

**Khan Resources Inc.**  
**Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2010**  
**(Unaudited)**

## **Management's Responsibility for Financial Reporting**

The accompanying unaudited interim consolidated financial statements of Khan Resources Inc. are the responsibility of management and have been approved by the Board of Directors.

The interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these principles have been set out in the Company's audited consolidated financial statements as at and for the year ended September 30, 2010. Only changes in accounting policies have been disclosed in these interim consolidated financial statements. The consolidated financial statements include estimates based on the experience and judgement of management in order to ensure that the financial statements are presented fairly, in all material respects.

The management of the Company and its subsidiaries developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfills its responsibilities for financial reporting with the assistance of the Audit Committee.

The Audit Committee is appointed by the Board of Directors and all its members are independent. The Committee meets periodically to review interim consolidated financial statements and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the Company's interim and annual consolidated financial statements and recommends their approval to the Board of Directors.

(Signed)

Grant A. Edey  
President and Chief Executive Officer

Toronto, Ontario  
February 9, 2011

(Signed)

Paul D. Caldwell  
Chief Financial Officer

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

	<b>As at December 31, 2010</b>	<b>As at September 30, 2010</b>
<b>Assets</b>		
Current		
Cash	\$ 9,441	\$ 10,554
Accounts receivable	56	59
Prepaid expenses and other assets	111	191
Restricted cash (note 5)	52	51
Total current assets	9,660	10,855
Investments (note 6)	8,203	3,401
Capital assets, net (note 7)	3,764	3,828
Mineral interests (notes 1 and 8)	12,099	12,012
	\$ 33,726	\$ 30,096
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 288	\$ 409
Commitments and contingencies		
<b>Shareholders' Equity</b>		
Capital stock (note 9)	71,301	71,247
Deficit	(42,847)	(42,881)
Accumulated other comprehensive income	4,984	1,321
	33,438	29,687
	\$ 33,726	\$ 30,096

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

On behalf of the Board:

(Signed)

James B.C. Doak  
Director

(Signed)

Grant A. Edey  
President and Chief Executive Officer

**Khan Resources Inc.**  
**Interim Consolidated Statements of Operations and Deficit**  
**(Expressed in United States dollars)**  
**(All dollar amounts are in thousands, except for per share amounts)**  
**(Unaudited)**

	<b>Three months ended</b>		<b>Cumulative</b>
	<b>December 31,</b>		<b>from inception</b>
	<b>2010</b>	<b>2009</b>	<b>on October 1,</b>
			<b>2002 to</b>
			<b>December 31,</b>
			<b>2010</b>
<b>Revenue</b>			
Interest	\$ 24	\$ 11	\$ 2,186
<b>Expenses</b>			
General corporate	555	857	18,504
Mongolian operations	164	157	2,833
Amortization	37	36	582
Stock-based compensation (note 10)	36	36	11,418
Foreign exchange gain	(283)	(249)	(241)
Loss on sale of assets	-	-	782
Write-off of assets	3	-	9,748
	<u>512</u>	<u>837</u>	<u>43,626</u>
(Loss) income before income taxes	(488)	(826)	(41,440)
Recovery of income taxes	<u>522</u>	<u>-</u>	<u>4,074</u>
<b>Net income (loss) for the period</b>	34	(826)	(37,366)
Deficit, beginning of period	(42,881)	(38,751)	-
Equity financing costs	<u>-</u>	<u>-</u>	<u>(5,481)</u>
<b>Deficit, end of period</b>	<u>\$ (42,847)</u>	<u>\$ (39,577)</u>	<u>\$ (42,847)</u>
Weighted average number of common shares outstanding (thousands)			
- basic (note 11)	<u>53,982</u>	<u>53,964</u>	
Net income (loss) per share			
- basic (note 11)	<u>\$ 0.00</u>	<u>\$ (0.02)</u>	
Weighted average number of common shares outstanding (thousands)			
- diluted (note 11)	<u>55,116</u>	<u>53,964</u>	
Net income (loss) per share			
- diluted (note 11)	<u>\$ 0.00</u>	<u>\$ (0.02)</u>	

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

	<b>Three months ended</b>		<b>Cumulative</b>
	<b>December 31,</b>		<b>from inception</b>
	<b>2010</b>	<b>2009</b>	<b>on October 1,</b>
			<b>2002 to</b>
			<b>December 31,</b>
			<b>2010</b>
<b>Net income (loss) for the period</b>	\$ <u>34</u>	\$ <u>(826)</u>	\$ <u>(37,366)</u>
<b>Other comprehensive income</b>			
Unrealized holding gain on available-for-sale securities arising during the period	4,186	487	5,696
Income tax provision	<u>(523)</u>	<u>-</u>	<u>(712)</u>
Total other comprehensive income	<u>3,663</u>	<u>487</u>	<u>4,984</u>
<b>Comprehensive income (loss) for the period</b>	\$ <u>3,697</u>	\$ <u>(339)</u>	\$ <u>(32,382)</u>

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**Khan Resources Inc.**  
**Interim Consolidated Statements of Cash Flows**  
**(Expressed in United States dollars)**  
**(All dollar amounts are in thousands)**  
**(Unaudited)**

	<b>Three months ended</b>		<b>Cumulative</b>
	<b>December 31,</b>		<b>from inception</b>
	<b>2010</b>	<b>2009</b>	<b>on October 1,</b>
			<b>2002 to</b>
			<b>December 31,</b>
			<b>2010</b>
<b>Operating Activities</b>			
Net (loss) income for the period	\$ 34	\$ (826)	\$ (37,366)
Items not affecting cash:			
Amortization	37	36	582
Stock-based compensation	36	36	11,418
(Gain) loss on sale of assets	-	-	810
Future tax recovery	(523)	-	(4,106)
Unrealized foreign exchange loss (gain)	(276)	(249)	1,207
Write-off of assets	3	-	9,768
	<u>(689)</u>	<u>(1,003)</u>	<u>(17,687)</u>
Changes in non-cash working capital balances related to operations (note 12)	<u>(18)</u>	<u>264</u>	<u>(386)</u>
Cash used in operating activities	<u>(707)</u>	<u>(739)</u>	<u>(18,073)</u>
<b>Investing Activities</b>			
Proceeds from sale of investments	-	-	36
Proceeds from sale of mineral interests	-	-	2,500
Restricted cash	-	-	(49)
Purchase of investments	(615)	(1,891)	(2,527)
Purchase of capital assets	-	(54)	(4,362)
Mineral interests	(87)	(151)	(12,485)
Payment of property acquisition liability	-	-	(1,667)
	<u>(702)</u>	<u>(2,096)</u>	<u>(18,554)</u>
Cash used in investing activities	<u>(702)</u>	<u>(2,096)</u>	<u>(18,554)</u>
<b>Financing Activities</b>			
Capital stock issued for cash	19	-	51,998
Capital stock purchased for cash	-	-	(67)
Equity financing costs	-	-	(4,619)
	<u>19</u>	<u>-</u>	<u>47,312</u>
Cash provided by financing activities	<u>19</u>	<u>-</u>	<u>47,312</u>
<b>Foreign exchange gain (loss) on cash</b>	<u>277</u>	<u>247</u>	<u>(1,244)</u>
Net (decrease) increase in cash during the period	(1,113)	(2,588)	9,441
<b>Cash, beginning of period</b>	<u>10,554</u>	<u>16,794</u>	<u>-</u>
<b>Cash, end of period</b>	<u>\$ 9,441</u>	<u>\$ 14,206</u>	<u>\$ 9,441</u>

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

**Khan Resources Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**December 31, 2010**  
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## **1. Nature of Operations**

Khan Resources Inc. (“Khan” or the “Company”) is in the process of acquiring, exploring and developing mineral properties and is thus considered to be a development stage company. The recoverability of the amounts shown for mineral properties is dependent upon the 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 that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009. In connection with the passing of the Nuclear Energy Law, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit an application to the State Administrative Authority and renew and re-register their existing licenses by November 15, 2009. Khan submitted the applications for the renewal and re-registration of its mining license and exploration license on November 10, 2009.

There can be no assurance that Khan’s licenses will be retained, re-instated or re-registered under the Nuclear Energy Law (or any other law pursuant to which such licenses may in the future be required to be registered) or, if retained, re-instated or registered, the terms and conditions upon which such licenses may be retained, re-instated or registered. If the mining license and exploration license are not retained, re-instated or re-registered, there will be a material impairment charge on the capital assets and mineral interests that are related to the licenses.

These interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not contain any adjustments related to the carrying value and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

## **2. Summary of Significant Accounting Policies**

These interim consolidated financial statements and accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for the preparation of interim financial statements. They do not include all the information and disclosures required by GAAP for annual consolidated financial statements. These interim consolidated financial statements have been prepared in accordance with the accounting policies and methods set forth in the Company’s audited consolidated financial statements as at and for the year ended September 30, 2010 and should be read in conjunction with those audited financial statements and notes thereto.

**Khan Resources Inc.**  
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These interim consolidated financial statements include the accounts of the Company and its subsidiaries. All references to the Company should be treated as references to the Company and its subsidiaries. Inter-company accounts and transactions have been eliminated on consolidation.

Recent accounting pronouncements

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards (“IFRS”) will replace current Canadian GAAP for publicly accountable companies. The official change over date is for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. IFRS will be required for Khan’s interim and annual consolidated financial statements for the fiscal year beginning on October 1, 2011. The Company has assessed the implications of IFRS adoption and has prepared a comprehensive IFRS conversion plan to identify the key considerations, resources, business implications and time lines associated with the conversion.

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

### **3. Capital Management**

The Company’s objectives for managing capital are to safeguard its ability to continue as a going concern and to bring the Dornod Uranium Project (“Project”) in Mongolia into production. The Company’s strategy remains unchanged from the previous year.

The capital structure of the Company currently consists of common shares and was \$61,215 as at December 31, 2010 (September 30, 2010 - \$61,184). The Company has issued common shares, warrants and agents’ options from time to time to advance the Project through various stages of development; however, debt may be required to bring the Project into production. In order to meet the Company’s objectives for managing capital, common shares, warrants, agents’ options and debt may be issued in the future.



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**4. Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable, restricted cash, investments and accounts payable and accrued liabilities.

(a) Fair Value

Cash is designated as held-for-trading and therefore carried at fair value with the unrealized gains or losses recorded in the interim consolidated statements of operations and deficit. Accounts receivable are designated as loans and receivables and, therefore, carried at amortized cost with the gains and losses recognized in the interim consolidated statements of operations and deficit in the period that the asset is derecognized or impaired. Restricted cash is designated as held-for-trading and, therefore, carried at fair value with the unrealized gains or losses recorded in the interim consolidated statements of operations and deficit.

Investments are designated as available-for-sale and recorded at fair value using quoted prices in active markets, a level 1 category with unrealized gains and losses recognized in the interim statement of comprehensive loss and realized gains and losses recognized in the interim consolidated statement of operations and deficit. Accounts payable and accrued liabilities are designated as other financial liabilities and therefore carried at amortized cost with the gains or losses recognized in the interim consolidated statements of operation and deficit when the financial liability is derecognized or impaired. The estimated fair values of accounts receivable and accounts payable and accrued liabilities approximate their respective carrying values.

(b) Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

*Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts and guaranteed investment certificate, whose balance at December 31, 2010 was \$9,493. Bank accounts are held with major banks in Canada and Mongolia. As the majority of the Company's cash is held by a Canadian bank and the guaranteed investment certificate is also held by the same Canadian bank, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to credit risk is on its accounts receivable. This risk is minimal as accounts receivable consist primarily of refundable government sales taxes.

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*Currency Risk*

The Company operates in Canada and Mongolia and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The majority of these transactions are in Canadian dollars. The Company's cash, accounts receivable, restricted cash, investments and accounts payable and accrued liabilities that are held in Canadian dollars, Euros and Mongolian togrogs are subject to fluctuation against the United States dollar. A +/- 5% change in the exchange rates between the Canadian and United States dollars would, based on the Company's interim consolidated financial statements as at December 31, 2010, have an effect on the loss before taxes of approximately +/- \$416 and on the comprehensive loss before taxes of approximately +/- \$826.

*Interest Rate Risk*

The Company is exposed to interest rate risk as bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short term interest rates. The income earned on these bank accounts is subject to the movements in interest rates. A change of 100 basis points in interest rates would have an effect on the loss before taxes for the three months ended December 31, 2010 of approximately +/- \$25.

The Company also records transaction costs related to the acquisition or issue of held-for-trading financial instruments to the interim consolidated statements of operations and deficit as incurred. Transaction costs related to financial instruments not designated as held for trading are included in the financial instrument's initial recognition amount.

*Liquidity Risk*

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash. As at December 31, 2010, the Company was holding cash of \$9,441.

**5. Restricted Cash**

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

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**6. Investments**

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

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

At December 31, 2010, the Company held 12,540,000 Macusani common shares and 2,540,000 Macusani share purchase warrants.

At the closing price of Cdn\$0.60 for Macusani common shares on December 31, 2010, the market value of Khan’s investment in Macusani was \$8,203. The unrealized holding gain on the investment during the three months ended December 31, 2010 was \$4,163 (2009 - \$487). The related income tax provision was \$523 (2009 – nil).

**7. Capital Assets**

Capital assets consist of the following:

	<b>As at December 31, 2010</b>	<b>As at September 30, 2010</b>
Buildings, equipment, fixtures, furniture and vehicles	\$ 829	\$ 835
Less: accumulated amortization	<u>577</u>	<u>540</u>
	252	295
Construction in progress	<u>3,512</u>	<u>3,533</u>
	<u>\$ 3,764</u>	<u>\$ 3,828</u>

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**8. Mineral Interests**

Mineral interests consist of the following:

	<b>As at December 31, 2010</b>	<b>As at September 30, 2010</b>
<b>Dornod Uranium Project, Mongolia</b>		
Acquisition costs	\$ 447	\$ 447
Deferred development costs	<u>11,652</u>	<u>11,565</u>
	<u>\$ 12,099</u>	<u>\$ 12,012</u>

**9. Capital Stock**

Capital stock consists of the following:

	<b>As at December 31, 2010</b>	<b>As at September 30, 2010</b>
Common shares (a)	\$ 61,215	\$ 61,184
Contributed surplus (b)	<u>10,086</u>	<u>10,063</u>
	<u>\$ 71,301</u>	<u>\$ 71,247</u>

(a) Common shares

Authorized capital stock of the Company consists of an unlimited number of no par value common shares.

**Khan Resources Inc.**  
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The changes in issued and outstanding common shares during the three months ended December 31, 2010 are as follows:

	<b>Number of common shares (000's)</b>	<b>Amount</b>
Balance, September 30, 2010	53,914	\$ 61,184
Exercise of stock options (i)	97	31
Balance, December 31, 2010	54,011	\$ 61,215

- (i) The Company has a stock option plan providing for the issuance of stock options to directors, officers, employees and service providers. The number of shares that may be acquired under an option granted to a participant is determined by the Board of Directors. The exercise price of the options granted shall comply with the requirements of the stock exchange or exchanges on which the Company's common shares are listed. The maximum term of any option may not exceed five years. Generally, options vest over 24 months. At December 31, 2010, there were 1,650,710 options available for grant under the plan.

The changes in stock options during the three months ended December 31, 2010 are as follows:

	<b>Number of options (000's)</b>	<b>Weighted average exercise price (Cdn\$)</b>
Balance, September 30, 2010	3,947	\$ 0.56
Exercised	(97)	0.20
Expired	(100)	1.50
Balance, December 31, 2010	3,750	\$ 0.54

**Khan Resources Inc.**  
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The following tables summarize information about the stock options outstanding and exercisable at December 31, 2010:

Options outstanding

<b>Exercise prices (Cdn\$)</b>	<b>Number outstanding at December 31, 2010 (000's)</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Weighted average exercise price (Cdn\$)</b>
0.20 to 0.29	2,768	3.86	\$ 0.25
0.89	220	2.37	0.89
1.37 to 1.70	762	1.04	1.51
<u>0.20 to 1.70</u>	<u>3,750</u>	<u>3.20</u>	<u>\$ 0.54</u>

Options exercisable

<b>Exercise prices (Cdn\$)</b>	<b>Number exercisable at December 31, 2010 (000's)</b>	<b>Weighted average exercise price (Cdn\$)</b>
0.20 to 0.29	1,768	\$ 0.23
0.89	220	0.89
1.37 to 1.70	762	1.51
<u>0.20 to 1.70</u>	<u>2,750</u>	<u>\$ 0.64</u>

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(b) Contributed surplus

The changes in contributed surplus during the three months ended December 31, 2010 are as follows:

	<b>Amount</b>
Balance, September 30, 2010	\$ 10,063
Vesting of stock options granted to directors, officers and employees	36
Exercise of stock options	<u>(13)</u>
Balance, December 31, 2010	<u>\$ 10,086</u>

**10. Stock-based Compensation**

The stock-based compensation expense during the three months ended December 31, 2010 was \$36 (2009 - \$36) and this amount was credited to contributed surplus. In the case of options which vest immediately, the fair value of the options is expensed immediately. In the case of options which vest over time, the graded vesting method is used to expense compensation over the vesting period.

There were no stock options granted during the three months ended December 31, 2010 and 2009.

**11. Net Income (Loss) per Share**

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

Basic net income (loss) per common share has been calculated using the weighted average number of common shares outstanding of 53,982,000 during the three months ended December 31, 2010 (2009 – 53,964,000).

Diluted net income (loss) per share has been calculated using the weighted average number of common shares outstanding adjusted for the effect of dilutive securities (for the periods with net income) of 55,116,000 during the three months ended December 31, 2010 (2009 – 53,964,000).

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

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**13. Supplemental Cash Flow Information**

	<b>Three months ended</b>		<b>Cumulative</b>
	<b>December 31,</b>		<b>from inception</b>
	<b>2010</b>	<b>2009</b>	<b>on October 1,</b>
			<b>2002 to</b>
			<b>December 31,</b>
			<b>2010</b>
Changes in non-cash working capital balances related to operations:			
Accounts receivable	\$ (14)	\$ (7)	\$ (73)
Prepaid expenses and other assets	80	31	(111)
Accounts payable and accrued liabilities	(84)	240	(202)
	<u>\$ (18)</u>	<u>\$ 264</u>	<u>\$ (386)</u>
Non-cash financing activities:			
Equity financing costs settled by issue of agents options	\$ -	\$ -	\$ 604

The Company did not pay income taxes or interest during the three months ended December 31, 2010 and 2009.

**14. Subsequent Events**

Subsequent to December 31, 2010, 40,000 stock options with an exercise price of Cdn\$0.20 per common share were exercised. The total proceeds were \$8.