

**KHAN RESOURCES INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS**

**FOR THE SIX MONTHS ENDED**

**MARCH 31, 2018 AND 2017**

**(Expressed in Canadian Dollars)**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying interim condensed consolidated financial statements of Khan Resources Inc. were prepared by management in accordance with International Financial Reporting Standards. The most significant of these standards have been set out in the Note 2 of these interim condensed consolidated financial statements. Any applicable changes in accounting policies have also been disclosed in these interim condensed financial statements. Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

The Board of Directors is responsible for ensuring management fulfills its financial reporting responsibilities and for reviewing and approving the financial statements together with other financial information. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the internal controls over the financial reporting process and the year end financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate control over its financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on "Internal Control Over Financial Reporting Guidance for Smaller Public Companies" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at March 31, 2018.

## **CONCLUSION RELATING TO DISCLOSURE CONTROLS AND PROCEDURES**

An evaluation was performed under the supervision and with the participation of management, including the Chief Executive and Chief Financial Officers, of the effectiveness of the Company's disclosure controls and procedures as defined in the National Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as at March 31, 2018.

## **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

**KHAN RESOURCES INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	March 31, 2018	September 30, 2017
		(See Note 10)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$ 1,534,667	\$ 1,630,152
Short-term investments (Note 5)	2,512,394	5,010,389
Accounts receivable and prepaid expenses (Note 6)	60,251	34,412
Current income tax asset (Note 17)	614,931	402,058
	<u>4,722,243</u>	<u>7,077,011</u>
Investments (Note 7)	2,500,000	-
Other assets (Note 8)	85,325	89,375
	<u>\$ 7,307,568</u>	<u>\$ 7,166,386</u>

**Liabilities**

**Current Liabilities**

Accounts payable and accrued liabilities (Note 9)	\$ 85,764	\$ 56,181
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**Shareholders' Equity**

Capital stock (Note 11)	8,187,214	8,187,214
Contributed surplus	11,216,357	11,216,357
Deficit	(12,181,767)	(12,293,366)
	<u>7,221,804</u>	<u>7,110,205</u>
	<u>\$ 7,307,568</u>	<u>\$ 7,166,386</u>

Nature of Operations and Going Concern (Note 1)  
Comparative financial statements and restructuring costs (Note 10)  
Contingent liabilities and commitments (Note 15)

SIGNED ON BEHALF OF THE BOARD

(Signed) "Marc Henderson"  
Director

(Signed) "Michael Sadhra"  
Director

**KHAN RESOURCES INC.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(EXPRESSED IN CANADIAN DOLLARS)**

	Three Months Ended March 31		Six Months Ended March 31	
	2018	2017	2018	2017
	<b>(See Note 10)</b>			
<b>Income</b>				
Interest income	\$ 11,876	\$ 10,550	\$ 22,612	\$ 107,610
	<u>11,876</u>	<u>10,550</u>	<u>22,612</u>	<u>107,610</u>
<b>Expenses</b>				
Legal expenses	\$ 8,850	\$ 285,032	\$ 13,850	\$ 285,359
General corporate expenses	69,058	62,387	111,387	183,724
Salaries, wages and director fees	10,927	193,470	39,212	329,852
Restructuring costs (Note 10)	-	160,036	-	425,745
Foreign exchange loss (gain)	(34,191)	13,963	(40,563)	(23,694)
	<u>54,644</u>	<u>714,888</u>	<u>123,886</u>	<u>1,200,986</u>
<b>Loss before income taxes</b>	<b>(42,768)</b>	<b>(704,338)</b>	<b>(101,274)</b>	<b>(1,093,376)</b>
Income tax recovery	212,873	148,855	212,873	148,855
<b>Net income (loss) for the period</b>	<b>\$ 170,105</b>	<b>\$ (555,483)</b>	<b>\$ 111,599</b>	<b>\$ (944,521)</b>
<b>Other comprehensive income (loss)</b>				
Items that will not be reclassified to net income (loss)				
Fair value of equity instrument	-	421,029	-	421,029
Income tax on valuation of equity instrument	-	(55,786)	-	(55,786)
<b>Other comprehensive income</b>	<b>\$ -</b>	<b>\$ 365,243</b>	<b>\$ -</b>	<b>\$ 365,243</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 170,105</b>	<b>\$ (190,240)</b>	<b>\$ 111,599</b>	<b>\$ (579,278)</b>
Net loss per share - basic & diluted	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.01)
Weighted average number of shares outstanding	90,166,482	85,037,801	90,166,482	84,584,679

**KHAN RESOURCES INC.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(EXPRESSED IN CANADIAN DOLLARS)**

	Common Shares (See Note 10)	Capital Stock (See Note 10)	Contributed Surplus (See Note 10)	Deficit (See Note 10)	Accumulated Other Comprehensive Income (Loss) (See Note 10)	Total (See Note 10)
<b>Balance, October 1, 2016</b>	<b>88,666,482</b>	<b>\$ 83,635,774</b>	<b>\$ 11,711,307</b>	<b>\$ (7,654,614)</b>	<b>\$(3,539,419)</b>	<b>\$ 84,153,048</b>
Stock options exercised (Note 12)	1,500,000	698,000	-	-	-	698,000
Fair value of options exercised	-	494,950	(494,950)	-	-	-
Distribution to shareholders - return of capital (Note 1)	-	(76,641,510)	-	-	-	(76,641,510)
Net loss for the period	-	-	-	(944,521)	-	(944,521)
Other comprehensive loss	-	-	-	-	365,243	365,243
Reclassification to deficit of cumulative loss of equity instrument at its disposal	-	-	-	(3,174,176)	3,174,176	-
<b>Balance, March 31, 2017</b>	<b>90,166,482</b>	<b>8,187,214</b>	<b>11,216,357</b>	<b>(11,773,311)</b>	<b>-</b>	<b>7,630,260</b>
Net loss for the period	-	-	-	(520,055)	-	(520,055)
<b>Balance September 30, 2017</b>	<b>90,166,482</b>	<b>8,187,214</b>	<b>11,216,357</b>	<b>(12,293,366)</b>	<b>-</b>	<b>7,110,205</b>
Net income for the period	-	-	-	111,599	-	111,599
<b>Balance, March 31, 2018</b>	<b>90,166,482</b>	<b>\$ 8,187,214</b>	<b>\$ 11,216,357</b>	<b>\$(12,181,767)</b>	<b>\$ -</b>	<b>\$ 7,221,804</b>

**KHAN RESOURCES INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Three Months Ended March 31		Six Months Ended March 31	
	2018	2017	2018	2017
<b>(See Note 10)</b>				
<b>Cash and cash equivalents (used in) provided by:</b>				
<b>Operating Activities</b>				
Net income (loss) for the period	\$ 170,105	\$ (555,483)	\$ 111,599	\$ (944,521)
<b>Adjustments for:</b>				
Reallocation of prepaid insurance	4,050	-	4,050	-
Income tax recovery	(212,873)	(148,855)	(212,873)	(148,855)
Non-cash financial expense (income), net	-	3,178	-	3,178
<b>Net change in non-cash working capital items:</b>				
Accounts receivable and prepaid expenses	(16,755)	47,259	(27,864)	35,332
Accounts payable and accrued liabilities	16,206	123,569	29,583	136,966
Current income tax paid, net of refund received	-	(618,000)	-	(618,000)
	<u>(39,267)</u>	<u>(1,148,332)</u>	<u>(95,505)</u>	<u>(1,535,900)</u>
<b>Financing Activities</b>				
Distribution to shareholders - return of capital (Note 11)	-	-	-	(76,641,510)
Stock options exercised	-	-	-	698,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(75,943,510)</u>
<b>Investing Activities</b>				
Investment addition (Note 7)	(2,500,000)	-	(2,500,000)	-
Proceeds on sale of short - term investments	2,500,000	5,000,000	2,500,000	80,000,000
Proceeds on sale of investments	-	684,582	-	684,852
	<u>-</u>	<u>5,684,582</u>	<u>-</u>	<u>80,684,852</u>
<b>Change in cash and cash equivalents</b>	<b>(39,267)</b>	<b>4,536,250</b>	<b>(95,505)</b>	<b>3,205,442</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>1,573,914</b>	<b>3,483,366</b>	<b>1,630,152</b>	<b>4,814,174</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 1,534,647</b>	<b>\$ 8,019,616</b>	<b>\$ 1,534,647</b>	<b>\$ 8,019,616</b>

## **KHAN RESOURCES INC.**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (EXPRESSED IN CANADIAN DOLLARS)**

**Six Months Ended March 31, 2018 and 2017**

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

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, 130 King Street West, Suite 3680, Toronto, Ontario, Canada M5X 1B1.

The Company along with its subsidiary company (collectively the "Company" or "Khan"), was involved in acquiring, exploring and developing mineral properties in Mongolia.

On May 18, 2016, the Company announced that it had received USD\$70 million (\$90,593,987 Canadian at September 30, 2016) from the Government of Mongolia in settlement of all outstanding matters pursuant to the international arbitration award received by the Company. The subsidiaries of the Company collectively received an award of USD\$55,167,000 (\$70,000,000 less costs of \$14,833,000 awarded to the parent company). The allocation of the award is attributable to each entity's interest in the underlying historic assets of the two former Mongolian subsidiaries. The arbitration award received by the subsidiaries is considered to be proceeds in respect of the impairment in value of the receivables from and shares of the Mongolian subsidiaries, as applicable.

On November 10, 2016 the shareholders of the Company approved a special resolution to implement the voluntary liquidation and dissolution of Khan. Consequently, the consolidated financial statements at September 30, 2016 were prepared on the basis that the Company was no longer a going concern. The liquidation plan approved by the shareholders provided that the board of directors was authorized to stop the liquidation of the Company if it determines in its discretion that doing so is no longer in the best interests of the Company or its shareholders. On May 5, 2017 at the Company's annual meeting, the shareholders of the Company elected a new board of directors. On May 8, 2017 the board of directors announced that it had determined that it would not proceed with the Company liquidation. The board of directors has determined that it is in the best interest of the Company and its shareholders to consider other possible strategic alternatives for the Company with a view to maximizing its value for the benefits of its shareholders (see Note 10).

On March 7, 2018, the company announced it has made a strategic investment in Arctic Blockchain Ltd. a privately held British Columbia corporation that operates a data centre business, offering enterprise co-location services as well as mining cryptocurrency for its own account and its customers. Additional details are described in Note 7.

At March 31, 2018, the Company has a working capital of \$4,636,479, has cash outflow from operations of \$95,505 (2017 - \$1,535,900) not yet achieved profitable operations, has accumulated losses of \$12,181,767 (September 30, 2017 - \$12,293,366) and expects to incur further losses in the determination of its future business alternatives, all of which creates material uncertainty and casts significant doubt upon the Company's ability to continue as a going concern.

On May 30, 2018, the Board of Directors approved the interim condensed consolidated financial statements for the periods ended March 31, 2018 and 2017.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and do not include all of the information required for full annual financial statements by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

**KHAN RESOURCES INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**Six Months Ended March 31, 2018 and 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

These interim condensed financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2017 which includes the information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies are presented as Note 2 in the audited consolidated financial statements for the year ended December 31, 2016, and have been consistently applied in the preparation of these interim condensed consolidated financial statements.

**Change in Basis of Presentation**

The interim condensed consolidated financial statements as at December 31, 2017 and 2016 have been prepared and presented on a going concern basis. The going concern basis assumes continuity of operations, realization of assets and discharges of liabilities in the ordinary course of business and does not purport to show, reflect or provide for the consequences of the Company's intention to liquidate. The consolidated financial statements as at December 31, 2016 and for the period then ended were previously prepared and presented on a liquidation basis of accounting, the Company considers it is more useful, for comparative purposes, to present the comparative year on the current going concern basis.

Under the liquidation basis of accounting, the Company measured its assets based on their net realizable value and its liabilities based on their settlement amounts. The December 31, 2016 interim condensed consolidated financial statements were previously prepared primarily using fair values which in this case, approximated the net realizable value of the assets and the settlement amounts of the liabilities. Details of the change of presentation and its effects in the previous year interim condensed financial statement prepared on liquidation basis are disclosed in the Note 10.

**Principles of Consolidation**

The interim condensed consolidated financial statements include all entities over which the Company has control. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are no longer consolidated on the date control ceases.

The interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary located in Netherlands, Khan Resources B.V. ("KRBV"). In August of 2016, the Company sold all of the shares of its subsidiary Khan Resources Bermuda Ltd. for a cash sale price of \$49,559,000 which resulted in a loss on the sale of the subsidiary of \$2,378,223; such subsidiary was included in the consolidation up to the date of its sale.

Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions are eliminated in preparing the interim condensed consolidated financial statements.

**Basis of Preparation**

These interim condensed consolidated financial statements are presented in Canadian dollars which is also the functional currency of the parent Company Khan Resources Inc. The functional currency of the wholly owned subsidiary KRBV is the Euro.

The interim condensed consolidated financial statements are prepared on the historical cost basis except for financial instruments which are measured at their fair value, as explained in the accounting policies set out in this note.

**KHAN RESOURCES INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**Six Months Ended March 31, 2018 and 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The accounting policies set out below have been applied consistently to the years presented in the interim condensed consolidated financial statements.

**Foreign Currency Translation**

Foreign currency transactions are initially recorded into the functional currency at the transaction date exchange rate. At year end, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the balance sheet date's exchange rate and non-monetary assets and liabilities at the historical rate. These foreign currency adjustments are recognized in net loss of the interim condensed consolidated statement of income (loss).

**3. ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the following items:

Deferred income taxes - In assessing the probability of realizing deferred income taxes, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred taxes. The Company reassesses unrecognized income tax at each reporting period.

Going Concern - The Company applies judgment in assessing whether material uncertainties exist that would cause doubt as to whether the Company could continue as a going concern.

**4. CASH AND CASH EQUIVALENTS**

The balance consists of cash in banks immediately available for its use in the Company's operations.

**5. SHORT-TERM INVESTMENTS**

The short-term investments consist of a guaranteed investment certificate ("GIC") with a maturity date of less than three months and held for investment. Any GIC pledged as security is presented as restricted cash in the other assets account.

**KHAN RESOURCES INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**Six Months Ended March 31, 2018 and 2017**

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**6. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

The balances are comprised as follows:

	<b>March 31, 2018</b>	September 30, 2017
Interest receivable - GIC	<b>21,472</b>	2,005
Other prepaid expenses and advances (Note 11)	<b>12,813</b>	24,983
Harmonized sales tax	<b>11,141</b>	7,424
Laramide Resources Ltd. (Note 13)	<b>14,825</b>	-
	<b>\$ 60,251</b>	\$ 34,412

**7. INVESTMENTS**

In March 2018, the Company made an investment in Arctic Blockchain Ltd. ("Arctic"), a privately held British Columbia corporation that operates a data centre business in Northern Sweden, offering enterprise co location services as well as mining cryptocurrency for its own account and its customers.

Under the terms of the investment, the Company purchased C\$2.5 million of convertible non interest bearing debentures (the "Debentures") of Arctic as the lead investor in Arctic's recently completed private placement offering of Debentures in the aggregate principal amount of C\$10 million. In addition, the Company and Arctic entered into an agreement pursuant to which the Company has the right to participate in equity financings of Arctic in order to maintain its pro rata ownership at the time of any such financing. Such agreement will terminate on the earliest of the second anniversary of the agreement, the date that the Company holds in the aggregate less than 3% of the issued common shares of Arctic, or a "Liquidity Event" (as defined in the agreement and includes the listing of Arctic's shares on a recognized stock exchange)

The Debentures will mature and become payable on February 27, 2023 (the "Maturity Date"), unless prepaid or converted earlier in accordance with the provisions thereof. Prior to the Maturity Date, the principal amount of the Debentures can be converted into units (the "Units") of Arctic, at the option of the holder, at the conversion price of C\$0.50 per Unit, and will be automatically converted into Units at such conversion price prior to a Liquidity Event. Each Unit will be comprised of one common share of Arctic and one share purchase warrant, with each warrant entitling the holder thereof to acquire one common share of Arctic Blockchain at a price of \$0.75 per share for a period of two years from the Liquidity Event.

On March 12, 2018 Arctic announced a reverse takeover transaction ("RTO") with a Canadian Securities Exchange listed shell company called Caza Gold Corp. pursuant to which Arctic would become a listed technology issuer on the CSE at the conclusion of the RTO, a transaction that is expected to close in Q3 2018.

**8. OTHER ASSETS**

The balances are comprised as follows:

	<b>March 31, 2018</b>	September 30, 2017
Restricted cash (a)	<b>\$ 52,250</b>	\$ 52,250
Non-current prepaid insurance	<b>33,075</b>	37,125
	<b>\$ 85,325</b>	\$ 89,375

**KHAN RESOURCES INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**Six Months Ended March 31, 2018 and 2017**

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**8. OTHER ASSETS**

(a) Restricted cash consists of a guaranteed investment certificate pledged as security for a corporate credit card facility.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The balances are comprised as follows:

	<b>March 31, 2018</b>	September 30, 2017
Trade accounts payable	\$ 39,405	\$ 28,305
Accrued liabilities	42,990	27,876
	<b>\$ 82,395</b>	<b>\$ 56,181</b>

**10. COMPARATIVE FINANCIAL STATEMENTS AND RESTRUCTURING COSTS**

As described in the Note 2, the interim condensed consolidated financial statements as at March 31, 2018 and 2017 are presented on a going concern basis. The interim condensed consolidated financial statements as at March 31, 2017 and for the period then ended were previously prepared and presented on a liquidation basis of accounting.

The previously reported interim condensed consolidated financial statements as at March 31, 2017 and for the period then ended included \$425,745 as a partial use of the \$1,450,000 provision for liquidation and restructuring costs. The provision, which was recorded at the end of the fiscal year 2016, included legal expenses for liquidating the Company, tax consulting on final dissolution, tax returns, transfer agent fees for the distribution of funds and deregistration of shareholders, employee severances, record retention costs and insurance, certain costs and fees to be incurred to liquidate the residual assets and for the specific wind-up activities of the Company. The amount expensed of \$425,745 represents the variance in the net results of as at March 31, 2017 between the financial statements prepared on a liquidation and a going concern basis.

A description of the accounts that present differences at March 31, 2017 between the interim condensed consolidated statements of financial position and Income (loss) prepared on liquidation and going concern basis is shown as follows:

Interim condensed consolidated statement of financial position at March 31, 2017, prepared on	(Previously Presented) Liquidation Basis	Variance	Going Concern Basis
Current income tax asset	\$ 457,590	\$ (384,250)	\$ 73,340
Other assets	8,140,444	-	8,140,444
Total assets	8,598,034	(384,250)	8,213,784
Liquidation provision	(1,024,255)	1,024,255	-
Other liabilities	(583,524)	-	(583,524)
Net assets at March 31, 2017	\$ 6,990,255	\$ 640,005	\$ 7,630,260
Deficit	(12,413,317)	640,005	(11,773,312)
Other Shareholders' Equity accounts	19,403,572	-	19,403,572
Shareholders' Equity at March 31, 2017	6,990,255	\$ 640,005	\$ 7,630,260

**KHAN RESOURCES INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**Six Months Ended March 31, 2018 and 2017**

**10. COMPARATIVE FINANCIAL STATEMENTS AND RESTRUCTURING COSTS (Continued)**

Consolidated statement of income (loss) for the period ended March 31, 2017, prepared on	(Previously Presented) Liquidation Basis	Variance	Going Concern Basis
Restructuring costs	\$ -	\$ (425,745)	\$ (425,745)
Other income (expenses), net	(667,631)	-	(667,631)
Net income before income tax	(667,631)	(425,745)	(1,093,376)
Deferred income tax	148,855	-	148,855
<b>Net loss for the period ended March 31, 2017</b>	<b>\$ (518,776)</b>	<b>\$ (425,745)</b>	<b>\$ (944,521)</b>
<b>Loss per share - basic &amp; diluted</b>	<b>\$ (0.01)</b>	<b>\$ -</b>	<b>\$ (0.01)</b>

As described in Note 1, on May 8, 2017 the board of directors announced that it would not proceed with the Company liquidation. At the date of the announcement, \$425,745 of the previously recorded provision for liquidation were actually expended, such amount is presented as restructuring costs in the interim condensed consolidated statement of income (loss). The detail of the restructuring costs for the period ended March 31, 2017, is as follows:

Description of the restructuring costs	
Severance and other employee expenses	<b>213,500</b>
Consultants and audit expenses	<b>164,896</b>
Legal expenses	<b>47,349</b>
<b>Total restructuring costs for the period ended March 31, 2017</b>	<b>425,745</b>

In addition to the above noted changes, some of the figures of the comparative financial statements have been reclassified from the statements previously presented to conform to the presentation of these March 31, 2018 interim condensed consolidated financial statements.

**11. CAPITAL STOCK**

- a) AUTHORIZED
  - Unlimited common shares
- b) ISSUED

COMMON SHARES	Number of Shares	Stated Value
Balance, October 1, 2016	88,666,482	\$ 83,635,774
Stock options exercised	1,500,000	698,000
Fair value of options exercised	-	494,950
Distribution to shareholders - return of capital	-	(76,641,510)
<b>Balance, March 31, 2017 and 2018</b>	<b>90,166,482</b>	<b>\$ 8,187,214</b>

**KHAN RESOURCES INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**11. CAPITAL STOCK**

**Return of Capital**

On November 10, 2016, the shareholders approved a distribution of \$76,641,510, which represents \$0.85 per share, by way of a return of capital that was paid on November 29, 2016 to the shareholders of record at November 22, 2016.

**12. STOCK-BASED COMPENSATION**

At March 31, 2018 there is no outstanding balance of stock options. The activity of the options in the comparative year is as follows:

	<b>Number of Stock Options</b>
Balance, at October 1, 2016 year	<b>1,500,000</b>
Exercised (Note 13)	<b>(600,000)</b>
Exercised (Note 13)	<b>(500,000)</b>
Exercised (Note 13)	<b>(400,000)</b>
<hr/>	
Balance at March 31, 2018 and September 30, 2017	-

**13. RELATED PARTY DISCLOSURES**

During the period, Laramide Resources Ltd., a Company having a director and officer in common with Khan Resources Inc., charged \$22,655 (2017- \$Nil) for office space rent and other shared expenditures paid on behalf of the Company. At March 31, 2018, there is \$14,825 of net accounts receivable from Laramide Resources Ltd. (September 30, 2017 - \$142).

During the period there is a \$6,250 charge for consulting services provided by a firm of which a director and interim officer of the Company is a tax partner (2017 - \$Nil). At March 31, 2018 there is \$6,250 of accounts payable to this related party (2017 - \$Nil)

During the year ended September 30, 2017, certain directors, officers and employees of the Company exercised the outstanding share options acquiring 1,500,000 shares for total proceeds of \$698,000. Included with these shares were 200,000 shares and proceeds of \$91,000 related to a management entity that provided key management personnel services to the Company.

Transactions with related parties were conducted in the normal course of operations.

**KHAN RESOURCES INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**14. KEY MANAGEMENT COMPENSATION**

Key management includes the Chief Executive Officer, Chief Financial Officer and directors of the Company.

The compensation payable to key management is shown below:

Six months ended March 31	2018	2017
Salaries	\$ -	\$ 75,000
Director fees	18,750	19,000
	<b>\$ 18,750</b>	<b>\$ 94,000</b>

**15. CONTINGENT LIABILITIES AND COMMITMENTS**

a) Netherlands Preliminary Tax Assessment - On February 15, 2017 the Company received an income tax reassessment from the Netherlands tax authority reassessing the Company's subsidiary KRBV for an amount payable of 3.3 million euros (CAD\$4.9 million). This reassessment was pursuant to management challenging an earlier preliminary assessment for an amount payable by KRBV of 11.4 million euros. The preliminary tax assessment and the reassessment were both issued before KRBV had filed its 2016 tax return and as such are based on incomplete information. Based on tax professionals advice, management is of the opinion that the reassessed amount payable of 3.3 million euros (CAD\$4.9 million) continues to be an over assessment. The 2016 tax return has since been filed and management believes that this issue will be resolved when the Netherlands tax authority has the opportunity to review all the facts. As a result, no provision has been made for this reassessment in these consolidated financial statements.

b) Former Officer Claim - In October 2017, the former Chief Executive Officer has filed a \$675,000 claim for severance and damages against the Company and the Company has counter-sued as it believes severance is not appropriate. No provision has been made for the claim in these consolidated financial statements.

**16. FINANCIAL RISK FACTORS****Capital Management**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers capital from two perspectives: its working capital position and its capital stock, warrant, and stock option components of its shareholders' equity.

At March 31, 2018, the Company has a working capital of \$4,636,479 (September 30, 2017 - \$7,020,830); Capital stock and contributed surplus total \$19,403,571 (September 30, 2017 - \$19,403,571 ).

To effectively manage the Company's capital requirements, the management has in place a rigorous planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient working capital and planned future capital raises to meet its short-term business requirements, taking into account its anticipated cash flow from operations and its holding of cash and cash equivalents and short-term investments.

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**16. FINANCIAL RISK FACTORS (Continued)**

At March 31, 2018, the Company expects its capital resources and projected future cash flows from financing to support its normal operating requirements on an ongoing basis and other expansionary plans.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended March 31, 2018.

**Risk Disclosures**

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's business.

**Credit Risk**

The Company has cash and cash equivalents balance of \$4,047,061 (September 30, 2017 - \$6,640,541). The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. There is no significant credit risk with respect of receivables.

**Interest Rate Risk**

The Company has no exposure to interest rate risk since there are no outstanding debts or other payables subject to interest charges at the end of the reported periods.

**Foreign Currency Risk**

The Company is exposed to foreign currency risk on financial assets and liabilities that are denominated in a currency other than the Canadian dollar. The currency giving rise to this risk is primarily the U.S. dollar, the balance of net monetary assets in such currency as of March 31, 2018 is \$395,608 (September 30, 2017 - \$1,214,545).

**Liquidity Risk**

The Company is exposed to liquidity risk primarily as a result of its trade accounts payable. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2018, the Company had a cash and cash equivalents balance of \$4,047,061 (September 30, 2017 - \$6,640,541) to settle current liabilities of \$85,764 (September 30, 2017 - \$56,181). All of the Company's trade accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms.

**Sensitivity Analysis**

As at March 31, 2018 and September 30, 2017, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Based on management's knowledge and experience of the financial markets, the Company believes the following movement is "reasonably possible" over a twelve-month period.

- i) The Company is exposed to foreign currency risk on fluctuations of balances that are denominated in US currency related to cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect the net comprehensive loss by \$39,561.

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**16. FINANCIAL RISK FACTORS (Continued)**

**Fair Value Hierarchy**

Accounts payable and accrued liabilities are considered as other financial liabilities, which are measured at amortized cost which also approximates fair value.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where fair value measurement is required. Fair value amounts represent point in time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy.

Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data. The carrying value of cash and cash equivalents and investments approximate their fair value.

March 31, 2018:	Level One	Level Two	Level Three
Cash and cash equivalents	\$ 1,534,667	\$ -	\$ -
Short-term investments	2,512,394	-	-
Restricted cash	-	52,250	-
	<b>\$ 4,047,061</b>	<b>\$ 52,250</b>	<b>\$ -</b>

  

September 30, 2017:	Level One	Level Two	Level Three
Cash and cash equivalents	\$ 1,630,152	\$ -	\$ -
Short-term investments	5,010,389	-	-
Restricted cash	-	52,250	-
	<b>\$ 6,640,541</b>	<b>\$ 52,250</b>	<b>\$ -</b>

There have been no transfers between levels 1, 2 or 3 during the periods.

**17. SUBSEQUENT EVENTS**

On May 1, 2018, the Canada Revenue Agency made a \$614,931 refund of the current income tax owed to the Company.