# Khan Resources Inc.

## Condensed Interim Consolidated Financial Statements

As at and for the nine months ended June 30, 2017
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.

*(In thousands of Canadian dollars unless otherwise stated)*

## Consolidated Statement of Financial Position as at

(Unaudited)

| | Notes | June 30 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | 4 | 1,730 |
| Cash equivalents | 4 | 5,000 |
| Accounts receivable | | 66 |
| Prepaid expenses and other assets | | 30 |
| Restricted cash | 4 | 52 |
| Current Income tax asset | 13 | 186 |
| **Total current assets** | | 7,064 |
| **Non-current assets** | | |
| Other assets | 7 | 39 |
| **Total non-current assets** | | 39 |
| **Total assets** | | 7,103 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | | 61 |
| Current income tax liability | 13 | 213 |
| **Total current liabilities** | | 274 |
| **Total liabilities** | | 274 |
| **Net assets** | | 6,829 |
| **EQUITY** | | |
| Share capital | | 8,187 |
| Contributed surplus | | 11,216 |
| Deficit | | (12,574) |
| **Total equity** | | 6,829 |

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

Investments (note 5)
Equipment (note 6)
Provisions (note 8)
Accumulated other comprehensive income (note 9)
Share-based compensation (note 10)
Capital Management (note 14)
Comparative Financial Statements (note 15)

Effective May 8, 2017, the Company changed the basis of presenting its consolidated financial statements from liquidation to going concern. (Refer to notes 1 and 2).

The consolidated financial statements were approved by the Board of Directors on August 28, 2017 and signed on its behalf by:

Signed: "Marc Henderson"
Director

Signed: "Michael Sadhra"
Director

*(In thousands of Canadian dollars unless otherwise stated)*

## Consolidated Statement of Loss

For the three and nine months ended June 30
(Unaudited)

| | Notes | Three months 2017 | Nine months 2017 |
|---|---|---|---|
| **Revenue** | | | |
| Finance income | | **11** | **118** |
| Total Revenue | | **11** | **118** |
| Legal expenses | | **(383)** | **(668)** |
| General corporate | | **(400)** | **(910)** |
| Gain on provision over-estimate | 8 | **1,024** | **1,024** |
| Interest expense | | **-** | **(3)** |
| Foreign exchange gain (loss) | | **(29)** | **(6)** |
| Total Income (Expenses) | | **212** | **(563)** |
| **Income (loss) before tax** | | **223** | **(445)** |
| **Income tax recovery (expense)** | 13 | **(384)** | **(235)** |
| **Net loss** | | **(161)** | **(680)** |
| **Loss per share** | | | |
| Basic loss per share (in Canadian cents) | | **(0.00)** | **(0.01)** |
| Diluted loss per share (in Canadian cents) | | **(0.00)** | **(0.01)** |
| Weighted average number of shares outstanding - Basic | | **90,166,482** | **89,918,130** |
| Weighted average number of shares outstanding - Diluted | | **90,166,482** | **89,918,130** |

The accompanying notes form part of these condensed interim consolidated financial statements.

## Consolidated Statement of Comprehensive Loss

For the three and nine months ended June 30

| | Notes | Three months 2017 | Nine months 2017 |
|---|---|---|---|
| **Net loss** | | **(161)** | **(680)** |
| **Other comprehensive income (loss), net of income tax** | | | |
| Items that will be reclassified subsequently to net income (loss) | | | |
| Fair value adjustment of equity instrument | 5 | **-** | **421** |
| Income tax on other comprehensive income | 13 | **-** | **(56)** |
| **Other comprehensive income, net of income tax** | | **-** | **365** |
| **Total comprehensive loss** | | **(161)** | **(315)** |

The accompanying notes form part of these condensed interim consolidated financial statements.

Effective May 8, 2017 the Company changed the basis of presenting its consolidated financial statements from liquidation to going concern. (Refer to notes 1 and 2).

*(In thousands of Canadian dollars unless otherwise stated)*

**Consolidated Statement of Changes in Equity**
For the nine months ended June 30, 2017
(Unaudited)

| | Notes | Share capital | | Contributed surplus | Accumulated other comprehensive income (loss) | Deficit | Total equity |
|---|---|---|---|---|---|---|---|
| | | Number of shares | Amount | | | | |
| Balance as at October 1, 2016 | | **88,666,482** | **83,636** | **11,710** | **(3,540)** | **(8,719)** | **83,087** |
| Total comprehensive income (loss) | | **-** | **-** | **-** | **365** | **(680)** | **(315)** |
| Reclassification to deficit of cumulative loss of equity instrument due to disposal of investment | | | | | **3,175** | **(3,175)** | **-** |
| Transactions with owners: | | | | | | | |
| Employee share options: | | | | | | | |
| Options exercised | 10 | **1,500,000** | **1,192** | **(494)** | | | **698** |
| Disstribution to shareholders - return of capital | | | **(76,641)** | | | | **(76,641)** |
| **Balance as at June 30, 2017** | | **90,166,482** | **8,187** | **11,216** | **-** | **(12,574)** | **6,829** |

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

Effective April 1, 2017 the Company changed the basis of presenting its consolidated financial statements from liquidation to going concern; (Refer to notes 1 and 2).

*(In thousands of Canadian dollars unless otherwise stated)*

## Consolidated Statement of Net Assets in Liquidation as at

(Unaudited)

| | Notes | Sep. 30 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | 4 | 4,814 |
| Cash equivalents | 4 | 80,000 |
| Accounts receivable | | 85 |
| Prepaid expenses and other assets | | 19 |
| Investments | 5 | 264 |
| Restricted cash | 4 | 52 |
| Current Income tax asset | 13 | 570 |
| **Total current assets** | | 85,804 |
| **Total assets** | | 85,804 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Liquidation provision | 8 | 1,450 |
| Accounts payable and accrued liabilities | | 142 |
| Current income tax liability | 13 | 1,125 |
| **Total current liabilities** | | 2,717 |
| **Total liabilities** | | 2,717 |
| **Net assets in liquidation** | | 83,087 |
| | | |
| **EQUITY** | | |
| Share capital | | 83,636 |
| Contributed surplus | | 11,710 |
| Accumulated other comprehensive income (loss) | 9 | (3,540) |
| Opening deficit | | (88,342) |
| Net income (loss) | | 79,623 |
| **Net assets in liquidation** | | 83,087 |

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 (Refer to note 1)

*(In thousands of Canadian dollars unless otherwise stated)*

**Consolidated Statement of Changes in Net Assets in Liquidation**
For the three and nine months ended June 30

| | | Three months | Nine months |
|---|---|---|---|
| | Notes | 2016 | 2016 |
| Net assets in liquidation, beginning of period | | 2,128 | 1,742 |
| Net effect of adopting a liquidation basis of presentation | 1 | | - |
| **Net assets in liquidation, beginning of period** | | 2,128 | 1,742 |
| **Income** | | | |
| Finance income | | 6 | 9 |
| Compensation for impairment in value of investment in subsidiaries | | 90,139 | 90,139 |
| Total Income | | 90,145 | 90,148 |
| Legal expenses | | (5,337) | (5,604) |
| General corporate | | (412) | (961) |
| Foreign exchange gain (loss) | | 355 | 348 |
| Total Expenses | | (5,394) | (6,217) |
| **Income before tax** | | 84,751 | 83,931 |
| **Income tax recoverable expense** | | (437) | (436) |
| **Net income from continuing operations** | | 84,314 | 83,495 |
| | | | |
| **Income per share** | | | |
| Basicincome per share (in Canadian cents) | | 0.96 | 0.98 |
| Diluted income per share (in Canadian cents) | | 0.95 | 0.97 |
| | | | |
| Weighted average number of shares outstanding - Basic | | 87,565,262 | 85,574,581 |
| Weighted average number of shares outstanding - Diluted | | 88,612,053 | 86,196,751 |
| | | | |
| **Net income** | | 84,314 | 83,495 |
| **Other comprehensive income (loss), net of income tax** | | | |
| Items that were reclassified to net loss | | | |
| Fair value adjustment of equity instrument | | (4) | 5 |
| **Other comprehensive income (loss), net of income tax** | | (4) | 5 |
| **Total comprehensive income** | | 84,310 | 83,500 |
| | | | |
| **Transactions with shareholders:** | | | |
| Employee share options exercised | 10 | 212 | 1,408 |
| **Net assets in liquidation, end of period** | | 86,650 | 86,650 |

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 included the results of operations, comprehensive loss and transactions with shareholders.

*(In thousands of Canadian dollars unless otherwise stated)*

## Consolidated Cash Flow Statement

For the nine months ended June 30, 2017

(Unaudited)

| | Notes | **2017** | 2016 |
|---|---|---|---|
| **Operating Activities** | | | |
| Income (loss) before income tax | | **(445)** | 83,931 |
| Adjustments for: | | | |
| Gain on provision over-estimate | | **(1,024)** | - |
| Unrealized foreign exchange (gain) loss | | **5** | (347) |
| Finance income | | **(118)** | (9) |
| Financial expenses | | **3** | - |
| Changes in: | | | |
| Accounts receivable | | **(15)** | (18) |
| Prepaid expenses and other assets | | **(11)** | 28 |
| Accounts payable and accrued liabilities | | **(81)** | 246 |
| Liquidation provision | 8 | **(426)** | - |
| Cash provided (used) in operations | | **(2,112)** | 83,831 |
| Interest received | | **152** | 9 |
| Income tax paid | | **(912)** | - |
| Income tax refund received | | **90** | - |
| **Net operating cash flows** | | **(2,782)** | 83,840 |
| **Investing activities** | | | |
| Purchase of equipment | | **-** | (3) |
| Purchase of other non-current assets | 7 | **(39)** | - |
| Proceeds from sale of investments | | **685** | - |
| **Net investing cash flows** | | **646** | (3) |
| **Financing activities** | | | |
| Proceeds on issuance of shares | | **698** | 1,408 |
| Distribution to shareholders - return of capital | | **(76,641)** | - |
| **Net financing cash flows** | | **(75,943)** | 1,408 |
| **Net increase (decrease) in cash and cash equivalents** | | **(78,079)** | 85,245 |
| 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 | | **(5)** | 348 |
| **Cash and cash equivalents at the end of the period** | 4 | **6,730** | 87,164 |

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

# Notes to the Condensed Consolidated Financial Statements

# As at and for the nine months ended June 30, 2017

## 1 Corporate information

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.

Khan Resources B.V. ("KRBV") 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.

On May 5, 2017 at the Company's annual meeting, the shareholders of the Company elected a new board of directors.

On May 8, 2017 the board of directors announced that it had determined that it would not proceed with the liquidation plan that had been approved by the Company's shareholders on November 10, 2016. The liquidation plan approved by the shareholders provided that the board of directors was authorized to stop the liquidation of the Company if it determines in its discretion that doing so is no longer in the best interests of the Company or its shareholders. The Company's board of directors has determined that it is in the best interest of the Company and its shareholders to consider other possible strategic alternatives for the Company with a view to maximizing its value for the benefits of its shareholders.

## 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 August 28, 2017.

b. **Change in basis of presentation**

These condensed interim consolidated financial statements as at June 30, 2017 and for the nine months then ended have been prepared on a going concern basis of accounting due to the termination of the liquidation plan (see note 1). The going concern basis of accounting has been applied prospectively from the day that the liquidation plan was terminated. The Company has not retrospectively adjusted its historical financial statements. The going concern basis assumes continuity of operations, realization of assets and discharges of liabilities in the ordinary course of business and does not purport to show, reflect or provide for the consequences of the Company's intention to liquidate.

The comparable June 30, 2016 condensed interim consolidated financial statements have been prepared on a liquidation basis due to shareholder approval of a plan of liquidation, now terminated. 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. In this case, fair values approximate the net realizable value of the assets and the settlement amounts of the liabilities.

The condensed interim consolidated financial statements as at June 30, 2016 and for the nine months 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 might have been material and the amounts disclosed as net assets in liquidation in total or on a per share basis were subject to change. Consequently the actual amounts available for distribution to shareholders might have changed and such changes may have been material.

*(In thousands of Canadian dollars unless otherwise stated)*

**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 June 30, 2017, the Company had cash of $1,730 (September 30, 2016 - $4,814) and cash equivalents of $5,000 (September 30, 2016 - $80,000) consisting of a guaranteed investment certificate with a maturity date of less than three months. In the first quarter, the Company distributed $76,642 to shareholders by way of a return of capital.

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

At June 30, 2017 the Company held no investments. At September 30, 2016 the Company held equity instruments in the form of 1,055,291 common shares of Plateau Uranium Inc. with a fair value of $264. During the second quarter, the Company sold all these shares for cash proceeds of $685. See also Note 8.

## 6 Equipment

Tangible assets consisting of office furniture, computers and software are located at the Company's registered office. Management has determined that these tangible assets have been impaired. This equipment has a net carrying value of $1 before impairment.

## 7 Other assets

Other assets of $39 (Sep. 30, 2016 – nil) consist of pre-paid expenses providing a benefit extending beyond one year.

## 8 Provisions

| | Liquidation provision |
|---|---|
| **Provision at October 1, 2015** | - |
| Additions | 1,450 |
| **Provision at September 30, 2016** | **1,450** |
| | |
| Used (incurred prior to May 8, 2017 | (426) |
| Reversed on May 8, 2017 | (1,024) |
| **Provision at June 30, 2017** | **-** |

The provision for liquidation costs included restructuring costs that qualified as obligations. Only costs incremental to winding up the Company had been recognized. These estimated costs included 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.

(In thousands of Canadian dollars unless otherwise stated)

The provision did not include costs related to ongoing operations during the liquidation period nor provision for possible contingent liabilities. These costs may have been significant and included 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 could have been material and the amounts disclosed as net assets in liquidation would change. The actual amounts available for distribution to shareholders would change and such changes could have been material.

The remaining balance of the liquidation provision was reversed on May 8, 2017 and taken into income during the period due to the termination of the liquidation plan.

## 9 Accumulated other comprehensive income

| | Notes | **June 30 2017** | 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 | | **365** | (53) |
| Reclassification to deficit due to disposal of equity instrument | | **3,175** | |
| **Accumulated other comprehensive income** | | **-** | (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.
Gains or losses recognized in OCI are not subsequently transferred to profit or loss, although the Company may determine to transfer the cumulative gain or loss within equity.

## 10 Share-based compensation

There were no share options granted to directors, officers and employees during the nine months ended June 30, 2017 or during the nine months ended June 30, 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 June 30, 2017.

During nine months ended June 30, 2016, directors, officers and employees exercised 3,680,000 share options acquiring 3,680,000 shares for total proceeds of $1,408. Included with these shares were 400,000 shares and proceeds of $148 related to a management entities that provides key management personnel services to the Company. During the third quarter of the comparable period, 475,000 options were exercised for proceeds of $212.

## 11 Management compensation

| | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Directors' fees | **59** | 28 | **122** | 93 |
| Salaries and short-term benefits | **62** | 73 | **211** | 202 |
| **Total management compensation** | **121** | 101 | **333** | 295 |

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 $31 for the three months ended June 30, 2017 (2016 - $26) and $115 for the nine months ended June 30, 2017 (2016 – 104).

(In thousands of Canadian dollars unless otherwise stated)

## 12 Related party transactions

During the first 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.

During nine months ended June 30, 2016, directors, officers and employees exercised 3,680,000 share options acquiring 3,680,000 shares for total proceeds of $1,408. Included with these shares were 400,000 shares and proceeds of $148 related to a management entities that provides key management personnel services to the Company.

## 13 Income tax

| | Three months | | Nine months | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Current tax (expense) recovery** | | | | |
| Current period | **-** | (437) | **-** | (437) |
| Changes in estimates related to the prior year | **-** | - | **93** | - |
| | **-** | (437) | **93** | (437) |
| **Deferred tax (expense) recovery** | | | | |
| Recognition of deferred tax asset originated in profit or loss | - | - | **56** | 1 |
| Derecognition of deductible temporary differences related to the liquidation provision | **(384)** | - | **(384)** | - |
| | **(384)** | - | **(328)** | 1 |
| | **(384)** | (437) | **(235)** | (436) |
| **Amounts recognized in OCI** | | | | |
| Fair value adjustment of equity instrument | - | - | **(56)** | (1) |
| | - | - | **(56)** | (1) |
| **Total income tax (expense) recovery** | **(384)** | (437) | **(291)** | (437) |

The current tax asset of $186 (September 30, 2016 - $570) was reduced by $384 related to changes in the liquidation provision. See also notes 1 and 8.

The current income tax liability of $213 (September 30, 2016 - $1,125) represents the estimated Netherlands withholding tax on the remaining expected dividend to be received from KRBV. $912 was paid to Canadian and Netherlands tax authorities during the nine months ended June 30, 2017.

### 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

On February 15, 2017 the Company received an income tax reassessment from the Netherlands tax authority reassessing the Company's subsidiary KRBV for an amount payable of 3.3 million euros. This reassessment was pursuant to management challenging an earlier preliminary assessment for an amount payable by KRBV of 11.4 million euros. The preliminary tax assessment and the reassessment were both issued before KRBV had 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. The 2016 tax return has since been filed and management believes that this issue will be resolved when 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.

## 14 Capital Management

The Company's objectives of capital management are intended to safeguard the entity's ability to continue as a going concern and to consider other possible strategic alternatives for the Company with a view to maximizing its value for the benefit of its shareholders.

The capital of the Company consists of the items included in shareholders' equity. The Board of Directors monitors risk and capital management. The Company manages the capital structure and makes adjustments depending on economic conditions. Funds have been primarily secured through issuances of equity capital. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, all held with major financial institutions. Significant risks are monitored and actions are taken, when necessary, according to the Company's approved policies.

## 15 Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of these June 30, 2017 condensed interim consolidated financial statements. See also Note 2b.