

# **Khan Resources Inc.**

## Condensed Interim Consolidated Financial Statements

March 31, 2014

In thousands of Canadian dollars  
(unaudited)

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### **NOTICE OF NO AUDITOR REVIEW OF INTERIM STATEMENTS**

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

**Condensed Consolidated Statement of Financial Position**  
(unaudited)

	Notes	Mar. 31 2014	Sep 30 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	665	2,231
Accounts receivable		23	13
Prepaid expenses and other assets		31	58
Investments	5	1,557	1,164
Restricted cash	4	52	52
<b>Total current assets</b>		<b>2,328</b>	<b>3,518</b>
<b>Non-current assets</b>			
Property, Plant and Equipment	6	-	-
<b>Total non-current assets</b>		<b>-</b>	<b>-</b>
<b>Total assets</b>		<b>2,328</b>	<b>3,518</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		90	398
Provisions	7	19	60
<b>Total current liabilities</b>		<b>109</b>	<b>458</b>
<b>Total liabilities</b>		<b>109</b>	<b>458</b>
<b>Net assets</b>		<b>2,219</b>	<b>3,060</b>
<b>EQUITY</b>			
Share capital		77,302	77,143
Contributed surplus		12,569	12,097
Accumulated other comprehensive income	8	578	202
Deficit		(88,230)	(86,382)
<b>Total equity</b>		<b>2,219</b>	<b>3,060</b>

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

The financial statements were approved by the Board of Directors on May 22, 2014 and signed on its behalf by:

Signed: "James B. C. Doak"  
Director

Signed: "Grant A. Edey"  
Director

**Consolidated Statement of Loss**

For the three and six months ended March 31

	Notes	Three months		Six months	
		2014	2013	2014	2013
<b>Continuing operations</b>					
<b>Revenue</b>					
Finance income		2	7	6	18
Total Revenue		2	7	6	18
Legal expenses		(34)	(564)	(897)	(1,444)
General corporate		(286)	(268)	(514)	(524)
Amortization	6	-	-	-	(12)
Share-based compensation	9	(525)	(96)	(540)	(125)
Impairment loss, property, plant and equipment	6	-	-	(1)	-
Gain (loss) on sale of investments		32	-	32	-
Impairment reversal, property, plant and equipment		8	-	8	-
Gain (loss) on available-for-sale investments recycled from OCI		17	-	17	-
Foreign exchange gain (loss)		(16)	(1)	(18)	(3)
<b>Loss before tax</b>		<b>(802)</b>	<b>(922)</b>	<b>(1,907)</b>	<b>(2,090)</b>
Income tax	13	37	(12)	56	(5)
<b>Net loss from continuing operations</b>		<b>(765)</b>	<b>(934)</b>	<b>(1,851)</b>	<b>(2,095)</b>
<b>Discontinued operations</b>					
Income (loss) from discontinued operations, net of tax	12	(30)	(30)	3	(72)
<b>Net loss</b>		<b>(795)</b>	<b>(964)</b>	<b>(1,848)</b>	<b>(2,167)</b>
<b>Loss per share</b>					
Basic loss per share (in Canadian cents)	14	(0.01)	(0.01)	(0.02)	(0.03)
Diluted loss per share (in Canadian cents)	14	(0.01)	(0.01)	(0.02)	(0.03)
Weighted average number of shares outstanding - Basic		75,711,852	68,125,445	75,537,892	68,125,445
Weighted average number of shares outstanding - Diluted		75,711,852	68,125,445	75,537,892	68,125,445

The accompanying notes form part of these financial statements.

**Consolidated Statement of Comprehensive Loss**

For the three and six months ended March 31

	Notes	Three months		Six months	
		2014	2013	2014	2013
<b>Net loss</b>		<b>(795)</b>	<b>(964)</b>	<b>(1,851)</b>	<b>(2,167)</b>
<b>Other comprehensive income (loss), net of income tax</b>					
Items that will be reclassified subsequently to net earnings					
Foreign currency translation differences - foreign operations		-	-	-	13
Net change in fair value of available-for-sale financial assets		279	(544)	434	(466)
Income tax on other comprehensive income		(37)	10	(58)	-
<b>Other comprehensive income (loss), net of income tax</b>		<b>242</b>	<b>(534)</b>	<b>376</b>	<b>(453)</b>
<b>Total comprehensive loss</b>		<b>(553)</b>	<b>(1,498)</b>	<b>(1,475)</b>	<b>(2,620)</b>

The accompanying notes form part of these financial statements.

## Condensed Consolidated Cash Flow Statement

For the six months ended March 31

(unaudited)

	Notes	2014	2013
<b>Operating Activities</b>			
Income (loss) before income tax		(1,904)	(2,162)
Adjustments for:			
Amortization		-	16
Share-based compensation	9	540	125
Impairment loss, property, plant and equipment		1	-
Loss (gain) on sale of investments		(32)	-
Loss (gain) on disposal of assets		(54)	-
Loss (gain) on available-for-sale investments recycled from OCI		(17)	-
Unrealized foreign exchange loss (gain)		5	3
Financial income and expenses		(6)	(18)
Changes in:			
Accounts receivable		(10)	(30)
Accounts payable and accrued liabilities		(308)	64
Provisions		(41)	-
Prepaid expenses and other assets		27	41
Cash used in operations		(1,799)	(1,961)
Interest received		5	18
Income tax paid		(2)	(5)
<b>Net operating cash flows</b>		<b>(1,796)</b>	<b>(1,948)</b>
<b>Investing activities</b>			
Proceeds from sale of assets		54	-
Proceeds from sale of investments		92	-
Purchase of property, plant and equipment	6	(1)	-
Restoration of Dornod property		-	(25)
<b>Net investing cash flows</b>		<b>145</b>	<b>(25)</b>
<b>Financing activities</b>			
Capital stock issued for stock options exercised		91	-
<b>Net financing cash flows</b>		<b>91</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(1,560)</b>	<b>(1,973)</b>
Cash and cash equivalents at the beginning of the period		2,231	4,680
Effect of foreign currency exchange rate changes on cash and cash equivalents		(6)	(2)
<b>Cash and cash equivalents at the end of the period</b>		<b>665</b>	<b>2,705</b>

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

**Condensed Consolidated Statement of Changes in Equity**

For the period ended March 31, 2014

(unaudited)

Notes	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
	Number of shares	Amount				
Balance as at October 1, 2013	75,363,148	77,143	12,097	202	(86,382)	3,060
Total comprehensive income (loss)	-	-	-	376	(1,848)	(1,472)
Transactions with owners:						
Employee share options:						
Issue of shares for options exercised	453,334	159	(68)	-	-	91
Value of services recognized 9	-	-	540	-	-	540
<b>Balance as at March 31, 2014</b>	<b>75,816,482</b>	<b>77,302</b>	<b>12,569</b>	<b>578</b>	<b>(88,230)</b>	<b>2,219</b>
Balance as at October 1, 2012	68,125,445	75,934	11,902	-	(81,103)	6,689
Total comprehensive income (loss)				(44)	(2,167)	(2,620)
Transactions with owners:				(453)		
Employee share options:						
Value of services recognized 9			125	-	-	125
Balance as at March 31, 2013	68,125,445	75,934	12,027	(497)	(83,270)	4,194
Total comprehensive income (loss)	-	-	-	699	(3,112)	(2,413)
Transactions with owners:						
Employee share options:						
Value of services recognized 9	-	-	70	-	-	70
Proceeds on issuance, private placement net of issuance cost of \$21K	7,237,703	1,209	-	-	-	1,209
Balance as at September 30, 2013	75,363,148	77,143	12,097	202	(86,382)	3,060

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

The Company is authorized to issue an unlimited number of common shares, with no par value.

# Notes to Financial Statements

## 1 Corporate information

Khan Resources Inc., along with its subsidiary companies (collectively the “Company”), was involved in acquiring, exploring and developing mineral properties, primarily in Mongolia.

The Company initiated an International Arbitration action in January 2011 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 for the Dornod project. The International Arbitration action is now entering its final stages. The final hearing was completed on November 15, 2013. The Company has claimed damages of US\$255 million plus interest while Mongolia has claimed its costs of the action in an amount to be determined. At this time no reliable estimate can be made of the amount of damages that could ultimately be awarded to the Company by the Tribunal. At the end of the hearing, the Tribunal requested the submission of two post-hearing briefs, one submitted on February 5, 2014 and the final one submitted April 11, 2014. The Tribunal's decision is expected in the second half of 2014.

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 Securities Exchange.

The registered office of the Company was located at 141 Adelaide Street West, Suite 1007, Toronto, Ontario, Canada, M5H 3L5 on December 31, 2013. On January 15, 2014, the registered office of the Company relocated to The Exchange Tower, P.O. Box 427, 130 King Street West, Suite 1800, Toronto, Ontario, Canada, M5X 1E3.

## 2 Basis of preparation

### a. Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The unaudited interim condensed consolidated financial statements do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the Company's 2013 annual consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Board of Directors authorized these unaudited interim condensed consolidated financial statements for issue on May 22, 2014.

The unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the future operations will allow for the realization of assets and discharge of liabilities in the normal course of business. The Company expects to receive a decision on the International Arbitration described in Note 1 above in the second half of 2014. As at the date of approval of these consolidated financial statements, it is not possible to reliably estimate the amount, if any, of an award of damages or costs in any decision by the arbitrators. Management believes in the merits of its case and expects a significant award to be rendered to the Company. In the event that no award is rendered to the Company and costs are awarded to the counterparty, this material uncertainty may cast significant doubt as to the Company's ability to continue as a going concern given its financial position as at March 31, 2014.

### b. Use of estimates and judgments

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

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's 2013 annual consolidated financial statements.

## 3 Significant accounting policies

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

## 4 Cash, cash equivalents and restricted cash

As at March 31, 2014 and 2013, 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

Investments consist of available-for-sale financial assets of 14,823,330 (September 30, 2013 – 15,523,330) common shares of Macusani Yellowcake Inc. (“Macusani”) with a fair value on March 31, 2014 of \$1,557 (September 30, 2013 - \$1,164). During February and March 2014, the Company sold 700,000 shares of Macusani for gross proceeds of \$92.

The Company measures financial assets at fair value at each reporting period using quoted market prices. Decreases in the fair value of the Macusani shares are recognized in income (loss) before tax as a consequence of this financial asset being assessed as impaired at September 30, 2012 with subsequent increases being recorded in other comprehensive income. See also note 8

## 6 Property, plant and equipment

The Company's tangible assets including those in Mongolia had been fully impaired in 2012 due to the failure of the Government of Mongolia to reissue the Company's mining and exploration licenses for the Dornod project as described in Note 1. The Mongolian subsidiaries were closed on September 30, 2013 and all Mongolian tangible assets were retired. On October 17, 2013 and December 4, 2013, the Company sold the remaining assets at or associated with the Dornod site that had been closed since June 2012. These sales were completed for gross proceeds of \$47, which resulted in an impairment reversal that has been recognized under discontinued operations on the face of the consolidated statement of loss. In addition, the Company sold some of the registered office's equipment for gross proceeds of \$8, resulting in an impairment reversal that has been recognized in the loss before tax for the six months ended March 31, 2014.

Remaining tangible assets are set out in the following table.

	March 31, 2014	September 30, 2013
<b>Registered office equipment (a)</b>		
Cost, opening balance	147	147
Additions	1	-
Disposals	(86)	-
<b>Cost, closing balance</b>	<b>62</b>	<b>147</b>
Depreciation and impairment, opening balance	(147)	(147)
Depreciation and impairment	(1)	-
Disposals	86	-
<b>Depreciation and impairment, closing balance</b>	<b>(62)</b>	<b>(147)</b>
<b>Net book value, closing balance</b>	<b>-</b>	<b>-</b>

(a) Consists of office equipment, computers, software and furniture

## 7 Provisions

	Restoration provision	Restructuring Provision	Total
<b>Provision at October 1, 2012</b>	50	-	50
Additions	-	38	38
Used (incurred and charged against the provision)	(26)	-	(26)
Exchange differences	(2)	-	(2)
<b>Provision at September 30, 2013</b>	<b>22</b>	<b>38</b>	<b>60</b>
Additions	-	-	-
Used (incurred and charged against the provision)	-	(19)	(19)
Loss (gain) on estimate	(22)	-	(22)
<b>Provision at March 31, 2014</b>	<b>-</b>	<b>19</b>	<b>19</b>

## 8 Accumulated other comprehensive income

	Mar 31 2014	Sep 30 2013
<b>Currency translation account (a)</b>		
Balance at the beginning of the financial year	-	(44)
Exchange differences on translation of foreign operations taken to equity	-	-
Exchange differences on translation of foreign operations transferred to income before tax	-	44
	-	-
<b>Financial assets account (b)</b>		
Balance at the beginning of the financial year	202	-
Net valuation (gains)/losses on available for sale investments transferred to income before tax	(17)	-
Net valuation (losses)/gains on available for sale investments taken to equity	451	233
Deferred tax relating to revaluations	(58)	(31)
	578	202
<b>Accumulated other comprehensive income</b>	<b>578</b>	<b>202</b>

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

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



## 9 Share-based compensation

On March 28, 2014, a total of 2,150,000 options with a contractual life of three years were granted to directors, officers, and employees at an exercise price of \$ 0.335 per share being an amount equal to the posted share price prevailing at the close of market on March 27, 2014. All of the options shall vest and be exercisable immediately. There is no cash settlement of the options. The fair value of the options granted is estimated at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of the options granted during the six months ended March 31, 2013 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	-
Expected volatility (%)	120.54
Risk free interest rate(%)	1.23
Forfeiture rate (%)	-
Expected life (years)	3.00
Weighted average share price (\$)	0.335

A share-based payment compensation expense of \$516 as a result of the options granted on March 28, 2014 has been recognized in the consolidated statement of comprehensive income.

The following table summarizes information about share options outstanding at March 31, 2014:

Grants listed by expiry date	Exercise price (\$)	Remaining life (years)	Fair value per option (\$)	Number outstanding	Number vested	Number unvested
August 16, 2015	0.29	1.38	0.21	1,200,000	1,200,000	-
February 16, 2015	0.20	0.88	0.10	1,400,000	1,400,000	-
February 14, 2016	0.20	1.88	0.10	1,675,000	1,675,000	-
February 16, 2016	0.55	1.88	0.39	1,100,000	1,100,000	-
March 28, 2017	0.34	2.99	0.24	2,150,000	2,150,000	-
				<b>7,525,000</b>	<b>7,525,000</b>	-

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

## 10 Management compensation

	Three months		Six months	
	2014	2013	2014	2013
Directors' fees	26	21	54	49
Salaries and short-term benefits	58	52	131	131
Share-based compensation	489	80	503	115
<b>Total management compensation</b>	<b>573</b>	<b>153</b>	<b>688</b>	<b>295</b>

## 11 Related party transactions

An officer of the Company is a partner in a firm that provides legal services to the Company. The Company paid an aggregate of \$15 for the three months ended March 31, 2014 (2013 - \$19) and \$22 for the six months ended March 31, 2014 (2013 - \$37). At March 31, 2014, the balance outstanding was nil (2013 - \$2) and is included in accounts payable and accrued liabilities.

## 12 Discontinued operations

The Mongolian subsidiaries were closed on September 30, 2013 as a result of the circumstances described in Note 1. The Mongolian subsidiaries were not previously classified as discontinued operations. The comparative consolidated statement of loss has been reclassified to show the discontinued operations separately from continuing operations.

(In thousands of Canadian dollars unless otherwise stated)

Results of Discontinued operations	Notes	Three months		Six months	
		2014	2013	2014	2013
Revenue				-	-
Expenses		(30)	(28)	(69)	(67)
Amortization	6	-	(2)	-	(4)
Gain (loss) on restoration estimate	7	-	-	22	-
Impairment reversal, property, plant and equipment		-	-	47	-
Foreign exchange gain (loss)		-	-	3	(1)
<b>Net income (loss) from discontinued operations</b>		<b>(30)</b>	<b>(30)</b>	<b>3</b>	<b>(72)</b>
Basic earnings (loss) per share (in Canadian cents)		<b>(0.00)</b>	(0.00)	<b>0.00</b>	(0.00)
Diluted earnings (loss) per share (in Canadian cents)		<b>(0.00)</b>	(0.00)	<b>0.00</b>	(0.00)

Cash flows provided by (used in) discontinued operations	Notes	2014	2013
Net operating cash flows		(88)	(67)
Net investing cash flows		47	(25)
<b>Net cash flow for the six months ended March 31</b>		<b>(41)</b>	<b>(92)</b>

## 13 Income tax

	Three months		Six months	
	2014	2013	2014	2013
Current income tax expense (a)	-	(2)	(2)	(5)
Deferred income tax expense related to reversal of deferred taxes (b)	36	(10)	57	-
<b>Income tax expense</b>	<b>36</b>	<b>(12)</b>	<b>55</b>	<b>(5)</b>
Income tax recognized in other comprehensive income	(36)	10	(57)	-
<b>Total income tax expense</b>	<b>-</b>	<b>(2)</b>	<b>(2)</b>	<b>(5)</b>

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

(b) Reversal of deferred taxes originated in profit and loss.

## Non-capital losses

At September 30, 2013, the Company had Canadian non-capital losses of approximately \$27,826 (2012 - \$29,714) available for deduction against future taxable income. If unutilized, non-capital losses will expire from 2014 to 2033 whereas capital losses can be carried forward indefinitely. Mongolian tax losses of approximately \$190 (2012 - \$372) available for deduction against future taxable income and these losses, if unutilized, will expire from 2014 to 2015; and Netherlands tax losses of approximately \$347 (2012 - \$290) available for deduction against future taxable income and these losses, if unutilized, will expire from 2018 to 2022. None of the tax losses have been tax-benefited.

## 14 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 Company's only dilutive instruments at March 31, 2014 were its share options. 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.

## **15 Contingent liability**

At March 31, 2014 a contingent liability amounting to \$3,581 (September 30, 2013 - \$3,337) existed in respect of a completion fee arranged with legal counsel handling the international arbitration. This fee is based on the actual cost of the legal work completed and is conditional upon the recovery (in whole or significant part) by the Company of a settlement or award of the international arbitration case. As a present obligation does not exist due to the conditional nature of the fee, the amount is uncertain and cannot be measured reliably. Therefore management has recognized no provision in these consolidated financial statements as at the date of their approval.

## **16 Reclassification of Prior Year Amounts**

Certain prior year amounts have been reclassified to conform to the current year presentation.