Khan Resources Inc.

Condensed Interim Financial Statements

June 30, 2012
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.

Condensed Consolidated Balance Sheet
In thousands of Canadian dollars
(unaudited)

	Notes	**Jun 30 2012**	Sep 30 2011
ASSETS			
Current Assets			
Cash and cash equivalents		**5,237**	5,927
Accounts receivable		**34**	28
Prepaid expenses and other assets		**77**	115
Restricted cash	3	**52**	52
Total current assets		**5,400**	6,122
Non-current assets			
Investments	4	**2,188**	2,264
Plant and equipment	5	**7**	3,588
Mineral rights and properties	6	**-**	13,022
Intangible assets		**-**	-
Total non-current assets		**2,195**	18,874
Total assets		**7,595**	24,996
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**403**	628
Total current liabilities		**403**	628
Non-current liabilities			
Provisions	7	**100**	-
Total non-current liabilities		**100**	-
Total liabilities		**503**	628
Net assets		**7,092**	24,368
EQUITY			
Share capital		**75,934**	73,622
Contributed surplus		**11,851**	11,621
Accumulated other comprehensive income	8	**(2,134)**	(1,395)
Deficit		**(78,559)**	(59,480)
Total equity		**7,092**	24,368

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board of Directors on August 9, 2012 and signed on its behalf by:

Signed: "James B. C. Doak"
Director

Signed: "Grant A.Edey"
Director

Condensed Consolidated Statement of Comprehensive Income
For the three and nine months ended June 30
In thousands of Canadian dollars
(unaudited)

		Three months		Nine months	
	Notes	**2012**	2011	**2012**	2011
Revenue					
Other income		**19**	3	**40**	13
Finance income		**13**	15	**35**	59
Total revenue		**32**	18	**75**	72
Expenses					
General corporate		**(838)**	(575)	**(2,659)**	(1,753)
Mongolian operations		**(42)**	(65)	**(139)**	(328)
Amortization		**(21)**	(27)	**(67)**	(96)
Share-based compensation	9	**(61)**	(94)	**(230)**	(354)
Impairment loss, property, plant and equipment	5	**(3,357)**	-	**(3,357)**	-
Impairment loss, mineral rights and properties	6	**(12,576)**	-	**(12,576)**	-
Foreign exchange gain (loss)		**(3)**	(1)	**(42)**	(43)
Loss on investments		**(20)**	-	**(77)**	-
Write-off of assets		**-**	-	**-**	(3)
Total expenses		**(16,918)**	(762)	**(19,147)**	(2,577)
Income (loss) before income tax		**(16,886)**	(744)	**(19,072)**	(2,505)
Income tax		**(2)**	(619)	**(7)**	(380)
Net income (loss)		**(16,888)**	(1,363)	**(19,079)**	(2,885)
Other comprehensive income					
Foreign currency translation differences - foreign operations		**228**	(757)	**(739)**	(1)
Net change in fair value of available-for-sale financial assets		**78**	(4,933)	**-**	(3,004)
Income tax on other comprehensive income		**-**	617	**-**	376
Other comprehensive income net of income tax		**306**	(5,073)	**(739)**	(2,629)
Total comprehensive income (loss)		**(16,582)**	(6,436)	**(19,818)**	(5,514)
Earnings per share					
Basic earnings per share (CA cents)		**(0.26)**	(0.03)	**(0.33)**	(0.05)
Diluted earnings per share (CA cents)		**(0.26)**	(0.03)	**(0.33)**	(0.05)
Weighted average number of shares outstanding - Basic		**65,584,786**	54,225,445	**58,198,438**	54,101,727
Weighted average number of shares outstanding - Diluted		**65,584,786**	54,225,445	**58,198,438**	54,101,727

The accompanying notes form part of these financial statements.

Condensed Consolidated Cash Flow Statement
For the nine months ended June 30
In thousands of Canadian dollars
(unaudited)

	Notes	**2012**	2011
Operating Activities			
Income (loss) before income tax		**(19,072)**	(2,505)
Adjustments for:			
Amortization		**67**	96
Share-based compensation		**230**	354
Gain on sale of plant and equipment		**-**	3
Loss on Investments		**77**	-
Impairment loss, plant and equipment	5	**3,357**	-
Impairment loss, mineral rights and properties	6	**12,576**	-
Unrealized foreign exchange loss (gain)		**11**	(45)
Financial income and expenses		**(35)**	(59)
Changes in:			
Accounts receivable		**(6)**	(21)
Accounts payable and accrued liabilities		**(225)**	68
Prepaid expenses and other assets		**38**	(50)
Cash generated from operations		**(2,982)**	(2,159)
Dividends received			
Interest received		**35**	59
Income tax paid		**(7)**	(1)
Net operating cash flows		**(2,954)**	(2,101)
Investing activities			
Development expenditure		**(32)**	(145)
Purchases of plant and equipment		**(3)**	-
Investment in financial assets		**-**	(2,425)
Cash outflows from investing activities		**(35)**	(2,570)
Proceeds from sale of plant and equipment		**-**	-
Net investing cash flows		**(35)**	(2,570)
Financing activities			
Proceeds on issuance of shares		**2,312**	62
Net financing cash flows		**2,312**	62
Net increase (decrease) in cash and cash equivalents		**(677)**	(4,609)
Cash and cash equivalents at the beginning of the period		**5,927**	10,860
Effect of foreign currency exchange rate changes on cash and cash equivalents		**(13)**	18
Cash and cash equivalents at the end of the period		**5,237**	6,269

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Changes in Equity
For the period ended June 30, 2012
In thousands of Canadian dollars
(unaudited)

	Notes	Share capital					
		Number of shares	Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balance as at October 1, 2011		**54,525,445**	**73,622**	**11,621**	**(1,395)**	**(59,480)**	**24,368**
Total comprehensive income (loss)		**-**	**-**	**-**	**(739)**	**(19,079)**	**(19,818)**
Transactions with owners:							
Employee share options:							
Value of services recognized	9	**-**	**-**	**230**	**-**	**-**	**230**
Proceeds on issuing shares		**-**	**-**	**-**	**-**	**-**	**-**
Proceeds on issuance in private placement		**13,600,000**	**2,312**	**-**	**-**	**-**	**2,312**
Balance as at June 30, 2012		**68,125,445**	**75,934**	**11,851**	**(2,134)**	**(78,559)**	**7,092**
Balance as at October 1, 2010		53,913,779	73,407	11,281	1,306	(55,656)	30,338
Total comprehensive income (loss)		-	-	-	(2,629)	(2,885)	(5,514)
Transactions with owners:							
Employee share options:							
Value of services recognized		-	-	353	-	-	353
Proceeds on issuing shares		311,666	109	(47)	-	-	62
Proceeds on issuance in private placement		-	-	-	-	-	-
Balance as at June 30, 2011		54,225,445	73,516	11,587	(1,323)	(58,541)	25,239

The accompanying notes form part of these 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.

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

The head office, registered address and records office of the Company are located at 141 Adelaide Street West, Suite 1007, Toronto, Ontario, Canada, M5H 3L5.

The unaudited condensed consolidated financial statements of the Company as at and for the nine months ended June 30, 2012 were authorized for issue in accordance with a resolution of the Board of Directors dated on August 9, 2012.

2 Basis of preparation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2012 interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34*, Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, The accounting policies followed in these interim financial statements are the same as those applied in the Company's interim financial statements for the period ended December 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 13 discloses the impact of the transition to IFRS on the Company's reported equity as at June 30, 2012 and comprehensive income for the three and nine months ended June 30, 2012, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended September 30, 2011.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended September 30, 2012, as issued and outstanding as of August 9, 2012, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending September 30, 2012 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended September 30, 2011, and the Company's interim financial statements for the quarter ended December 31, 2011 prepared in accordance with IFRS applicable to interim financial statements. The consolidated financial statements are presented in thousands of Canadian dollars unless otherwise stated.

3 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.

4 Investments

	June 30 2012	Sep 30 2011
Investments by classification		
Available-for-sale financial assets (a)	**2,173**	2,173
Financial assets designated at fair value through profit and loss (b)	**15**	91
Total investments	**2,188**	2,264

The Company held the above financial assets measured at fair value at each reporting period using quoted market prices.
(a) Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income.
(b) Changes in the fair value through profit and loss are recognized in income before tax.

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5 Plant and equipment

Period ended June 30, 2012	Buildings	Camp equipment (a)	Office equipment	Construction in progress (b)	Total
Cost					
At the beginning of the financial year	307	233	119	3,462	4,121
Additions	-	3	-	100	103
Disposals	-	(1)	(17)	-	(18)
Exchange differences	(15)	(8)	(2)	(169)	(194)
At the end of the period	292	227	100	3,393	4,012
Accumulated depreciation					
At the beginning of the financial year	(230)	(195)	(108)	-	(533)
Period depreciation expense	(44)	(20)	(3)	-	(67)
Disposals	-	1	17	-	18
Exchange differences	11	6	2		19
At the end of the period	(263)	(208)	(92)	-	(563)
Accumulated impairment losses					-
At the beginning of the financial year	-	-	-	-	-
Impairment losses for the period	(28)	(12)	(8)	(3,309)	(3,357)
Exchange differences	(1)	-	-	(84)	(85)
At the end of the period	(29)	(12)	(8)	(3,393)	(3,442)
Net book value at June 30, 2012	-	7	-	-	7

Period ended June 30, 2011	Buildings	Camp equipment (a)	Office equipment	Construction in progress (b)	Total
Cost					
At the beginning of the financial year	304	360	132	3,370	4,166
Additions	-	-	4	-	4
Disposals	(7)	(3)	(9)	(24)	(43)
Exchange differences	1	-	-	5	6
At the end of the period	298	357	127	3,351	4,133
Accumulated depreciation					
At the beginning of the financial year	(168)	(210)	(127)	-	(505)
Period depreciation expense	(46)	(46)	(5)	-	(97)
Disposals	7	3	9	-	19
Exchange differences	1	-	-	-	1
At the end of the period	(206)	(253)	(123)	-	(582)
Net book value at June 30, 2011	92	104	4	3,351	3,551

(a) Camp equipment comprises furniture, fixtures and vehicles.
(b) Construction in progress comprises a power line and a sedimentation pond.

On June 30, 2012, the Company recognized non-cash impairment losses that have reduced all of the Company’s tangible assets to their estimated recoverable values at June 30, 2012 as described in Note 6.

6 Mineral rights and properties

Period ended June 30, 2012	**Acquisition**	**Development**	**Total**
Cost			
At the beginning of the financial year	**501**	**12,521**	**13,022**
Additions	**-**	**32**	**32**
Exchange differences	**(19)**	**(613)**	**(632)**
At the end of the period	**482**	**11,940**	**12,422**
Accumulated impairment losses			
At the beginning of the financial year	**-**	**-**	**-**
Impairment losses for the period	**(501)**	**(12,075)**	**(12,576)**
Exchange differences	**19**	**135**	**154**
At the end of the period	**(482)**	**(11,940)**	**(12,422)**
Net book value at June 30, 2012	**-**	**-**	**-**

Period ended June 30, 2012	Acquisition	Development	Total
Cost			
At the beginning of the financial year	487	11,937	12,424
Additions	-	144	144
Disposals	-	-	-
Exchange differences	1	14	15
At the end of the period	488	12,095	12,583
Net book value at June 30, 2011	488	12,095	12,583

The Company, in making its regular assessment of the Dornod Project for impairment, has concluded that it is highly unlikely that the exploration and mining licenses will be returned by the Mongolian government. For that reason, on June 30, 2012, the Company recognized non-cash impairment losses that have reduced all of the Company's tangible assets to their estimated recoverable values at June 30, 2012. All tangible assets including those at the corporate office in Toronto have been impacted because, for accounting purposes, the Company is comprised of a single cash-generating unit based on the Dornod Project in Mongolia.

7 Provisions

Period ended June 30, 2012	Restoration
At the beginning of the financial year	**-**
Additions	**100**
Exchange differences	**-**
At the end of the period	**100**

On June 30, 2012, the Company determined that the Dornod Project Camp should be closed as soon as possible. The Company has recognized a provision for estimated environmental restoration costs. These include the removal of residual materials and remediation of disturbed areas. The cost estimates are updated at regular intervals to reflect known developments. Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value.

8 Accumulated other comprehensive income

	June 30 2012	Sep 30 2011
Currency translation account (a)		
Balance at the beginning of the financial year	**558**	-
Exchange differences on translation of foreign operations taken to equity	**(739)**	558
Exchange differences on translation of foreign operations transferred to income before tax	**-**	-
Balance at the end of the period	**(181)**	558
Financial assets account (b)		
Balance at the beginning of the financial year	**(1,953)**	1,306
Net valuation (losses)/gains on available for sale investments taken to equity	**-**	(3,453)
Net valuation (gains)/losses on available for sale investments transferred to income before tax	**-**	-
Deferred tax relating to revaluations	**-**	194
Balance at the end of the period	**(1,953)**	(1,953)
Accumulated other comprehensive income	**(2,134)**	(1,395)

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

9 Share-based payment

On February 16, 2012, a total of 1,400,000 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 models, taking into account the terms and conditions upon which the options were granted. The fair value of the options granted during the nine months ended June 30, 2012 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	-
Expected volatility (%)	110.00
Risk free interest rate(%)	1.10
Forfeiture rate (%)	5.62
Expected life (years)	3.00
Weighted average share price ($)	0.20

A share-based payment compensation expense of $98 as a result of the options granted on February 16, 2012 has been recognized in the consolidated statement of comprehensive income.

The following table summarizes information about share options outstanding at June 30, 2012:

Grants listed by expiry date	Exercise price ($)	Remaining life (years)	Fair value per option ($)	Number outstanding	Number vested	Number unvested
August 31, 2012	1.70	0.17	1.30	25,000	25,000	-
February 19, 2013	1.40	0.64	1.07	200,000	200,000	-
May 14, 2013	0.89	0.87	0.68	200,000	200,000	-
December 17, 2013	0.20	1.50	0.15	753,334	753,334	-
August 16, 2015	0.29	3.08	0.21	1,200,000	800,000	400,000
February 16, 2015	0.20	2.67	0.10	1,400,000	466,664	933,336
February 16, 2016	0.55	3.67	0.39	1,100,000	733,333	366,667
				4,878,334	**3,178,331**	**1,700,003**

10 Management compensation

	Three months		Nine months	
	2012	2011	**2012**	2011
Directors' fees	**33**	32	**109**	108
Salaries and short-term benefits	**57**	142	**204**	402
Share-based compensation	**56**	175	**211**	424
Total management compensation	**147**	349	**525**	934

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 $68 for the three months ended June 30, 2012 (2011 - Nil) and $122 for the nine months ended June 30, 2012 (2011 - Nil).

12 Income tax

	Three months		Nine months	
	2012	2011	**2012**	2011
Current income tax expense (a)	**(2)**	(3)	**(7)**	(4)
Deferred income tax expense related to reversal of deferred taxes (b)	**-**	(616)	**-**	(376)
Income tax expense	**(2)**	(619)	**(7)**	(380)
Income tax recognized in other comprehensive income	**-**	616	**-**	376
Total income tax expense	**(2)**	(3)	**(7)**	(4)

(a) The Government of Mongolia withholds 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, 2011, the Company had Canadian non-capital losses of approximately $26,790 (2010 - $24,295) available for deduction against future taxable income and these losses, if unutilized, will expire from 2014 to 2031; Mongolian non-capital losses of approximately $589 (2010 - $622) 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 $188 (2010 - $117) 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.

13 Transition to IFRS

The Company adopted IFRS effective October 1, 2011 with a transition date of October 1, 2010. This note explains the principal adjustments made by the Company in restating its previously published Canadian GAAP consolidated financial statements for the nine months ended June 30, 2011.

a. First-time adoption exemptions applied

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

i. Business combinations

The Company has elected the business combinations exemption in IFRS 1 to not apply IFRS 3 *Business Combinations* retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date.

ii. Cumulative translation differences

The Company has elected to set the previously cumulative translation account, which was included in accumulated other comprehensive income, to zero as at the transition date, and absorbed the balance to retained earnings.

iii. Share-based payment

The Company has elected to not apply IFRS 2 *Share-based Payment* to equity instruments granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS.

b. Reconciliation of equity

The following is a reconciliation of the Company's equity reported in accordance to Canadian GAAP to its equity under IFRS as at June 30, 2011:

	Canadian GAAP US$	Functional currency change (e. i)	Notes	Other IFRS changes	IFRS
ASSETS					
Current Assets					
Cash and cash equivalents	6,497	6,269		-	6,269
Accounts receivable	69	65		-	65
Prepaid expenses and other assets	131	132		-	132
Restricted cash	55	52		-	52
Total current assets	6,752	6,518		-	6,518
Non-current assets					
Investments	3,028	2,921		-	2,921
Plant and equipment	3,701	3,551		-	3,551
Mineral rights and properties	12,155	12,583		-	12,583
Intangible assets	-	-		-	-
Total non-current assets	18,884	19,055		-	19,055
Total assets	25,636	25,573		-	25,573
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	346	334		-	334
Total current liabilities	346	334		-	334
Total liabilities	346	334		-	334
Net assets	25,290	25,239		-	25,239
EQUITY					
Share capital	61,285	73,516		-	73,516
Contributed surplus	10,377	11,608	e. iii	(21)	11,587
Accumulated other comprehensive income	(1,147)	(1,322)		-	(1,322)
Cumulative translation adjustment		(1)	e. i	-	(1)
Deficit	(45,225)	(58,562)	e. iii	21	(58,541)
Total equity	25,290	25,239		-	25,239

c. Reconciliation of comprehensive income

The following is a reconciliation of the Company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income under IFRS for the three months ended June 30, 2011:

	Canadian GAAP US$	Functional currency change (e. i)	Notes	Other IFRS changes	IFRS
Revenue					
Other income	13	13	e. v	(10)	3
Finance income	16	15			15
Total revenue	29	28		(10)	18
Expenses					
General corporate	(601)	(585)	e. v	10	(575)
Mongolian operations	(67)	(65)			(65)
Amortization	(33)	(27)			(27)
Share-based compensation	(93)	(94)			(94)
Foreign exchange gain (loss)	26	(1)	e. i		(1)
Loss on investments	-	-			-
Write-off of assets	-	-			-
Total expenses	(768)	(772)		10	(762)
Income (loss) before income tax	(739)	(744)		-	(744)
Income tax	(635)	(619)			(619)
Net income (loss)	(1,374)	(1,363)		-	(1,363)
Other comprehensive income					
Foreign currency translation differences - foreign operations	-	(757)	e. i		(757)
Net change in fair value of available-for-sale financial assets	(5,073)	(4,933)			(4,933)
Income tax on other comprehensive income	635	617			617
Other comprehensive income net of income tax	(4,438)	(5,073)		-	(5,073)
Total comprehensive income (loss)	(5,812)	(6,436)		-	(6,436)

The following is a reconciliation of the Company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income under IFRS for the nine months ended June 30, 2011:

	Canadian GAAP US$	Functional currency change (e. i)	Notes	Other changes	IFRS
Revenue					
Other income	13	13			13
Finance income	60	59			59
Total revenue	73	72		-	72
Expenses					
General corporate	(1,774)	(1,753)			(1,753)
Mongolian operations	(326)	(328)			(328)
Amortization	(102)	(96)			(96)
Share-based compensation	(353)	(354)			(354)
Foreign exchange gain (loss)	498	(43)	e. i		(43)
Loss on investments	-	-			-
Write-off of assets	(3)	(3)			(3)
Total expenses	(2,060)	(2,577)		-	(2,577)
Income (loss) before income tax	(1,987)	(2,505)		-	(2,505)
Income tax	(357)	(380)			(380)
Net income (loss)	(2,344)	(2,885)			(2,885)
Other comprehensive income					
Foreign currency translation differences - foreign operations	-	(1)	e. i		(1)
Net change in fair value of available-for-sale financial assets	(2,821)	(3,004)			(3,004)
Income tax on other comprehensive income	353	376			376
Other comprehensive income net of income tax	(2,468)	(2,629)		-	(2,629)
Total comprehensive income (loss)	(4,812)	(5,514)		-	(5,514)

d. Statement of cash flows

The conversion to IFRS did not result in material changes to the statement of cash flows.

e. Notes to the reconciliations

Transitional adjustments are made according to the following notes:

i. Foreign exchange impact on translation

With the adoption of IFRS, the functional currency of the Canadian head office and all intermediate holding companies changed from USD to CAD. The Company's Mongolian subsidiaries changed their functional currency from the USD to the MNT. Such change resulted in a foreign exchange difference between the two accounting standards on certain non-monetary assets. These assets were previously translated from MNT to USD by using historical rates (temporal method). However under IFRS, they are translated from MNT to CAD directly by using period end rates (current method). Under Canadian GAAP, exchange differences were recognized in net income whereas under IFRS exchange differences are recognized in other comprehensive income. The Company's share capital has been restated at historic CAD carrying amounts.

ii. Intangible assets

Certain specialized mining computer software recognized as a tangible asset under Canadian GAAP has been identified as an intangible asset under IFRS. At transition the acquisition cost of $12 had been depreciated to a carrying amount of $1 and was fully depreciated by December 31, 2011.

iii. Share-based compensation

In accordance with IFRS transitional provisions, the Company elected to apply IFRS relating to share-based payments retrospectively to outstanding stock options that had not vested prior to the transition date. This resulted in an adjustment of $21 relating to a small number of stock options that had not vested by October 1, 2010.

iv. Cumulative translation difference

The Company has elected to eliminate its cumulative translation difference that existed at the date of transition to IFRS. Cumulative translation difference of $3,216 was reclassified from accumulated other comprehensive income to retained earnings at transition.

v. Rental Income

Rental income related to surplus office space has been reclassified from general corporate expense to other income.

14 Subsequent events

Subsequent to June 30, 2012, the Tribunal hearing the Company's $200 million international arbitration action against the Government of Mongolia ruled on July 26, 2012, entirely in Khan's favour on matters of jurisdiction and has dismissed all of Mongolia's objections to the continuance of the suit. The action will now progress to the phase in which the panel will rule as to the merits of the arbitral claims and the amount of damages suffered by Khan arising from the Mongolian Government's expropriatory and unlawful treatment of Khan in relation to the Dornod uranium deposit located in northeastern Mongolia. While this ruling is encouraging, it is not possible to predict the ultimate success of the suit or make an estimate of any financial benefit.