

Khan Resources Inc.

Condensed Interim Consolidated Financial Statements

March 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 Financial Position

	Notes	Mar. 31 2016	Sep. 30 2015
ASSETS			
Current Assets			
Cash and cash equivalents	4	1,852	1,571
Accounts receivable		21	14
Prepaid expenses and other assets		33	55
Investments	5	327	317
Restricted cash	4	52	52
Total current assets		2,285	2,009
Total assets		2,285	2,009
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		157	267
Total current liabilities		157	267
Total liabilities		157	267
Net assets		2,128	1,742
EQUITY			
Share capital		82,648	80,662
Contributed surplus		12,119	12,909
Accumulated other comprehensive income (loss)	8	(3,478)	(3,487)
Deficit		(89,161)	(88,342)
Total equity		2,128	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 May 19, 2016 and signed on its behalf by:

Signed: "Eric Shahinian"
Director

Signed: "Grant A. Edey"
Director

Consolidated Statement of Loss

For the three and six months ended March 31

	Notes	Three months		Six months	
		2016	2015	2016	2015
Continuing operations					
Revenue					
Finance income		1	-	3	1
Total Revenue		1	-	3	1
Legal expenses		(168)	(286)	(267)	(286)
General corporate		(306)	(227)	(549)	(449)
Share-based compensation	9	-	(713)	-	(713)
Foreign exchange gain (loss)		(12)	2	(7)	4
Loss before tax		(485)	(1,224)	(820)	(1,443)
Income tax (expense) recovery	13	(4)	11	1	11
Net loss from continuing operations		(489)	(1,213)	(819)	(1,432)
Discontinued operations					
Income (loss) from discontinued operations, net of tax	12	-	-	-	(8)
Net loss		(489)	(1,213)	(819)	(1,440)
Loss per share					
Basic loss per share (in Canadian cents)		(0.01)	(0.02)	(0.01)	(0.02)
Diluted loss per share (in Canadian cents)		(0.01)	(0.02)	(0.01)	(0.02)
Weighted average number of shares outstanding - Basic		85,037,801	75,711,852	84,584,679	75,537,892
Weighted average number of shares outstanding - Diluted		85,037,801	75,711,852	84,584,679	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	
		2016	2015	2016	2015
Net loss		(489)	(795)	(819)	(1,440)
Other comprehensive income (loss), net of income tax					
Items that will be reclassified subsequently to net earnings					
Fair value adjustment of equity instrument		(27)	279	10	(267)
Income tax on other comprehensive income	13	4	(11)	(1)	(11)
Other comprehensive income (loss), net of income tax		(23)	268	9	(278)
Total comprehensive loss		(512)	(527)	(810)	(1,718)

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the six months ended March 31

	Notes	2016	2015
Operating Activities			
Loss before income tax including discontinued operations		(820)	(1,452)
Adjustments for:			
Share-based compensation	9	-	713
Unrealized foreign exchange (gain) loss		8	(3)
Finance income		(3)	(1)
Decrease in cash due to deconsolidation of subsidiary		-	5
Changes in:			
Accounts receivable		(7)	(4)
Prepaid expenses and other assets		22	28
Accounts payable and accrued liabilities		(110)	172
Restructuring provision	7	-	(4)
Cash used in operations		(910)	(546)
Interest received		3	1
Income tax paid		-	-
Net operating cash flows		(907)	(545)
Investing activities			
Proceeds from sale of investments		-	209
Decrease in cash due to deconsolidation of subsidiary		-	(5)
Net investing cash flows		-	204
Financing activities			
Proceeds on issuance of shares		1,196	455
Net financing cash flows		1,196	455
Net increase (decrease) in cash and cash equivalents		289	114
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		(8)	3
Cash and cash equivalents at the end of the period	4	1,852	469

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

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.

On March 7, 2016 the Company announced that it had signed an agreement with the Government of Mongolia whereby in consideration of a payment to the Company of \$70 million (U.S.) on or before May 15, 2016, all outstanding matters pursuant to the international arbitration award received by the Company will be resolved and terminated. The Government of Mongolia further agreed that it will withdraw and discontinue its proceedings to appeal the award before the Paris courts. Upon receipt of the consideration by the Company, any and all other proceedings will be terminated by the Company including the certification application in the U.S. District Court in Washington D.C.

On March 16, 2016 the Company announced that it has received a notice of discontinuance from the Paris Court of Appeal that the annulment proceedings initiated by the Government of Mongolia against the international arbitration award rendered in favour of the Company are now terminated. The Company also announced that proceedings in the U.S. District Court for recognition of the award have now been stayed pending receipt of the settlement amount of \$70 million (U.S.). See Note 13(a), Contingencies and Note 15, Subsequent event.

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 May 19, 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 March 31, 2016 and 2015, 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 common shares of Plateau Uranium Inc. (September 30, 2015 – 1,055,291) with a fair value on March 31, 2016 of \$327 (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 Provision

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	Mar. 31 2016	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		9	(414)
Accumulated other comprehensive income		(3,478)	(3,487)

(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 on OCI.

9 Share-based compensation

There was no share options granted to directors, officers and employees during the six months ended March 31, 2016. Consequently, no share-based compensation was recognized in this reporting period. During the comparable period of the prior year, the Company recognized a share-based compensation expense of \$713 for the 1,775,000 options granted on March 19, 2015.

The following table summarizes information about share options outstanding at March 31, 2016:

(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
March 28, 2017	0.34	0.99	0.24	1,350,000	1,350,000	-
March 19, 2018	0.57	1.97	0.40	1,075,000	1,075,000	-
August 20, 2018	0.53	2.38	0.38	400,000	400,000	-
				2,825,000	2,825,000	-

10 Management compensation

	Three months		Six months	
	2016	2015	2016	2015
Directors' fees	37	24	65	50
Salaries and short-term benefits	62	60	129	125
Share-based compensation	-	663	-	663
Total management compensation	99	747	194	838

Included in management compensation are costs incurred related to management entities that provide key management personnel services to the Company. The salary included in these costs is \$29 for the three months ended March 31, 2016 (2015 - \$29) and \$64 for the six months ended March 31, 2016 (2015 - 61). The share based compensation was nil for the three months ended March 31, 2016 (2015 - \$80) and nil for the six months ended March 31, 2016 (2015 - \$80).

11 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		Six months	
		2016	2015	2016	2015
Revenue		-	-	-	-
Expenses		-	-	-	(8)
Amortization		-	-	-	-
Gain (loss) on restoration estimate		-	-	-	-
Impairment reversal, property, plant and equipment		-	-	-	-
Foreign exchange gain (loss)		-	-	-	-
Net income (loss) from discontinued operations		-	-	-	(8)
Income tax		-	-	-	-
Net income (loss) from discontinued operations		-	-	-	(8)
Basic loss per share (in Canadian cents)		0.00	0.00	0.00	0.00
Diluted loss per share (in Canadian cents)		0.00	0.00	0.00	0.00

(b) Cash flows from (used in) discontinued operations	Notes	2016	2015
Net operating cash flow s		-	(8)
Net investing cash flow s		-	(5)
Net cash flow for the six months ended March 31		-	(13)

12 Income tax

	Three months		Six months	
	2016	2015	2016	2015
Current Tax	-	-	-	-
Deferred tax recovery (expense) (a)	(4)	11	1	11
Income tax expense	(4)	11	1	11
Deferred tax recognized in other comprehensive income	4	(11)	(1)	(11)
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.

13 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 agreement with the Government of Mongolia whereby in consideration of a payment to the Company of \$70 million, before income tax, on or before May 15, 2016, all outstanding matters pursuant to the international arbitration award received by the Company will be resolved and terminated. See Note 1. This asset has not been recognized in these consolidated financial statements because receipt of this settlement is not wholly within the control of the Company. While management believes that receipt is now probable, it is not certain. The income tax effect of the settlement has yet to be determined.
- (b) A contingent liability amounting to \$3,500 (March 31, 2015 - \$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.

14 Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of these March 31, 2016 condensed interim consolidated financial statements.

15 Subsequent event

On May 18, 2016, the Company announced that it has received \$70 million (U.S.) from the Government of Mongolia in settlement of all outstanding matters pursuant to the international arbitration award received by the Company as described in Note 1. In addition, the Company's petition for certification of the international arbitration award in the U.S. District Court in Washington D.C. has now been dismissed.

In conjunction with receiving this settlement from the Government of Mongolia, legal counsel has reduced their contingent fee for legal work subsequent to the award being rendered by the International Arbitration Tribunal as set out in Note 13 (b) above, from \$500 (U.S.) to \$305 (U.S.). The total contingent legal fee of \$3,805 (U.S.) is now due and payable. Normal billings from legal counsel resumed as of April 1, 2016.