transaction contemplated under the MOU was subject to a number of conditions including negotiating and signing the formal joint venture agreement, operator agreements and related definitive documentation, as well as obtaining required approvals, including by the Company and MonAtom boards. One of the conditions under the MOU was that the two pending applications to re-register the existing CAUC mining license and Khan Resources LLC exploration license under the Nuclear Energy Law were to be approved and new licenses issued within seven days of signing the MOU. As of January 29, 2010, the seventh day following the execution of the MOU, such license re-registrations were still pending and, accordingly, this essential condition of the MOU was not fulfilled as required (and has yet to be fulfilled as of February 26, 2010).

(h) On February 1, 2010, the Company announced that it had entered into a definitive agreement with CNNC Overseas Uranium Holding Ltd. ("CNNC"), a Chinese nuclear energy corporation based in Beijing and an indirect wholly owned subsidiary of China National Nuclear Corporation, pursuant to which CNNC agreed to acquire all of the Company's outstanding common shares for Cdn$0.96 per share in cash (the "CNNC Offer"). Based on the recommendation of its Special Committee and advice from its advisors, the Company's Board of Directors has unanimously recommended that shareholders accept the CNNC Offer. On February 26, 2010, CNNC filed a copy of its offer to purchase and related take-over bid circular dated February 25, 2010 (the "Circular") on SEDAR at www.sedar.com and mailed the Circular and related offer documents to the Company's shareholders formally commencing the CNNC Offer. On February 26, 2010, the Company filed a copy of its directors' circular dated February 25, 2010 (the "Directors' Circular") recommending that shareholders accept the CNNC Offer and tender their common shares to the CNNC Offer and mailed the Directors' Circular to shareholders. Details of the CNNC Offer are set out in the Circular and related documents. The CNNC Offer is open for acceptance until April 6, 2010, unless extended or withdrawn, and is conditional upon, among other things, acceptance by holders of at least 66 2/3% of the outstanding common shares on a fully diluted basis and receipt of all Canadian and Chinese regulatory, government and corporate approvals. Provided that the conditions to the CNNC Offer are satisfied or waived and CNNC takes up and pays for the Company’s common shares tendered, CNNC is expected to seek to acquire the remaining outstanding common shares pursuant to a subsequent acquisition transaction or compulsory acquisition, as applicable.

Khan Resources Inc.

DIRECTORS' BIOGRAPHIES

JAMES B. C. DOAK Chairman of the Board and Director

Chairman and Director of Khan, has over 25 years experience as a chartered financial analyst. Mr. Doak has served as the President and Managing Partner of Megantic Asset Management Inc., a Toronto-based investment company, since 2002. Jim Doak is a Director of Cascades Inc., Purepoint Uranium Group Inc. and of Eurocopter Canada Ltd. Mr. Doak serves as Chair, Audit Committee for both Eurocopter and Purepoint. As well, 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., was a founder of Enterprise Capital Management Inc., where he served as President and Managing Partner from 1997 to 2002, and 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 B.A. in Economics from the University of Toronto.

JEAN-PIERRE CHAUVIN Director and Chairman of the Compensation Committee

Director of Khan, Chairman of the Compensation Committee, has over 30 years of experience in the mining and construction industries. Since January 2009, Mr. Chauvin has been retired. From July 2006 to January 2009, 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, having assumed these positions in 2004. Since 2001, Mr. Chauvin has also acted as President and Senior Consultant of Chauvin Engineering Ltd., based in Oakville, Ontario. This company consults in the mining industry focusing on operational reviews and feasibility studies. Prior to 2001, he has served as a Director of Battle Mountain Canada Ltd., Crown Butte Resources Ltd., the Mining Association of Canada and the Ontario Mining Association. Mr. Chauvin has also served as General Manager of Canadian Operations for Battle Mountain Gold Co. Mr. Chauvin is an engineer holding a B.Sc. in Mining Engineering from Queen's University.

GRANT A. EDEY Director and Chairman of the Audit and Finance, Special, and Strategic Review Committees

Director of Khan, Chairman of the Audit and Finance, Special, and Strategic Review Committees, has over 30 years of financial experience primarily in the mining industry. Mr. Edey 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 Baffinland Iron Mines Corporation. Mr. Edey holds a B.Sc. in Mining Engineering from Queen's University and an M.B.A. from the University of Western Ontario.

STEPHEN W. HARAPIAK Director

Director of Khan, is a graduate in Mechanical Engineering from the University of Manitoba and has spent his entire career in the minerals industry. He has worked in the uranium, potash, iron, base metal and gold sectors. His experience spans the entire range of activity from engineering, construction and project management to operation of mining, milling and refining facilities. He 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 CEO. His international experience includes engineering assignments in Chile, Cuba and Russia. Additionally, he has headed up major mineral projects in Zambia (Director of operations - Zambia Consolidated Copper Mines), in Russia (General Director of Kubaka Gold Mine, a Russian American joint venture green fields project) and in Kazakhstan (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 he 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. He is Past President of the CIM and is a member of the Professional Engineers of Ontario. He has served on various industry, government, professional and educational advisory boards.

PETER J. M. HOOPER Director and Chairman of the Technical Advisory Committee

Director of Khan, Chairman of the Technical Advisory Committee, is a senior mining executive with broad-based experience in production, engineering, reorganization and training, contracting, exploration and corporate affairs. Mr. Hooper has a long track record in the mining industry in South Africa, Canada, Australia and Ghana. Currently, Mr. Hooper is CEO 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. Mr. Hooper also served as President of Valencia Resources 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. Mr. Hooper holds a B.Sc. in Mining Engineering from the University of the Witwatersrand, South Africa. He is a director and/or officer of several public mining companies.

HON. ROBERT P. KAPLAN Director and Chairman of the Corporate Governance and Nominating Committee

P.C., Q.C. Director of Khan, Chairman of the Corporate Governance and Nominating Committee, has over 40 years of experience as a lawyer, businessman and elected politician. Mr. Kaplan retired from a 25-year career in elective politics in 1993. He was a Federal 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 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. Mr Kaplan has served as the Honourary Consul General of Kazakhstan for Canada for the last 15 years. Mr. Kaplan holds a B.A. in Sociology and an LL.B. from the University of Toronto. He was called to the Ontario Bar in 1963.

DAVID MCAUSLAND Director

Director of Khan, is a senior corporate lawyer, advisor 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 became a senior executive with Alcan Inc., a major Canadian industrial and resource company, retiring as Executive Vice-President, Corporate Development and Chief Legal Officer in 2008 when the company was acquired. In 2009 Mr. McAusland joined McCarthy Tétrault LLP, a major law firm in Canada, as a Partner. Mr. McAusland currently acts as Director of Cogeco Inc. and Cogeco Cable Inc., Cascades Inc., Equinox Minerals Ltd. and World Color Press, Inc. He serves as a member of the Corporate Governance Committees for Cascades Inc. and Equinox Minerals, is a member of the Compensation Committee of Equinox Minerals Ltd. and a member of the Audit Committee of World Color Press, Inc. Mr. McAusland is also Chair of the Reform Implementation Council for the Royal Canadian Mounted Police, 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

Director, President and Chief Executive Officer of Khan, has over 45 years of worldwide mining experience in both underground and open pit operations. Mr. Quick joined Khan on January 16, 2006. He has held senior mining production and engineering positions in Africa, Australia, Fiji, the United States and Canada and has 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 at Power Resources Inc. 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, from March 2001 to July 2004, Mr. Quick was Vice President - Mining with Cameco Corporation, based in Saskatoon, 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 Ontario, Canada. He is a Professional Engineer (P.Eng.) in the province of Saskatchewan and a graduate of the Camborne School of Metalliferous Mining (ACSM), in the United Kingdom.

Khan Resources Inc.

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