Khan Resources Inc.

Consolidated Financial Statements

September 30, 2013

In thousands of Canadian dollars

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Khan Resources Inc.

We have audited the accompanying consolidated financial statements of **Khan Resources Inc.** [the "Company"], which comprise the consolidated balance sheet as at September 30, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Khan Resources Inc.** as at September 30, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2 in the consolidated financial statements which discusses a material uncertainty that exists which may cast significant doubt as to the Company's ability to continue as a going concern given its financial position as at September 30, 2013.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
January 13, 2014.

(In thousands of Canadian dollars unless otherwise stated)

Consolidated Balance Sheet

		Sep. 30 2013	Sep 30 2012
ASSETS			
Current Assets			
Cash and cash equivalents	4	**2,231**	4,680
Accounts receivable		**13**	19
Prepaid expenses and other assets		**58**	72
Investments	5	**1,164**	2,173
Restricted cash	4	**52**	52
Total current assets		**3,518**	6,996
Non-current assets			
Mineral rights, property, plant and equipment	6	**-**	5
Total non-current assets		**-**	5
Total assets		**3,518**	7,001
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**398**	262
Provisions	7	**60**	50
Total current liabilities		**458**	312
Total liabilities		**458**	312
Net assets		**3,060**	6,689
EQUITY			
Share capital		**77,143**	75,934
Contributed surplus		**12,097**	11,902
Accumulated other comprehensive income (loss)	8	**202**	(44)
Deficit		**(86,382)**	(81,103)
Total equity		**3,060**	6,689

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

The consolidated financial statements were approved by the Board of Directors on January 9, 2014 and signed on its behalf by:

Signed: "James B. C. Doak"
Director

Signed: "Grant A.Edey"
Director

(In thousands of Canadian dollars unless otherwise stated)

Consolidated Statement of Comprehensive Loss
For the year ended September 30

	Notes	**2013**	2012
Continuing operations			
Revenue			
Other income		**-**	48
Finance income		**25**	45
Total income		**25**	93
Expenses			
Legal expenses		**(2,739)**	(1,878)
General corporate	9	**(910)**	(1,176)
Amortization	6	**-**	(5)
Share-based compensation	10	**(195)**	(281)
Impairment loss, property, plant and equipment	6	**-**	(10)
Impairment loss,available-for-sale investment	5	**(1,242)**	(1,953)
Loss on investments	5	**-**	(91)
Foreign exchange loss		**(22)**	(51)
Total expenses		**(5,108)**	(5,445)
Loss before income tax		**(5,083)**	(5,352)
Income tax	13	**23**	(10)
Net loss from continuing operations		**(5,060)**	(5,362)
Discontinued operations			
Loss from discontinued operations, net of tax	14	**(219)**	(16,261)
Net loss		**(5,279)**	(21,623)
Other comprehensive income (loss)			
Foreign currency translation differences - foreign operations		**44**	(602)
Change in fair value of available-for-sale investments, net of tax		**202**	1,953
Other comprehensive income, net of tax	8	**246**	1,351
Total comprehensive loss		**(5,033)**	(20,272)
Earnings per share			
Basic earnings per share (in Canadian cents)		**(0.08)**	(0.36)
Diluted earnings per share (in Canadian cents)		**(0.08)**	(0.36)
Weighted average number of shares outstanding - Basic		**68,343,568**	60,693,751
Weighted average number of shares outstanding - Diluted		**68,343,568**	60,693,751

The accompanying notes form part of these consolidated financial statements.

(In thousands of Canadian dollars unless otherwise stated)

Consolidated Cash Flow Statement

For the year ended September 30

	Notes	2013	2012
Operating Activities			
Loss before income tax		**(5,302)**	(21,613)
Adjustments for:			
Amortization	6	**5**	33
Share-based compensation	10	**195**	281
Loss on investments	5	**-**	91
Impairment loss, mineral rights, property, plant and equipment	6	**-**	16,083
Impairment loss, available-for-sale investments	5	**1,242**	1,953
Impairment loss, restoration		**-**	-
Unrealized foreign exchange loss		**58**	14
Financial income and expenses		**(25)**	(46)
Gain on restoration estimate	7	**-**	(20)
Gain on disposal of assets		**-**	(33)
Changes in:			
Accounts receivable		**6**	9
Prepaid expenses and other assets		**14**	43
Accounts payable and accrued liabilities		**136**	(366)
Restructuring provision		**38**	-
Cash used in operations		**(3,633)**	(3,571)
Interest received		**25**	46
Income tax paid		**(9)**	(10)
Net operating cash flows		**(3,617)**	(3,535)
Investing activities			
Development expenditure		**-**	(15)
Sale of plant and equipment		**2**	30
Restoration of Dornod property	7	**(26)**	(22)
Net investing cash flows		**(24)**	(7)
Financing activities			
Proceeds on issuance of shares		**1,209**	2,312
Net financing cash flows		**1,209**	2,312
Net decrease in cash and cash equivalents		**(2,432)**	(1,230)
Cash and cash equivalents at the beginning of the period		**4,680**	5,927
Effect of foreign currency exchange rate changes on cash and cash equivalents		**(17)**	(17)
Cash and cash equivalents at the end of the period	4	**2,231**	4,680

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

(In thousands of Canadian dollars unless otherwise stated)

Consolidated Statement of Changes in Equity
For the year ended September 30, 2013

	Notes	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
		Number of shares	Amount				
Balance as at October 1, 2012		**68,125,445**	**75,934**	**11,902**	**(44)**	**(81,103)**	**6,689**
Total comprehensive income (loss)		**-**	**-**	**-**	**246**	**(5,279)**	**(5,033)**
Transactions with owners:							**-**
Employee share options:							**-**
Value of services recognized	10			**195**			**195**
Proceeds on issuance, private placement							**-**
net of issuance cost of $21K		7,237,703	1,209	-	-	-	**1,209**
Balance as at September 30, 2013		**75,363,148**	**77,143**	**12,097**	**202**	**(86,382)**	**3,060**
Balance as at October 1, 2011		54,525,445	73,622	11,621	(1,395)	(59,480)	24,368
Total comprehensive loss					1,351	(21,623)	(20,272)
Transactions with owners:							
Employee share options:							
Value of services recognized	10			281	-	-	281
Proceeds on issuance in							
private placement		13,600,000	2,312	-	-	-	2,312
Balance as at September 30, 2012		68,125,445	75,934	11,902	(44)	(81,103)	6,689

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

The Company is authourized 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. The International Arbitration action is now entering its final stages. The final hearing was completed on November 15, 2013. The Company has claimed damages of US$255 million plus interest while Mongolia has claimed its costs of the action in an amount to be determined. At this time no reliable estimate can be made of the amount of damages that could ultimately be awarded to the Company by the Tribunal. At the end of the hearing, the Tribunal requested the submission of two post-hearing briefs, one due on January 31, 2014 and the final one due April 11, 2014. The Tribunal's decision is expected in the summer of 2014.

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 National Stock Exchange.

The registered office of the Company is located at 141 Adelaide Street West, Suite 1007, Toronto, Ontario, Canada, M5H 3L5. On January 15, 2014, the registered office of the Company will relocate to The Exchange Tower, P.O. Box 427, 130 King Street West, Suite 1800, Toronto, Ontario, Canada, M5X 1E3. See note 19.

2 Basis of preparation

a. **Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB"). The Board of Directors authorized the consolidated financial statements for issue on January 9, 2014.

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including available-for-sale investments.

The 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. The Company expects to receive a decision on the International Arbitration described in Note 1 above in the summer of 2014. As at the date of approval of these consolidated financial statements, it is not possible to reliably estimate the amount, if any, of an award of damages or costs in any decision by the arbitrators. Management believes in the merits of its case and expects a significant award to be rendered to the Company. In the event that no award is rendered to the Company and costs are awarded to the counterparty, 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 September 30, 2013.

b. **Basis of consolidation**

The financial statements of the Company consolidate the accounts of Khan Resources Inc. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

c. **Foreign currency translation**

i. Functional and presentation currency

The functional currency for each subsidiary of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Canadian head office and all intermediate holding companies is the Canadian dollar (CAD). The functional currency of all Mongolian subsidiaries is the Mongolian Tugrik (MNT). The consolidated financial statements are presented in Canadian dollars.

The financial statements of entities that have a functional currency different from that of Khan Resources Inc. ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the balance sheet, and income and expenses – at the average exchange rates (as this is considered a reasonable approximation to actual rates). All translation gains and losses are recognized in other comprehensive loss as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive loss related to the foreign operation are recognized in income (loss) before tax. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive loss related to the subsidiary is reallocated between controlling and non-controlling interests.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in loss before tax.

d. **Use of estimates and judgments**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 6 and 14 – disposal of Mongolian subsidiaries by closure and the recoverability of mineral rights and properties, plant and equipment.

Information about assumptions and estimation uncertainties are included in the following notes:

- Note 6 – recoverable amount of impaired mineral rights, property, plant and equipment;
- Note 7 – provisions;
- Note 13 – utilization of tax losses; and,
- Note 18 – commitments and contingencies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

Certain comparative amounts in the consolidated statement of comprehensive loss have been reclassified to present operations discontinued during the current year as if they had been discontinued from the start of the comparative year (see note 14).

a. **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with maturities on the date of acquisition of three months or less.

b. **Financial assets**

i. **Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value. Transaction costs are charged to income before tax except for loans and receivables and held-to-maturity financial assets where any directly attributable transaction costs are added to the initial fair value of the financial asset.

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: loans and receivables, available-for-sale financial assets and financial assets through profit and loss.

ii. **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as described below:

i. **Fair value through profit and loss**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. After initial measurement these financial assets are remeasured at fair value at each reporting period. Gains and losses arising from changes in fair value are included in income (loss) before tax in the period in which they arise.

The only instruments held by the Company classified in this category are investments in derivatives (warrants).

ii. **Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, as appropriate. The effective interest rate amortization is included in finance income. Any losses arising from impairment are recognized as finance costs for loans and in other operating expenses for receivables.

iii. **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized as finance income. Dividends on available-for-sale equity instruments are recognized in income as part of other gains and losses when the company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive loss to income and are included in other gains and losses.

The Company's available-for-sale assets are comprised of marketable securities and investments in equity securities.

iii. **Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive loss and recognized in profit or loss is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in income before tax. Changes in impairment provisions attributable to time value are reflected as a component of finance income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income before tax, then the impairment loss is reversed, with the amount of the reversal recognized in income before tax. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive loss.

c. **Financial liabilities**

i. **Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as at fair value through profit and loss, loans and borrowings at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: trade and other payables.

ii. **Subsequent measurement**

Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest rate amortization, if any, is included in finance cost.

d. **Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

An analysis of fair value of financial instruments and other details as to how they are measured are provided at note 15.

e. **Plant and equipment**

Plant and equipment are initially recorded at cost, including all directly attributable costs to bring the assets to the location and condition necessary for them to be capable of operating in the manner intended by management. Plant and equipment are subsequently measured at cost less accumulated depreciation and applicable impairment losses. Depreciation is computed on a straight-line basis based on the nature and useful lives of the assets. The significant classes of plant and equipment and their estimated useful lives are as follows:

Buildings: 5 years
Camp equipment, fixtures, furniture and vehicles: 5 years
Office equipment: 3 years

Subsequent costs that meet the asset recognition criteria are capitalized while costs incurred that do not extend the economic useful life of an asset are considered repairs and maintenance, which are accounted for as an expense recognized during the period.

Assets under construction are capitalized as construction-in-progress. The cost of construction-in-progress comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Construction-in-progress assets are not depreciated until they are completed and available for their intended use.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognized in income.

f. **Mineral rights and properties**

The cost of acquiring mineral rights and properties either as an individual asset purchase or as part of a business combination is capitalized and represents the property's fair value at the date of acquisition. Fair value is determined by estimating the value of the property's reserves, resources and exploration potential.

Exploration and evaluation costs, incurred associated with specific mineral rights and properties prior to demonstrable technical feasibility and commercial viability of extracting a mineral resource, are capitalized. Upon determination that a mineral property can be economically developed, which occurs at the earlier of: (i) completion of positive economic analysis of the mineral deposit by establishing proven and probable reserves; or (ii) obtaining a mining permit, the subsequent development costs incurred such as to further delineate the ore body and costs incurred during production to increase output by providing access to additional sources of mineral resources, are also capitalized. Administrative expenditures that are not directly related to property maintenance are charged to operations as incurred.

Upon commencement of commercial production, mineral rights and properties and capitalized expenditures will be depleted over the mine's estimated life using the units of production method calculated based on proven and probable reserves. If commercial production commences prior to the determination of proven and probable reserves, depletion will be calculated based on the mineable portion of measured and indicated resources.

g. **Impairment of non-financial assets**

Non-financial assets, including mineral rights and properties, plant and equipment are reviewed and tested for impairment when indicators of impairment are considered to exist. Impairment assessments are conducted at the level of cash-generating units (CGU), which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. An impairment loss is recognized for any excess of carrying amount of the CGU over its recoverable amount, which is the greater of its fair value less costs to sell and value in use. For mineral rights and properties and processing facilities, the recoverable amount is estimated as the discounted future net cash flows expected to be derived from expected future production, metal prices, and net proceeds from the disposition of assets on retirement, less operating and capital costs. Impairment losses are recognized in the period they are incurred.

Impairment losses are reversed if the conditions that gave rise to the impairment are no longer present and it has been determined that the asset is no longer impaired as a result. This reversal is recognized in net income in the period the reversal occurs limited by the carrying value that would have been determined, net of any depreciation, had no impairment charge been recognized in prior years.

h. **Restoration Provision**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

The Company has recognized a provision for estimated environmental restoration costs. These include the removal of residual materials and remediation of disturbed areas. The cost estimates are updated at regular intervals to reflect known developments. Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Changes to estimated future costs are recognized in the balance sheet by either increasing or decreasing the restoration liability and restoration asset if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*. Any reduction in the restoration liability and therefore any deduction from the restoration asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to income before tax.

If the change in estimate results in an increase in the restoration liability and therefore an addition to the carrying value of the asset, the entity is required to consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36.

For closed sites, changes to estimated costs are recognized immediately in income before tax and reported under discontinued operations.

i. **Restructuring provision**

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating losses are not provided for.

j. **Lease payments**

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease and within the scope of IAS 17 classifies leases as operating leases or finance leases. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

The Company has determined that its only lease arrangements are operating leases covering office facilities. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

k. **Share-based compensation**

The Company awards share options to employees, officers, directors, and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option-pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Upon the exercise of the share option, consideration received and the related amount transferred from contributed surplus are recorded as share capital.

l. **Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in net income. Interest income is recognized as it accrues in net income, using the effective interest method. Dividend income is recognized in net income on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in net income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net income using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

m. **Income tax**

Income tax comprises current and deferred tax. Income tax is recognized in net income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is not provided on temporary differences arising on investments in subsidiaries where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

n. **Share capital**
Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The authorized share capital of the Company consists of an unlimited number of no par value common shares. All issued shares are fully paid.

o. **Earnings per share**
Basic earnings per share (EPS) is 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 number of shares included with respect to options, warrants and similar instruments is computed using the treasury method. Under this method, options whose exercise price is less than the average market price of our common shares, are assumed to be exercised and the proceeds are used to repurchase common shares at the average market price for the period. The incremental number of common shares issued under share options, and repurchased from proceeds, is included in the calculation of diluted earnings per share.

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.

p. **Discontinued operations**
A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal by sale, closure or abandonment or when the operation meets the criteria to be held-for-sale, if earlier.

When an operation is classified as a discontinued operation the comparative statement of comprehensive loss is reclassified as if the operation had been discontinued from the start of the comparative year.

q. **Segment reporting**
The Company has only a single operating segment, and therefore one reportable segment.

The single operating segment is the Company's management of the International Arbitration and its discontinued foreign operation in Mongolia. The Mongolian operation was principally engaged in the acquisition, exploration, evaluation, and development of mining properties. Its Dornod properties did not achieve commercial production. Furthermore, at June 30, 2012, the Company recorded impairment of its Dornod properties and on September 30, 2013 disposed of the Mongolian subsidiaries by closure (see note 6 and 14).

r. **New standards and interpretations not yet adopted**
A number of new standards, and amendments to standards and interpretations, are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 *Financial Instruments*.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive loss rather than in income before tax, unless this creates an accounting mismatch. The Company has yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board.

4 Cash, cash equivalents and restricted cash

As at September 30, 2013 and 2012, 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 15,523,330 common shares of Macusani Yellowcake Inc. ("Macusani") with a fair value on September 30, 2013 of $1,164 (2012 - $2,173). The Company had 1,491,665 warrants of Macusani that expired on March 23, 2013. On September 30, 2012 the warrants had a fair value of nil.

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. Management made this determination based on objective evidence that both a significant and prolonged decline in the fair value of the investment below its cost had occurred.

Based on these criteria, the Company identified an impairment of $1,242 (2012 - $1,953), and recognized an impairment reversal of $233 on available-for-sale financial assets in the 2013 accumulated other comprehensive income (loss).

See also note 8.

The remainder of this page has been left blank intentionally.

(In thousands of Canadian dollars unless otherwise stated)

6 Mineral rights, property, plant and equipment

	Mineral rights and properties (a)	Plant and equipment (a)	Corporate equipment	Total
Cost at October 1, 2011	13,022	3,974	147	17,143
Additions	115	3	-	118
Disposals	-	(413)	-	(413)
Exchange differences	(1,642)	(488)	-	(2,130)
Cost at September 30, 2012	**11,495**	**3,076**	**147**	**14,718**
Additions	-	-	-	-
Disposals	(10,103)	(2,841)	-	(12,944)
Exchange differences	(1,392)	(235)	-	(1,627)
Cost at September 30, 2013	**-**	**-**	**147**	**147**
Depreciation and impairment as at October 1, 2011	-	(396)	(137)	(533)
Depreciation and impairment	(12,659)	(3,447)	(10)	(16,116)
Disposals	-	402	-	402
Exchange differences	1,164	370	-	1,534
Depreciation and impairment as at September 30, 2012	**(11,495)**	**(3,071)**	**(147)**	**(14,713)**
Depreciation	-	(5)	-	(5)
Disposals	10,103	2,841	-	12,944
Exchange differences	1,392	235	-	1,627
Depreciation and impairment as at September 30, 2013	**-**	**-**	**(147)**	**(147)**
Net book value as at September 30, 2012	**-**	**5**	**-**	**5**
Net book value as at September 30, 2013	**-**	**-**	**-**	**-**

(a) Mineral rights and properties; plant and equipment related to the Dornod property.

On August 22, 2013 the Company resolved to dispose of the Mongolian subsidiaries. The Company's assets including those in Mongolia had been impaired in 2012 (see below). Management determined that, given the situation in Mongolia, disposal could only take place by closure. Consequently, the Mongolian subsidiaries were closed on September 30, 2013.

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law (NEL) that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009. In connection with the passing of the NEL, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the NEL becoming effective. Existing license holders were required to submit an application to the newly created Nuclear Energy Agency (NEA) and renew and re-register their existing licenses by November 15, 2009. Khan submitted the applications for the renewal and re-registration of its mining license and exploration license on November 10, 2009.

To date, the mining and exploration licenses have not been reissued to Khan and the Company has initiated an International Arbitration action against the Government of Mongolia for its failure to do so.

On June 30, 2012 the Company made a determination that it was highly unlikely that the mining and exploration licenses would be renewed and returned, and hence the Company resolved to close the Dornod Camp. For that reason, the Company recognized in the 2012 consolidated financial statements, non-cash impairment losses of $16,083.

At each reporting date, the Company assesses whether there is objective evidence that an asset is impaired. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. To the extent that an assessment reverses a previous impairment on a specific asset, any gain arising from that remeasurement is recognized immediately in income before tax.

(In thousands of Canadian dollars unless otherwise stated)

7 Provisions

	Restoration provision	Restructuring Provision	Total
Provision at October 1, 2011	-	-	-
Additions	100	-	100
Used (incurred and charged against the provision)	(22)	-	(22)
Loss (gain) on restoration estimate	(20)	-	(20)
Exchange differences	(8)	-	(8)
Provision at September 30, 2012	**50**	**-**	**50**
Additions	-	38	38
Used (incurred and charged against the provision)	(26)	-	(26)
Exchange differences	(2)	-	(2)
Provision at September 30, 2013	**22**	**38**	**60**

Restoration

The provision at the balance sheet date represents management's best estimate of the removal of residual materials and remediation of disturbed areas. The extent of restoration work is uncertain, as an inspection report by Mongolian authourities had not yet been finalized. The cost estimates are updated at regular intervals to reflect known developments. Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and are measured at fair value.

Restructuring

During 2013, the Company committed to a plan to dispose of the Mongolian subsidiaries by closure, see note 14. Following the announcement of the plan, the Company recognized a provision of $38 in restructuring costs. Estimated restructuring costs mainly include employee termination benefits that are based on a detailed plan agreed between management and the employees involved. The restructuring is expected to be completed by March 2014.

The remainder of this page has been left blank intentionally.

(In thousands of Canadian dollars unless otherwise stated)

8 Accumulated other comprehensive income

	Sep. 30 2013	Sep 30 2012
Currency translation account (a)		
Balance at the beginning of the financial year	**(44)**	558
Exchange differences on translation of foreign operations taken to equity	**-**	(602)
Reclassification of cumulative exchange differences on discontinued operations	**44**	-
	-	(44)
Financial assets account (b)		
Balance at the beginning of the financial year	**-**	(1,953)
Net valuation losses on available for sale investments transferred to income before tax	**-**	1,953
Valuation (gains)/losses on available for sale investments taken to equity	**233**	-
Deferred tax relating to revaluations	**(31)**	-
	202	-
Accumulated other comprehensive income	**202**	(44)

(a) The foreign currency translation account represents exchange differences arising on the translation of non-CAD functional currency operations within the Company into CAD.

(b) The financial assets account represents the revaluation of available for sale financial assets. Where a revalued financial asset is sold or impaired, the relevant portion of the account is transferred to income before tax.

9 General corporate expenses

	2013	2012
Accounting and audit	**53**	108
Investor relations	**34**	39
Insurance	**70**	108
Management remuneration	**495**	581
Office and travel	**258**	340
	910	1,176

10 Share-based compensation

Awards were made to directors, officers, employees and service providers under a share option plan that was approved by the shareholders on February 11, 2009. Under the provisions of the plan, the Board of Directors of the Company is authorized to provide for the granting, exercise and method of exercise of options, subject to the terms of the plan and applicable stock exchange rules. Under the plan, the aggregate number of shares reserved for issuance may not exceed the greatest of 5,000,000 common shares or 10% of the total number of issued and outstanding common shares at the time of any option grant. The exercise price of any options granted under the plan will be fixed by the Board at the time of the grant but must not be less than the closing price of the common shares on the business day immediately prior to the date of the grant as quoted on the CNSX. The Board also fixes the exercise period and vesting limitations of an option at the time of the grant but the exercise period may not exceed five years. Generally, options vest over 24 months.

The number and weighted average exercise prices of share options are as follows:

In thousands of options (a)	**2013** Number of options	**2013** Weighted average exercise price	2012 Number of options	2012 Weighted average exercise price
Outstanding at October 1	**4,853**	**$ 0.38**	3,478	$ 0.46
Expired during the period	**(400)**	**1.15**	(25)	1.70
Granted during the period	**1,675**	**0.20**	1,400	0.20
Outstanding at September 30	**6,128**	**$ 0.28**	4,853	$ 0.38
Exercisable at September 30	**5,570**	**$ 0.29**	4,020	$ 0.38

No options were exercised in 2013 and 2012.

The following table summarizes information about share options outstanding at September 30, 2013:

Grants listed by expiry date	Exercise price ($)	Remaining life (years)	Fair value per option ($)	Number outstanding	Number vested	Number unvested
December 17, 2013	0.20	0.21	0.15	753,334	753,334	-
August 16, 2015	0.29	1.88	0.21	1,200,000	1,200,000	-
February 16, 2015	0.20	1.38	0.10	1,400,000	1,400,000	-
February 14, 2016	0.20	2.38	0.10	1,675,000	1,116,664	558,336
February 16, 2016	0.55	2.38	0.39	1,100,000	1,100,000	-
				6,128,334	**5,569,998**	**558,336**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was $0.10 per option (2012: $0.10). The significant inputs into the model were:

Dividend yield (%)	-
Expected volatility (%)	116.67
Risk free interest rate(%)	1.18
Forfeiture rate (%)	1.55
Expected life (years)	2.69
Weighted average share price ($)	0.20

See the consolidated statement of comprehensive loss for the share-based compensation expense recognized during the period for share options granted to directors, officers and employees.

11 Management compensation

	2013	2012
Directors' fees	**99**	136
Salaries and short-term benefits	**226**	255
Share-based compensation	**180**	259
Total management compensation	**505**	650

(In thousands of Canadian dollars unless otherwise stated)

12 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 $67 for the year ended September 30, 2013 (2012 - $125). In 2013 these services included $21 related to share issuance costs. At September 30, 2013, the balance outstanding was $21 (2012 - nil) and is included in accounts payable and accrued liabilities.

Certain Company insiders participated in the private placement equity issue, including directors and/or officers of the Company and certain shareholders that each beneficially own or control more than 10% of the Company's shares. In aggregate, the insiders purchased 3,892,999 shares for a purchase price of $662.

13 Income tax

Income tax expense	**2013**	2012
Current tax	**(8)**	(10)
Deferred tax recovery (a)	**31**	-
Tax recovery (expense) from continuing operations	**23**	(10)
Deferred tax recognized in other comprehensive income	**(31)**	-
Total income tax expense	**(8)**	(10)

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

No tax expense was recognized in 2013 and 2012 for discontinued operations (see note 14).

Reconciliation of effective tax rate	**2013**	2012
Loss before tax from continuing operations	**(5,083)**	(5,362)
Loss before tax from discontinued operations	**(219)**	(16,261)
Total loss before tax	**(5,302)**	(21,623)
Company's domestic tax rate	**26.50%**	26.50%
Tax recovery before adjustments	**1,405**	5,727
Non-deductible expenses	**(640)**	(345)
Effect of tax rates in foreign jurisdictions	**(19)**	(2,703)
Current year deferred tax not recognized	**(746)**	(2,679)
Deferred tax asset previously not recognized	**31**	-
Withholding tax expense (a)	**(8)**	(10)
Tax recovery (expense) (b)	**23**	(10)
Effective tax rate	**-0.45%**	0.18%

(a) The Government of Mongolia withholds income tax related to intercompany interest expense.
(b) Deferred tax expense of $31 has been recognized in other comprehensive income.

Unrecognized deferred taxes	**2013**	2012
Deductible temporary differences	**447**	1,799
Tax losses	**7,463**	6,928
	7,910	8,727

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available against which the Company can utilize the related tax benefits.

At September 30, 2013, the Company had Canadian non-capital losses of approximately $27,826 (2012 - $25,784) available for deduction against future taxable income. If unutilized, non-capital losses will expire from 2014 to 2033 whereas capital losses can be carried forward indefinitely. Mongolian tax losses of approximately $190 (2012 - $372) available for deduction against future taxable income and these losses, if unutilized, will expire from 2014 to 2015; and Netherlands tax losses of approximately $347 (2012 - $290) available for deduction against future taxable income and these losses, if unutilized, will expire from 2018 to 2022. None of the tax losses have been tax-benefited.

(In thousands of Canadian dollars unless otherwise stated)

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.

14 Discontinued operations

On August 15, 2013 the Company resolved to dispose of the Mongolian subsidiaries. Management determined that, given the situation in Mongolia, disposal could only take place by closure. Consequently, the Mongolian subsidiaries were closed on September 30, 2013. See note 6 for information about Mongolia's illegal expropriation in 2009 of the mining and exploration licenses for the Dornod uranium project in northeastern Mongolia.

The Mongolian subsidiaries were not previously classified as discontinued operations. The comparative consolidated statement of comprehensive loss has been reclassified to show the discontinued operations separately from continuing operations.

Results of Discontinued operations	Notes	**2013**	2012
Revenue		**1**	1
Expenses		**(135)**	(213)
Amortization	6	**(5)**	(28)
Impairment loss, mineral rights, property, plant and equipment	6	**-**	(15,973)
Impairment loss restoration	7	**-**	(100)
Gain (loss) on restoration estimate	7	**-**	20
Gain (loss) on disposal of assets		**2**	33
Restructuring expense		**(38)**	-
Foreign exchange gain (loss)		**(44)**	(1)
Net income (loss) from discontinued operations		**(219)**	(16,261)
Basic loss per share (in Canadian cents)		**(0.00)**	(0.27)
Diluted loss per share (in Canadian cents)		**(0.00)**	(0.27)

Cash flows provided by (used in) discontinued operation	Notes	**2013**	2012
Net operating cash flows		**(122)**	(212)
Net investing cash flows		(24)	(4)
Net cash flow for the year		**(146)**	(216)

15 Fair values of financial instruments

Financial instruments comprise financial assets and liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. When quoted market prices are not available, the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability.

All financial instruments at September 30, 2013 other than investments set out in note 5, are short-term in nature with maturities of less than one year or no fixed repayment term. Based on fair value assessments as indicated above, the estimated fair value of those financial assets and liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheet.

Investments set out in note 5 are measured at fair value using quoted market prices.

16 Financial risk management objectives and policies

The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk, credit risk and equity price risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

a. **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its short-term business requirements. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its International Arbitration program.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments (see note 18).

b. **Foreign exchange risk**

The Company undertakes transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from such transactions.

The Company conducts certain operations in Mongolia and some of the Company's assets, liabilities and some expenses are denominated in MNT although this is much reduced following the impairment of the Dornod Project (see note 6 and 14).

The Company currently does not engage in foreign currency hedging. As at September 30, 2013, with other variables unchanged, a 1% strengthening (weakening) of the MNT against the CAD would have increased (decreased) other comprehensive income (loss) by approximately $1.

c. **Interest rate risk**

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents and short-term investments primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of September 30, 2013.

d. **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk primarily associated to accounts receivable, interest receivable, cash and cash equivalents and short-term investments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The Company's primary exposure to credit risk is on its bank accounts and guaranteed investment certificate. Bank accounts are held with major banks in Canada and Mongolia. As a Canadian bank holds the majority of the Company's cash and the same Canadian bank also holds the guaranteed investment certificate, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to credit risk is on its accounts receivable. This risk is minimal as accounts receivable consist primarily of refundable government sales taxes.

e. **Equity price risk**

The Company holds certain equity securities that will fluctuate in value as a result of trading on Canadian financial markets. As the Company's equity securities holdings are in mining companies, the value will also fluctuate based on commodity prices. Due to a significant and prolonged decline in the fair value of these available-for-sale financial assets, they have been impaired. Based upon the Company's portfolio at September 30, 2013, a 10% increase (decrease) in the market price of the securities held, ignoring any foreign currency effects would have resulted in an (decrease) increase to net loss of approximately $116.

17 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 continue its International Arbitration litigation against the Government of Mongolia.

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.

18 Commitments and contingencies

Operating leases

The Company as lessee entered into a one-year cancellable operating sublease contract for its registered office premises that commenced on September 1, 2012. After the one-year term, the sublease will be on a month-to-month basis and is cancellable on 30 days' notice. The lease agreement has no renewal option, no purchase option and no escalation clauses. As a result of the Company relocating the registered office on January 15, 2014, the expected rent for October 2013 to January 2014 is $11. See also note 19.

The Company as lessee also entered into the operating lease of the Ulan Bataar office in Mongolia under a cancellable operating lease contract. The lease agreement has a renewal option, no purchase option and no escalation clauses. The lease expires on December 31, 2013 and has not been renewed due to the disposal of the Mongolian subsidiaries. The expected rent for fiscal 2014 is $6.

Contingent liability

At September 30, 2013, a contingent liability amounting to $3,337 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.

19 Subsequent events

On October 17, 2013 and December 4, 2013, the Company sold the remaining assets at or associated with the Dornod site that had been closed since June 2012. These sales were completed for gross proceeds of $53.

On December 18, 2013, the Company as lessee entered into a one-year cancellable operating lease contract for its new registered office premises that commences on January 15, 2014. The lease will be on a month-to-month basis and is cancellable on 30 days' notice. The lease agreement has no renewal option, no purchase option and no escalation clauses. The expected rent for February to September 2014 is $37.

20 Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform to the current year presentation.