Khan Resources Inc.

Condensed Interim Consolidated Financial Statements

December 31, 2013
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 Accountants for a review of interim financial statements by an entity's auditors.

(In thousands of Canadian dollars unless otherwise stated)

Condensed Consolidated Balance Sheet
(unaudited)

	Notes	Dec 31 2013	Sep 30 2013
ASSETS			
Current Assets			
Cash and cash equivalents	4	**1,503**	2,231
Accounts receivable		**28**	13
Prepaid expenses and other assets		**48**	58
Investments	5	**1,319**	1,164
Restricted cash	4	**52**	52
Total current assets		**2,950**	3,518
Non-current assets			
Mineral rights, property, plant and equipment	6	**-**	-
Total non-current assets		**-**	-
Total assets		**2,950**	3,518
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**769**	398
Provisions	7	**24**	60
Total current liabilities		**793**	458
Total liabilities		**793**	458
Net assets		**2,157**	3,060
EQUITY			
Share capital		**77,150**	77,143
Contributed surplus		**12,109**	12,097
Accumulated other comprehensive income	8	**336**	202
Deficit		**(87,438)**	(86,382)
Total equity		**2,157**	3,060

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

The financial statements were approved by the Board of Directors on February 20, 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)

Condensed Consolidated Statement of Comprehensive Loss
For the three months ended December 31
(unaudited)

	Notes	2013	2012
Revenue			
Other income		-	-
Finance income		4	11
Total revenue		4	11
Expenses			
Legal expenses		(863)	(880)
General corporate		(228)	(256)
Amortization		-	(12)
Share-based compensation	9	(15)	(29)
Impairment loss, property, plant and equipment		(1)	-
Foreign exchange gain (loss)		(2)	(2)
Total expenses		(1,109)	(1,179)
Loss before income tax		(1,105)	(1,168)
Income tax	13	19	7
Net loss from continuing operations		(1,086)	(1,161)
Discontinued operations			
Income (loss) from discontinued operations, net of tax		30	(42)
Net loss		(1,056)	(1,203)
Other comprehensive income			
Foreign currency translation differences - foreign operations		-	13
Net change in fair value of available-for-sale financial assets		155	78
Income tax on other comprehensive income	13	(21)	(10)
Other comprehensive income net of income tax		134	81
Total comprehensive income (loss)		(922)	(1,122)
Earnings per share	14		
Basic earnings per share ($)		(0.01)	(0.02)
Diluted earnings per share ($)		(0.01)	(0.02)
Weighted average number of shares outstanding - Basic		75,367,713	68,125,445
Weighted average number of shares outstanding - Diluted		75,367,713	68,125,445

The accompanying notes form part of these financial statements.

(In thousands of Canadian dollars unless otherwise stated)

Condensed Consolidated Cash Flow Statement
For the three months ended December 31
(unaudited)

	Notes	**2013**	2012
Operating Activities			
Income (loss) before income tax		**(1,075)**	(1,210)
Adjustments for:			
Amortization		**-**	14
Share-based compensation	9	**15**	29
Impairment loss, PPE		**1**	-
Gain on restoration estimate		**(22)**	-
Imairment reversal, property, plant and equipment		**(47)**	-
Unrealized foreign exchange loss (gain)		**2**	(5)
Financial income and expenses		**(4)**	(11)
Changes in:			
Accounts receivable		**(15)**	(8)
Accounts payable and accrued liabilities		**371**	497
Restructuring provision		**(14)**	-
Prepaid expenses and other assets		**10**	33
Cash used in operations		**(778)**	(661)
Interest received		**4**	10
Income tax paid		**(3)**	-
Net operating cash flows		**(777)**	(651)
Investing activities			
Purchases of plant and equipment		**(1)**	-
Proceeds from sale of assets	6	**47**	-
Restoration of Dornod property			(11)
Net investing cash flows		**46**	(11)
Financing activities			
Capital stock issued for cash		**4**	-
Net financing cash flows		**4**	-
Net increase (decrease) in cash and cash equivalents		**(727)**	(662)
Cash and cash equivalents at the beginning of the period		**2,231**	4,680
Effect of foreign currency exchange rate changes on cash and cash equivalents		**(1)**	3
Cash and cash equivalents at the end of the period		**1,503**	4,021

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

(In thousands of Canadian dollars unless otherwise stated)

Condensed Consolidated Statement of Changes in Equity
For the period ended December 31, 2013
(unaudited)

		Share capital					
	Notes	Number of shares	Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balance as at October 1, 2013		**75,363,148**	**77,143**	**12,097**	**202**	**(86,382)**	**3,060**
Total comprehensive income (loss)		**-**	**-**	**-**	**134**	**(1,056)**	**(922)**
Transactions with owners:							
Employee share options:							
Options exercised		**20,000**	**7**	**(3)**			**4**
Value of services recognized	9	**-**	**-**	**15**	**-**	**-**	**15**
Balance as at December 31, 2013		**75,383,148**	**77,150**	**12,109**	**336**	**(87,438)**	**2,157**
					-		
Balance as at October 1, 2012		68,125,445	75,934	11,902	(44)	(81,103)	6,689
Total comprehensive income (loss)					81	(1,203)	(1,122)
Transactions with owners:							
Employee share options:							
Value of services recognized	9			29	-	-	29
Balance as at December 31, 2012		68,125,445	75,934	11,931	37	(82,306)	5,596
Total comprehensive income (loss)		-	-	-	165	(4,076)	(3,911)
Transactions with owners:							
Employee share options:							
Value of services recognized	9	-	-	166	-	-	166
Proceeds on issuance in 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

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 submitted on February 5, 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 Securities Exchange.

The registered office of the Company was located at 141 Adelaide Street West, Suite 1007, Toronto, Ontario, Canada, M5H 3L5 on December 31, 2013. On January 15, 2014, the registered office of the Company relocated to The Exchange Tower, P.O. Box 427, 130 King Street West, Suite 1800, Toronto, Ontario, Canada, M5X 1E3.

2 Basis of preparation

a. **Statement of compliance**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.* The unaudited interim condensed 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 2013 annual consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Board of Directors authorized these unaudited interim condensed consolidated financial statements for issue on February 20, 2014.

The unaudited interim condensed 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 December 31, 2013.

b. Use of estimates and judgments

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's 2013 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.

(In thousands of Canadian dollars unless otherwise stated)

4 Cash, cash equivalents and restricted cash

As at December 31, 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 December 31, 2013 of $1,319 (Sep. 30, 2013 - $1,164).

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. See also note 8

6 Property, plant and equipment

The Company's tangible assets including those in Mongolia had been fully impaired in 2012 due to the failure of the Government of Mongolia to reissue the Company's mining and exploration licenses for the Dornod project as described in Note 1. The Mongolian subsidiaries were closed on September 30, 2013 and all Mongolian tangible assets were retired. 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 $47, which resulted in an impairment reversal that has been recognized under discontinued operations on the face of the consolidated statement of comprehensive loss. Remaining tangible assets are set out in the following table.

Registered office equipment (a)	December 31, 2013	September 30, 2013
Cost, opening balance	147	147
Additions	1	-
Disposals	(41)	-
Cost, closing balance	107	147
Depreciation and impairment, opening balance	(147)	(147)
Depreciation and impairment	(1)	-
Disposals	41	-
Depreciation and impairment, closing balance	(107)	(147)
Net book value, closing balance	-	-

(a) Consists of office equipment, computers, software and furniture

(In thousands of Canadian dollars unless otherwise stated)

7 Provisions

	Restoration provision	Restructuring Provision	Total
Provision at October 1, 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**
Additions	-	-	-
Used (incurred and charged against the provision)	-	(14)	(14)
Loss (gain) on estimate	(22)		(22)
Provision at December 31, 2013	**-**	**24**	**24**

8 Accumulated other comprehensive income

	Dec 31 2013	Sep 30 2013
Currency translation account (a)		
Balance at the beginning of the financial year	**-**	(44)
Exchange differences on translation of foreign operations taken to equity	**-**	-
Exchange differences on translation of foreign operations transferred to income before tax	**-**	44
	-	-
Financial assets account (b)		
Balance at the beginning of the financial year	**202**	-
Net valuation gains (losses) on available for sale investments transferred to income before tax	**-**	-
Valuation gains/(losses) on available for sale investments taken to equity	**155**	233
Deferred tax relating to revaluations	**(21)**	(31)
	336	202
Accumulated other comprehensive income	**336**	202

(a) The foreign currency translation account represents exchange differences arising on the translation of non-CAD functional currency operations w ithin 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 Share-based compensation

The following table summarizes information about share options outstanding at December 31, 2013:

Grants listed by expiry date	Exercise price ($)	Remaining life (years)	Fair value per option ($)	Number outstanding	Number vested	Number unvested
January 28, 2014	0.20	0.08	0.15	433,334	433,334	-
August 16, 2015	0.29	1.63	0.21	1,200,000	1,200,000	-
February 16, 2015	0.20	1.13	0.10	1,400,000	1,400,000	-
February 14, 2016	0.20	2.13	0.10	1,675,000	1,116,664	558,336
February 16, 2016	0.55	2.13	0.39	1,100,000	1,100,000	-
				5,808,334	**5,249,998**	**558,336**

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

(In thousands of Canadian dollars unless otherwise stated)

10 Management compensation

	2013	2012
Directors' fees	**26**	28
Salaries and short-term benefits	**73**	79
Share-based compensation	**13**	26
Total management compensation	**113**	147

11 Related party transactions

An officer of the Company is a partner in a firm that provides legal services to the Company. The Company paid an aggregate of $7 for the three months ended December 31, 2013 (2012 - $20). At December 31, 2013, the balance outstanding was nil (2012 - $17) and is included in accounts payable and accrued liabilities.

12 Discontinued operations

The Mongolian subsidiaries were closed on September 30, 2013 as a result of the circumstances described in Note 1. 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		**-**	-
Expenses		**(39)**	(39)
Amortization		**-**	(2)
Gain (loss) on restoration estimate		**22**	-
Impairment reversal, property, plant and equipment	6	**47**	-
Foreign exchange gain (loss)		**-**	(1)
Net income (loss) from discontinued operations		**30**	(42)
Basic loss per share (in Canadian cents)		**0.00**	(0.00)
Diluted loss per share (in Canadian cents)		**0.00**	(0.00)

Cash flows provided by (used in) discontinued operations	Notes	**2013**	2012
Net operating cash flows		**(39)**	(39)
Net investing cash flows		47	(12)
Net cash flow for the quarter		**8**	(51)

(In thousands of Canadian dollars unless otherwise stated)

13 Income tax

	2013	2012
Current income tax expense (a)	**(2)**	(3)
Deferred income tax expense related to reversal of deferred taxes (b)	**21**	10
Income tax expense	**19**	7
Income tax recognized in other comprehensive income	**(21)**	(10)
Total income tax expense	**(2)**	(3)

(a) The Government of Mongolia withholds income tax related to intercompany interest expense. The Company has not tax-benefited pre-tax losses. More information about non-capital losses is set out below.

(b) Reversal of deferred taxes originated in other comprehensive income.

Non-capital losses

At September 30, 2013, the Company had Canadian non-capital losses of approximately $27,826 (2012 - $29,714) 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.

14 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 Company's only dilutive instruments at December 31, 2013 were its share options. 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.

15 Contingent liability

At December 31, 2013, a contingent liability amounting to $3,445 (September 30, 2013 - $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.

16 Reclassification of Prior Year Amounts

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