Khan Resources Inc.

Condensed Interim Consolidated Financial Statements

March 31, 2013
In thousands of Canadian dollars
(unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM STATEMENTS

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

(In thousands of Canadian dollars unless otherwise stated)

Condensed Consolidated Balance Sheet
(unaudited)

	Notes	Mar. 31 2013	Sep 30 2012
ASSETS			
Current Assets			
Cash and cash equivalents	4	**2,705**	4,680
Accounts receivable		**49**	19
Prepaid expenses and other assets		**31**	72
Investments	5	**1,708**	2,173
Restricted cash	4	**52**	52
Total current assets		**4,545**	6,996
Non-current assets			
Property, Plant and Equipment	6	**1**	5
Total non-current assets		**1**	5
Total assets		**4,546**	7,001
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**326**	262
Provisions	7	**26**	50
Total current liabilities		**352**	312
Total liabilities		**352**	312
Net assets		**4,194**	6,689
EQUITY			
Share capital		**75,934**	75,934
Contributed surplus		**12,027**	11,902
Accumulated other comprehensive income	8	**(497)**	(44)
Deficit		**(83,270)**	(81,103)
Total equity		**4,194**	6,689

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

The financial statements were approved by the Board of Directors on May 16, 2013 and signed on its behalf by:

Signed: "James B. C. Doak"
Director

Signed: "Grant A.Edey"
Director

(In thousands of Canadian dollars unless otherwise stated)

Consolidated Statement of Comprehensive Income

For the three and six months ended March 31

		Three months		Six months	
	Notes	**2013**	2012	**2013**	2012
Revenue					
Other income		**-**	10	**-**	21
Finance income		**7**	9	**18**	22
Total revenue		**7**	19	**18**	43
Expenses					
Legal expenses		**(564)**	(711)	**(1,444)**	(1,133)
General corporate		**(268)**	(357)	**(524)**	(688)
Mongolian operations		**(28)**	(40)	**(67)**	(97)
Amortization	6	**(2)**	(22)	**(16)**	(46)
Share-based compensation	9	**(96)**	(108)	**(125)**	(169)
Gain (loss) on investments		**-**	(21)	**-**	(57)
Foreign exchange gain (loss)		**(1)**	(16)	**(4)**	(39)
Total expenses		**(959)**	(1,275)	**(2,180)**	(2,229)
Income (loss) before income tax		**(952)**	(1,256)	**(2,162)**	(2,186)
Income tax	12	**(12)**	(3)	**(5)**	(5)
Net income (loss)		**(964)**	(1,259)	**(2,167)**	(2,191)
Other comprehensive income					
Foreign currency translation differences - foreign operations		**-**	536	**13**	(967)
Net change in fair value of available-for-sale financial assets		**(544)**	-	**(466)**	(78)
Income tax on other comprehensive income		**10**	-	**-**	-
Other comprehensive income net of income tax		**(534)**	536	**(453)**	(1,045)
Total comprehensive income (loss)		**(1,498)**	(723)	**(2,620)**	(3,236)
Earnings per share					
Basic earnings per share (in Canadian cents)		**(0.01)**	(0.02)	**(0.03)**	(0.04)
Diluted earnings per share (in Canadian cents)		**(0.01)**	(0.02)	**(0.03)**	(0.04)
Weighted average number of shares outstanding - Basic		**68,125,445**	54,525,445	**68,125,445**	54,525,445
Weighted average number of shares outstanding - Diluted		**68,125,445**	52,525,445	**68,125,445**	54,525,445

The accompanying notes form part of these financial statements.

(In thousands of Canadian dollars unless otherwise stated)

Condensed Consolidated Cash Flow Statement

For the six months ended March 31
(unaudited)

	Notes	**2013**	2012
Operating Activities			
Income (loss) before income tax		**(2,162)**	(2,186)
Adjustments for:			
Amortization	6	**16**	46
Share-based compensation	9	**125**	169
Gain (loss) on investments		**-**	57
Unrealized foreign exchange loss (gain)		**3**	36
Financial income and expenses		**(18)**	(22)
Changes in:			
Accounts receivable		**(30)**	(12)
Accounts payable and accrued liabilities		**64**	61
Prepaid expenses and other assets		**41**	(120)
Cash used in operations		**(1,961)**	(1,971)
Interest received		**18**	22
Income tax paid		**(5)**	(5)
Net operating cash flows		**(1,948)**	(1,954)
Investing activities			
Development expenditure		**-**	(24)
Purchases of plant and equipment		**-**	(1)
Restoration of Dornod property	7	**(25)**	-
Net investing cash flows		**(25)**	(25)
Financing activities			
		-	-
Net financing cash flows		**-**	-
Net increase (decrease) in cash and cash equivalents		**(1,973)**	(1,979)
Cash and cash equivalents at the beginning of the period		**4,680**	5,927
Effect of foreign currency exchange rate changes on cash and cash equivalents		**(2)**	(37)
Cash and cash equivalents at the end of the period		**2,705**	3,911

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

(In thousands of Canadian dollars unless otherwise stated)

Condensed Consolidated Statement of Changes in Equity
For the period ended March 31, 2013
(unaudited)

		Share capital					
	Notes	Number of shares	Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balance as at October 1, 2012		**68,125,445**	**75,934**	**11,902**	**(44)**	**(81,103)**	**6,689**
Total comprehensive income (loss)		**-**	**-**	**-**	**(453)**	**(2,167)**	**(2,620)**
Transactions with owners:							
Employee share options:							
Value of services recognized	9	**-**	**-**	**125**	**-**	**-**	**125**
Balance as at March 31, 2013		**68,125,445**	**75,934**	**12,027**	**(497)**	**(83,270)**	**4,194**
					-		
Balance as at October 1, 2011		54,525,445	73,622	11,621	(1,395)	(59,480)	24,368
Total comprehensive income (loss)					(1,045)	(2,191)	(3,236)
Transactions with owners:							
Employee share options:							
Value of services recognized	9			169	-	-	169
Balance as at March 31, 2012		54,525,445	73,622	11,790	(2,440)	(61,671)	21,301
Total comprehensive income (loss)		-	-	-	2,396	(19,432)	(17,036)
Transactions with owners:							
Employee share options:							
Value of services recognized	9	-	-	112	-	-	112
Proceeds on issuance in private placement		13,600,000	2,312	-	-	-	2,312
Balance as at September 30, 2012		68,125,445	75,934	11,902	(44)	(81,103)	6,689

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

Notes to Financial Statements

1 Corporate information

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

With cash of $2,705 on hand and positive working capital at March 31, 2013, the Company believes that it has sufficient liquidity to cover its obligations, including the cost of the international arbitration over the next year and therefore there is not significant doubt about the Company's ability to continue as a going concern for the foreseeable future.

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

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

2 Basis of preparation

a. Statement of compliance

These condensed interim consolidated financial statements for the three and six months ended March 31, 2013 have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended September 30, 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain prior year amounts have been reclassified to conform to the current year presentation.

The Board of Directors authourized these condensed consolidated financial statements for issue on May 16, 2013.

b. Use of estimates and judgments

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

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

3 Significant accounting policies

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

4 Cash, cash equivalents and restricted cash

As at March 31, 2013 and 2012, the Company did not have any cash equivalents.

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

(In thousands of Canadian dollars unless otherwise stated)

5 Investments

	Mar 31 2013		Sep 30 2012	
	Fair value	**Carrying amount**	Fair value	Carrying amount
Investments by classification				
Available-for-sale financial assets (a)	**1,708**	**2,173**	2,173	2,173
Financial assets designated at fair value through profit and loss (b)	**-**	**-**	-	298
Total investments	**1,708**	**2,173**	2,173	2,471

The above financial assets consist of 15,523,330 common shares and 1,491,665 warrants of Macusani Yellowcake Inc. ("Macusani"). The Company measures financial assets at fair value at each reporting period using quoted market prices.

(a) Changes in the fair value of Macusani shares are recognized in other comprehensive income.

(b) Changes in the fair value of Macusani warrants are recognized in income before tax. These warrants expired on March 23, 2013.

(In thousands of Canadian dollars unless otherwise stated)

6 Property, plant and equipment

	Mineral properties	Equipment (a)	Assets under construction (b)	Total
Cost at October 1, 2011	13,022	659	3,462	17,143
Additions	115	3	-	118
Disposals	-	(413)	-	(413)
Exchange differences	(1,642)	(51)	(437)	(2,130)
Cost at September 30, 2012	**11,495**	**198**	**3,025**	**14,718**
Additions (c)	16	12	-	28
Disposals	-	-	(903)	(903)
Exchange differences	290	2	63	355
Cost at March 31, 2013	**11,801**	**212**	**2,185**	**14,198**
Depreciation and impairment as at October 1, 2011	-	(533)	-	(533)
Depreciation and impairment	(12,659)	(122)	(3,335)	(16,116)
Disposals	-	402	-	402
Exchange differences	1,164	60	310	1,534
Depreciation and impairment as at September 30, 2012	**(11,495)**	**(193)**	**(3,025)**	**(14,713)**
Depreciation and impairment (d)	(16)	(16)	-	(32)
Disposals	-	-	903	903
Exchange differences	(290)	(2)	(63)	(355)
Depreciation and impairment as at March 31, 2013	**(11,801)**	**(211)**	**(2,185)**	**(14,197)**
Net book value as at September 30, 2012	**-**	**5**	**-**	**5**
Net book value as at March 31, 2013	**-**	**1**	**-**	**1**

(a) Equipment comprises camp equipment, furniture, fixtures and vehicles.
(b) Assets under construction comprises a pow er line and a sedimentation pond.
(c) Restoration asset change of estimate
(d) Impairment recognized on the restoration asset change of estimate

(In thousands of Canadian dollars unless otherwise stated)

7 Provisions

		Three months		Six months	
		2013	2012	**2013**	2012
At the beginning of the period		**38**	-	**50**	-
Change in estimate	6	**16**	-	**16**	
Used (incurred and charged against the provision)		**(30)**	-	**(41)**	-
Exchange differences		**2**	-	**1**	-
Total restoration provision		**26**	-	**26**	-

8 Accumulated other comprehensive income

	Mar 31 2013	Sep 30 2012
Currency translation account (a)		
Balance at the beginning of the financial year	**(44)**	558
Exchange differences on translation of foreign operations taken to equity	**13**	(602)
Exchange differences on translation of foreign operations transferred to income before tax	**-**	-
	(31)	(44)
Financial assets account (b)		
Balance at the beginning of the financial year	**-**	(1,953)
Net valuation (losses)/gains on available for sale investments taken to equity	**(466)**	-
Net valuation (gains)/losses on available for sale investments transferred to income before tax	**-**	1,953
Deferred tax relating to revaluations	**-**	-
	(466)	-
Accumulated other comprehensive income	**(497)**	(44)

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

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

(In thousands of Canadian dollars unless otherwise stated)

9 Share-based compensation

On February 14, 2013, a total of 1,675,000 options with a contractual life of three years were granted to directors, officers, and employees at an exercise price of $ 0.20 per share subject to a vesting schedule over a one-year term with one-third vesting immediately, one-third vesting in six months and one-third vesting in one year. The exercise price of the options $0.20 was higher than the market price of the shares on the date of the grant. There is no cash settlement of the options. The fair value of the options granted is estimated at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of the options granted during the six months ended March 31, 2013 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	-
Expected volatility (%)	110.80
Risk free interest rate(%)	1.18
Forfeiture rate (%)	1.55
Expected life (years)	3.00
Weighted average share price ($)	0.20

A share-based payment compensation expense of $70 as a result of the options granted on February 14, 2013 has been recognized in the consolidated statement of comprehensive income.

The following table summarizes information about share options outstanding at March 31, 2013:

Grants listed by expiry date	Exercise price ($)	Remaining life (years)	Fair value per option ($)	Number outstanding	Number vested	Number unvested
May 14, 2013	0.89	0.12	0.68	200,000	200,000	-
December 17, 2013	0.20	0.71	0.15	753,334	753,334	-
August 16, 2015	0.29	2.38	0.21	1,200,000	1,200,000	-
February 16, 2015	0.20	1.88	0.10	1,400,000	1,400,000	-
February 14, 2016	0.20	2.87	0.10	1,675,000	558,329	1,116,671
February 16, 2016	0.55	2.88	0.39	1,100,000	1,100,000	-
				6,328,334	**5,211,663**	**1,116,671**

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

10 Management compensation

	Three months		Six months	
	2013	2012	**2013**	2012
Directors' fees	**21**	37	**49**	76
Salaries and short-term benefits	**52**	55	**84**	146
Share-based compensation	**80**	99	**115**	155
Total management compensation	**153**	191	**248**	377

11 Related party transactions

An officer of the Company is a partner in a firm that provides legal services to the Company. The Company paid an aggregate of $19 for the three months ended March 31, 2013 (2012 - $49) and $37 for the six months ended March 31, 2013 (2012 - $54). At March 31, 2013, the balance outstanding was $2 (2012 - $30) and is included in accounts payable and accrued liabilities.

(In thousands of Canadian dollars unless otherwise stated)

12 Income tax

	Three months		Six months	
	2013	2012	**2013**	2012
Current income tax expense (a)	**(2)**	(3)	**(5)**	(5)
Reversal of deferred tax	**(10)**	-	**-**	-
Income tax expense	**(12)**	(3)	**(5)**	(5)
Income tax recognized in other comprehensive income	**10**	-	**-**	-
Total income tax expense	**(2)**	(3)	**(5)**	(5)

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

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

Non-capital losses

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

13 Commitments and contingencies

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