

Khan Resources Inc.

Condensed Interim Consolidated Financial Statements

December 31, 2014

In thousands of Canadian dollars
(unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM STATEMENTS

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

Consolidated Statement of Financial Position

	Dec. 31 2014	Sep 30 2014
ASSETS		
Current Assets		
Cash and cash equivalents	4 184	352
Accounts receivable	12	7
Prepaid expenses and other assets	38	56
Investments	5 650	939
Restricted cash	4 52	52
Total current assets	936	1,406
Non-current assets		
Equipment	6 -	-
Total non-current assets	-	-
Total assets	936	1,406
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	125	155
Provisions	7 5	9
Total current liabilities	130	164
Total liabilities	130	164
Net assets	806	1,242
EQUITY		
Share capital	77,602	77,482
Contributed surplus	12,469	12,509
Accumulated other comprehensive income (loss)	8 -	62
Deficit	(89,265)	(88,811)
Total equity	806	1,242

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

The consolidated financial statements were approved by the Board of Directors on February 25, 2015 and signed on its behalf by

Signed: "James B. C. Doak"
Director

Signed: "Grant A. Edey"
Director

Condensed Consolidated Statement of Loss

For the three months ended December 31, 2014

	Notes	2014	2013
Continuing operations			
Revenue			
Finance income		1	4
Total Revenue		1	4
Legal expenses			
General corporate		(213)	(228)
Amortization and impairment loss	6	-	(1)
Share-based compensation	9	-	(15)
Available-for-sale financial assets, change in fair value	5	(217)	-
Foreign exchange gain (loss)		2	(2)
Total Expenses		(437)	(1,109)
Loss before tax		(436)	(1,105)
Income tax (expense) recovery	13	(10)	19
Net loss from continuing operations		(446)	(1,086)
Discontinued operations			
Income (loss) from discontinued operations, net of tax	12	(8)	30
Net loss		(454)	(1,056)
Loss per share			
Basic loss per share (in Canadian cents)	14	(0.01)	(0.01)
Diluted loss per share (in Canadian cents)	14	(0.01)	(0.01)
Weighted average number of shares outstanding - Basic		76,717,025	75,367,713
Weighted average number of shares outstanding - Diluted		76,717,025	75,367,713

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Loss

For the three months ended December 31, 2014

	Notes	2014	2013
Net loss		(454)	(1,056)
Other comprehensive income (loss), net of income tax			
Items that will be reclassified subsequently to net earnings			
Net change in fair value of available-for-sale financial assets		(72)	155
Income tax on other comprehensive income	13	10	(21)
Other comprehensive income (loss), net of income tax		(62)	134
Total comprehensive loss		(516)	(922)

The accompanying notes form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For three months ended December 31

	Notes	2014	2013
Operating Activities			
Loss before income tax including discontinued operations		(444)	(1,075)
Adjustments for:			
Amortization and impairment	6	-	1
Share-based compensation	10	-	15
Unrealized foreign exchange loss		(3)	2
Financial income and expenses		(1)	(4)
Gain on disposal of equipment	14	-	(47)
Gain on restoration estimate		-	(22)
Available-for-sale financial assets, change in fair value		217	-
Decrease in cash due to deconsolidation of subsidiary		5	-
Changes in:			
Accounts receivable		(5)	(15)
Prepaid expenses and other assets		18	371
Accounts payable and accrued liabilities		(30)	(14)
Restructuring provision	7	(4)	10
Cash used in operations		(247)	(778)
Interest received		1	4
Income tax paid		-	(3)
Net operating cash flows		(246)	(777)
Investing activities			
Sale of equipment	14	-	47
Decrease in cash due to deconsolidation of subsidiary		(5)	-
Purchase of equipment	6	-	(1)
Net investing cash flows		(5)	46
Financing activities			
Proceeds on issuance of shares		80	4
Net financing cash flows		80	4
Net decrease in cash and cash equivalents		(171)	(727)
Cash and cash equivalents at the beginning of the period		352	2,231
Effect of foreign currency exchange rate changes on cash and cash equivalents		3	(1)
Cash and cash equivalents at the end of the period	4	184	1,503

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

(In thousands of Canadian dollars unless otherwise stated)

Consolidated Statement of Changes in Equity

For the three months ended December 31, 2014

Notes	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
	Number of shares	Amount				
Balance as at October 1, 2014	76,416,482	77,482	12,509	62	(88,811)	1,242
Total comprehensive income (loss)	-	-	-	(62)	(454)	(516)
Transactions with owners:						-
Employee share options:						-
Share-based compensation	9	-	-	-	-	-
Options exercised		400,000	120	(40)		80
Proceeds on issuance						-
Balance as at December 31, 2014	76,816,482	77,602	12,469	-	(89,265)	806
Balance as at October 1, 2013	75,363,148	77,143	12,097	202	(86,382)	3,060
Total comprehensive loss				134	(1,056)	(922)
Transactions with owners:						
Employee share options:						
Share-based compensation	9		15	-	-	15
Options exercised		20,000	7	(3)		4
Balance as at December 31, 2013	75,383,148	77,150	12,109	336	(87,438)	2,157

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 final hearing for the arbitration was completed on November 15, 2013. The Company has claimed damages of US\$255 million plus interest plus expenses of US\$13.4 million while Mongolia has claimed its costs of the action in the amount of US\$7.6 million. 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 within months.

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 is located at The Exchange Tower, P.O. Box 427, 130 King Street West, Suite 1800, Toronto, Ontario, Canada, M5X 1E3.

2 Basis of preparation

a. Deconsolidation of Mongolian subsidiaries

The Company has no power to govern the financial and operating policies of Central Asian Uranium Company, LLC and Khan Resources LLC due to circumstances in Mongolia that are impeding the legal dissolution of these entities; accordingly the Company derecognized related assets, liabilities and non-controlling interests at December 31, 2014. The Company did not receive any consideration in the deconsolidation of these two subsidiaries.

The assets and liabilities over which the Company lost control are not significant to the Company's consolidated financial statements.

b. 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 2014 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 February 25, 2015.

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. 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 December 31, 2014.

c. 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 2014 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 December 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 14,442,330 common shares of Macusani Yellowcake Inc. ("Macusani") with a fair value on December 31, 2014 of \$650 (Sep. 30, 2014 - \$939).

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 Equipment

Registered office equipment	Dec. 31, 2014	Sep. 30, 2014
Cost, opening balance	62	147
Additions	-	1
Disposals	-	(86)
Cost, closing balance	62	62
Depreciation and impairment opening balance	(147)	(147)
Depreciation and impairment	(1)	(1)
Disposals	86	86
Depreciation and impairment closing balance	(62)	(62)
Net book value, closing balance	-	-

7 Provisions

	Restoration provision	Restructuring Provision	Total
Provision at October 1, 2013	22	38	60
Additions	-	-	-
Used (incurred and charged against the provision)	-	(29)	(29)
Loss (gain) on restoration estimate	(22)	-	(22)
Exchange differences	-	-	-
Provision at September 30, 2013	-	9	9
Additions	-	-	-
Used (incurred and charged against the provision)	-	(4)	(4)
Loss (gain) on estimate	-	-	-
Exchange differences	-	-	-
Provision at December 31, 2014	-	5	5

8 Accumulated other comprehensive income

	Dec. 31 2014	Sep 30 2014
Financial assets account (a)		
Balance at the beginning of the financial year	62	202
Net valuation losses on available for sale investments transferred to income before tax	-	-
Valuation (gains)/losses on available for sale investments taken to equity	(72)	(161)
Deferred tax relating to revaluations	10	21
Accumulated other comprehensive income	-	62

(a) 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

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

Grants listed by expiry date	Exercise price (\$)	Remaining life (years)	Fair value per option (\$)	Number outstanding	Number vested	Number unvested
February 16, 2015	0.20	0.13	0.10	600,000	600,000	-
August 16, 2015	0.29	0.62	0.21	1,200,000	1,200,000	-
February 14, 2016	0.20	1.12	0.10	1,475,000	1,475,000	-
February 16, 2016	0.55	1.13	0.39	1,100,000	1,100,000	-
March 28, 2017	0.34	2.24	0.24	2,150,000	2,150,000	-
				6,525,000	6,525,000	-

The following share-based compensation expense amounts are included in the consolidated statement of loss, 2014 - nil (2013 - \$15). See also Note 16 concerning share options exercised since December 31, 2014.

10 Management compensation

	Three months ended	
	Dec. 31, 2014	Dec. 31, 2013
Directors' fees	26	26
Salaries and short-term benefits	56	73
Share-based compensation	-	13
Total management compensation	82	112

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 \$9 for the three months ended December 31, 2014 (2013 - \$7). At December 31, 2014, the balance outstanding was nil (2013 - nil) 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 comprehensive loss has been reclassified to show the discontinued operations separately from continuing operations.

(a) Results of Discontinued Operations	Notes	Three months ended	
		Dec. 31, 2014	Dec. 31, 2013
Revenue		-	-
Expenses		(8)	(39)
Amortization		-	-
Gain (loss) on restoration estimate		-	22
Impairment reversal, property, plant and equipment		-	47
Foreign exchange gain (loss)		-	-
Income (loss) from discontinued operations		(8)	30
Income tax		-	-
Net income (loss) from discontinued operations		(8)	30
Basic loss per share (in Canadian cents)		(0.00)	(0.00)
Diluted loss per share (in Canadian cents)		(0.00)	(0.00)

(b) Cash flows from (used in) discontinued operations	Notes	Three months ended	
		Dec. 31, 2014	Dec. 31, 2013
Net operating cash flows		(7)	(39)
Net investing cash flows		(5)	47
Net cash flow for the quarter		(12)	8

13 Income tax

	Three months ended	
	Dec. 31, 2014	Dec. 31, 2013
Current income tax expense (a)	-	(2)
Deferred tax recovery (b)	(10)	21
Income tax expense	(10)	19
Deferred tax recognized on other comprehensive income	10	(21)
Total income tax expense	-	(2)

(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) Recognition of deferred tax asset originated in profit and loss

Non-capital losses

At September 30, 2014, the Company had Canadian non-capital losses of approximately \$29,155 (2013 - \$27,826) available for deduction against future taxable income. If unutilized, non-capital losses will expire from 2015 to 2034 whereas capital losses can be carried forward indefinitely. Netherlands tax losses of approximately \$420 (2012 - \$347) are available for deduction against future taxable income and these losses, if unutilized, will expire from 2018 to 2023. None of the tax losses have been tax-benefited.

Due to the closure of the two Mongolian subsidiaries on September 30, 2013, tax losses of \$190 will not be utilized for deduction against future taxable income and will expire in 2015.

14 Earnings per share

Basic earnings per share (EPS) are 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 December 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 December 31, 2014, a contingent liability amounting to \$3,758 (September 30, 2014 - \$3,628) 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 Subsequent event

Subsequent to December 31, 2014 share option holders exercised 850,000 share options resulting in proceeds to the Company of \$192,500. The 850,000 share options exercised comprised all outstanding options with expiry on February 16, 2015 along with some options with expiry on August 2015.