

# **Khan Resources Inc.**

## Condensed Interim Consolidated Financial Statements

March 31, 2015

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 Professional Accountants for a review of interim financial statements by an entity's auditors.

## Consolidated Statement of Financial Position

		Mar 31 2015	Sep 30 2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	469	352
Accounts receivable		11	7
Prepaid expenses and other assets		28	56
Investments	5	464	939
Restricted cash	4	52	52
<b>Total current assets</b>		<b>1,024</b>	<b>1,406</b>
<b>Non-current assets</b>			
Equipment	6	-	-
<b>Total non-current assets</b>		<b>-</b>	<b>-</b>
<b>Total assets</b>		<b>1,024</b>	<b>1,406</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		327	155
Provisions	7	5	9
<b>Total current liabilities</b>		<b>332</b>	<b>164</b>
<b>Total liabilities</b>		<b>332</b>	<b>164</b>
<b>Net assets</b>		<b>692</b>	<b>1,242</b>
<b>EQUITY</b>			
Share capital		78,219	77,482
Contributed surplus		12,940	12,509
Accumulated other comprehensive income (loss)	8	73	62
Deficit		(90,540)	(88,811)
<b>Total equity</b>		<b>692</b>	<b>1,242</b>

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

The consolidated financial statements were approved by the Board of Directors on May 21, 2015 and signed on its behalf by:

Signed: "Raffi Babikian"  
Director

Signed: "Grant A.Edey"  
Director

**Consolidated Statement of Loss**

For the three and six months ended March 31

	Notes	Three months		Six months	
		2015	2014	2015	2014
<b>Continuing operations</b>					
<b>Revenue</b>					
Finance income		-	2	1	6
<b>Total Revenue</b>		-	2	1	6
Legal expenses		(295)	(34)	(304)	(897)
General corporate		(218)	(286)	(431)	(514)
Amortization and impairment loss, property, plant and equipment	6	-	-	-	(1)
Share-based compensation	9	(713)	(525)	(713)	(540)
Available-for-sale financial assets, change in fair value	5	-	-	(217)	-
Gain (loss) on sale of investments		(62)	32	(62)	32
Impairment reversal, property, plant and equipment		-	8	-	8
Gain on available-for-sale investments recycled from OCI		-	17	-	17
Foreign exchange gain (loss)		1	(16)	3	(18)
<b>Loss before tax</b>		<b>(1,287)</b>	<b>(802)</b>	<b>(1,723)</b>	<b>(1,907)</b>
<b>Income tax (expense) recovery</b>	13	<b>12</b>	<b>37</b>	<b>2</b>	<b>56</b>
<b>Net loss from continuing operations</b>		<b>(1,275)</b>	<b>(765)</b>	<b>(1,721)</b>	<b>(1,851)</b>
<b>Discontinued operations</b>					
Income (loss) from discontinued operations, net of tax	12	-	(30)	(8)	3
<b>Net loss</b>		<b>(1,275)</b>	<b>(795)</b>	<b>(1,729)</b>	<b>(1,848)</b>
<b>Loss per share</b>					
Basic loss per share (in Canadian cents)	14	<b>(0.02)</b>	(0.01)	<b>(0.02)</b>	(0.02)
Diluted loss per share (in Canadian cents)	14	<b>(0.02)</b>	(0.01)	<b>(0.02)</b>	(0.02)
Weighted average number of shares outstanding - Basic		<b>77,351,538</b>	75,711,852	<b>77,147,663</b>	75,537,892
Weighted average number of shares outstanding - Diluted		<b>77,351,538</b>	75,711,852	<b>77,147,663</b>	75,537,892

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	
		2015	2014	2015	2014
<b>Net loss</b>		<b>(1,275)</b>	<b>(795)</b>	<b>(1,729)</b>	<b>(1,848)</b>
<b>Other comprehensive income (loss), net of income tax</b>					
Items that will be reclassified subsequently to net earnings					
Net change in fair value of available-for-sale financial assets	5	<b>85</b>	279	<b>13</b>	434
Income tax on other comprehensive income	13	<b>(12)</b>	(37)	<b>(2)</b>	(58)
<b>Other comprehensive income (loss), net of income tax</b>		<b>73</b>	242	<b>11</b>	376
<b>Total comprehensive loss</b>		<b>(1,202)</b>	<b>(553)</b>	<b>(1,718)</b>	<b>(1,472)</b>

The accompanying notes form part of these financial statements.

**Consolidated Cash Flow Statement**

For six months ended March 31, 2015

	Notes	2015	2014
<b>Operating Activities</b>			
Loss before income tax including discontinued operations		(1,729)	(1,904)
Adjustments for:			
Amortization and impairment	6	-	1
Share-based compensation	9	713	540
Unrealized foreign exchange loss (gain)		(5)	5
Financial income and expenses		(1)	(6)
Gain on disposal of equipment		-	(54)
Loss (gain) on sale of investments		62	(32)
Gain on available-for-sale investments recycled from OCI			(17)
Available-for-sale financial assets, change in fair value	5	217	-
Decrease in cash due to deconsolidation of subsidiary	2	5	-
Changes in:			
Accounts receivable		(4)	(10)
Prepaid expenses and other assets		28	27
Accounts payable and accrued liabilities		172	(308)
Restructuring provision	7	(4)	(41)
Cash used in operations		(546)	(1,799)
Interest received		1	5
Income tax paid		-	(2)
<b>Net operating cash flows</b>		<b>(545)</b>	<b>(1,796)</b>
<b>Investing activities</b>			
Sale of equipment		-	54
Decrease in cash due to deconsolidation of subsidiary	2	(5)	-
Proceeds from sale of investments	5	209	92
Purchase of equipment		-	(1)
<b>Net investing cash flows</b>		<b>204</b>	<b>145</b>
<b>Financing activities</b>			
Proceeds on issuance of shares		455	91
<b>Net financing cash flows</b>		<b>455</b>	<b>91</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>114</b>	<b>(1,560)</b>
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	(6)
<b>Cash and cash equivalents at the end of the period</b>	4	<b>469</b>	<b>665</b>

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

## Consolidated Statement of Changes in Equity

For the six months ended March 31, 2015

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)	-	-	-	11	(1,729)	(1,718)
Transactions with owners:						-
Employee share options:						-
Share-based compensation	9		713			713
Options exercised	1,775,000	734	(279)			455
Proceeds on issuance						-
<b>Balance as at March 31, 2015</b>	<b>78,191,482</b>	<b>78,216</b>	<b>12,943</b>	<b>73</b>	<b>(90,540)</b>	<b>692</b>
Balance as at October 1, 2014	75,363,148	77,143	12,097	202	(86,382)	3,060
Total comprehensive loss				376	(1,848)	(1,472)
Transactions with owners:						
Employee share options:						
Share-based compensation	9		540	-	-	540
Options exercised	453,334	159	(68)			91
Balance as at March 31, 2014	75,816,482	77,302	12,569	578	(88,230)	2,219

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. On March 2, 2015 the International Arbitration Tribunal rendered an award to the Company as compensation for the Government of Mongolia's actions in relation to the cancellation of Khan's uranium licenses in 2009. See Note 15a, Contingencies.

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 May 21, 2015.

These 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. Management has determined that it is probable but not certain that the significant International Arbitration award described in Notes 1 and 15a will be collected in full. In the event that the award is not collected, 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, 2015.

### 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 March 31, 2015 and 2014, 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 8,442,330 common shares of Macusani Yellowcake Inc. ("Macusani") with a fair value on March 31, 2015 of \$464 (Sep. 30, 2014 - \$939). During the six months ended March 31, 2015, the Company sold 6,000,000 shares (2014 - 1,081,000) of Macusani for gross proceeds of \$209 (2014 - \$114).

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

	Mar 31	Sep 30
Registered office equipment	2015	2014
<b>Cost, opening balance</b>	62	147
<b>Additions</b>	-	1
<b>Disposals</b>	-	(86)
<b>Cost, closing balance</b>	<b>62</b>	<b>62</b>
<b>Depreciation and impairment opening balance</b>	(147)	(147)
Depreciation and impairment	(1)	(1)
Disposals	86	86
<b>Depreciation and impairment closing balance</b>	<b>(62)</b>	<b>(62)</b>
<b>Net book value, closing balance</b>	-	-

## 7 Provisions

	Restoration provision	Restructuring Provision	Total
<b>Provision at October 1, 2013</b>	22	38	60
Additions	-	-	-
Used (incurred and charged against the provision)	-	(29)	(29)
Loss (gain) on restoration estimate	(22)	-	(22)
Exchange differences	-	-	-
<b>Provision at September 30, 2014</b>	-	9	9
Additions	-	-	-
Used (incurred and charged against the provision)	-	(4)	(4)
Loss (gain) on estimate	-	-	-
Exchange differences	-	-	-
<b>Provision at March 31, 2015</b>	-	5	5

## 8 Accumulated other comprehensive income

	Mar 31 2015	Sep 30 2014
<b>Financial assets account (a)</b>		
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	13	(161)
Deferred tax relating to revaluations	(2)	21
<b>Accumulated other comprehensive income</b>	<b>73</b>	<b>62</b>

## 9 Share-based compensation

On March 19, 2015, a total of 1,775,000 options with a contractual life of three years were granted to directors, officers, and employees at an exercise price of \$ 0.57 per share being an amount equal to the posted share price prevailing at the close of market on March 18, 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, 2015 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	-
Expected volatility (%)	120.33
Risk free interest rate(%)	0.46
Forfeiture rate (%)	-
Expected life (years)	3.00
Weighted average share price (\$)	0.570

A share-based compensation expense of \$713 as a result of the options granted on March 19, 2015 has been recognized in the consolidated statement of comprehensive income. During the comparable period of the prior year, the Company recognized a share-based compensation expense of \$525 for 2,150,000 options granted on March 28, 2014.

The following table summarizes information about share options outstanding at March 31, 2015:



(In thousands of Canadian dollars unless otherwise stated)

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	0.38	0.21	850,000	850,000	-
February 14, 2016	0.20	0.88	0.10	1,400,000	1,400,000	-
February 16, 2016	0.55	0.88	0.39	1,000,000	1,000,000	-
March 28, 2017	0.34	1.99	0.24	1,900,000	1,900,000	-
March 19, 2018	0.57	2.97	0.40	1,775,000	1,775,000	-
				<b>6,925,000</b>	<b>6,925,000</b>	-

## 10 Management compensation

	Three months		Six months	
	2015	2014	2015	2014
Directors' fees	24	26	50	54
Salaries and short-term benefits	51	58	107	131
Share-based compensation	663	489	663	503
<b>Total management compensation</b>	<b>738</b>	<b>573</b>	<b>820</b>	<b>688</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 \$9 for the three months ended March 31, 2015 (2014 - \$15) and \$18 for the six months ended March 31, 2015 (2014 - \$22). At March 31, 2015, the balance outstanding was nil (2014 - 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.

Results of Discontinued operations	Notes	Three months		Six months	
		2015	2014	2015	2014
Revenue		-	-	-	-
Expenses		-	(30)	(8)	(69)
Amortization	6	-	-	-	-
Gain (loss) on restoration estimate	7	-	-	-	22
Impairment reversal, property, plant and equipment		-	-	-	47
Foreign exchange gain (loss)		-	-	-	3
<b>Net income (loss) from discontinued operations</b>		-	<b>(30)</b>	<b>(8)</b>	<b>3</b>
Income tax		-	-	-	-
Net income (loss) from discontinued operations		-	<b>(30)</b>	<b>(8)</b>	<b>3</b>
Basic loss per share (in Canadian cents)		<b>0.00</b>	0.00	<b>0.00</b>	0.00
Diluted loss per share (in Canadian cents)		<b>0.00</b>	0.00	<b>0.00</b>	0.00

Cash flows from (used in) discontinued operations	Notes	2015	2014
Net operating cash flows		(8)	(88)
Net investing cash flows		(5)	47
<b>Net cash flow for the six months ended March 31</b>		<b>(13)</b>	<b>(41)</b>

### 13 Income tax

	Three months		Six months	
	2015	2014	2015	2014
Current income tax expense (a)	-	-	-	(2)
Deferred income tax expense related to reversal of deferred taxes (b)	12	36	2	57
<b>Income tax expense</b>	<b>12</b>	<b>36</b>	<b>2</b>	<b>55</b>
Income tax recognized in other comprehensive income	(12)	(36)	(2)	(57)
<b>Total income tax expense</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</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) Recognition of deferred tax liability 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 March 31, 2015 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 Contingencies

- (a) On March 2, 2015, a contingent asset existed related to an award rendered by the international arbitration tribunal to Khan as compensation for the Government of Mongolia's actions in relation to the cancellation of Khan's uranium licenses in 2009. The award consisted of a Base Amount of \$80 million (US) plus interest at LIBOR +2% (compounded annually) from July 1, 2009 to the time of payment. In addition, the tribunal awarded costs of \$9.1 million in favour of Khan. At March 31, the award aggregated to approximately \$104 million. Interest was accruing at a rate of 2.546% or \$6.5 per day.

In Canadian dollars at the closing exchange rate on March 31, the value of the total award was \$132 million.

- (b) At March 31, 2015, a contingent liability amounting to \$4,108 (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

On May 12, 2015, the Company announced that that it intends to raise approximately \$2 million in a non-brokered private placement by issuing approximately 5 million common shares of the Company at a price of \$0.40 per common share. The offering is expected to close in May 2015. The proceeds of the offering will be used to advance proceedings to enforce the collection of the arbitration award and for general corporate purposes.