

Khan Resources Inc.

Condensed Interim Consolidated Financial Statements

December 31, 2015

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

Consolidated Statement of Financial Position

	Notes	Dec. 31 2015	Sep. 30 2015
ASSETS			
Current Assets			
Cash and cash equivalents	4	1,114	1,571
Accounts receivable		13	14
Prepaid expenses and other assets		40	55
Investments	5	354	317
Restricted cash	4	52	52
Total current assets		1,573	2,009
Total assets		1,573	2,009
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		129	267
Total current liabilities		129	267
Total liabilities		129	267
Net assets		1,444	1,742
EQUITY			
Share capital		80,662	80,662
Contributed surplus		12,909	12,909
Accumulated other comprehensive income (loss)	8	(3,455)	(3,487)
Deficit		(88,672)	(88,342)
Total equity		1,444	1,742

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

Equipment (note 6)
 Provisions (note 7)
 Contingencies (note 14)

The consolidated financial statements were approved by the Board of Directors on February 11, 2016 and signed on its behalf |

Signed: "Raffi Babikian"
 Director

Signed: "Grant A.Edey"
 Director

Condensed Consolidated Statement of Loss
For the three months ended December 31, 2015

	Notes	2015	2014
Continuing operations			
Revenue			
Finance income		2	1
Total Revenue		2	1
Legal expenses		(108)	(9)
General corporate		(234)	(213)
Foreign exchange gain (loss)		5	2
Total Expenses		(337)	(220)
Loss before tax		(335)	(219)
Income tax (expense) recovery	13	5	-
Net loss from continuing operations		(330)	(219)
Discontinued operations			
Income (loss) from discontinued operations, net of tax	12	-	(8)
Net loss		(330)	(227)
Loss per share			
Basic loss per share (in Canadian cents)		(0.00)	(0.00)
Diluted loss per share (in Canadian cents)		(0.00)	(0.00)
Weighted average number of shares outstanding - Basic		84,136,482	76,717,025
Weighted average number of shares outstanding - Diluted		84,136,482	76,717,025

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Loss
For the three months ended December 31, 2015

	Notes	2015	2014
Net loss		(330)	(227)
Other comprehensive income (loss), net of income tax			
Items that will be reclassified subsequently to net earnings			
Fair value adjustment of equity instrument		37	(289)
Income tax on other comprehensive income	13	(5)	-
Other comprehensive income (loss), net of income tax		32	(289)
Total comprehensive loss		(298)	(516)

The accompanying notes form part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the three months ended December 31

	Notes	2015	2014
Operating Activities			
Loss before income tax including discontinued operations		(335)	(227)
Adjustments for:			
Unrealized foreign exchange (gain) loss		(5)	(3)
Finance income		(2)	(1)
Decrease in cash due to deconsolidation of subsidiary		-	5
Changes in:			
Accounts receivable		1	(5)
Prepaid expenses and other assets		15	18
Accounts payable and accrued liabilities		(138)	(30)
Restructuring provision	7	-	(4)
Cash used in operations		(464)	(247)
Interest received		2	1
Income tax paid		-	-
Net operating cash flows		(462)	(246)
Investing activities			
Decrease in cash due to deconsolidation of subsidiary		-	(5)
Net investing cash flows		-	(5)
Financing activities			
Proceeds on issuance of shares		-	80
Net financing cash flows		-	80
Net increase (decrease) in cash and cash equivalents		(462)	(171)
Cash and cash equivalents at the beginning of the period		1,571	352
Effect of foreign currency exchange rate changes on cash and cash equivalents		5	3
Cash and cash equivalents at the end of the period	4	1,114	184

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

Consolidated Statement of Changes in Equity

For the three months ended December 31, 2015

Notes	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
	Number of shares	Amount				
Balance as at October 1, 2015	84,136,482	80,662	12,909	(3,487)	(88,342)	1,742
Total comprehensive income (loss)	-	-	-	32	(330)	(298)
Balance as at December 31, 2015	84,136,482	80,662	12,909	(3,455)	(88,672)	1,444

Balance as at October 1, 2014	76,416,482	77,482	12,509	62	(88,811)	1,242
IFRS 9 adjustment prior to October 1, 2014				(3,135)	3,135	-
Balance as at October 1, 2014 adjusted	76,416,482	77,482	12,509	(3,073)	(85,676)	1,242
Total comprehensive loss				(289)	(227)	(516)
Transactions with owners:						
Employee share options:						
Options exercised	10	400,000	120	(40)		80
Balance as at December 31, 2014	76,816,482	77,602	12,469	(3,362)	(85,903)	806

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 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.

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 14(a), Contingencies.

On June 12, 2015 the Company filed a petition for confirmation of its international arbitration award in the US District Court in the District of Columbia. When confirmed, the award will be executable in the US as a court judgement and the Company can begin a process of seizure of non-immune Mongolian sovereign assets.

On July 9, 2015, the Government of Mongolia filed a notice in the French Court of Appeal in Paris for annulment of the international arbitration award.

2 Basis of preparation

a. Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The unaudited condensed interim 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 2015 annual consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and their interpretations issued by the IFRS Interpretations Committee. The Board of Directors authorized these unaudited interim condensed consolidated financial statements for issue on February 11, 2016.

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 2015 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, 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 equity instruments in the form of 1,055,291 (September 30, 2015 – 1,055,291) common shares of Plateau Uranium Inc. with a fair value on December 31, 2015 of \$354 (September 30, 2015 - \$317).

See also Note 8.

6 Equipment

The Company's tangible assets including those in Mongolia were impaired in 2012 due to the failure of the Government of Mongolia to reissue the Company's mining and exploration licenses as described in Note 1. The Mongolian subsidiaries were closed on September 30, 2013. Later all Mongolian assets were retired or sold. On December 31, 2014 the Company determined that it could no longer exercise control over the Mongolian subsidiaries and derecognized related asset, liabilities and non-controlling interests at that date. The assets and liabilities over which the Company lost control were not significant to the Company's consolidated financial statements at December 31, 2014.

Remaining tangible assets consisting of office furniture, computers and software located at the Company's registered office have a net carrying value of \$9 before impairment.

7 Provisions

During 2013, the Company had recognized a Restructuring Provision. The Company had committed to a plan to dispose of the Mongolian subsidiaries by closure, see Note 12. Following the announcement of the plan, the Company recognized a provision of \$38 in restructuring costs. The unused restructuring provision of \$5 was reversed in 2015 and included in 'discontinued operations'.

8 Accumulated other comprehensive income

	Notes	Dec. 31 2015	Sep. 30 2015
Financial assets account (a)			
Balance at the beginning of the financial year		(3,487)	62
IFRS 9 adjustment prior to October 1, 2014		-	(3,135)
Net fair value adjustment of equity instrument		32	(414)
Accumulated other comprehensive income		(3,455)	(3,487)

(a) The financial assets account represents the revaluation of the investment that is measured through other comprehensive income (F). All changes, subsequent to initial recognition of the investment at fair value, are recognized on OCI.

9 Share-based compensation

There were no share options granted to directors, officers and employees during the first quarter (2014 – nil). Consequently, no share based compensation was recognized in this reporting period or in the comparable reporting period in the prior year.

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

Grants listed by expiry date	Exercise price (\$)	Remaining life (years)	Fair value per option (\$)	Number outstanding	Number vested	Number unvested
February 14, 2016	0.20	0.13	0.10	1,350,000	1,350,000	-
February 16, 2016	0.55	0.13	0.39	1,000,000	1,000,000	-
March 28, 2017	0.34	1.25	0.24	1,855,000	1,855,000	-
March 19, 2018	0.57	2.22	0.40	1,775,000	1,775,000	-
August 20, 2018	0.53	2.63	0.38	400,000	400,000	-
				6,380,000	6,380,000	-

10 Management compensation

	Three months ended	
	Dec. 31, 2015	Dec. 31, 2014
Directors' fees	28	26
Salaries and short-term benefits	57	56
Share-based compensation	-	-
Total management compensation	85	82

Included in management compensation are costs incurred related to a management entity that provides key management personnel services to the Company. These costs include salary of \$26 (2015 - \$23) and share-based compensation of nil (2014 - nil).

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, 2015 (December 31, 2014 - \$9). At December 31, 2015, the balance outstanding was nil (December 31, 2014 – nil).

12 Discontinued operations

The Mongolian subsidiaries were closed on September 30, 2013 as a result of the circumstances described in Note 1.

(a) Results of Discontinued Operations	Notes	Three months ended	
		Dec. 31, 2015	Dec. 31, 2014
Revenue		-	-
Expenses		-	(8)
Amortization		-	-
Gain (loss) on restoration estimate		-	-
Impairment reversal, property, plant and equipment		-	-
Foreign exchange gain (loss)		-	-
Income (loss) from discontinued operations		-	(8)
Income tax		-	-
Net income (loss) from discontinued operations		-	(8)
Basic loss per share (in Canadian cents)		-	(0.00)
Diluted loss per share (in Canadian cents)		-	(0.00)

(b) Cash flows from (used in) discontinued operations	Notes	Three months ended	
		Dec. 31, 2015	Dec. 31, 2014
Net operating cash flows		-	(7)
Net investing cash flows		-	(5)
Net cash flow for the quarter		-	(12)

13 Income tax

	Three months ended	
	Dec. 31, 2015	Dec. 31, 2014
Current Tax	-	-
Deferred tax recovery (expense) (a)	5	-
Tax recovery (expense) from continuing operations	5	-
Deferred tax recognized on other comprehensive income	(5)	-
Total income tax expense	-	-

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

Non-capital losses

At September 30, 2015, the Company had Canadian non-capital losses of approximately \$28,890 (2014 - \$28,686) available for deduction against future taxable income. If unutilized, non-capital losses will expire from 2016 to 2035 whereas capital losses can be carried forward indefinitely. Netherlands tax losses of approximately \$391 (2014 - \$351) are available for deduction against future taxable income and these losses, if unutilized, will expire from 2019 to 2024. None of the tax losses have been recognized other than the tax asset recognized in the table above.

14 Contingencies

Unless otherwise stated, the currency used in this note is United States dollars (USD). The currency of the international arbitration judgment and related legal fees is USD.

- (a) A contingent asset exists related to an award rendered by the International Arbitration Tribunal on March 2, 2015 as compensation for the Government of Mongolia's actions in relation to the cancellation of Khan's uranium licenses in 2009. The award consists of a Base Amount of \$80 million 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 December 31, the award aggregated to approximately \$106 million. Interest was accruing at a rate of 2.78% or \$7.3 per day.

In Canadian dollars at the closing exchange rate on December 31, the value of the total award was \$146 million.

- (b) A contingent liability amounting to \$3,500 (December 31, 2014- \$3,500) exists 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 the international arbitration award. Where the Company receives one or more partial payments of the award, the Company will pay to legal counsel 15% of each payment until the existing contingent completion fee is paid in full.

For legal work subsequent to the award being rendered by the International Arbitration Tribunal, legal counsel has agreed to cap the expense of the current phase of efforts to certify the award in the US and to support the efforts of French counsel in the annulment proceedings in Paris (see Note 1) at \$750 of which \$500 will be deferred until the last dollar is collected by Khan Resources from a payment of the award by Mongolia.

- (c) The Government of Mongolia has informed the Company that it is *considering* a claim for Value Added Tax that the Mongolian Government asserts should have been self-assessed on feasibility study work done and paid in Canada on behalf of a previously controlled Mongolian subsidiary and on which the previously controlled subsidiary recognized an inter-company liability. No cash was ever paid to the parent and the inter-company liability was subsequently converted to equity.

No provision for any liability has been made in these consolidated financial statements because the existence of a possible obligation will only be confirmed by the receipt of a claim from the Mongolian tax authorities and possibly other uncertain events not wholly in the control of the Company. The amount of such a possible obligation cannot be reliably measured.

15 Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of these December 31, 2015 condensed interim consolidated financial statements.