

KHAN RESOURCES INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2018 AND 2017
(Expressed in Canadian Dollars)



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, which comprise the consolidated statements of financial position as at September 30, 2018 and September 30, 2017 and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flow for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Khan Resources Inc. and its subsidiaries, as at September 30, 2018 and September 30, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of material uncertainties that casts significant doubt about the Company's ability to continue as a going concern.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
January 24, 2019
Toronto, Ontario

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

	September 30, 2018	September 30, 2017
		(See Note 17)
Assets		
Cash (Note 4)	\$ 4,072,322	\$ 1,630,152
Short-term investments (Note 5)	-	5,010,389
Sales tax and other receivables and prepaid expenses (Note 6)	28,407	34,412
Current income tax asset	-	402,058
Investments (Note 7)	4,239,364	-
Other assets (Note 8)	81,275	89,375
	<u>\$ 8,421,368</u>	<u>\$ 7,166,386</u>
Liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 126,939	\$ 56,181
Shareholders' Equity		
Capital stock (Note 10)	8,187,214	8,187,214
Contributed surplus	11,608,118	11,216,357
Deficit	<u>(11,500,903)</u>	<u>(12,293,366)</u>
	<u>8,294,429</u>	<u>7,110,205</u>
	<u>\$ 8,421,368</u>	<u>\$ 7,166,386</u>

Nature of Operations and Going Concern (Note 1)
Contingent liabilities and commitments (Note 15)

SIGNED ON BEHALF OF THE BOARD

(Signed) "Marc Henderson"
Director

(Signed) "Michael Sadhra"
Director

KHAN RESOURCES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(EXPRESSED IN CANADIAN DOLLARS)

Years ended September 30,	2018	2017
Income		
Interest income	\$ 40,598	\$ 129,398
Gain on conversion of investment (Note 7)	1,883,932	-
Unrealized loss on FVTPL investments (Note 7)	<u>(532,918)</u>	<u>-</u>
	<u>1,391,612</u>	<u>129,398</u>
Expenses		
General corporate expenses	\$ 361,841	\$ 598,661
Salaries, wages and director fees	57,427	606,601
Legal expenses	37,005	486,124
Stock-based compensation (Note 11)	391,761	-
Restructuring costs	-	425,745
Foreign exchange loss (gain)	<u>(36,012)</u>	<u>54,901</u>
	<u>812,022</u>	<u>2,172,032</u>
Income (loss) before income taxes	579,590	(2,042,634)
Current income tax recovery (Note 14)	212,873	495,127
Deferred income tax recovery (Note 14)	-	82,931
Net income (loss) for the year	\$ 792,463	\$ (1,464,576)
Other comprehensive income (loss)		
Items that will not be reclassified to net income (loss)		
Movement in fair value of equity instrument (Note 7)	-	421,029
Income tax on revaluation of equity instrument	-	(55,786)
Other comprehensive income (loss)	\$ -	\$ 365,243
Total comprehensive income (loss)	\$ 792,463	\$ (1,099,333)
<hr/>		
Net loss per share - basic & diluted	\$ 0.01	\$ (0.02)
Weighted average number of shares outstanding	90,166,482	89,918,130

KHAN RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Common Shares	Capital Stock	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, October 1, 2016	88,666,482	\$ 83,635,774	\$ 11,711,307	\$ (7,654,614)	\$(3,539,419)	\$ 84,153,048
Stock options exercised	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 year	-	-	-	(1,464,576)	-	(1,464,576)
Other comprehensive income	-	-	-	-	365,243	365,243
Reclassification to deficit of cumulative loss of equity instrument at its disposal	-	-	-	(3,174,176)	3,174,176	-
Balance, September 30, 2017	90,166,482	8,187,214	11,216,357	(12,293,366)	-	7,110,205
Stock-based compensation (Note 11)	-	-	391,761	-	-	391,761
Net income for the year	-	-	-	792,463	-	792,463
Balance, September 30, 2018	90,166,482	\$ 8,187,214	\$ 11,608,118	\$(11,500,903)	\$ -	\$ 8,294,429

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

Years ended September 30,	2018	2017
		(See Note 17)
Cash and cash equivalents (used in) provided by:		
Operating activities		
Net income (loss) for the year	\$ 792,463	\$ (1,464,576)
Adjustments for:		
Gain on conversion of investment (Note 7)	(1,883,932)	-
Loss on FVTPL investments (Note 7)	532,918	-
Income tax recovery (Note 14)	(212,873)	(578,058)
Reallocation of financial income, net	-	(7,060)
Stock-based compensation (Note 11)	391,761	-
Foreign exchange gain	(36,012)	-
Investments addition(Note 7)	(2,888,350)	-
Increase of short-term investments (Note 7)	-	(5,000,000)
Proceeds on sale of short - term investments	5,044,804	80,000,000
Proceeds on sale of investments	-	684,851
Increase of other assets	-	(37,125)
Net change in non-cash working capital items:		
Accounts receivable and prepaid expenses	(28,410)	69,498
Reallocation of prepaid insurance	8,100	-
Accounts payable and accrued liabilities	70,758	(85,787)
Current income tax refund (paid)	614,931	(822,255)
	<u>2,406,158</u>	<u>72,759,488</u>
Financing Activities		
Distribution to shareholders - return of capital (Note 10)	-	(76,641,510)
Stock options exercised	-	698,000
	<u>-</u>	<u>(75,943,510)</u>
Change in cash and cash equivalents	2,406,158	(3,184,022)
Foreign exchange differences	36,012	-
Cash and cash equivalents, beginning of the year	1,630,152	4,814,174
Cash and cash equivalents, end of the year	\$ 4,072,322	\$ 1,630,152

KHAN RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2018 and 2017

1. NATURE OF OPERATIONS AND GOING CONCERN

Khan Resources Inc. (the "Company" or "Khan") 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 under the trading symbol "KRI".

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 was formerly 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 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.

In the year ended September 30, 2018, as a first step of its new business plan whereby it will invest in crypto currencies and blockchain companies, the Company made a strategic investment of \$2,500,000 in Hydro66 Holdings Corp. (formerly Arctic Blockchain Ltd.) a British Columbia corporation that operates a data centre business offering enterprise co-location services. In addition, in the year ended September 30, 2018, the Company invested USD\$300,000 (CAD\$388,350) into a Simple Agreement for Future Equity with Chia Network Inc. entitling the Company to participate at a discount in any future equity financing of that private company. Additional details are described in Note 7.

At September 30, 2018, the Company has a working capital of \$3,973,790 (2017 - \$7,020,830), has cash net inflow from operations of \$2,406,158 (2017 - net outflow of \$72,759,488), not yet achieved profitable operations, has accumulated losses of \$11,500,903 (2017 - \$12,293,366), and is embarking on a new business model, making investments in cryptocurrencies and block chain technology with uncertain results. In addition, investments in cryptocurrencies and block chain technology are exposed to risk and uncertainty as they are part of an emerging industry, all of which creates material uncertainty and casts significant doubt upon the Company's ability to continue as a going concern.

On January 24, 2019, the Board of Directors approved the consolidated financial statements for the years ended September 30, 2018 and 2017.

KHAN RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and their interpretations issued by the IFRS Interpretations Committee.

Basis of Presentation

The consolidated financial statements as at September 30, 2018 and 2017 have been prepared and presented on a going concern basis.

Principles of Consolidation

The 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 consolidated financial statements include the accounts of the Company and its wholly owned subsidiary located in Netherlands, Khan Resources B.V. ("KRBV").

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

Basis of Preparation

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

The accounting policies set out below have been applied consistently to the years presented in the 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 consolidated statement of income (loss).

Cash

This category consists of funds in cash and banks.

Short-term investments

Short-term Investments comprise short term money market instruments with an original maturity of one year or less, which are readily convertible into a known amount of cash.

KHAN RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments

Initial recognition and measurement (financial assets and financial liabilities) - The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument. Initial measurement of the financial instrument is at fair value, plus for those financial assets and liabilities not classified at fair value through profit or loss ("FVTPL"), directly attributable transaction costs.

Financial assets – subsequent classification and measurement - Financial assets are classified in their entirety including any embedded derivatives. Two criteria are used to determine how financial assets should be classified and measured: (a) the Company's business model for managing the financial assets; and (b) the contractual cash flow characteristics of the financial asset. Key management personnel have determined that the Company's financial assets (excluding investments in equity investments) are held within a business model whose objective is to hold financial assets in order to collect cash flows.

Where the contractual cash flow characteristics of financial assets, taken on an instrument-by-instrument basis, give rise, on specified dates, to cash flows that are solely payments of principal and interest then a financial asset is classified as subsequently measured at amortized cost using the effective interest method. This is called the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL.

In addition, at initial recognition, the Company may make an irrevocable election to present in other comprehensive income ("OCI"), subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination. Such an equity instrument is classified as subsequently measured at fair value through other comprehensive income ("FVOCI"). Gains and losses recognized in OCI are not subsequently transferred to profit or loss, although the Company may determine to transfer the cumulative gain or loss within equity. Dividends are still recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment. In 2018, the Company classified all investments in equity instruments as FVTPL (2016 elected to classify as FVOCI).

Reclassification - Financial assets are only reclassified between measurement categories, when and only when, the Company's business model for managing them changes. This is a significant event and thus is expected to be uncommon.

Impairment of financial assets - All of the Company's financial assets are subject to an impairment test at each reporting date. It also includes any off balance sheet loan commitments and financial guarantees.

Financial liabilities – subsequent classification and measurement - Financial liabilities are subsequently measured at amortized cost using the effective interest method or bifurcated into a host instrument measured at amortized cost, and an embedded derivative, measured at FVTPL. Financial liabilities include accounts payable and accrued liabilities.

Derecognition - The Company will derecognize a financial asset when the rights to the cash flows from the financial asset have expired or where the Company has transferred substantially all risks and rewards associated with the financial asset and has relinquished control of the financial asset.

The Company will derecognize a financial liability only when extinguished — i.e., when the obligation specified in the contract is discharged, cancelled or it expires.

Provisions

A provision is recognized on the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

KHAN RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss 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. Pursuant to the liability method, deferred taxes are recorded for temporary differences existing at closing date between the tax base value of assets and liabilities and their carrying amount on the balance sheet.

Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted at year-end. They are reviewed at the end of each year, in line with any changes in applicable tax rates.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of tax losses and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deductible temporary differences, tax loss carry forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and which, at the transaction date, does not impact earnings, tax income or loss.

Income

Interest income is recognized at the time persuasive evidence of an agreement exists, amount is fixed and determinable, and its collection is reasonably assured.

Stock-based Compensation

The Company offers a share option plan. 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 using the Black-Scholes option pricing model. Compensation expense is recognized as a charge to net loss over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. Any consideration paid on exercise of share options is credited to capital stock. The contributed surplus resulting from stock-based payment is transferred to capital stock when the options are exercised.

For equity settled transactions with non-employees, the Company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case, the Company measures their value by reference to the fair value of the equity instruments granted.

Earnings (Loss) per Share

Basic earnings (loss) per share amounts are calculated by dividing net profit (loss) for the period attributable to common shareholders by the basic weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit (loss) attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period plus the weighted average number of diluted shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares. The options and warrants of the Company are anti-dilutive as of September 30, 2018.

Segmental Reporting

The Company has only a single operating segment, and therefore one reportable segment.

KHAN RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Issued but not yet Effective

At the date of authorization of these financial statements, the IASB has issued the following standard which is not yet effective for the relevant reporting period.

IFRS 15 Revenue from Contracts with Customers was issued in May 2014, and replaces *IAS 18 Revenue*, *IAS 11 Construction Contracts* and related interpretations. The standard provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. The standard is required to be adopted either retrospectively or using a modified transaction approach for fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. The management evaluated that there is no impact of the standard on the Company's financial statements since there are not yet recurring revenues.

IFRS 16 Leases was issued in January 2016 and replaces *IAS 17 Leases*. Under *IAS 17*, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. *IFRS 16* now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under *IFRS 16*, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. *IFRS 16* is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if *IFRS 15, Revenue from Contracts with Customers*, is also applied. The Company is currently evaluating the impact of the standard on the Company's financial statements.

IFRIC 23 Uncertainty over income tax treatments was issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019. The Company is currently analyzing the potential effects of adopting this standard on its financial statements.

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:

Measurement of investments in FVTPL financial assets - The unrealized gain / loss is the difference between the original cost of the asset and its fair value at the measurement date. Estimates and judgments are used to determine the fair value of level two and level three investments.

KHAN RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2018 and 2017

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Stock-based compensation and warrants - The Company generally utilizes the Black-Scholes option pricing model to determine the fair values of the stock-based payments and warrants. The Company uses significant judgement in the evaluation of the input variables in the Black-Scholes calculation which includes: risk free interest rate, expected stock price volatility, expected life, expected dividend yield.

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

The balance consists of funds in cash and banks immediately available for their 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. At the end of the fiscal year 2018 all the GIC's and the interest earned were converted to cash.

6. SALES TAX AND OTHER RECEIVABLES AND PREPAID EXPENSES

The balances are comprised as follows:

	September 30, 2018	September 30, 2017
Interest receivable - GIC	-	2,005
Prepaid expenses and advances	11,737	24,983
Harmonized sales tax	16,670	7,424
	\$ 28,407	\$ 34,412

KHAN RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2018 and 2017

7. INVESTMENTS

The Company's investments in equity instruments are classified as FVTPL and are carried at fair value. The detail is as follows:

	Quantity	September 30, 2018
Hydro66 Holdings Corp. - Shares (a)	5,000,000	\$ 3,450,000
Hydro66 Holdings Corp. - Warrants (a)	5,000,000	401,014
Chia Network Inc. - SAFE (b)	-	388,350
		\$ 4,239,364

- (a) In February 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 collocation 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. The principal amount of the Debentures could be converted into units of Arctic at the conversion price of \$0.50 per unit; each unit was 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 at a price of \$0.75 per share for a period of two years.

Effective June 13, 2018, upon the completion of a takeover transaction of Arctic by Hydro66 and after becoming a listed technology issuer on the Canadian Securities Exchange as Hydro66 Holdings Corp., the Debentures owned by Khan were converted into 5 million shares valued at \$3,750,000 and 5 million warrants valued at \$633,932 of Hydro66 Holdings Corp. which is listed under the trading symbol "SIX". The Company recognized a gain on conversion of \$1,883,932.

The fair value of the warrants is determined using the Black-Scholes option pricing model and is updated at the end of each period. On June 13, 2018, the date of issuance, the warrants were assigned a fair value of \$633,932 using the following assumptions: share price \$0.75, dividend yield 0%, expected volatility based on average volatility of entities with similar activities 26.1%, a risk free interest rate of 1.77% and an expected life of 2 years. At September 30, 2018, the warrants were assigned a fair value of \$401,014, using the following assumptions: volatility of 27.42%, a risk free interest rate of 1.01% and a share price of \$0.69.

The \$532,918 fair value variance of the investments from the conversion date to September 30, 2018, was charged to the loss on FVTPL investments account in the consolidated statement of comprehensive income (loss).

- (b) On July 9, 2018, the Company invested USD\$300,000 (CAD\$388,350) into a Simple Agreement for Future Equity ("SAFE") with Chia Network Inc. ("Chia"). The investment was valued at cost which approximates its fair value as at September 30, 2018. The Company is entitled to participate, at a discount rate of 90%, in any future equity financing of Chia, subject to certain events.

In the event that Chia had an equity financing the Company will automatically be awarded shares of preferred stock equal to the invested amount divided by the discounted price. In the event that Chia has a liquidity event, the Company will be paid out at least the value of its investment or receive a number of shares of common stock equal to the invested amount divided by the liquidity price. Thereafter, this instrument expire and terminate.

Subsequent to year end, the market value of Hydro66 investments has experienced a decline in value by approximately \$2.3 million to \$1.5 million. \$1.9 million of this decline relates to the value of the shares in Hydro66 and \$0.4 million of this decline relates to the value of the Hydro66 warrants held. As disclosed in the significant estimates (see note 3) and market price risk (see note 16) the valuation of investments is subject to fluctuations in value. The Company will continue to review the status of this investment and consider further valuation adjustments in the next reporting period.

KHAN RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2018 and 2017

7. INVESTMENTS (Continued)

In the year 2017 the Company sold its portfolio of investments in Plateau Uranium Inc. the \$421,029 gain in the valuation of the investments, net of \$55,786 of income tax, was recorded in other comprehensive income. Subsequently, the \$3,174,176 cumulative balance of other comprehensive income (loss) was reclassified to the deficit account.

8. OTHER ASSETS

The balances are comprised as follows:

	September 30, 2018	September 30, 2017
Restricted cash (a)	\$ 52,250	\$ 52,250
Non-current prepaid insurance	29,025	37,125
	\$ 81,275	\$ 89,375

(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:

	September 30, 2018	September 30, 2017
Trade accounts payable	\$ 57,932	\$ 28,305
Accrued liabilities	63,527	27,876
Due to Laramide Resources Ltd. (Note 12)	5,480	-
	\$ 126,939	\$ 56,181

10. 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)
Balance, September 30, 2017 and 2018	90,166,482	\$ 8,187,214

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10. CAPITAL STOCK (Continued)

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.

11. STOCK-BASED COMPENSATION

On June 1, 2018, the Company granted a total of 5,000,000 options to certain directors and officers to buy common shares at an exercise price of \$0.10 each and expire on June 1, 2023. The stock options vest at issue date. The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: share price \$0.085, dividend yield 0%, expected volatility based on average volatility of entities with similar activities 159.1%, a risk free interest rate of 1.6%, and an expected life of 5 years. As a result, the fair value of the options was estimated at \$391,671 and is recognized in the current statement of comprehensive income (loss).

At September 30, 2018 the outstanding balance of stock options is as follows:

	2018	2017	Exercise price
Beginning Balance	-	1,500,000	\$0.47
Issued	5,000,000	-	\$0.10
Exercised (Note 12)	-	(600,000)	\$0.34
Exercised (Note 12)	-	(500,000)	\$0.57
Exercised (Note 12)	-	(400,000)	\$0.53
Balance at September 30, 2018 and 2017	5,000,000	-	

12. RELATED PARTY DISCLOSURES

During the year, Laramide Resources Ltd., a Company having a director and officer in common with Khan Resources Inc., charged \$90,000 (2017- \$Nil) for financial and administrative services including office space rent and other shared expenditures. In addition, Laramide Resources Ltd. paid \$41,845 of certain expenses on behalf of the Company which were subsequently reimbursed to Laramide Resources Ltd. At September 30, 2018, there is \$5,480 of net accounts payable to Laramide Resources Ltd.

During the year there is a \$6,250 charge for consulting services provided by a firm of which a director and former interim officer of the Company is a tax partner (2017 - \$Nil). At September 30, 2018 and 2017 there is \$Nil of accounts payable to this related party.

During the year there is a \$30,000 charge for consulting services provided by an officer and director of the Company. At September 30, 2018 there is \$13,560 (2017 - \$Nil) of accounts payable to this related party.

During the year there is a \$30,000 charge for consulting services provided by a director of the Company. At September 30, 2018 there is \$6,000 (2017 - \$Nil) of accounts payable to this related party.

During the year there is a \$17,230 charge for legal services by a firm of which an officer of the Company is a partner (2017 - \$Nil). At September 30, 2018 there is \$13,311 of accounts payable to this related party (2017 - \$Nil).

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12. RELATED PARTY DISCLOSURES (Continued)

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.

13. KEY MANAGEMENT COMPENSATION

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

The compensation payable to key management is shown below:

Years ended September 30	2018	2017
Salaries / Consulting fees	\$ 60,000	\$ 211,000
Director fees	48,750	122,000
Stock-based compensation, at fair value	376,004	-
	\$ 484,754	\$ 333,000

Included in stock-based compensation are 4,800,000 options which vested immediately.

14. INCOME TAXES

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate of 26.5%. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rate is as follows:

	2018	2017
Net income (loss) before income taxes	\$ 579,590	\$ (2,042,634)
Expected income tax recovery (expense) before adjustments	(153,591)	541,298
Non-taxable income and other, net	286,513	(16,255)
Derecognition of temporary difference on liquidation provision	-	(384,250)
Recoverable tax loss carry back	212,873	402,058
Changes in estimates related to the prior year	-	93,069
Unrealized gains (losses) on investments, net	(179,009)	-
Recognition of deferred tax expense on sale of investments	-	(55,786)
Change in deferred taxes not recognized	46,087	-
Other	-	(2,076)
Income tax recovery	\$ 212,873	\$ 578,058

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14. INCOME TAX (Continued)

The Company's deferred and current tax activity for the years ended September 30, 2018 and 2017 is as follows:

Income tax recovery (expense)	2018	2017
Current tax recovery	\$ 212,873	\$ 495,127
Deferred tax recovery (expense)	-	138,717
Income tax recovery (expense)	212,873	633,844
Deferred tax recognized in other comprehensive income	-	(55,786)
	\$ 212,873	\$ 578,058

The tax effects of temporary difference that give rise to future income tax assets and liabilities are as follows:

	2018	2017
Non-capital loss carry forwards	\$ 249,457	\$ 40
Net capital loss carry forwards	338,072	459,418
Investments	(179,009)	-
	\$ 408,520	\$ 459,458
Less: Deferred taxes not recognized	(408,520)	(459,458)
	\$ -	\$ -

At September 30, 2018 there is \$884,878 (2017 - \$Nil) of Canadian non-capital tax loss and \$74,882 (2017 - \$588,065) of Netherlands tax losses which expires from 2020 to 2028. The deductible temporary differences do not expire under current tax legislation. There is also \$2,551,484 of Canadian net capital loss that may be carried forward indefinitely, but can only be used to reduce capital gains.

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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\$5 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\$5 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 filed a \$775,000 claim for severance and damages against the Company. The Company believes the severance is not appropriate and the amount claimed is not probable to be paid. 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 investment in crypto currency and blockchain companies. 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 September 30, 2018, the Company has a working capital of \$3,973,790 (2017 - \$7,020,830), and a total of Capital stock and contributed surplus of \$19,795,332 (2017 - \$19,403,571).

To effectively manage the Company's capital requirements, the management has in place a 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.

At September 30, 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 year ended September 30, 2018.

Risk Disclosures

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

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16. FINANCIAL RISK FACTORS (Continued)

Credit Risk

The Company has cash and short-term investments balance of \$4,072,322 (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 currencies giving rise to this risk are primarily the U.S. dollar and the Euro, the balance of net monetary assets in such currencies as of September 30, 2018 is \$1,205,362 (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 September 30, 2018, the Company had a cash and short-term investments balance of \$4,072,322 (2017 - \$6,640,541) to settle current liabilities of \$126,939 (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 September 30, 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 \$120,536.

Fair Value Hierarchy

The Company classifies its fair value measurements with a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 13 – Financial Instruments; Fair Value Measurement ("IFRS 13").

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Investments classified as Level Two are comprised of the 5,000,000 Shares and the 5,000,000 Warrants of Hydro66 Holdings Corp.

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16. FINANCIAL RISK FACTORS (Continued)

The shares have a fair value of \$3,450,000 at September 30, 2018. The fair value of the shares is determined using the stock price of Hydro66 Holdings Corp. which is listed under the trading symbol "SIX". On September 30, 2018, the share price was \$0.69. The company performed a sensitivity analysis on the fair value of the shares and noted that a 20% decrease in share price would result in a \$690,000 decrease in the fair value of the shares.

The Warrants have a fair value of \$401,014 at September 30, 2018. The fair value of the warrants is determined using the Black-Scholes option pricing model and is updated at the end of each period. At September 30, 2018 the following assumptions were used to assign the fair value: volatility of 27%, a risk free interest rate of 1.01% and a share price of \$0.69. The company performed a sensitivity analysis on the fair value of the warrants and noted that (i) a change of 20% to the volatility would result in a \$99,081 decrease in the fair value of the warrants (ii) a change of 20% to the risk share price would result in a \$264,669 decrease in the fair value of the warrants. Changes in other inputs will not result in a significantly higher or lower fair value measurement.

Level 3 – Unobservable inputs which are supported by little or no market activity. Investments classified as Level Three consist of the USD\$300,000 (CAD\$388,350) invested for a Simple Agreement for Future Equity ("SAFE") with Chia Network. The fair value of the SAFE at September 30, 2018 was determined using the consideration paid for the SAFE on July 9, 2018. The company performed a sensitivity analysis on the consideration paid and noted that a 20% decrease would result in a \$73,917 decrease in the fair value of the SAFE.

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

September 30, 2018:	Level One	Level Two	Level Three
Cash and cash equivalents	\$ 4,072,322	\$ -	\$ -
Restricted cash	-	52,250	-
Investments	-	3,851,014	388,350
	\$ 4,072,322	\$ 3,903,264	\$ 388,350
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	-
	\$ 6,640,541	\$ 52,250	\$ -

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

17. CHANGE IN FINANCIAL STATEMENTS PRESENTATION

The Company has retrospectively changed the basis of presentation in the balance sheet, to be non-classified, and in the cash flow statement, to present cash flows arising from investments in operating activities, due to their new business model of investing in cryptocurrencies and block chain companies. The Company is not required to disclose a third balance sheet as this change is only a change in presentation.