Khan Resources Inc.

Consolidated Financial Statements

September 30, 2012

In thousands of Canadian dollars

INDEPENDENT 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, 2012 and 2011, and October 1, 2010, and the consolidated statements of comprehensive income/(loss), cash flows and changes in equity for the years ended September 30, 2012 and 2011, 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 International Financial Reporting Standards, 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, 2012 and 2011, and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
December 17, 2012

Consolidated Balance Sheet

	Notes	**Sep 30 2012**	Sep 30 2011	Oct 1 2010 (Note 19)
ASSETS				
Current Assets				
Cash and cash equivalents	4	**4,680**	5,927	10,860
Accounts receivable		**19**	28	61
Prepaid expenses and other assets		**72**	115	201
Restricted cash	4	**52**	52	52
Total current assets		**4,823**	6,122	11,174
Non-current assets				
Investments	5	**2,173**	2,264	3,500
Plant and equipment	6	**5**	3,588	3,661
Mineral rights and properties	7	**-**	13,022	12,424
Intangible assets		**-**	-	1
Total non-current assets		**2,178**	18,874	19,586
Total assets		**7,001**	24,996	30,760
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		**262**	628	422
Provisions	8	**50**	-	-
Total current liabilities		**312**	628	422
Total liabilities		**312**	628	422
Net assets		**6,689**	24,368	30,338
EQUITY				
Share capital		**75,934**	73,622	73,407
Contributed surplus		**11,902**	11,621	11,281
Accumulated other comprehensive income	9	**(44)**	(1,395)	1,306
Deficit		**(81,103)**	(59,480)	(55,656)
Total equity		**6,689**	24,368	30,338

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

The financial statements w ere approved by the Board of Directors on December 17, 2012 and signed on its behalf by:

Signed: "James B. C. Doak"
Director

Signed: "Grant A.Edey"
Director

Consolidated Statement of Comprehensive Income (Loss)
For the year ended September 30

	Notes	2012	2011 (Note 19)
Revenue			
Other income		**48**	277
Finance income		**46**	73
Total revenue		**94**	350
Expenses			
Legal expenses		**(1,878)**	(1,136)
General corporate	10	**(1,176)**	(1,641)
Mongolian operations		**(213)**	(413)
Amortization		**(33)**	(126)
Share-based compensation	11	**(281)**	(433)
Impairment loss, property, plant and equipment	6	**(3,424)**	-
Impairment loss, mineral rights and properties	7	**(12,659)**	-
Impairment loss, available-for-sale investments	5	**(1,953)**	-
Gain (loss) on investments	5	**(91)**	(207)
Gain (loss) on restoration estimate	8	**20**	-
Gain (loss) on disposal of assets	6	**33**	(2)
Foreign exchange gain (loss)		**(52)**	(12)
Write-off of assets	6	**-**	(3)
Total expenses		**(21,707)**	(3,973)
Income (loss) before income tax		**(21,613)**	(3,623)
Income tax	14	**(10)**	(201)
Net income (loss)		**(21,623)**	(3,824)
Other comprehensive income			
Foreign currency translation differences - foreign operations		**(602)**	558
Net change in fair value of available-for-sale financial assets		**1,953**	(3,453)
Income tax on other comprehensive income		**-**	194
Other comprehensive income net of income tax		**1,351**	(2,701)
Total comprehensive income (loss)		**(20,272)**	(6,525)
Earning (loss) per share			
Basic earnings per share (in Canadian dollars)		**(0.36)**	(0.07)
Diluted earnings per share (in Canadian dollars)		**(0.36)**	(0.07)
Weighted average number of shares outstanding - Basic		**60,693,751**	54,156,746
Weighted average number of shares outstanding - Diluted		**60,693,751**	54,156,746

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

Consolidated Cash Flow Statement
For the year ended September 30

	Notes	2012	2011 (Note 19)
Operating Activities			
Income (loss) before income tax		**(21,613)**	(3,623)
Adjustments for:			
Amortization		**33**	126
Share-based compensation	11	**281**	433
Impairment loss, plant and equipment	6	**3,424**	-
Impairment loss, mineral rights and properties	7	**12,659**	-
Impairment loss, available-for-sale investments	5	**1,953**	-
Gain (loss) on investments	5	**91**	207
Gain (loss) on restoration estimate	8	**(20)**	-
Gain (loss) on disposal of assets		**(33)**	2
Unrealized foreign exchange loss (gain)		**14**	(76)
Financial income and expenses		**(46)**	(73)
Write-off of assets		**-**	3
Changes in:			
Accounts receivable		**9**	16
Accounts payable and accrued liabilities		**(366)**	246
Prepaid expenses and other assets		**43**	86
Cash used in operations		**(3,571)**	(2,653)
Interest received		**46**	73
Income tax paid	14	**(10)**	(5)
Net operating cash flows		**(3,535)**	(2,585)
Investing activities			
Development expenditure	7	**(15)**	(155)
Proceeds from disposal of assets	6	**33**	60
Purchases of plant and equipment	6	**(3)**	(11)
Restoration of Dornod property	8	**(22)**	-
Investment in financial assets	5	**-**	(2,425)
Net investing cash flows		**(7)**	(2,531)
Financing activities			
Proceeds on issuance of shares		**2,312**	122
Net financing cash flows		**2,312**	122
Net increase (decrease) in cash and cash equivalents		**(1,230)**	(4,994)
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		**(17)**	61
Cash and cash equivalents at the end of the period	4	**4,680**	5,927

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

Consolidated Statement of Changes in Equity

		Share capital (a)					
	Notes	Number of shares	Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balance as at October 1, 2011	19	**54,525,445**	**73,622**	**11,621**	**(1,395)**	**(59,480)**	**24,368**
Total comprehensive income (loss)		**-**	**-**	**-**	**1,351**	**(21,623)**	**(20,272)**
Transactions with owners:							
Employee share options:							
Value of services recognized	11	**-**	**-**	**281**	**-**	**-**	**281**
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**
					-		
Balance as at October 1, 2010		53,913,779	73,407	11,281	1,306	(55,656)	30,338
Total comprehensive income (loss)		-	-	-	(2,701)	(3,824)	(6,525)
Transactions with owners:							
Employee share options:							
Value of services recognized	11	-	-	433	-	-	433
Proceeds on issuing shares	11	611,666	215	(93)	-	-	122
Proceeds on issuance in private placement		-	-	-	-	-	-
Balance as at September 30, 2011		54,525,445	73,622	11,621	(1,395)	(59,480)	24,368

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.

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

2 Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Company’s first consolidated financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 19.

The Board of Directors authorized the consolidated financial statements for issue on December 17, 2012.

b. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

With cash of $4,680 on hand and positive working capital at September 30, 2012, the Company believes that it has sufficient liquidity to cover its obligations, including the cost of the international arbitration and other litigation, 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.

c. Basis of consolidation

The financial statements of the Company consolidate the accounts of Khan Resources Inc. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

d. Foreign currency translation

i. Functional and presentation currency

The functional currency for each subsidiary of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Canadian head office and all intermediate holding companies is the Canadian dollar (CAD). The functional currency of all Mongolian subsidiaries is the Mongolian Tugrik (MNT). The consolidated financial statements are presented in Canadian dollars.

The financial statements of entities that have a functional currency different from that of Khan Resources Inc. ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the balance sheet, and income and expenses – at the average exchange rates (as this is considered a reasonable approximation to actual rates). All translation gains and losses are recognized in other comprehensive income as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in income before tax. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in income before tax.

e. Use of estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

Estimates

i. **Impairment of assets (Notes 6 and 7)**

At each reporting date, the Company assesses whether there is objective evidence that an asset is impaired. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. These estimates and assumptions are set out below in the Company's accounting policies for impairment of financial assets and impairment of non-financial assets.

With respect to mineral rights and properties, and plant and equipment, the Company has recognized a material impairment of the Dornod properties and related assets (see Judgments i below).

ii. **Restoration provision (Note 8)**

The provision at the balance sheet date represents management's best estimate of 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 and constructive obligations and are measured at fair value.

iii. **Recovery of deferred tax assets (Note 14)**

Judgment is required in determining whether deferred tax assets are recognized on the balance sheet. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

iv. **Fair value of financial assets and liabilities (Notes 5 and 15)**

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from

active markets, their fair value is determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Judgments

i. **Recoverability of mineral rights and properties (Note 7)**
The recoverability of the amounts shown for mineral rights and 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.

On June 30, 2012 the Company made a determination based on the judgment that it was now highly unlikely that the mining and exploration licenses would be renewed and returned, and hence the Company resolved to close the Dornod mine camp. For that reason, the Company has recognized in these consolidated financial statements, non-cash impairment losses of $16,083 that have reduced all of the Company's tangible assets to their estimated recoverable value of $5 at September 30, 2012 in light of the fact that the Company is highly unlikely to be able to continue the development program necessary to enable it to realize the carrying value of those assets. All tangible assets have been impacted because, for accounting purposes, the Company consists of a single cash-generating unit.

ii. **Functional currency**
The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in both Canada and Mongolia, and sources of debt and equity financing.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at October 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a. Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with maturities on the date of acquisition of three months or less.

b. Financial assets

i. **Initial recognition and measurement**
Financial assets within the scope of IAS 39 are classified as at fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value. Transaction costs are charged to income before tax except for loans and receivables and held-to-maturity financial assets where any directly attributable transaction costs are added to the initial fair value of the financial asset.

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

ii. **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as described below:

i. **Fair value through profit and loss**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. After initial measurement these financial assets are remeasured at fair value. Gains and losses arising from changes in fair value are included within other gains and losses in the period in which they arise.

The only instruments held by the Company classified in this category are investments in derivatives (warrants).

ii. **Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, as appropriate. The effective interest rate amortization is included in finance income. Any losses arising from impairment are recognized as finance costs for loans and in other operating expenses for receivables.

iii. **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized as finance income. Dividends on available-for-sale equity instruments are recognized in income as part of other gains and losses when the company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to income and are included in other gains and losses.

The Company's available-for-sale assets comprise any marketable securities and investments in debt and equity securities.

iii. **Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect

on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in income before tax. Changes in impairment provisions attributable to time value are reflected as a component of finance income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income before tax, then the impairment loss is reversed, with the amount of the reversal recognized in income before tax. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

c. **Financial liabilities**

i. **Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as at fair value through profit and loss, loans and borrowings at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: trade and other payables.

ii. **Subsequent measurement**

Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest rate amortization, if any, is included in finance cost.

d. **Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

An analysis of fair value of financial instruments and other details as to how they are measured are provided at note 15.

e. Plant and equipment

Plant and equipment are initially recorded at cost, including all directly attributable costs to bring the assets to the location and condition necessary for them to be capable of operating in the manner intended by management. Plant and equipment are subsequently measured at cost less accumulated depreciation and applicable impairment losses. Depreciation is computed on a straight‐line basis based on the nature and useful lives of the assets. The significant classes of plant and equipment and their estimated useful lives are as follows:

Buildings: 5 years
Camp equipment, fixtures, furniture and vehicles: 5 years
Office equipment: 3 years

Subsequent costs that meet the asset recognition criteria are capitalized while costs incurred that do not extend the economic useful life of an asset are considered repairs and maintenance, which are accounted for as an expense recognized during the period.

Assets under construction are capitalized as construction-in-progress. The cost of construction-in-progress comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Construction-in-progress assets are not depreciated until they are completed and available for their intended use.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognized in income.

f. **Mineral rights and properties**

The cost of acquiring mineral rights and properties either as an individual asset purchase or as part of a business combination is capitalized and represents the property's fair value at the date of acquisition. Fair value is determined by estimating the value of the property's reserves, resources and exploration potential.

Exploration and evaluation costs, incurred associated with specific mineral rights and properties prior to demonstrable technical feasibility and commercial viability of extracting a mineral resource, are capitalized. Upon determination that a mineral property can be economically developed, which occurs at the earlier of: (i) completion of positive economic analysis of the mineral deposit by establishing proven and probable reserves; or (ii) obtaining a mining permit, the subsequent development costs incurred such as to further delineate the ore body and costs incurred during production to increase output by providing access to additional sources of mineral resources, are also capitalized. Administrative expenditures that are not directly related to property maintenance are charged to operations as incurred.

Upon commencement of commercial production, mineral rights and properties and capitalized expenditures will be depleted over the mine's estimated life using the units of production method calculated based on proven and probable reserves. If commercial production commences prior to the determination of proven and probable reserves, depletion will be calculated based on the mineable portion of measured and indicated resources.

g. **Impairment of non-financial assets**

Non-financial assets, including mineral rights and properties, plant and equipment are reviewed and tested for impairment when indicators of impairment are considered to exist. Impairment assessments are conducted at the level of cash-generating units (CGU), which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. Management has assessed its CGUs as being an individual mine site (the Dornod properties in Mongolia). An impairment loss is recognized for any excess of carrying amount of the CGU over its recoverable amount, which is the greater of its fair value less costs to sell and value in use. For mineral rights and properties and processing facilities, the recoverable amount is estimated as the discounted future net cash flows expected to be derived from expected future production, metal prices, and net proceeds from the disposition of assets on retirement, less operating and capital costs. Impairment losses are recognized in the period they are incurred.

Impairment losses are reversed if the conditions that gave rise to the impairment are no longer present and it has been determined that the asset is no longer impaired as a result. This reversal is recognized in net income in the period the reversal occurs limited by the carrying value that would have been determined, net of any depreciation, had no impairment charge been recognized in prior years.

h. **Restoration Provision**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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. Changes to estimated future costs are recognized in

the balance sheet by either increasing or decreasing the restoration liability and restoration asset if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*. Any reduction in the restoration liability and therefore any deduction from the restoration asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to income before tax.

If the change in estimate results in an increase in the restoration liability and therefore an addition to the carrying value of the asset, the entity is required to consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36.

For closed sites, changes to estimated costs are recognized immediately in income before tax.

i. Lease payments

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease and within the scope of IAS 17 classifies leases as operating leases or finance leases. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

The Company has determined that its only lease arrangements are operating leases covering office facilities. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

j. Share-based compensation

The Company awards share options to employees, officers, directors, and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option-pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Upon the exercise of the share option, consideration received and the related amount transferred from contributed surplus are recorded as share capital.

k. Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in net income. Interest income is recognized as it accrues in net income, using the effective interest method. Dividend income is recognized in net income on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in net income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net income using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

l. Income tax

Income tax comprises current and deferred tax. Income tax is recognized in net income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is not provided on temporary differences arising on investments in subsidiaries where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

m. **Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The authorized share capital of the Company consists of an unlimited number of no par value common shares. All issued shares are fully paid.

n. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to equity owners of Khan Resources Inc. by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury method. Under this method, derivatives, whose exercise price is less than the average market price of our common shares, are assumed to be exercised and the proceeds are used to repurchase common shares at the average market price for the period. The incremental number of common shares issued under share options, and repurchased from proceeds, is included in the calculation of diluted earnings per share.

Any potential common shares whose effect is anti-dilutive have not been reflected in the calculation of Diluted EPS. The determination of the weighted average number of common shares outstanding for the calculation of Diluted EPS does not include the effect of outstanding share options since to do so would reduce the loss per share and would therefore be anti-dilutive.

o. **Segment reporting**

The Company has only a single operating segment, and therefore one reportable segment.

The single operating segment is the company's foreign operation in Mongolia. The Mongolian operation is principally engaged in the acquisition, exploration, evaluation, and development of mining properties. Its Dornod properties have not achieved commercial production and no revenue from the Dornod properties has been recorded in these consolidated financial statements. Furthermore, at June 30, 2012, the Company recorded an impairment of its Dornod properties (see note 7).

The company's non-current assets are located in Mongolia. Non-current assets located at the corporate office in Canada are minor in relation to the total.

p. **New standards and interpretations not yet adopted**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended September 30, 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 *Financial Instruments.*

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in income before tax, unless this creates an accounting mismatch. The Company has yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board.

4 Cash, cash equivalents and restricted cash

As at September 30, 2012 and 2011, 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.

5 Investments

	2012		2011		Oct 1, 2010	
	Fair value	**Carrying amount**	Fair value	Carrying amount	Fair value	Carrying amount
Investments by classification						
Available-for-sale financial assets (a)	**2,173**	**2,173**	2,173	4,126	3,500	2,000
Financial assets designated at fair value through profit and loss (b)	**-**	**298**	91	298	-	-
Total investments	**2,173**	**2,471**	2,264	4,424	3,500	2,000

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.

Impairment of available-for-sale financial assets

The Company assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, the duration to which the fair value of an investment is less than its cost.

Based on these criteria, the Company identified an impairment of $1,953 on available-for-sale financial assets recognized in income before tax. See also note 9.

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6 Plant and equipment

As at September 30, 2012	**Buildings**	**Camp equipment (a)**	**Office equipment**	**Construction in progress (b)**	**Total**
Cost					
At October 1, 2011	**307**	**233**	**119**	**3,462**	**4,121**
Additions	**-**	**3**	**-**	**-**	**3**
Disposals	**(278)**	**(100)**	**(35)**	**-**	**(413)**
Exchange differences	**(29)**	**(18)**	**(4)**	**(437)**	**(488)**
At September 30, 2012	**-**	**118**	**80**	**3,025**	**3,223**
Accumulated depreciation					
At October 1, 2011	**(230)**	**(195)**	**(108)**	**-**	**(533)**
Depreciation expense for the year	**(15)**	**(15)**	**(3)**	**-**	**(33)**
Disposals	**214**	**84**	**34**	**-**	**332**
Exchange differences	**31**	**18**	**4**		**53**
At September 30, 2012	**-**	**(108)**	**(73)**	**-**	**(181)**
Accumulated impairment					
At October 1, 2011	**-**	**-**	**-**	**-**	**-**
Impairment losses for the year	**(63)**	**(19)**	**(7)**	**(3,335)**	**(3,424)**
Disposals	**57**	**13**			**70**
Exchange differences	**6**	**1**	**-**	**310**	**317**
At September 30, 2012	**-**	**(5)**	**(7)**	**(3,025)**	**(3,037)**
Net book value as at September 30, 2012	**-**	**5**	**-**	**-**	**5**

As at September 30, 2011	Buildings	Camp equipment (a)	Office equipment	Construction in progress (b)	Total
Cost					
At October 1, 2010	304	360	132	3,370	4,166
Additions	-	-	11	-	11
Disposals	(7)	(136)	(25)	(29)	(197)
Exchange differences	10	9	1	121	141
At September 30, 2011	307	233	119	3,462	4,121
Accumulated depreciation					
At October 1, 2010	(168)	(210)	(127)	-	(505)
Depreciation expense for the year	(62)	(59)	(5)	-	(126)
Disposals	7	80	25	-	112
Exchange differences	(7)	(6)	(1)	-	(14)
At September 30, 2011	(230)	(195)	(108)	-	(533)
Net book value as at September 30, 2011	77	38	11	3,462	3,588

(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 7.

7 Mineral rights and properties

As at September 30, 2012	**Acquisition**	**Development**	**Restoration**	**Total**
Cost				
At October 1, 2011	**501**	**12,521**	**-**	**13,022**
Additions	**-**	**15**	**100**	**115**
Exchange differences	**(49)**	**(1,585)**	**(8)**	**(1,642)**
At September 30, 2012	**452**	**10,951**	**92**	**11,495**
Accumulated impairment losses				
At October 1, 2011	**-**	**-**	**-**	**-**
Impairment losses for the year	**(501)**	**(12,058)**	**(100)**	**(12,659)**
Exchange differences	**49**	**1,107**	**8**	**1,164**
At September 30, 2012	**(452)**	**(10,951)**	**(92)**	**(11,495)**
Net book value as at September 30, 2012	**-**	**-**	**-**	**-**

As at September 30, 2011	Acquisition	Development		Total
Cost				
At October 1, 2010	488	11,936	-	12,424
Additions	-	155	-	155
Disposals	-	-	-	-
Exchange differences	13	430	-	443
At September 30, 2011	501	12,521	-	13,022
Net book value as at September 30, 2011	501	12,521	-	13,022

On June 30, 2012 the Company determined that it was highly unlikely that the mining and exploration licenses would be renewed and returned, and hence the Company resolved to close the Dornod mine camp. For that reason, the Company has recognized in these consolidated financial statements, non-cash impairment losses that have reduced all of the Company's tangible assets to their estimated recoverable value at September 30, 2012 in light of the fact that the Company is highly unlikely to be able to continue the development program necessary to enable it to realize the carrying value of those assets.

8 Provisions

	Restoration
October 1, 2010 and 2011	**-**
Additions	**100**
Used (incurred and charged against the provision)	**(22)**
Loss (Gain) on restoration estimate	**(20)**
Exchange differences	**(8)**
	50

On June 30, 2012, the Company resolved to close the Dornod mine camp as described in note 7. Initially, the Company recognized a total provision for estimated environmental restoration costs for $100. Subsequently, as a result of actual work performed on the restoration activities to close the Dornod mine camp, the Company reassessed its initial estimate of the provision and adjusted the restoration provision to $72, recognizing the change in estimate of $28 in the income statement (including exchange differences of $8.) The remaining costs are expected to be incurred in fiscal 2013.

9 Accumulated other comprehensive income

	Sep 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	**(602)**	558
Exchange differences on translation of foreign operations transferred to income before tax	**-**	-
	(44)	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	**1,953**	-
Deferred tax relating to revaluations	**-**	194
	-	(1,953)
Accumulated other comprehensive income	**(44)**	(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.

10

10 General corporate expenses

	2012	2011
Accounting and audit	**108**	160
Investor relations	**39**	76
Insurance	**108**	138
Management remuneration	**581**	844
Office and travel	**340**	423
	1,176	1,641

11 Share-based compensation

Awards were made to directors, officers, employees and service providers under a share option plan that was approved by the shareholders on February 11, 2009. Under the provisions of the plan, the Board of Directors of the Company is authorized to provide for the granting, exercise and method of exercise of options, subject to the terms of the plan and applicable stock exchange rules. Under the plan, the aggregate number of shares reserved for issuance may not exceed the greatest of 5,000,000 common shares or 10% of the total number of issued and outstanding common shares at the time of any option grant. The exercise price of any options granted under the plan will be fixed by the Board at the time of the grant but must not be not be less than the closing price of the common shares on the business day immediately prior to the date of the grant as quoted on the CNSX. The exercise period and vesting limitations of an option is also fixed by the Board at the time of the grant but the exercise period may not exceed five years. Generally, options vest over 24 months.

The number and weighted average exercise prices of share options are as follows:

	2012		2011	
In thousands of options	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at October 1	**3,478**	**$ 0.46**	3,947	$ 0.56
Forfeited during the year	**-**	**-**	(595)	0.72
Expired during the year	**(25)**	**1.70**	(487)	1.49
Exercised during the year	**-**	**-**	(612)	0.20
Granted during the year	**1,400**	**0.20**	1,225	0.55
Outstanding at September 30	**4,853**	**$ 0.38**	3,478	$ 0.46
Exercisable at September 30	**4,020**	**$ 0.38**	2,345	$ 0.46

No options were exercised in 2012. The weighted average share price at the date of exercise for share options exercised in 2011 was $0.20.

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

Grants listed by expiry date	Exercise price ($)	Remaining life (years)	Fair value per option ($)	Number outstanding	Number vested	Number unvested
February 19, 2013	1.40	0.39	1.07	200,000	200,000	-
May 14, 2013	0.89	0.62	0.68	200,000	200,000	-
December 17, 2013	0.20	1.21	0.15	753,334	753,334	-
August 16, 2015	0.29	2.87	0.21	1,200,000	1,200,000	-
February 16, 2015	0.20	2.38	0.10	1,400,000	933,332	466,668
February 16, 2016	0.55	3.38	0.39	1,100,000	733,333	366,667
				4,853,334	**4,019,999**	**833,335**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was $0.10 per option (2011: $0.39). The significant inputs into the model were:

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

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

12 Management compensation

	2012	2011
Directors' fees	**136**	139
Salaries and short-term benefits	**255**	497
Share-based compensation	**259**	398
	650	1,034

13 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 $125 for the year ended September 30, 2012 (2011 - $6). At September 30, 2012, the balance outstanding was nil (2011 - $3) and is included in accounts payable and accrued liabilities.

14 Income tax

The major components of income tax expense for the years ended September 30, 2012 and 2011 are:

	2012	2011
Current income tax expense	**(10)**	(7)
Deferred income tax expense related to reversal of deferred taxes (a)	**-**	(194)
Income tax expense	**(10)**	(201)
Income tax recognized in other comprehensive income	**-**	194
Total income tax expense	**(10)**	(7)

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

Reconciliation between tax expense and the product of the accounting loss multiplied by the Company's domestic tax rate for the years ended September 30, 2012 and 2011 is as follows:

	2012	2011
Income (loss) before income tax	**(21,613)**	(3,623)
At the Company's statutory income tax rate of 26.50% (2011: 28.75%)	**5,727**	1,042
Non-deductible expenses	**(345)**	(154)
Effect of tax rates in foreign jurisdictions	**(2,703)**	(118)
Change in unrecognized deferred tax assets	**(2,679)**	(770)
Withholding tax expense (a)	**(10)**	(7)
Total income tax expense	**(10)**	(7)

(a) The Government of Mongolia w ithholds income tax related to intercompany interest expense.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	2012	2011
Deductible temporary differences	**1,799**	706
Tax losses	**8,228**	6,830
	10,027	7,536

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available against which the Company can utilize the related tax benefits.

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.

15 Fair values of financial instruments

Financial instruments comprise financial assets and liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. When quoted market prices are not available, the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability.

All financial instruments at September 30, 2012 other than investments set out in note 5, are short-term in nature with maturities of less than one year or no fixed repayment term. Based on fair value assessments as indicated above, the estimated fair value of those financial assets and liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheet.

Investments that are non-current are measured at fair value using quoted market prices.

16 Financial risk management objectives and policies

The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk, credit risk and equity price risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

a. **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its short-term business requirements. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its international arbitration program.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments (see note 18).

b. **Foreign exchange risk**

The Company undertakes transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from such transactions.

The Company conducts certain operations in Mongolia and some of the Company's assets, liabilities and some expenses are denominated in MNT although this is much reduced following the impairment of the Dornod Project (see note 7).

The Company currently does not engage in foreign currency hedging. As at September 30, 2012, with other variables unchanged, a 1% strengthening (weakening) of the MNT against the CAD would have increased (decreased) other comprehensive income by approximately $3.

c. **Interest rate risk**

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents and short-term investments primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of September 30, 2012.

d. **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 is exposed to credit risk primarily associated to accounts receivable, interest receivable, cash and cash equivalents and short-term investments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The Company's primary exposure to credit risk is on its bank accounts and guaranteed investment certificate. Bank accounts are held with major banks in Canada and Mongolia. As a Canadian bank holds the majority of the Company's cash and the same Canadian bank also holds the guaranteed investment certificate, 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.

e. **Equity price risk**
The Company holds certain equity securities that will fluctuate in value as a result of trading on Canadian financial markets. As the Company's equity securities holdings are in mining companies, the value will also fluctuate based on commodity prices. Based upon the Company's portfolio at September 30, 2012, a 10% increase (decrease) in the market price of the securities held, ignoring any foreign currency effects would have resulted in an increase (decrease) to comprehensive income of approximately $217.

17 Capital management

The Company's objectives of capital management are intended to safeguard the entity's ability to continue as a going concern and to continue its international arbitration litigation against the Government of Mongolia.

The capital of the Company consists of the items included in shareholders' equity. The Board of Directors monitors risk and capital management. The Company manages the capital structure and makes adjustments depending on economic conditions. Funds have been primarily secured through issuances of equity capital. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short‐term deposits, all held with major financial institutions. Significant risks are monitored and actions are taken, when necessary, according to the Company's approved policies.

18 Commitments and contingencies

The Company as lessee entered into a one-year cancellable operating sublease contract for its head office premises that commenced on September 1, 2012. After the one-year term, the sublease will be on a month-to-month basis and is cancellable on 30 days' notice. The lease agreement has no renewal option, no purchase option and no escalation clauses. The expected rent for 2013 is $36.

The Company as lessee also entered into the operating lease of the Choibalsan office in Mongolia under a cancellable operating lease contract. The Company is required to give not less than 90 days' notice for the termination of this agreement. The lease agreement has a renewal option, no purchase option and no escalation clauses. The expected rent for 2013 is $22.

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.

19 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 previous Canadian GAAP consolidated balance sheet as at October 1, 2010 and its previously published Canadian GAAP consolidated financial statements for the year ended September 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 deficit.

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 October 1, 2010:

	Canadian GAAP US$	Currency change (e. i)	Notes	IFRS changes	IFRS
ASSETS					
Current Assets					
Cash and cash equivalents	10,554	10,860		-	10,860
Accounts receivable	59	61		-	61
Prepaid expenses and other assets	191	201		-	201
Restricted cash	51	52		-	52
Total current assets	10,855	11,174		-	11,174
Non-current assets					
Investments	3,401	3,500		-	3,500
Plant and equipment	3,828	3,662	e. ii	(1)	3,661
Mineral rights and properties	12,012	12,424			12,424
Intangible assets	-	-	e. ii	1	1
Total non-current assets	19,241	19,586		-	19,586
Total assets	30,096	30,760		-	30,760
LIABILITIES		-			
Current liabilities					
Accounts payable and accrued liabilities	409	422		-	422
Total current liabilities	409	422		-	422
Total liabilities	409	422		-	422
Net assets	29,687	30,338		-	30,338
EQUITY					
Share capital	61,184	73,407		-	73,407
Contributed surplus	10,063	11,302	e. iii	(21)	11,281
Accumulated other comprehensive income	1,321	1,306		-	1,306
Cumulative translation adjustment		(3,216)	e. i	3,216	-
Deficit	(42,881)	(52,461)	e. iv	(3,195)	(55,656)
Total equity	29,687	30,338		-	30,338

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

	Canadian GAAP US$	Currency change (e. i)	Notes	IFRS changes	IFRS
ASSETS					
Current Assets					
Cash and cash equivalents	5,656	5,927		-	5,927
Accounts receivable	26	28		-	28
Prepaid expenses and other assets	114	115		-	115
Restricted cash	50	52		-	52
Total current assets	5,846	6,122		-	6,122
Non-current assets					
Investments	2,160	2,264		-	2,264
Plant and equipment	3,630	3,588		-	3,588
Mineral rights and properties	12,165	13,022		-	13,022
Total non-current assets	17,955	18,874		-	18,874
Total assets	23,801	24,996		-	24,996
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	599	628		-	628
Total current liabilities	599	628		-	628
Total liabilities	599	628		-	628
Net assets	23,202	24,368		-	24,368
EQUITY					
Share capital	61,383	73,622		-	73,622
Contributed surplus	10,418	11,642	e. iii	(21)	11,621
Accumulated other comprehensive income	(1,961)	(1,953)		-	(1,953)
Cumulative translation adjustment		558	e. i	-	558
Deficit	(46,638)	(59,501)	e. iii	21	(59,480)
Total equity	23,202	24,368		-	24,368

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 year ended September 30, 2011:

	Canadian GAAP US$	Currency change (e. i)	Notes	IFRS changes	IFRS
Revenue					
Other income	282	277			277
Finance income	74	73			73
Total revenue	356	350		-	350
Expenses					
General corporate	(2,784)	(2,777)			(2,777)
Mongolian operations	(412)	(413)			(413)
Amortization	(130)	(126)			(126)
Share-based compensation	(432)	(433)			(433)
Impairment loss, property, plant and equipment	-	-			-
Impairment loss, mineral rights and properties	-	-			-
Gain (loss) on investments	(213)	(207)			(207)
Gain (loss) on disposal of assets	(2)	(2)			(2)
Foreign exchange gain (loss)	58	(12)			(12)
Write-off of assets	(3)	(3)			(3)
Total expenses	(3,918)	(3,973)		-	(3,973)
Income (loss) before income tax	(3,562)	(3,623)		-	(3,623)
Income tax	(195)	(201)			(201)
Net income (loss)	(3,757)	(3,824)		-	(3,824)
Other comprehensive income					-
Foreign currency translation differences - foreign operations	-	558	e. i		558
Net change in fair value of available-for-sale financial assets	(3,471)	(3,453)			(3,453)
Income tax on other comprehensive income	189	194			194
Other comprehensive income net of income tax	(3,282)	(2,701)		-	(2,701)
Total comprehensive income (loss)	(7,039)	(6,525)		-	(6,525)

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. As a result of the above changes in functional currency, the presentation currency of the consolidated financial statements changed to CAD from USD.

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 September 30, 2011.

iii. Share-based compensation

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