

# **Khan Resources Inc.**

Consolidated Financial Statements

September 30, 2014

In thousands of Canadian dollars

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## INDEPENDENT AUDITORS' REPORT

*To the Shareholders of Khan Resources Inc.*

We have audited the accompanying consolidated financial statements of Khan Resources Inc. and its subsidiaries, (collectively referred to as the "Company"), which comprise the consolidated statement of financial position as at September 30, 2014 and the consolidated statements of loss, comprehensive loss, cash flow and changes in equity for the year 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 audit. We conducted our audit 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 auditor's 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 auditor considers 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 controls. 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 audit 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. and its subsidiaries as at September 30, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

### *Other Matter*

The consolidated financial statements of Khan Resources Inc. and its subsidiaries for the year ended September 30, 2013 were audited by another auditor who expressed an unmodified opinion on those statements on January 13, 2014.

*Collins Barrow Toronto LLP*

Collins Barrow Toronto LLP  
Licensed Public Accountants  
Chartered Accountants  
December 11, 2014

## Consolidated Statement of Financial Position

		Sep. 30 2014	Sep 30 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	352	2,231
Accounts receivable		7	13
Prepaid expenses and other assets		56	58
Investments	5	939	1,164
Restricted cash	4	52	52
<b>Total current assets</b>		<b>1,406</b>	<b>3,518</b>
<b>Non-current assets</b>			
Equipment	6	-	-
<b>Total non-current assets</b>		<b>-</b>	<b>-</b>
<b>Total assets</b>		<b>1,406</b>	<b>3,518</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		155	398
Provisions	7	9	60
<b>Total current liabilities</b>		<b>164</b>	<b>458</b>
<b>Total liabilities</b>		<b>164</b>	<b>458</b>
<b>Net assets</b>		<b>1,242</b>	<b>3,060</b>
<b>EQUITY</b>			
Share capital		77,482	77,143
Contributed surplus		12,509	12,097
Accumulated other comprehensive income (loss)	8	62	202
Deficit		(88,811)	(86,382)
<b>Total equity</b>		<b>1,242</b>	<b>3,060</b>

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

Going Concern (note 2)

Commitments and contingencies (note 18)

The consolidated financial statements were approved by the Board of Directors on December 11, 2014 and signed on its behalf

Signed: "James B. C. Doak"  
Director

Signed: "Grant A. Edey"  
Director



**Consolidated Statement of Loss**

For the year ended September 30

	Notes	2014	2013
<b>Continuing operations</b>			
<b>Revenue</b>			
Finance income		7	25
Total Revenue		7	25
<b>Legal expenses</b>			
General corporate	9	(886)	(910)
Amortization and impairment loss	6	(1)	-
Share-based compensation	10	(540)	(195)
Impairment loss, available-for-sale investments	5	-	(1,242)
Gain (loss) on sale of investments	5	32	-
Gain on disposal of equipment	6	8	-
Gain on sale of available-for-sale investments transferred from OCI	5	17	-
Foreign exchange gain (loss)		(17)	(22)
Total Expenses		(2,384)	(5,108)
<b>Loss before tax</b>		<b>(2,377)</b>	<b>(5,083)</b>
<b>Income tax (expense) recovery</b>	13	<b>(23)</b>	<b>23</b>
<b>Net loss from continuing operations</b>		<b>(2,400)</b>	<b>(5,060)</b>
<b>Discontinued operations</b>			
Loss from discontinued operations, net of tax	14	(29)	(219)
<b>Net loss</b>		<b>(2,429)</b>	<b>(5,279)</b>
<b>Loss per share</b>			
Basic loss per share (in Canadian cents)	15	(0.03)	(0.08)
Diluted loss per share (in Canadian cents)	15	(0.03)	(0.08)
Weighted average number of shares outstanding - Basic		75,724,829	68,343,568
Weighted average number of shares outstanding - Diluted		75,724,829	68,343,568

The accompanying notes form part of these consolidated financial statements.

**Consolidated Statement of Comprehensive Loss**

For the year ended September 30

	Notes	2014	2013
<b>Net loss</b>		<b>(2,429)</b>	<b>(5,279)</b>
<b>Other comprehensive income (loss), net of income tax</b>			
Items that will be reclassified subsequently to net earnings			
Foreign currency translation differences - foreign operations		-	44
Net change in fair value of available-for-sale financial assets		(161)	233
Income tax on other comprehensive income		21	(31)
<b>Other comprehensive income (loss), net of income tax</b>		<b>(140)</b>	<b>246</b>
<b>Total comprehensive loss</b>		<b>(2,569)</b>	<b>(5,033)</b>

The accompanying notes form part of these consolidated financial statements.

**Consolidated Cash Flow Statement**  
For the year ended September 30

	Notes	2014	2013
<b>Operating Activities</b>			
Loss before income tax including discontinued operations		(2,406)	(5,302)
Adjustments for:			
Amortization and impairment	6	1	5
Share-based compensation	10	540	195
Impairment loss, available-for-sale investments	5	-	1,242
Unrealized foreign exchange loss		5	58
Financial income and expenses		(7)	(25)
Gain on disposal of equipment	14,6	(55)	-
Loss (gain) on investments		(32)	-
Gain on sale of available-for-sale investments transferred from OCI		(17)	-
Changes in:			
Accounts receivable		6	6
Prepaid expenses and other assets		2	14
Accounts payable and accrued liabilities		(243)	136
Restructuring provision		(51)	38
Cash used in operations		(2,257)	(3,633)
Interest received		7	25
Income tax paid		(2)	(9)
<b>Net operating cash flows</b>		<b>(2,252)</b>	<b>(3,617)</b>
<b>Investing activities</b>			
Sale of equipment		55	2
Proceeds from sale of investments		114	-
Purchase of equipment	6	(1)	-
Restoration of Dornod property	7	-	(26)
<b>Net investing cash flows</b>		<b>168</b>	<b>(24)</b>
<b>Financing activities</b>			
Proceeds on issuance of shares		211	1,209
<b>Net financing cash flows</b>		<b>211</b>	<b>1,209</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,873)</b>	<b>(2,432)</b>
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		(6)	(17)
<b>Cash and cash equivalents at the end of the period</b>	4	<b>352</b>	<b>2,231</b>

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

**Consolidated Statement of Changes in Equity**  
For the year ended September 30, 2014

	Notes	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
		Number of shares	Amount				
Balance as at October 1, 2013		75,363,148	77,143	12,097	202	(86,382)	3,060
Total comprehensive income (loss)		-	-	-	(140)	(2,429)	(2,569)
Transactions with owners:							-
Employee share options:							-
Value of services recognized	10			540			540
Options exercised		1,053,334	339	(128)			211
Proceeds on issuance							-
<b>Balance as at September 30, 2014</b>		<b>76,416,482</b>	<b>77,482</b>	<b>12,509</b>	<b>62</b>	<b>(88,811)</b>	<b>1,242</b>
Balance as at October 1, 2012		68,125,445	75,934	11,902	(44)	(81,103)	6,689
Total comprehensive loss					246	(5,279)	(5,033)
Transactions with owners:							
Employee share options:							
Value of services recognized	10			195	-	-	195
Proceeds on issuance in private placement		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 authorized to issue an unlimited number of common shares, with no par value.



## Notes to Consolidated Financial Statements

September 30, 2014

### 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 final hearing for the arbitration was completed on November 15, 2013. The Company has claimed damages of US\$255 million plus interest plus expenses of US\$13.4 million while Mongolia has claimed its costs of the action in the amount of US\$7.6 million. 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 submitted April 11, 2014. The Tribunal's decision is expected within months.

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.

### 2 Basis of preparation

#### a. Subsidiaries

The principal subsidiaries of Khan Resources Inc., all of which have been included in these consolidated financial statements, are as follows:

Name	Country of incorporation and principal place of business	Proportion of ownership interest at September 30		Non-controlling interests ownership/voting interest at September 30	
		2014	2013	2014	2013
Khan Resources Bermuda Ltd.	Bermuda	100%	100%	—	—
Khan Resources B.V.	Netherlands	100%	100%	—	—
CAUC Holding Company Ltd.	British Virgin Islands	100%	100%	—	—
Khan Resources LLC	Mongolia	100%	100%	—	—
Central Asia Uranium Company, LLC	Mongolia	<sup>(1)</sup> 58%	<sup>(1)</sup> 58%	<sup>(1)</sup> 42%	<sup>(1)</sup> 42%

(1) The remaining 42% of Central Asian Uranium Company, LLC is owned as to 21% by each of MonAtom LLC, a Mongolian state owned company, and JSC Priargunsky Industrial Mining and Chemical Union, a subsidiary of Atomredmetzoloto, a Russian state owned company. Their share of the deficit has exceeded their investment in Central Asia Uranium Company, LLC thus the non-controlling interests are not reflected in these consolidated financial statements.

#### b. 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 December 11, 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. 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, 2014.

**c. 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.

**d. 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.

**e. 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.

**f. Fair value measurement**

Assets and liabilities included in the Company's financial statements may require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

Transfers of items between levels are recognized in the period they occur.

### 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.

**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 available for sale, 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 fair value 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 Company's fair value through profit and loss assets includes cash and restricted cash.

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.

The Company's loans and receivables include accounts receivable.

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 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: accounts payable and accrued liabilities

**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. Equipment**

Equipment is 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. Equipment is 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 equipment and their estimated useful lives are as follows:

Office furniture: 5 years

Computers and 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.

An item of 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. Impairment of non-financial assets**

Non-financial assets 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. 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.

**g. Provisions**

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.

At September 30, 2013 the Company recognized a provision for estimated environmental restoration costs related to the closed Dornod property. These costs included the removal of residual materials and remediation of disturbed areas. The cost estimates are updated at regular intervals to reflect known developments and as a result, management subsequently determined that the likelihood of a future obligation is remote. Accordingly the provision was reversed.

At September 30, 2013 the Company also recognized a provision for restructuring related to the closure of the Mongolian subsidiaries. Such a provision 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.

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

**h. 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.

**i. 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.

**j. 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.

**k. 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.

**l. 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.

**m. 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.

**n. 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.



**o. 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).

**p. Recently adopted accounting pronouncements**

**i. IFRS 10 - Consolidated financial statements**

In May 2011, the IASB issued IFRS 10, which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements and Standing Interpretations Committee ("SIC") 12, Consolidation – Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. There was no impact to the Company's financial statements as a result of adopting this standard.

**ii. IFRS 11 – Joint arrangements**

In May 2011, the IASB issued IFRS 11, Joint Arrangements. This standard separates joint arrangements into joint ventures and joint operations and provides guidance on accounting for these types of arrangements. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. There was no impact to the Company's financial statements as a result of adopting this standard.

**iii. IFRS 12 - Disclosures of interests in other entities**

In May 2011, the IASB issued IFRS 12, which outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. IFRS 12 supersedes IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. As a result of adoption of this standard, the Company provided additional disclosure in note 2a. There was no other impact to the Company's financial statements as a result of adopting this standard.

**iv. IFRIC 20 - Stripping costs in the Production phase of a Surface Mine**

In October 2011, the IASB issued International Financial Reporting Issues Committee ("IFRIC") 20, *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20"). The interpretation provides guidance on how to account for overburden waste removal (stripping) costs in the production phase of a mine. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has applied this standard effective as of January 1, 2013 and retroactively for all comparative periods presented. As the surface mine was abandoned in 2013 and there had been no activity in that area for a number of years, there was no impact to the financial statements as a result of the adoption of this interpretation.

**v. IFRS 13 - Fair value measurement**

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied. Disclosure requirements do not need to be applied to the comparative periods prior to initial application. As a result of adoption of this standard, the Company provided additional disclosures in note 2(f)(i) and note 15. There were no other impacts to the consolidated financial statements as a result of the adoption of this standard.

**vi. IFRS 7 – Financial Instruments: Disclosures**

In December 2011, the IASB amended IFRS 7 to provide additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013. There was no impact to the financial statements as a result of the adoption of this update.



**q. Future accounting pronouncements**

**i. IFRS 9 - Financial instruments**

In November 2009 and October 2010, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"), which addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that relate to the classification and measurement of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The impact to the presentation of the Company's financial statements upon adoption of this standard has not yet been determined and the Company does not intend to early adopt the standard.

**ii. IFRIC 21 – Levies**

On May 21, 2013, the IASB issued IFRIC 21, Levies, an interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37, Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The impact to the Company's financial statements upon adoption of this standard has not yet been determined.

## **4 Cash, cash equivalents and restricted cash**

As at September 30, 2014 and 2013, 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 14,442,330 (2013 - 15,523,330) common shares of Macusani Yellowcake Inc. ("Macusani") with a fair value on September 30, 2014 of \$939 (2013 - \$1,164).

During the year, the Company sold 1,081,000 shares (2013 - nil) of Macusani for gross proceeds of \$114 (2013 - nil).

The Company measures financial assets at fair value at each reporting period using quoted market prices (Level 1). During 2013, 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 recognized a valuation gain at September 30, 2014 of \$72 in other comprehensive income (loss). At September 30, 2013, the Company identified an impairment of \$1,242 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.

## 6 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 loss. In addition, the Company sold some of the registered office's equipment for gross proceeds of \$8, resulting in an impairment reversal that has been recognized in the loss before tax for the six months ended March 31, 2014.

Remaining tangible assets consisting of office furniture and equipment, computers and software located at the Company's registered office are set out in the following table:

	September 30, 2014	September 30, 2013
<b>Registered office equipment</b>		
Cost, opening balance	147	147
Additions	1	-
Disposals	(86)	-
<b>Cost, closing balance</b>	<b>62</b>	<b>147</b>
<b>Depreciation and impairment opening balance</b>	(147)	(147)
Depreciation and impairment	(1)	-
Disposals	86	-
<b>Depreciation and impairment closing balance</b>	<b>(62)</b>	<b>(147)</b>
<b>Net book value, closing balance</b>	<b>-</b>	<b>-</b>

## 7 Provisions

	Restoration provision	Restructuring Provision	Total
<b>Provision at October 1, 2012</b>	50	-	50
Additions	-	38	38
Used (incurred and charged against the provision)	(26)	-	(26)
Loss (gain) on restoration estimate	-	-	-
Exchange differences	(2)	-	(2)
<b>Provision at September 30, 2013</b>	<b>22</b>	<b>38</b>	<b>60</b>
Additions	-	-	-
Used (incurred and charged against the provision)	-	(29)	(29)
Loss (gain) on estimate	(22)	-	(22)
Exchange differences	-	-	-
<b>Provision at September 30, 2014</b>	<b>-</b>	<b>9</b>	<b>9</b>

### Restoration

The provision at the balance sheet date represents management's best estimate of the removal of residual materials and remediation of disturbed areas on the closed Dornod property. All residual materials have been removed and thus no provision is recorded.

### 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 remaining consist of legal costs related to the dissolution of Khan Mongolia LLC.



## 8 Accumulated other comprehensive income

	Sep. 30 2014	Sep 30 2013
<b>Currency translation account (a)</b>		
Balance at the beginning of the financial year	-	(44)
Exchange differences on translation of foreign operations taken to equity	-	-
Reclassification of cumulative exchange differences on discontinued operations	-	44
	-	-
<b>Financial assets account (b)</b>		
Balance at the beginning of the financial year	202	-
Net valuation losses on available for sale investments transferred to income before tax	-	-
Valuation (gains)/losses on available for sale investments taken to equity	(161)	233
Deferred tax relating to revaluations	21	(31)
	62	202
<b>Accumulated other comprehensive income</b>	<b>62</b>	<b>202</b>

(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

	2014	2013
Accounting and audit	47	53
Investor relations	21	34
Insurance	60	70
Salaries and directors' fees	512	495
Office and travel	246	258
	<b>886</b>	<b>910</b>

## 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.



(In thousands of Canadian dollars unless otherwise stated)

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

In thousands of options (a)	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at October 1	6,128,000	\$ 0.28	4,853,000	\$ 0.38
Expired during the period	(300,000)	0.20	(400,000)	1.15
Granted during the period	2,150,000	0.34	1,675,000	0.20
Exercised during the period	(1,053,000)	0.20	-	-
Outstanding at September 30	6,925,000	\$ 0.31	6,128,000	\$ 0.28
Exercisable at September 30	6,925,000	\$ 0.31	5,570,000	\$ 0.29

1,053,334 options were exercised in 2014. No options were exercised in 2013.

The following table summarizes information about share options outstanding at September 30, 2014:

Grants listed by expiry date	Exercise price (\$)	Remaining life (years)	Fair value per option (\$)	Number outstanding	Number vested	Number unvested
February 16, 2015	0.20	0.38	0.10	800,000	800,000	-
August 16, 2015	0.29	0.88	0.21	1,200,000	1,200,000	-
February 14, 2016	0.20	1.38	0.10	1,675,000	1,675,000	-
February 16, 2016	0.55	1.38	0.39	1,100,000	1,100,000	-
March 28, 2017	0.34	2.50	0.24	2,150,000	2,150,000	-
				<b>6,925,000</b>	<b>6,925,000</b>	-

Options granted in current year have vested immediately.

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was \$0.24 per option (2013: \$0.10). The significant inputs into the model were:

Dividend yield (%)	-
Expected volatility (%)	120.54
Risk free interest rate(%)	1.23
Forfeiture rate (%)	-
Expected life (years)	3.00
Weighted average share price (\$)	0.335

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

	2014	2013
Directors' fees	101	99
Salaries and short-term benefits	225	226
Share-based compensation	503	180
<b>Total management compensation</b>	<b>829</b>	<b>505</b>

## 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 \$41 for the year ended September 30, 2014 (2013 - \$67). In 2013 these services included \$21 related to share issuance costs. At September 30, 2014, the balance outstanding was nil (2013 - \$21) and was included in accounts payable and accrued liabilities.

During 2014, certain directors, officers and employees of the Company exercised stock options, acquiring 1,053,334 shares for total proceeds of \$211.

During 2013, certain insiders of the Company 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	2014	2013
Current tax	(2)	(8)
Deferred tax recovery (a)	(21)	31
<b>Tax recovery (expense) from continuing operations</b>	<b>(23)</b>	<b>23</b>
Deferred tax recognized in other comprehensive income	21	(31)
<b>Total income tax expense</b>	<b>(2)</b>	<b>(8)</b>

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

Reconciliation of effective tax rate	2014	2013
Loss before tax from continuing operations	(2,400)	(5,083)
Loss before tax from discontinued operations	(29)	(219)
<b>Total loss before tax</b>	<b>(2,429)</b>	<b>(5,302)</b>
Company's domestic tax rate	26.50%	26.50%
Tax recovery before adjustments	644	1,405
Non-deductible expenses and other	(261)	(640)
Effect of tax rates in foreign jurisdictions	(13)	(19)
Adjustment to previous year's tax value of equipment	(31)	-
Adjustment to previous year's tax value of non-capital losses	(21)	-
Non-capital losses on Mongolian discontinued operations not recognized	(26)	-
Current year deferred tax asset not recognized	(292)	(746)
Deferred tax asset previously not recognized	(21)	31
Withholding tax expense (a)	(2)	(8)
Tax recovery (expense) (b)	(23)	23
<b>Effective tax rate</b>	<b>0.97%</b>	<b>-0.45%</b>

(a) The Government of Mongolia withholds income tax related to intercompany interest expense.

(b) Deferred tax expense of \$21 has been recognized in other comprehensive income.

Unrecognized deferred taxes	2014	2013
Deductible temporary differences	392	447
Tax losses	7,810	7,463
	<b>8,202</b>	<b>7,910</b>

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, 2014, the Company had Canadian non-capital losses of approximately \$29,155 (2013 - \$27,826) available for deduction against future taxable income. If unutilized, non-capital losses will expire from 2015 to 2034 whereas capital losses can be carried forward indefinitely. Netherlands tax losses of approximately \$420 (2012 - \$347) are available for deduction against future taxable income and these losses, if unutilized, will expire from 2018 to 2023. None of the tax losses have been tax-benefited.

Due to the closure of the two Mongolian subsidiaries on September 30, 2013, tax losses of \$190 reported in the prior year, will not be utilized for deduction against future taxable income and will expire in 2015.

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 and classified as discontinued operations. See note 1 for information about Mongolia's illegal expropriation in 2009 of the mining and exploration licenses for the Dornod uranium project in northeastern Mongolia.

Results of Discontinued operations	Notes	2014	2013
Revenue		-	1
Expenses		(101)	(135)
Amortization	6	-	(5)
Gain (loss) on restoration estimate	7	22	-
Gain (loss) on disposal of assets		47	2
Restructuring expense		-	(38)
Foreign exchange gain (loss)		3	(44)
<b>Net income (loss) from discontinued operations</b>		<b>(29)</b>	<b>(219)</b>
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 operation	Notes	2014	2013
Net operating cash flows		(141)	(122)
Net investing cash flows		47	(24)
<b>Net cash flow for the year</b>		<b>(94)</b>	<b>(146)</b>

## 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 (Level 1), the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability (Level 2). The Company has no financial instruments where fair value is assessed using unobservable inputs (i.e. not derived from market data) (Level 3).

Due to their short-term nature, the carrying value of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities and provisions approximates their fair value.

Investments set out in note 5 are measured at fair value using quoted market prices (Level 1).

## 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 maintains bank accounts denominated in Euros (EUR) and U.S. dollars (USD). The Company undertakes transactions denominated in these currencies and is exposed to foreign exchange risk arising from such transactions.

The Company no longer conducts operations in Mongolia thus there are no Company assets, liabilities and expenses denominated in MNT.

The Company currently does not engage in foreign currency hedging. As at September 30, 2014, with other variables unchanged, a 1% strengthening (weakening) of the EUR and USD against the CAD would have increased (decreased) the net loss by approximately \$2.

### 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, 2014.

### 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 and cash and cash equivalents. 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, Bermuda and the Netherlands. 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, 2014, a 10% increase (decrease) in the market price of the securities held, with other variables unchanged would have resulted in an (decrease) increase to net loss of approximately \$94.



## 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 lease

The Company as lessee entered into the operating lease of its registered office under a cancellable operating lease contract. The lease agreement is on a month-to-month basis and is cancellable on 60 days' notice. The lease agreement has no purchase option and no escalation clauses. The expected rent for fiscal 2015 is \$41.

### Contingent liabilities

At September 30, 2014, a contingent liability amounting to \$3,628 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.

As part of the corporate dissolution procedures in Mongolia, the Company is seeking the Mongolian equivalent of a final tax clearance certificate. The Government of Mongolia has informed the Company that it is considering a claim for Value Added Tax that the Mongolian Government asserts should have been self-assessed on feasibility study work done and paid in Canada on behalf of the Mongolian subsidiary and on which the subsidiary recognized an inter-company liability. No cash was ever paid to the parent and the inter-company liability was subsequently converted to equity. The Company is seeking Mongolian tax advice. The estimated payout is \$300 but currently it is not practical to state the amount or timing of the payment, if any. Management has therefore determined that it is only possible, but not probable, that this claim has merit. Accordingly, no provision for any liability has been made in these consolidated financial statements.