

Khan Resources Inc.

Condensed Interim Consolidated Financial Statements

For the first quarter ended December 31, 2016

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 Net Assets in Liquidation

	Notes	Dec. 31 2016	Sep. 30 2016
ASSETS			
Current Assets			
Cash	4	3,483	4,814
Cash equivalents	4	5,000	80,000
Accounts receivable		41	85
Prepaid expenses and other assets		35	19
Investments	5	264	264
Restricted cash	4	52	52
Current Income tax asset	12	500	570
Total current assets		9,375	85,804
Total assets		9,375	85,804
LIABILITIES			
Current liabilities			
Liquidation provision	7	1,184	1,450
Accounts payable and accrued liabilities		115	142
Current income tax liability	12	1,055	1,125
Total current liabilities		2,354	2,717
Total liabilities		2,354	2,717
Net assets in liquidation		7,021	83,087
Equity			
Share capital		8,187	83,636
Contributed surplus		11,216	11,710
Accumulated other comprehensive income (loss)	8	(3,540)	(3,540)
Opening deficit		(8,719)	(88,342)
Net income (loss)		(123)	79,623
Net assets in liquidation		7,021	83,087

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

Equipment (note 6)
Share-based compensation (note 9)
Subsequent events (note 13)
Comparative Financial Statements (note 14)

Effective October 1, 2015, the Company changed the basis of presenting its consolidated financial statements from going concern to liquidation (Refer to note 1)

The consolidated financial statements were approved by the Board of Directors on February 24, 2017 and signed on its behalf by:

Signed: "Eric Shahinian"
Director

Signed: "Grant A. Edey"
Director

Consolidated Statement of Changes in Net Assets in Liquidation

For the three months ended December 31

Notes	2017	2016
Net assets in liquidation, beginning of period	83,087	1,742
Income		
Finance income	97	2
Total Income	97	2
Legal expenses	-	(99)
General corporate	(258)	(243)
Foreign exchange gain (loss)	38	5
Total Expenses	(220)	(337)
Income (loss) before tax	(123)	(335)
Income tax	-	5
Net income (loss)	(123)	(330)
Loss per share		
Basic income (loss) per share (in Canadian cents)	(0.00)	(0.00)
Diluted income (loss) per share (in Canadian cents)	(0.00)	(0.00)
Weighted average number of shares outstanding - Basic	89,429,525	84,136,482
Weighted average number of shares outstanding - Diluted	89,429,525	84,136,482
Net income (loss)	(123)	(330)
Other comprehensive loss, net of income tax		
Items that will not be reclassified subsequently to net earnings		
Fair value adjustment of equity instrument	-	32
Other comprehensive loss, net of income tax	-	32
Total comprehensive income (loss)	(123)	(298)
Transactions with shareholders:		
Distribution to shareholders - return of capital	(76,641)	-
Employee share options exercised	698	-
Net assets in liquidation, end of period	7,021	1,444

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

Effective October 1, 2015, the Company changed the basis of presenting its consolidated financial statements from going concern to liquidation and the Consolidated Statement of Changes in Net Assets in Liquidation includes the results of operations, comprehensive income (loss) and transactions with shareholders.

Consolidated Cash Flow Statement

For the three months ended December 31, 2016

	Notes	2016	2015
Operating Activities			
Income (loss) before income tax		(123)	(335)
Adjustments for:			
Unrealized foreign exchange (gain) loss		(38)	(5)
Finance income		(97)	(2)
Accounts receivable		50	1
Prepaid expenses and other assets		(17)	15
Current income tax asset		70	-
Current income tax liability		(70)	-
Accounts payable and accrued liabilities		(26)	(138)
Liquidation provision	7	(266)	-
Cash provided (used) in operations		(517)	(464)
Interest received		91	2
Net operating cash flows		(426)	(462)
Investing activities			
Net investing cash flows		-	-
Financing activities			
Proceeds on issuance of shares		698	-
Distribution to shareholders - return of capital		(76,641)	-
Net financing cash flows		(75,943)	-
Net increase (decrease) in cash and cash equivalents		(76,369)	(462)
Cash and cash equivalents at the beginning of the period		84,814	1,571
Effect of foreign currency exchange rate changes on cash and cash equivalents		38	5
Cash and cash equivalents at the end of the period	4	8,483	1,114

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

Notes to the Condensed Consolidated Financial Statements

For the first quarter ended December 31, 2016

1 Corporate information

Khan Resources Inc. has no operations and is in voluntary liquidation. Khan Resources B.V. is the remaining subsidiary of the Company. The Company along with its subsidiary companies (collectively the "Company" or "Khan"), was involved in acquiring, exploring and developing mineral properties 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.

On May 18, 2016, the Company announced that it had received (U.S.) \$70 million (\$90,594 Canadian at September 30, 2016) from the Government of Mongolia in settlement of all outstanding matters pursuant to the international arbitration award received by the Company. The subsidiaries of the Company collectively received an award of (U.S.) \$55,167 (\$70,000 less costs of \$14,833 funded by the parent company). The allocation of the award is based upon an estimate of each entity's interest in the underlying historic assets of the two Mongolian subsidiaries (now sold). The arbitration award received by the subsidiaries is considered to be proceeds in respect of the impairment in value of the receivables from and shares of the Mongolian subsidiaries, as applicable.

During the first quarter, on November 10, 2016 the Company announced that the shareholders of the Company had approved a special resolution for the voluntary liquidation and dissolution of Khan. The shareholders also approved, pursuant to the winding up, an initial distribution of \$0.85 per share by way of a return of capital that was paid on November 29, 2016 to shareholders of record at November 22, 2016. Any further distribution of cash will be made in one or more installments following receipt of funds pursuant to the liquidation of the remaining assets of Khan and the winding up of its remaining subsidiary, and the satisfaction of all liabilities, including expenses of the winding up, on a distribution date to be determined pursuant to the plan of liquidation and dissolution. Khan anticipates that any further distributions of cash as part of the winding up would aggregate between \$0.01 and \$0.08 per share.

Notwithstanding shareholder approval of the special resolution, at any time until appointment of the liquidator, the board of directors will retain the discretion to discontinue the winding up if it determines that continuing with the winding up is no longer in the best interests of the Company or its shareholders.

Full details of the winding up and certain other matters are set out in the related management information circular.

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 2016 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 24, 2017.

b. Change in basis of presentation

On November 10, 2016 the Company announced that the shareholders of the Company had approved a special resolution to implement the voluntary liquidation and dissolution of Khan. Consequently these condensed interim consolidated financial statements have been prepared on the basis that the Company is no longer a going concern. This condensed interim consolidated financial statements as at December 31, 2016 and for the quarter then ended along with the comparative quarter

ended December 31, 2015 has been prepared on a liquidation basis of accounting. Under the liquidation basis of accounting, the Company measures its assets based on their net realizable value and its liabilities based on their settlement amounts. The December 31, 2016 condensed interim consolidated financial statements have been prepared primarily using fair values which in this case, approximates the net realizable value of the assets and the settlement amounts of the liabilities. The condensed interim consolidated financial statements as at December 31, 2015 have been reclassified to conform to a liquidation basis of accounting.

The condensed interim consolidated financial statements as at December 31, 2016 and for the quarter then ended includes certain costs and fees to be incurred to liquidate the residual assets of the Company and for the specific wind-up activities of the Company. The condensed interim consolidated financial statements do not include anticipated operating costs and overhead for the wind-up period or provision for the settling of contingent liabilities. These costs may be material and the amounts disclosed as net assets in liquidation in total or on a per share basis will change. Consequently the actual amounts available for distribution to shareholders will change and such changes may be material.

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 2016 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, 2016, the Company had cash of \$ 3,483 (2016 - \$1,114) and cash equivalents of \$ 5,000 (2016 – nil) consisting of a guaranteed investment certificate with a maturity date of less than three months.

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, 2016 – 1,055,291) common shares of Plateau Uranium Inc. with a fair value on December 31, 2016 of \$264 (September 30, 2016 - \$264). See also Note 8.

After the end of the first quarter, the Company sold 939 thousand common shares of Plateau Uranium Inc. for gross cash proceeds of \$617. See Note 13 c.

6 Equipment

Tangible assets consisting of office furniture, computers and software are located at the Company's registered office. Due to the voluntary liquidation and dissolution of Khan, management has determined that these tangible assets have been impaired. This equipment has a net carrying value of \$3 before impairment.

7 Provisions

	Liquidation provision
Provision at October 1, 2015	-
Additions	1,450
Used (incurred and charged against the provision)	-
Reversed during period	-
Exchange differences	-
Provision at September 30, 2015	1,450
Additions	-
Used (incurred and charged against the provision)	(266)
Reversed during the period	-
Exchange differences	-
Provision at September 30, 2016	1,184

The provision for liquidation costs includes restructuring costs that qualify as obligations. Only costs incremental to winding up the Company have been recognized. These estimated costs include legal expenses for liquidating the Company, tax consulting on final dissolution tax returns, transfer agent fees for the distribution of funds and deregistration of shareholders, employee severances, record retention costs and insurance.

The provision does not include costs related to ongoing operations during the liquidation period nor provision for possible contingent liabilities. These costs may be significant and include costs related to preparing financial statements and related audit services, tax services for preparing and filing tax returns before final dissolution, services of the transfer agent, employee wages, management contracts, corporate governance costs, insurance, shareholder reporting, events and meetings and the cost of office premises. These costs may be material and the amounts disclosed as net assets in liquidation will change. The actual amounts available for distribution to shareholders will change and such changes may be material.

8 Accumulated other comprehensive income

Notes	Dec. 31 2016	Sep. 30 2016
Financial assets account (a)		
Balance at the beginning of the financial period	(3,540)	(3,487)
Net fair value adjustment of equity instrument	-	(53)
Accumulated other comprehensive income	(3,540)	(3,540)

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

9 Share-based compensation

There were no share options granted to directors, officers and employees during the first quarter or in the first quarter of 2016. Consequently, no share-based compensation was recognized in this reporting period or in the comparable reporting period in the prior year.

From October 1, 2016 to November 17, 2016, certain directors, officers and employees of the Company exercised all outstanding share options as at September 30, 2016 acquiring 1,500,000 shares for total proceeds of \$698. Included with these shares were 200,000 shares and proceeds of \$91 related to a management entity that provides key management personnel services to the Company.

As a result of this exercise of share options, there were no share options outstanding at December 31, 2016.

10 Management compensation

	Three months ended	
	Dec. 31, 2016	Dec. 31, 2015
Directors' fees	19	28
Salaries and short-term benefits	75	66
Share-based compensation	-	-
Total management compensation	94	94

Included in management compensation are costs incurred related to management entities that provides key management personnel services to the Company. These costs include salary of \$44 (2015 - \$35). No share-based compensation was recognized for these management entities in this reporting period or in the comparable reporting period in the prior year.

11 Related party transactions

During the quarter, certain directors, officers and employees of the Company exercised all outstanding share options as at September 30, 2016 acquiring 1,500,000 shares for total proceeds of \$698. Included with these shares were 200,000 shares and proceeds of \$91 related to a management entity that provides key management personnel services to the Company.

12 Income tax

	Three months ended	
	Dec. 31, 2016	Dec. 31, 2015
Current income tax expense (a)	-	-
Deferred tax recovery (expense) (a)	-	5
Income tax expense	-	5
Deferred tax recognized on other comprehensive income	-	(5)
Total income tax expense	-	-

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

The current tax asset of \$500 (September 30, 2016 - \$570) was reduced by \$70 that was utilized to lower the current income tax liability to \$1,055 (September 30, 2016 - \$1,125). The \$70 represents the income tax recovery on the expenditure of \$266 from the liquidation provision during the first quarter.

Non-capital losses

At September 30, 2016, the Company had utilized all its Canadian non-capital losses and therefore has nil (2015 - \$28,890) available for deduction against future taxable income. Netherlands tax losses of approximately \$545 (2015 - \$391) are available for deduction against future taxable income and these losses, if unutilized, will expire from 2019 to 2026. None of the tax losses have been tax-benefited.

Judgment is required in determining whether deferred tax assets are recognized on the balance sheet. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Netherlands preliminary tax assessment

Subsequent to the end of the first quarter the Netherlands tax authority reassessed the Company's subsidiary KRBV for an amount payable of 3.3 million euros, see Note 13 b. The preliminary tax assessment and the reassessment were both issued before KRBV has filed its 2016 tax return and as such are based on incomplete information. Based on tax professionals advice, management is of the opinion that the reassessed amount payable of 3.3 million euros continues to be an over assessment. Management believes that this issue will be resolved when the KRBV 2016 tax return is filed and the Netherlands tax authority has the opportunity to review all the facts. As a result no provision has been made for this reassessment in these consolidated financial statements.

13 Subsequent event

- a. After the end of the first quarter the Company made a tax installment payment of \$708 relating to the Canadian portion of the 2016 income tax provision. See also Note 12.
- b. On February 15, 2017 the Company received an income tax reassessment from the Netherlands tax authority. This reassessment was pursuant to management challenging an earlier preliminary assessment for an amount payable by KRBV of 11.4 million euros. This reassessment reduces the amount payable to 3.3 million euros. See also Note 12.
- c. From February 10, 2017 to February 21, 2017, the Company sold 939 thousand common shares of Plateau Uranium Inc. for gross cash proceeds of \$617. An estimate of the net financial effect of these sales, after brokerage commissions and taxation, could not be made at the date these financial statements were authorized for issue. See also Note 5.

14 Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of these December 31, 2016 condensed interim consolidated financial statements. See also Note 2b.