Khan Resources Inc.
Consolidated Financial Statements
Years ended September 30, 2011 and 2010

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.

(Signed)	(Signed)
Grant A. Edey President and Chief Executive Officer	K. Bruce Gooding Chief Financial Officer

Toronto, Ontario
December 15, 2011

Auditors’ Report

To the Shareholders of Khan Resources Inc.

We have audited the accompanying consolidated financial statements of Khan Resources Inc., which comprise the consolidated balance sheets as at September 30, 2011 and 2010, and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Khan Resources Inc. as at September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Auditors’ signature]

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 15, 2011

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

	As at September 30, 2011	As at September 30, 2010
Assets		
Current		
Cash	$ 5,656	$ 10,554
Accounts receivable	26	59
Investments – Macusani warrants (note 6)	87	-
Prepaid expenses and other assets	114	191
Restricted cash (note 5)	50	51
Total current assets	5,933	10,855
Investments, Macusani common shares (note 6)	2,073	3,401
Capital assets, net (note 7)	3,630	3,828
Mineral interests (notes 1 and 8)	12,165	12,012
	$ 23,801	$ 30,096
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 599	$ 409
Commitments and contingencies (notes 8 and 16)		
Shareholders' Equity		
Capital stock (note 9)	71,801	71,247
Deficit	(46,638)	(42,881)
Accumulated other comprehensive income (loss)	(1,961)	1,321
	23,202	29,687
	$ 23,801	$ 30,096

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

On behalf of the Board:

Signed "James B.C. Doak"
Director

Signed "Grant A. Edey"
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 2011	2010	Cumulative from inception on October 1, 2002 to September 30, 2011
Revenue			
Rent	28		28
Other income (note 12)	254		254
Interest	$ 74	$ 57	$ 2,236
	356	57	2,518
Expenses (income)			
General corporate	2,784	3,853	20,705
Mongolian operations	412	632	3,081
Amortization	130	147	675
Stock-based compensation (note 10)	432	191	11,814
Foreign exchange (gain) loss	(58)	(481)	(16)
(Gain) loss on sale of capital assets (note 11)	2	-	812
Loss on investments	213	-	213
Write-off of assets	3	3	9,748
	3,918	4,345	47,032
Loss before income taxes	(3,562)	(4,288)	(44,514)
Income tax (provision) recovery (note 13)	(195)	158	3,357
Net loss for the period	(3,757)	(4,130)	(41,157)
Deficit, beginning of period	(42,881)	(38,751)	-
Equity financing costs	-	-	(5,481)
Deficit, end of period	$ (46,638)	$ (42,881)	$ (46,438)
Weighted average number of common shares outstanding (thousands) - basic and diluted (note 14)	54,157	53,928	
Net loss per common share - basic and diluted (note 14)	$ (0.07)	$ (0.08)	

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

Khan Resources Inc.
Consolidated Statements of Comprehensive Loss
(Expressed in United States dollars)
(All dollar amounts are in thousands except for per share amounts)

	Years ended September 30 2011	2010	Cumulative from inception on October 1, 2002 to September 30, 2011
Net loss for the period	$ (3,757)	$ (4,130)	$ (41,157)
Other comprehensive income			
Unrealized holding loss on available-for-sale investments arising during the period, net of income tax benefit of $189 (2010 - income tax expense of $189)	(3,282)	1,321	(1,961)
Other comprehensive income (loss)	(3,282)	1,321	(1,961)
Comprehensive loss for the period	$ (7,039)	$ (2,809)	$ (43,118)

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 2011	Years ended September 30 2010	Cumulative from inception on October 1, 2002 to September 30, 2011
Operating Activities			
Net loss for the period	$ (3,757)	$ (4,130)	$ (41,157)
Items not affecting cash:			
Amortization expense	130	147	675
Stock-based compensation	432	191	11,814
(Gain) loss on sale of capital assets	2	-	812
Future tax provision (recovery)	190	(189)	(3,393)
Unrealized foreign exchange (gain) loss	(66)	(480)	1,417
Loss on investments	213	-	213
Write-off of assets	3	3	9,768
	(2,853)	(4,458)	(19,851)
Changes in non-cash working capital balances related to operations (note 15)	323	65	(45)
Cash used in operating activities	(2,530)	(4,393)	(19,896)
Investing Activities			
Proceeds from sale of investments	-	-	36
Proceeds from sale of mineral interests	-	-	2,500
Proceeds from sale of capital assets (note 11)	59	-	59
Restricted cash	-	-	(49)
Purchase of investments	(2,448)	(1,891)	(4,360)
Purchase of capital assets	(11)	(49)	(4,373)
Mineral interests	(154)	(384)	(12,552)
Payment of property acquisition liability	-	-	(1,667)
Cash used in investing activities	(2,554)	(2,324)	(20,406)
Financing Activities			
Capital stock issued for cash	122	-	52,101
Capital stock purchased for cash	-	-	(67)
Equity financing costs	-	-	(4,619)
Cash (used in) provided by financing activities	122	-	47,415
Foreign exchange gain (loss) on cash	64	477	(1,457)
Net (decrease) increase in cash during the period	(4,898)	(6,240)	5,656
Cash, beginning of period	10,554	16,794	-
Cash, end of period	$ 5,656	$ 10,554	$ 5,656

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

Khan Resources Inc.
Notes to Consolidated Financial Statements
September 30, 2011
(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 a Canadian company, involved in acquiring, exploring and developing mineral properties, primarily in Mongolia. The recoverability of the amounts shown for mineral properties is dependent upon the tenure of mineral licenses, the existence of economically recoverable reserves, and 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 ("NEL") 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 NEL, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the NEL becoming effective. Existing license holders were required to submit an application to the newly created Nuclear Energy Agency ("NEA") 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.

To date, the mining and exploration licenses have not been reissued to Khan and the Company has initiated an International Arbitration action against the Government of Mongolia for its failure to do so.

There can be no assurance that Khan's licenses will be retained, re-instated or re-registered under the NEL (or any other law pursuant to which such licenses may in the future be required to be registered) or, if retained, re-instated or re- registered, the terms and conditions upon which such licenses may be retained, re-instated or re- registered. In the absence of the mining and exploration licenses being retained, re-instated or re-registered, there is uncertainty surrounding the Company's interest in the title and capitalized values of the Dornod properties. The Company believes it has complied with all of the Mongolian Government requirements to maintain title and that a settlement arrangement will be reached with the Government of Mongolia whereby the Company will realize value for its interest in the Dornod properties. Management has prepared the Company's consolidated financial statements with no write-down of the capitalized value relating to the Dornod properties. This is in accordance with the Company's accounting policy for mineral interests which states the costs of acquiring mineral interests and related exploration costs are deferred until the properties to which they relate are placed into production, sold or the related licences or permits are allowed to lapse. Should the Government of Mongolia prevail in its assertions that Khan has not met the requirements to retain, re-instate or re-register its licenses with respect to the Dornod properties, and the Company loses its interest in the Dornod properties, then the Company will be required to recognize a material write-down of the Dornod properties and related assets.

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

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. The Company's subsidiaries are:

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 Asia Uranium Company LLC (refer to note 8 (c))	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 and cash equivalents

Cash consists of cash on deposit with banks. The Company considers all highly liquid instruments with an original maturity date of ninety days or less at the date of acquisition to be cash equivalents. As at September 30, 2011 and 2010, the Company did not have any cash equivalents.

Investments

Investments in equity securities have been designated as available-for-sale and are recorded at fair value. Fair values for available-for-sale investments are determined by reference to quoted market prices at the balance sheet date. Unrealized gains and losses are recognized in other comprehensive income. Realized gains and losses are recognized in the statement of operations. If a decline in fair value is considered to be other-than-temporary, the loss is recognized in the consolidated statement of operations and deficit.

Investments in non-hedged derivative securities have been designated as held for trading and are recorded at fair value using quoted prices in active markets if such prices are available; otherwise, such instruments are measured at fair value using a measurement technique. Changes in fair value of non-hedge derivative securities are recognized in the consolidated statement of operations and deficit.

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

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.

Stock-based compensation plan

The Company has a stock-based compensation plan as described in note 9 (a) (ii). 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 as estimated by 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, 2011.

Foreign currency translation

The Company considers its functional currency to be the United States dollar and all of its foreign operations to be integrated. 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 common share

The basic loss per common 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

Recent accounting pronouncements

In January 2009, the Canadian Institute of Chartered Accountants ("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 Accounting Standards. The new sections are to be applied 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 adoption of this standard did not 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 (the Project") in Mongolia into production or to receive full value for the Project from the Government of Mongolia.

The capital structure of the Company currently consists of common shares and was $61,383 as at September 30, 2011 (September 30, 2010 - $61,184). The Company has issued common shares, warrants and agents' options from time to time to advance the Project through various stages of development. 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, investments and accounts payable and accrued liabilities.

(a) Fair Value

Cash is 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. Restricted cash is 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.

Investments in equity instruments are designated as available-for-sale and recorded at fair value using quoted prices in active markets, a level 1 category with unrealized gains and losses recognized in the consolidated statement of comprehensive loss and realized gains and losses recognized in the consolidated statement of operations and deficit. Investments in non-hedge derivatives are designated as held for trading and recorded at fair value using quoted prices in active markets (level 1 category) if such prices are available; otherwise, such instruments are measured at fair value using a measurement technique (level 2 category) based on the market price of underlying equity instruments traded in active markets. Changes in fair value of non-hedge derivatives are recognized in the consolidated statement of operation and deficit. 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, 2011 was $5,706. 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, investments 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, 2011, have an effect on the loss before income taxes of approximately +/- $253 and on the comprehensive loss before income taxes of approximately +/- $356.

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 income taxes for the year ended September 30, 2011 of approximately +/- $81.

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, 2011, the Company held cash of $5,656 (2010 - $10,554).

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.

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. Investments

On November 30, 2009, the Company purchased, by way of private placement, 10,000,000 common shares of Macusani Yellowcake Inc. ("Macusani") at a price of Cdn$0.20 per share. The Company recorded a cost of $1,891 for the purchase.

On November 4, 2010, the Company purchased, by way of private placement, 2,540,000 Macusani units at a price of Cdn$0.25 per unit, each unit consisting of one Macusani common share and one Macusani share purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn$0.35 per share for a period of 24 months after acquisition. The Company recorded a cost of $615 for the purchase.

On March 23, 2011, the Company purchased, by the way of short form prospectus, 2,983,330 Macusani units at a price of Cdn$0.60 per unit, each unit consisting of one Macusani common share and one half Macusani share purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn$0.85 per share for a period of 24 months after acquisition. The Company recorded a cost of $1,833 for the purchase.

On September 30, 2011, the Company held 15,523,330 Macusani common shares and 4,031,665 Macusani share purchase warrants.

On September 30, 2011, the closing price for Macusani common shares was Cdn$0.14. The value of each share purchase warrant with the exercise price per share of Cdn$0.85 was Cdn$0.01 and the value of each share purchase warrant with an exercise price of Cdn$0.35 per share was Cdn$0.03 at September 30, 2011.

The market value of Khan's investment in Macusani common shares at September 30, 2011 was $2,073 (September 30, 2010 - $3,401) and total value of Khan's investment in Macusani share purchase warrants at September 30, 2011 was $87 (September 30, 2010 – nil).

The unrealized holding loss on the investment in Macusani common shares during the year ended September 30, 2011 was $3,471 (2010 – gain $1,510). The related income tax recovery was $189 (2010 – tax provision-$189).

The loss on Macusani share purchase warrants during the year ended September 30, 2011 was $213.

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

7. Capital Assets

Capital assets consist of the following:

	As at September 30, 2011	As at September 30, 2010
Buildings, equipment, fixtures, furniture and vehicles	$ 688	$ 835
Less: accumulated amortization	563	540
	125	295
Construction in progress	3,505	3,533
	$ 3,630	$ 3,828

8. Mineral Interests

	As at September 30, 2011	As at September 30, 2010
Dornod Uranium Project, Mongolia		
Acquisition costs	$ 447	$ 447
Deferred development costs	11,718	11,565
	$ 12,165	$ 12,012

(a) The Dornod Uranium Project, prior to the passage of the 2009 NEL 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

(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 16, 2009, the Mongolian Parliament passed the NEL 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 law became effective on August 15, 2009. The NEL 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.

The NEL required that all Mongolian mining and exploration licenses for uranium, including those held by the Company's subsidiaries, Central Asia Uranium Company LLC ('CAUC") and Khan Resources LLC ("KRL"), be resubmitted for renewal and re-registration.
Khan submitted the applications for the renewal and re-registration of the mining license and exploration license for the Dornod Uranium Project on November 10, 2009. The applications were in compliance with the requirements of the new legislation, including the requirement to state that the license holder accepted the ability of the Mongolian State to take an ownership interest in the license-holder.

In April, 2010, the Company announced that it had received notices from the NEA stating that CAUC's mining license for the Main Dornod Property and KRL's exploration license for the Additional Dornod Property had been invalidated. Shortly thereafter, CAUC and KRL filed separate formal claims in the Capital City Administrative Court (the "Court") in Mongolia challenging the legal basis for the notices received from the NEA purporting to invalidate CAUC's mining license and KRL's exploration license. In July 2010, the Court ruled in favour of CAUC and declared that the previous decision by the NEA to invalidate CAUC's mining license was itself illegal and invalid. This decision was subsequently appealed by the NEA but the appeal was unsuccessful. In August 2010, the Court also ruled in favour of KRL and declared that the previous purported decision by the NEA to invalidate KRL's exploration license was itself illegal and invalid.

On November 12, 2010, the NEA published what it called an official notification in certain Mongolian newspapers stating that it did not intend to reissue the CAUC and KRL licenses.

The newspaper notice did not constitute an official decision which must include the legal reasons for making such a decision pursuant to Mongolian law. To date, the status of mining and exploration licenses remains pending. The Company continues to believe that there exists no legal basis for the NEA to refuse to reinstate and re-register its licenses and that it has always acted in conformance with Mongolian laws.

On January 10, 2011, the Company announced that it had formally commenced an international arbitration action against the Government of Mongolia for its expropriatory and unlawful treatment of Khan in relation to the Dornod Uranium Project.

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

9. Capital Stock

Capital stock consists of the following:

		As at September 30, 2011		As at September 30, 2010
Common shares (a)	$	61,383	$	61,184
Contributed surplus (b)		10,418		10,063
	$	71,801	$	71,247

(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, 2010 and 2011 are as follows:

	Number of common shares (000's)		Amount
Balance, September 30, 2009	53,964	$	61,209
Cancellation of common shares (i)	(50)		(25)
Balance, September 30, 2010	53,914		61,184
Exercise of stock options (ii)	612		199
Balance, September 30, 2011	54,525	$	61,383

(i) In January, 2010 the Company cancelled 50,000 common shares that were held by a trust as the trust was terminated.

(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 2010 and 2011. At September 30, 2011, there were 1,944,211 options available for grant under the plan.

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

The summary of the stock option transactions in 2010 and 2011 is as follows:

	Number of options (000's)	Weighted average exercise price (Cdn$)
Balance, September 30, 2009	4,955	$ 1.77
Granted to directors, officers and employees	1,500	0.29
Exercised	(83)	1.50
Cancelled	(2,425)	2.84
Balance, September 30, 2010	3,947	0.56
Granted to directors, officers and employees	1,225	0.55
Exercised	(612)	0.20
Cancelled	(595)	0.72
Expired	(487)	1.49
Balance, September 30, 2011	3,478	$ 0.46

The following tables summarize information about the stock options outstanding and exercisable at September 30, 2011:

Options outstanding

Exercise prices (Cdn$)	Number outstanding at September 30, 2011 (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price (Cdn$)
0.20 to 0.29	1,953	3.22	0.25
0.55 to 0.89	1,300	3.96	0.60
1.40 to 1.70	225	1.36	1.43
0.20 to 1.70	3,478	3.38	$ 0.46

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

Options exercisable

Exercise prices (Cdn$)	Number exercisable at September 30, 2011 (000's)	Weighted average exercise price (Cdn$)
0.20 to 0.29	1,553	0.25
0.55 to 0.89	567	0.67
1.40 to 1.70	225	1.43
0.20 to 1.70	2,345	$ 0.46

(b) Contributed surplus

The summary of the transactions in the contributed surplus account in 2010 and 2011 is as follows:

	Amount
Balance, September 30, 2009	$ 9,847
Stock options granted to directors, officers and employees	191
Cancellation of common shares (i)	25
Balance, September 30, 2010	10,063
Stock options granted to directors, officers and employees	432
Exercise of stock options	(77)
Balance, September 30, 2011	$ 10,418

(i) The value of 50,000 common shares cancelled is charged to the contributed surplus.

10. Stock-based Compensation

The stock-based compensation expense during the year ended September 30, 2011 was $432 (2010 - $191) 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 exercise price of the options granted during the year ended September 30, 2011 was Cdn$0.55 (2010 - Cdn$0.29).

The fair value of the stock options granted during the year ended September 30, 2011 was estimated on the date of issue using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life in years: 3.0
Risk-free interest rate: 2.3%
Expected volatility: 120%
Dividend yield: 0%

The fair value of the stock options granted during the year ended September 30, 2010 was estimated on the date of issue using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life in years: 2.9
Risk-free interest rate: 1.7%
Expected volatility: 121%
Dividend yield: 0%

The weighted average fair value per option of options granted during the year ended September 30, 2011 is Cdn$0.39 (2010 - Cdn$0.21).

11. Sale of Assets

During 2011, the Company disposed of certain capital assets at the Dornod mine-site and at the Ulaan Baatar office which were no longer in use. The total cash proceeds from disposal were $59. The Company recorded a $2 loss on disposal.

12. Other Income

In February 2010, the Company and CNNC Overseas Uranium Holding Inc. (“CNNC Overseas”) signed the Support Agreement and related Escrow Agreement in relation with the offer made by China National Nuclear Corporation (“CNNC”) to acquire all of the outstanding common shares of Khan at C$0.96 per share.

One of the conditions to the transaction contemplated in the Support Agreement was not met and the Support Agreement was subsequently terminated without completing the transaction.

In September 2011, the Company and CNNC Overseas agreed, without admission of liability, to settle the matter by payment of C$250 from CNNC Overseas to Khan.

The Other Income of $254 (C$250 with applicable exchange rate) was recorded in conjunction with the executed settlement agreement dated September 14, 2011.

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

13. 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 28.75% (2010 - 31.80%) were as follows:

	2011	2010
Loss before income taxes	$ 3,562	$ 4,288
Expected income tax benefit based on statutory tax rate	$ 1,024	$ 1,362
Stock-based compensation expense	(124)	(61)
Foreign exchange gain (loss)	(17)	153
Unrealized holding loss on a derivative investment	(30)	
Foreign tax rate differential	(153)	(250)
Adjustment to prior year tax assets	(49)	(61)
Canadian and Mongolian losses expired	(27)	(83)
Reduction in future tax rates	(82)	(1,141)
Withholding tax expense	(7)	(31)
Exchange differences	(130)	222
Tax benefit	405	110
Change in valuation allowance	(600)	48
Income Tax recovery (provision)	$ (195)	$ 158

(b) Future tax assets and liabilities

The tax effects of temporary differences that give rise to future tax assets and liabilities as at September 30, 2011 and 2010 are as follows:

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

		2011		**2010**
Future tax assets				
Non-capital losses	$	6,481	$	5,878
Capital assets		50		45
Equity financing costs		116		314
Unrealized holding loss on available-for-sale investments		245		-
	$	6,892	$	6,237
Future tax liabilities				
Unrealized holding gain on available-for-sale investments	$	-	$	(189)
Total future tax assets				
Future tax assets	$	6,892	$	6,237
Valuation allowance for future tax assets		(6,892)		(6,048)
	$	-	$	189
Net future tax assets (liabilities)	$	-	$	-

At September 30, 2011, the Company had Canadian non-capital losses of approximately $25,558 (2010 - $23,178) available for deduction against future taxable income and these losses, if unutilized, will expire from 2014 to 2031; Mongolian non-capital losses of approximately $562 (2010 - $593) available for deduction against future taxable income and these losses, if unutilized, will expire from 2012 to 2013; and Netherlands non-capital losses of approximately $179 (2010 - $112) available for deduction against future taxable income and these losses, if unutilized, will expire from 2017 to 2020. None of the non-capital losses have been tax-benefited.

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

14. Loss per Share

Basic and diluted loss per common 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 common share has been calculated using the weighted average number of common shares outstanding of 54,157,000 during the year ended September 30, 2011 (2010 – 53,928,000). Any potential common shares whose effect is anti-dilutive have not been reflected in the calculation of diluted loss per share. The determination of the weighted average number of common shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding stock options since to do so would reduce the loss per share and would therefore be anti-dilutive.

15. Supplemental Cash Flow Information

	Years ended September 30 2011	Years ended September 30 2010	Cumulative from inception on October 1, 2002 to September 30, 2011
Changes in non-cash working capital balances related to operations:			
Accounts receivable	$ 15	$ 8	$ (44)
Prepaid expenses and other assets	78	(47)	(113)
Accounts payable and accrued liabilities	230	104	112
	$ 323	$ 65	$ (45)
Non-cash financing activities:			
Equity financing costs settled by issue of agents options	$ -	$ -	604

The accounts payable and accrued liabilities related to capital assets and mineral interests at September 30, 2011, were, respectively, nil (2010 – 38) and nil (2010 - $1).

The Company did not pay income taxes or interest during the years ended September 30, 2011 and 2010.

16. Commitments and Contingencies.

The Company has entered into a five-year lease for its head office premises that commenced on March 1, 2006. The lease has been extended until September 2012 essentially under the same terms and conditions. The expected rent for the next year is $95.

17. Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 consolidated financial statements.