



Khan Resources Inc.
Annual Information Form

For the year ended September 30, 2012
Dated as of December 17, 2012

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GLOSSARY OF TERMS

The following terms used but not otherwise defined in this Annual Information Form have the meanings set out below:

“**Aker Solutions**” means Aker Solutions Canada Inc.

“**ARMZ**” means Atomredmetzoloto.

“**ARMZ Offer**” means an unsolicited offer made by ARMZ to purchase all Khan’s outstanding common shares for CAD\$0.65 per share.

“**Big Bend Gold Property**” is a gold property located in the Zaamar goldfield district of Mongolia.

“**Board**” or “**Board of Directors**” means the board of directors of Khan.

“**CAUC**” means Central Asian Uranium Company, LLC.

“**CAUC Holding**” means CAUC Holding Company Limited.

“**CNNC**” means CNNC Overseas Uranium Holding Ltd.

“**CNNC Offer**” means an offer made by CNNC to acquire all of Khan’s outstanding Common Shares for CAD\$0.96 per share in cash.

“**CNSX**” means the Canadian National Stock Exchange operated by CNSX Markets Inc.

“°**C**” means degrees Celsius.

“**CNSX**” means the Canadian National Stock Exchange.

“**Common Shares**” means all of the issued and outstanding common shares in the capital of Khan and “**Common Share**” means any one common share of Khan.

“**concentrate**” means a processing product containing the valuable ore mineral from which most of the waste material has been eliminated.

“**Corporation**” or “**Khan**” means, Khan Resources Inc., a corporation existing under the laws of the Province of Ontario.

“**deposit**” means a mineralized body which has been physically delineated by sufficient drilling, trenching and/or underground work and found to contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures; such a deposit does not qualify as a commercially mineable ore body or as containing Mineral Reserves until final legal, technical and economic factors have been resolved.

“**DFS**” or “**Definitive Feasibility Study**” means the NI 43-101 compliant technical report dated April 22, 2009 in respect of the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia, filed on SEDAR at www.sedar.com on April 24, 2009.

“**Dornod Uranium Project**” means uranium properties that are located in the Dornod district of north eastern Mongolia.

“**Dornod Deposit No. 2**” means an open pit mine located on the Main Dornod Property.

“**Dornod Deposit No. 5**” means an underground deposit located in part on the Additional Dornod Property.

“**Dornod Deposit No. 7**” means an underground deposit located on the Main Dornod Property and the Additional Dornod Property.

“**Feasibility Study**” means a comprehensive study of a deposit in which all geological, engineering, operating, economic and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production.

“**grade**” means the amount of mineral in each tonne of ore.

“**Ikh Tokhoirol**” means Ikh Tokhoirol LLC.

“**Indicated Mineral Resources**” means that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and test information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

“**Inferred Mineral Resources**” means that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

“**International Arbitration**” means the international arbitration action against the Government of Mongolia.

“**IRR**” means internal rate of return.

“**Khan Bermuda**” means Khan Resources Bermuda Ltd.

“**KRL**” means Khan Resources LLC.

“**Laramide**” means Laramide Resources Ltd.

“**leach pad**” means a site prepared with an impermeable base for the piling of ore that will be treated with solutions to extract valuable metals (usually gold and silver).

“**Macusani**” means Macusani Yellowcake Inc.

“**Main Dornod Property**” consists of an open pit mine (Dornod Deposit No. 2) and approximately two-thirds of an underground deposit (Dornod Deposit No. 7).

“**Measured Mineral Resource**” is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

“**mineral**” means an inorganic substance occurring in nature, having a characteristic and homogeneous chemical composition, definite physical properties, and, usually, a definite crystalline form. A few of the minerals (e.g., carbon, arsenic, bismuth, antimony, gold, silver, copper, lead, mercury, platinum, and iron) are elements, but the vast majority are chemical compounds. Minerals combine with each other to make up rocks. Many minerals, especially the metals, are of great economic importance to a highly industrialized civilization, entering into the composition of many manufactured articles. Some minerals, which would otherwise be of no economic significance, are highly valued as gems.

“**Mineral Reserve**” means the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a pre-feasibility study. This study must include adequate information on mining, processing metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes allowances for dilution and losses that may occur when the material is mined.

“**Mineral Resource**” means a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

“**MNT**” means the tögrög, the official currency of Mongolia.

“**MonAtom**” means MonAtom LLC.

“**MOU**” means the non-binding memorandum of understanding entered into between Khan and MonAtom, which sought to establish the principal elements of a joint venture transaction which could finalize the ownership structure surrounding the Dornod Uranium Project and create a framework for developing the project and bringing it into operation.

“**MPRP**” means the Mongolian People’s Revolutionary Party.

“**MRPAM**” means the Mineral Resources and Petroleum Authority of Mongolia.

“**MRAM**” means Mineral Resources Authority of Mongolia (formerly MRPAM).

“**NDRC**” means the Chinese National Development Reform Commission.

“**NEA**” means the Mongolian Nuclear Energy Agency.

“**NI 43-101**” means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*.

“**NPV**” means net present value.

“**October 8 Notices**” means the notices received by CAUC and KRL on October 8, 2009, which stated that in connection with the implementation of the Nuclear Energy Law, the existing mining license and exploration license should be considered invalidated, and that CAUC and KRL should not undertake any activities under the licenses until they obtain new licenses from the NEA under the new law.

“**OBCA**” means the *Business Corporations Act* (Ontario).

“**ore**” means a metal or mineral, or a combination of these, of sufficient value as to quality and quantity to enable it to be mined and processed at a profit.

“**outcrop**” means an exposure of bedrock at the surface.

“**PFS**” or “**pre-feasibility study**” means the NI 43-101 compliant technical report dated September 27, 2007 in respect of the PFS and filed on SEDAR at www.sedar.com on October 17, 2007.

“**Priargunsky**” means JSC Priargunsky Industrial Mining and Chemical Union, a subsidiary of ARMZ.

“**Probable Mineral Reserve**” means the economically mineable part of an Indicated Mineral Resource, and in some circumstances a Measured Mineral Resource demonstrated by at least a pre-feasibility study. The pre-feasibility study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

“**Qualified Person**” means an individual who (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; (b) has experience relevant to the subject matter of the mineral project and the technical report related thereto; and (c) is a member in good standing of a professional association as defined by NI 43-101.

“**reclamation**” means the process by which lands disturbed as a result of mining activity are modified to support beneficial land use. Reclamation activity may include the removal of buildings, equipment, machinery and other physical remnants of mining, closure of tailings storage facilities, impoundments, leach pads and other mine features, and contouring, covering and re-vegetation of waste rock piles and other disturbed areas.

“**recovery**” is a term used in process metallurgy to indicate the proportion of valuable material physically recovered in the processing of an ore. It is generally stated as a percentage of valuable metal in the ore that is recovered compared to the total valuable metal originally present in the ore.

“**Scott Wilson RPA**” means Scott Wilson Roscoe Postle Associated Inc.

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval.

“**Share Exchange Agreement**” means the share exchange agreement dated July 31, 2003 between Wallace Mays, as vendor, Khan, as purchaser, and Khan Bermuda.

“**Shareholder Rights Plan**” means the amended and restated shareholder rights plan agreement dated as of November 14, 2006 between Khan and Equity Transfer & Trust Company adopted by the holders of Common Shares on February 15, 2007, as amended, supplemented or replaced from time to time.

“**Southern Andes**” means Southern Andes Energy Inc.

“**SPC**” means the State Property Committee of Mongolia.

“**SSIA**” means the Mongolian State Specialized Inspection Agency.

“**stripping ratio**” means the tonnage or volume of waste material which must be removed to allow the mining of one tonne of ore in an open pit.

“**Subsoil Law**” means the Subsoil Law of Mongolia.

“**Technical Report**” means a technical report completed in compliance with NI 43-101.

“**TSX**” means the Toronto Stock Exchange.

“**TSX-V**” means the TSX Venture Exchange.

“**U₃O₈**” or “**uranium oxide**” means a concentrated uranium oxide obtained by milling a mixture of uranium oxide ore to produce “pulped” ore. This is then bathed in sulphuric acid to leach out the uranium. Yellowcake is what remains after drying and filtering and is usually represented by the formula U₃O₈. It is radioactive, forming a coarse powder which is insoluble in water and contains about 80% uranium oxide (U₃O₈), and melts at approximately 2,878°C. The yellowcake produced by most modern mills is actually brown or black, not yellow; the name comes from the colour and texture of the concentrates produced by early mining operations. This fine powder is packaged in drums and sent to a conversion plant that produces uranium hexafluoride (UF₆) as the next step in the manufacture of nuclear fuel.

“**Western Prospector**” means Western Prospector Group Ltd.

“**Western Prospector Agreement**” means the agreement dated January 25, 2005 between Western Prospector and Khan.

EXPLANATORY NOTES

Unless otherwise indicated or the context otherwise indicates, in this document, “Khan” refers to Khan Resources Inc. and the “Corporation” refers to Khan and its direct and indirect subsidiaries on a consolidated basis.

Unless otherwise stated, all dollar amounts are expressed in United States dollars.

Forward-Looking Information

Certain information in this Annual Information Form, including any information as to Khan’s future financial or operating performance, the future price of uranium, the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending and potential litigation, other legal proceedings and regulatory matters, constitutes “forward-looking information” under applicable Canadian securities laws. All statements, other than statements of historical fact, contain forward-looking information. In this Annual Information Form, the words “believe”, “plan”, “expect”, “budget”, “schedule”, “estimate”, “forecast”, “intend”, “anticipate”, “may”, “could”, “would”, or “will” and similar expressions or variations (including negative variations) of such words and phrases, often, but not always, identify forward-looking information. Forward-looking information can also be identified by use of statements that certain actions, events, performance or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Statements containing forward-looking information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Khan, are inherently subject to significant business, economic, political, regulatory, social and competitive uncertainties and contingencies and involve known and unknown risks and other factors which may cause the actual results, performance, events or achievements of the Corporation to be materially different from any future results, performance, events or achievements expressed or implied by the forward-looking information. Such risks, uncertainties and factors include, but are not limited to: the impact of International, Mongolian and Canadian laws, trade agreements, treaties and regulatory requirements on the Corporation’s business, licenses, operations and capital structure; the Corporation’s ability to re-instate, re-register and maintain its licenses; regulatory uncertainty and obtaining governmental and regulatory approvals; legislative, political, social, regulatory and economic developments or changes in jurisdictions in which the Corporation and Macusani Yellowcake Inc. (“Macusani”) carry on business; the nature and outcome of the international arbitration proceedings (the “International Arbitration”) against the Government of Mongolia, the litigation against Atomredmetzoloto JSC (“ARMZ”) or any other future litigation, arbitration and other legal or regulatory proceedings; the speculative nature of mineral exploration and developments; possible variations in ore grades or recovery rates; changes in market conditions; changes or disruptions in the securities markets and market fluctuations in prices for the Corporation’s securities; the lack of any strategic transactions or the terms and conditions of any such strategic transactions not being acceptable; the existence of third parties interested in purchasing some or all of the common shares or Khan’s assets; the method of funding and availability of potential strategic transactions involving the Corporation, including those transactions that may produce strategic value for shareholders; changes in the worldwide price of certain commodities such as uranium, coal, fuel, electricity and fluctuations in resource prices; the need to obtain and maintain licenses and permits and comply with national and international laws, regulations or other regulatory

requirements; risks involved in the exploration, development and mining business; uncertainty in the estimation of mineral reserves and resources; results of exploration activities; results of reclamation activities and obligations; conclusions of economic evaluations; fluctuations in currency exchange rates and interest rates, including fluctuations in the value of the United States dollar and the Canadian dollar relative to the Mongolian tögrög (the “MNT”); fluctuations in the price of uranium; changes in project parameters as plans continue to be refined; future prices of uranium; variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Bermuda, the Netherlands, Mongolia or the British Virgin Islands and any other jurisdiction in which the Corporation or Macusani carries on business; political instability, insurrection, war or terrorism, hostilities and the occurrence of natural disasters; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, the timing and amount of estimated future development or production, costs of development, production and capital; operating and exploration expenditures; costs and timing of the development of new deposits; costs and timing of future exploration; requirements for additional capital; environmental risks; reclamation expenses; contests over title to properties; limitations of insurance coverage; operating or technical difficulties in connection with mining or development activities, including conducting such activities in remote locations with limited infrastructure; employee relations and shortages of skilled personnel and contractors; as well as those risk factors discussed in the section entitled “*Risk Factors*” in this Annual Information Form. Many of these risks, uncertainties and contingencies can affect the Corporation’s actual results, performance, events or achievements and could cause actual performance, actions, events or results to differ materially from those expressed or implied in any forward-looking information. All of the forward-looking information in this Annual Information Form is qualified by these cautionary statements. Forward-looking statements contained herein are made as of the date of this Annual Information Form. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements containing forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information.

The Corporation may, from time to time, provide oral forward-looking information or statements. The Corporation advises that the above paragraph and the risk factors described in this Annual Information Form and in the Corporation’s other documents filed with the Canadian securities commissions should be read for a description of certain risks, uncertainties and factors that could cause the actual results, performance, events or achievements of the Corporation to materially differ from those in the oral forward-looking information and statements. The Corporation disclaims any intention or obligation to update or revise any oral or written forward-looking information and statements whether as a result of new information, future events or otherwise, except as required by applicable law.

CORPORATE STRUCTURE

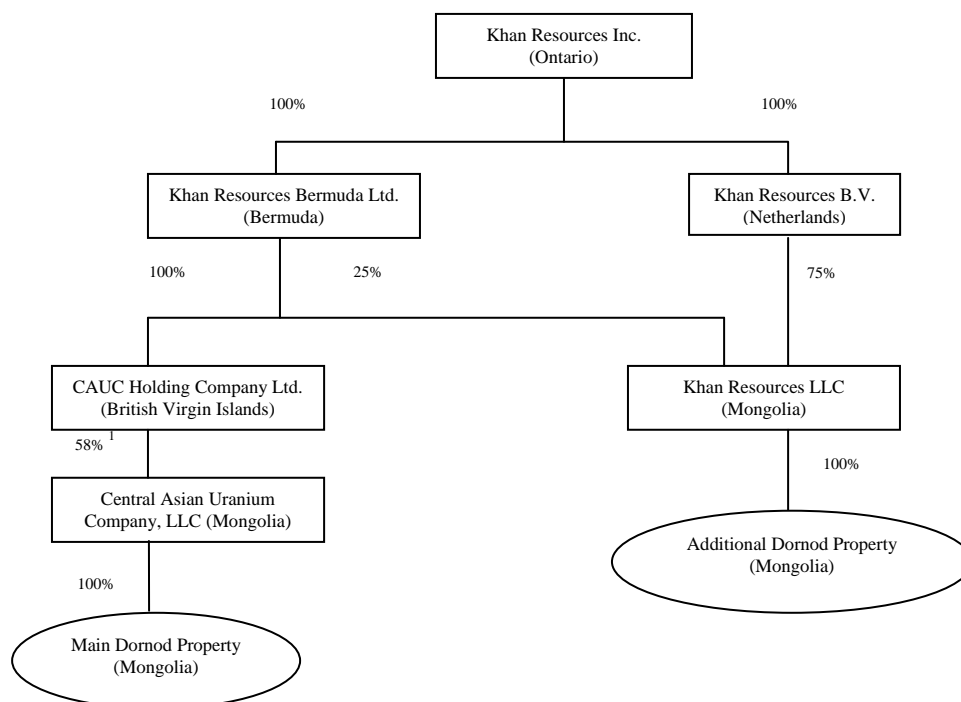
Name and Incorporation

Khan was incorporated under the name “2016594 Ontario Inc.” pursuant to the *Business Corporations Act* (Ontario) (the “OBCA”) on October 1, 2002. By a certificate and articles of amendment dated January 6, 2003, Khan amended its articles and changed its name to “Khan Resources Inc.”. Khan’s articles were further amended on May 31, 2004 by a certificate and articles of amendment removing restrictions in connection with the transferability of its shares.

The Corporation's head and registered office is located at Suite 1007, 141 Adelaide Street West, Toronto, Ontario M5H 3L5. Khan's Mongolian office is located at Ochir House Building, Room 204, Peace Avenue 15A/5, Ulaan Baatar 211213, Mongolia.

Intercorporate Relationships

Khan's corporate structure, its material subsidiaries, the percentage ownership in its material subsidiaries and the jurisdiction of incorporation of such corporations are set out in the following chart. The chart also indicates particulars of Khan's current ownership of its uranium properties.



Note:

- (1) The remaining 42% of Central Asian Uranium Company, LLC is owned as to 21% by each of MonAtom LLC ("MonAtom"), a Mongolian state owned company, and JSC Priargunsky Industrial Mining and Chemical Union ("Priargunsky"), a subsidiary of ARMZ, a Russian state owned company. Priargunsky was the operator of the Main Dornod Property from 1988 to 1995 when it was excavating uranium ore for shipment to Russia..

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

The Corporation is a Canadian-based mineral exploration and development company engaged in the acquisition, exploration and development of uranium, primarily in Mongolia. The Corporation has interests in certain uranium properties that are located in the Dornod district of north eastern Mongolia, a district that contains a number of known uranium deposits. These uranium properties are known as the Dornod Uranium Project and currently consist of a 58% interest in the "Main Dornod Property" (defined below) and a 100% interest in the "Additional Dornod Property" (defined below). As a result of certain actions by the Mongolian Government, the Corporation's interests in the Main Dornod Property and the

Additional Dornod Property are uncertain at this time. The Corporation commenced, in January 2011, an International Arbitration process against the Government of Mongolia and certain of its agencies for actions taken by the Government to effectively expropriate Khan's licenses. Khan also holds 15,523,330 common shares and 4,031,665 share purchase warrants of Macusani, a Canadian exploration company listed on the venture exchange of the Toronto Stock Exchange ("TSX-V") under the symbol YEL. Macusani holds properties and explores for uranium in the Macusani Plateau district in southern Peru.

At September 30, 2012, the Corporation had a total of six (6) employees: three (3) in Canada and three (3) in Mongolia.

Initial Listing

Khan listed its common shares (the "Common Shares") as well as class E warrants (the "Class E Warrants") on the Toronto Stock Exchange (the "TSX") effective August 2, 2006 when it also became a reporting issuer in Ontario, British Columbia, Alberta, Saskatchewan and Manitoba. The Class E Warrants expired on August 2, 2008.

On April 12, 2012, Khan announced that it received a notice from the TSX that the TSX has decided to delist the Company's securities effective at the close of market on May 11, 2012. The TSX determined that the Company has failed to meet the continued listing requirements of the TSX, on the basis of its determination that the Company: (1) has ceased to be actively engaged in ongoing business, (2) discontinued or divested a substantial portion of operations, (3) did not spend at least \$350,000 on exploration and/or development work in the most recent year, and (4) has discontinued or materially changed the nature of its business. These determinates are as a result of the Company putting its Dornod Uranium Project in Mongolia on a care and maintenance status and initiating the International Arbitration action in January 2011 against the Government of Mongolia and its state-owned uranium company, MonAtom LLC.

On April 12, 2012, Khan also announced that its Common Shares had been conditionally approved for trading on the Canadian National Stock Exchange ("CNSX") subject to fulfilling certain conditions and on May 14, 2012 Khan's common shares commenced trading through the facilities of the CNSX under the symbol "KRI".

Acquisition of the Main Dornod Property

Khan was incorporated on October 1, 2002 for the purpose of acquiring uranium and gold interests in Mongolia.

Khan and its wholly-owned subsidiary, Khan Resources Bermuda Ltd. ("Khan Bermuda"), were formed to effect the indirect acquisition of a 58% interest in Central Asian Uranium Company, LLC ("CAUC"), a Mongolian company and the owner of the Main Dornod Property, and a 100% interest in Ikh Tokhoirol LLC, the owner of the Big Bend Gold Property. The Big Bend Gold Property was sold on October 11, 2007; see "*General Development of the Business – Sale of the Big Bend Gold Property*".

The Main Dornod Property consists of an open pit mine (“Dornod Deposit No. 2”) and approximately two-thirds of an underground deposit (“Dornod Deposit No. 7”). From 1988 to 1995, Priargunsky, a subsidiary of ARMZ, a Russian state owned company, extracted approximately 590,000 tonnes of ore at an average grade of 0.118 per cent uranium oxide (“U₃O₈” or “uranium oxide”) from Dornod Deposit No. 2. At Dornod Deposit No. 7, two shafts have been sunk to depths of 510 and 500 metres and approximately 20,000 metres of development drifts, which extend onto the Additional Dornod Property, are in place. The mining license 237A in respect of the Main Dornod Property is registered in the name of CAUC, in which the Khan holds a 58% interest through a subsidiary. The other shareholders of CAUC, who each hold a 21% interest are MonAtom, a Mongolian state owned company and Priargunsky, a Russian state owned company. Khan operates the Main Dornod Property through a joint venture with MonAtom and Priargunsky. Khan expects the interests of the shareholders of CAUC will change as a result of the eventual implementation of the 2009 Nuclear Energy Law. However, in light of the 2009 law, a notice by the Government of Mongolia on November 12, 2010 stating that it would not be renewing CAUC’s mining license and the launching of an International Arbitration action by Khan against the government of Mongolia in January, 2011, Khan’s interests in the Main Dornod Property are uncertain at this time. See “*Legal Proceedings – International Arbitration*”.

The acquisition of the Main Dornod Property was effected in two stages. In the first stage of the acquisition, by agreement dated July 30, 2003, Khan Bermuda acquired 100% of the issued shares of CAUC Holding Company Limited (“CAUC Holding”) (then known as World Wide Mongolia Mining Inc.), a British Virgin Islands company, which in turn owns 58% of the issued shares of CAUC, the owner of the Main Dornod Property and related mining license.

In the second stage of the acquisition, following the acquisition of CAUC Holding by Khan Bermuda, Khan acquired all of the issued and outstanding shares of Khan Bermuda pursuant to a share exchange agreement (the “Share Exchange Agreement”) dated July 31, 2003 between Wallace Mays, as vendor, Khan, as purchaser, and Khan Bermuda.

Acquisition of the Additional Dornod Property

In March 2005, pursuant to an agreement dated January 27, 2005 (the “Western Prospector Agreement”) with Western Prospector Group Ltd., a Canadian corporation with uranium properties in Mongolia (“Western Prospector”), the Corporation acquired the “Additional Dornod Property” which consists of exploration license 9282X in respect of approximately 243 hectares of land contiguous with the Main Dornod Property. In addition to the remainder of Dornod Deposit No. 7, the Additional Dornod Property contains part of another underground deposit (“Dornod Deposit No. 5”). In consideration of this purchase, Khan issued 400,000 Common Shares to Western Prospector and granted a 3% royalty on revenues generated from any mineral product extracted from the Additional Dornod Property. The exploration license in respect of the Additional Dornod Property is registered in the name of Khan Resources LLC (“KRL”), a Mongolian company, in which Khan currently holds a 100% interest through its Bermudian and Netherlands subsidiaries.

Mining and Exploration Licenses

The mining license held by CAUC in respect of the Main Dornod Property was submitted to the Mineral Resources and Petroleum Authority of Mongolia (“MRPAM”) Department of Geology and Mining Cadastre for re-registration and was re-registered on January 23, 2007 with a term of 30 years commencing September 30, 1997 in accordance with the Minerals Law (defined below). The mining license previously had a term of 15 years commencing September 30, 1997. All other terms and conditions of the mining license were unaltered. See “*Narrative Description of the Business – Mongolia – Mining Legislation*”.

On July 15, 2009, the Corporation reported that it had received notice from the Mineral Resources Authority of Mongolia (“MRAM”) (formerly MRPAM) that the mining license for the Main Dornod Property, held by CAUC, had been suspended. Subsequently, following communications with MRAM and the State Specialized Inspection Agency of the Government of Mongolia, the Corporation was informed that the mining license was suspended based on the conclusions of the State Inspector who determined that CAUC was allegedly in violation of applicable laws by reason of it not having registered its deposit reserves with the State Integrated Registry for approval by the Minerals Council, however, CAUC had submitted its reserve calculations to MRAM for registration in accordance with Mongolian law initially in 2007 and again in 2008. On January 14, 2010, the Corporation announced that a settlement had been reached with MRAM whereby the suspension of the mining license for the Main Dornod Property, held by CAUC, had been terminated. The Corporation viewed this settlement as having finally resolved the July 2009 suspension of the mining license, despite subsequent reports circulated by the Mongolian Nuclear Energy Agency (the “NEA”) that the settlement was not valid. The MRAM formal report on such reserve and resource calculations is still pending as of the date of this Annual Information Form. Notwithstanding its continued efforts to register its reserves to date, CAUC has not received approval or registration of its reserves in respect of the Main Dornod Property. The Minerals Council did not appoint a group of experts to review the Corporation’s reserve and resource calculations until late 2009, following repeated requests by the Corporation. The Minerals Council has yet to convene a meeting to review and approve the experts’ report. Accordingly, having submitted the reserve calculations as required, obtaining approval and registration of its reserves continues to lie within the purview and control of the Minerals Council of Mongolia. The Corporation continues to believe that CAUC has complied with the terms of the mining license and applicable laws in all material respects.

The exploration license was renewed for an additional three-year period in February 2008 with expiry on February 11, 2011. Under the Minerals Law (defined below), the license may be renewed for one additional three-year period. The Corporation had previously taken steps to convert the exploration license for the Additional Dornod Property into a mining license in accordance with the Minerals Law. To this end, the Corporation has submitted the reserve and resource calculation for the Additional Dornod Property, prepared in accordance with Mongolian standards and requirements, to MRAM. This is a necessary precondition in the process of converting an exploration license to a mining license in accordance with the Minerals Law. The MRAM formal report on such reserve and resource calculations is still pending as of the date of this Annual Information Form, as described above. See also “*Narrative Description of the Business – Mongolia – Mining Legislation*”.

As discussed further below under “*Narrative Description of the Business – Mongolia – Nuclear Energy Legislation*”, on July 16, 2009, the Mongolian Parliament passed a Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009. In connection with the passing of the Nuclear Energy Law, the Mongolian Parliament enacted certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit an application to the State Administrative Authority and renew and re-register their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants were required to agree to abide by all of the conditions and requirements set out in the Nuclear Energy Law, including acceptance of the State’s 51% or 34% share participation in the license holder, as applicable. Any licenses not re-registered under the Nuclear Energy Law, as required, were considered to automatically be suspended. The Corporation submitted the applications for the renewal and re-registration of the mining license and exploration license in respect of the Dornod Uranium Project on November 10, 2009. On October 8, 2009, CAUC and KRL received notices (the “October 8 Notices”) which stated that in connection with the implementation of the Nuclear Energy Law, the existing mining license and exploration license should be considered invalidated, and that CAUC and KRL should not undertake any activities under the licenses until they obtain new licenses from the NEA under the new law. The Corporation inquired as to the grounds and consequences of such invalidations, and was informed by the NEA that all licenses held by all uranium license holders in Mongolia had been temporarily suspended in October 2009, pending re-registration of such licenses under the Nuclear Energy Law. Accordingly, the Corporation interpreted the October 8 Notices as an administrative matter which meant only that its licenses, like those of all other license-holders in Mongolia, were temporarily suspended pending re-registration under the new law. As discussed above, the Corporation submitted the applications for the renewal and re-registration of the mining license and exploration license for the Dornod Uranium Project on November 10, 2009. The applications were in compliance with the requirements of the new legislation, including the requirement to state that the license holder accepted the ability of the Mongolian State to take an ownership interest in the license-holder.

Subsequently, CAUC received a formal notice from the State Property Committee (the “SPC”) of Mongolia requiring CAUC to propose to its shareholders a resolution to approve an increase of the Mongolian State ownership in CAUC to 51%. The notice provided that if a favourable resolution was not provided to SPC by January 31, 2010, CAUC’s mining license would be in danger of revocation. In response to the SPC notice, effective January 25, 2010, each of MonAtom and CAUC Holding, the subsidiary through which Khan holds its interest in CAUC, on the basis of their collective 79% holding of the outstanding capital of CAUC, authorized and approved an increase in MonAtom’s ownership interest in CAUC from 21% to 51%, with a corresponding dilution of ownership interests of CAUC Holding and Priargunsky. Priargunsky, a 21% shareholder and voting member of CAUC, abstained from voting. The CAUC shareholders’ resolution was subsequently submitted to the SPC by the January 31, 2010 deadline. As of the date of this Annual Information Form, KRL has not yet received a similar notice from the SPC in respect of its exploration licence. In addition, neither the Government of Mongolia nor any of its agencies has made any request or initiated any action to reallocate the existing share positions or to receive additional shares of CAUC or KRL.

Subsequently, Khan announced on April 13, 2010 that CAUC and KRL had received notices from the NEA stating that the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property had been invalidated. The invalidations purported to be effective as of October 8, 2009 and purported to be based on a failure by CAUC and KRL to address violations of Mongolian law stemming from a July 2009 report issued by an inspection team appointed by the Mongolian State Specialized Inspection Agency in respect of the mining license. In response, CAUC and KRL filed separate formal claims in, and received favourable rulings from, the Capital City Administrative Court in Mongolia challenging the legal basis for the notices received from the NEA purporting to invalidate CAUC's mining license and KRL's exploration license.

However, the NEA has yet to reinstate and re-register the Corporation's licenses pursuant to the Nuclear Energy Law. On November 12, 2010, the NEA published what it called an official notification in certain Mongolian newspapers stating that it did not intend to reissue the CAUC and KRL licenses. The notices broadly accused KRL and CAUC, among other things, of disrespecting state laws and legislation and failing to fulfill conditions and requirements set out by law. The newspaper notice did not constitute an official decision which, under Mongolian law, must include the legal reasons for making such a decision. The NEA continues to hold to their position of not reissuing the licenses. The Corporation continues to believe that there exists no legal basis for the NEA to refuse to reinstate and re-register its licenses and that it has always acted in conformance with Mongolian laws. The Corporation has formally demanded to receive the official decision of the NEA in respect of its licenses, but has yet to receive a formal response.

In January, 2011, Khan initiated an International Arbitration action against the Government of Mongolia for causing substantial loss and damage to Khan through expropriatory, unlawful, unfair and discriminatory treatment in relation to Khan's licenses for the Dornod Project. The action, as at December 7, 2012, is for \$326 million in compensation for the losses sustained by Khan.

See "*Legal Proceedings –Invalidation of Mining and Exploration Licenses*" and "*Legal Proceedings – International Arbitration*" for further details.

Pre-Feasibility Study

On August 15, 2007, the Corporation announced that it had completed a pre-feasibility study ("PFS" or "pre-feasibility study") in respect of the Dornod Uranium Project. The PFS resulted in a greater than 16% increase in the NI 43-101 compliant Indicated Mineral Resource previously reported for the Dornod Uranium Project, for a total of 25.3 million tonnes of ore grading 0.116% U₃O₈ representing 64.3 million pounds of U₃O₈. The Inferred Mineral Resource estimated in the PFS was 2.2 million tonnes of ore grading 0.050% U₃O₈ representing 2.4 million pounds of U₃O₈. Further, a significant portion of the Indicated Mineral Resource was upgraded to the Probable Mineral Reserve category. The new Probable Mineral Reserve for Dornod Deposit No. 2 and Dornod Deposit No. 7 was 18.2 million tonnes of ore grading 0.122% U₃O₈ representing 49.1 million pounds of U₃O₈ out of the 64.3 million pounds of Indicated Mineral Resource. The Technical Report dated September 27, 2007 in respect of the PFS was filed on SEDAR at www.sedar.com on October 17, 2007.

The PFS assumed a uranium price of \$55 per pound U₃O₈, and a through-put of 3,500 tonnes per day over a 15.5 year mine life, which gave an average annual production rate of 2.9 million pounds of U₃O₈, at a cost of \$19.99 per pound U₃O₈ or \$49.21 per tonne of ore. This yielded an Internal Rate of Return (“IRR”) of 37.1%, and a Net Present Value (“NPV”) of \$288 million using a 10% discount rate. The capital cost of the project was projected to be approximately \$283 million.

Definitive Feasibility Study

On March 11, 2009, the Corporation announced the results of its definitive Feasibility Study (“DFS” or “Definitive Feasibility Study”) for the Dornod Uranium Project. The study was jointly completed by engineering consultants, Aker Metals, a division of Aker Solutions Canada Inc. (“Aker Solutions”), and resource consultants, Scott Wilson Roscoe Postle Associates Inc. (“Scott Wilson RPA”), and resulted in a study confirming the previous economic robustness of the Dornod Uranium Project.

The DFS was based on the NI 43-101 compliant indicated mineral resource previously reported for the project, prepared by Scott Wilson RPA, of 25.3 million tonnes at an average grade of 0.116% uranium oxide (U₃O₈) for 64.3 million lbs of U₃O₈ and an inferred mineral resource of 2.2 million tonnes at an average grade of 0.050% U₃O₈ for 2.4 million lbs of U₃O₈.

The Probable Mineral Reserve, prepared by P&E Mining Consultants Inc., for the No. 2 open pit and No. 7 underground deposits was 18.0 million tonnes at an average grade of 0.133% U₃O₈ for 52.9 million lbs of U₃O₈ out of the 64.3 million lbs of indicated mineral resources. Khan, at the time, had a 58% interest in the No. 2 deposit and two-thirds of the No. 7 deposit, plus a 100% interest in the remaining one-third of the No. 7 deposit. This level of ownership gave Khan an overall interest of approximately 69% of the uranium contained in both deposits.

The DFS assumed a long-term uranium price of \$65 per lb U₃O₈, and a through-put of 3,500 tonnes per day over a 15 year mine life, and generated an average annual production rate of 3.0 million lbs U₃O₈, at a cost of \$23.22 per lb U₃O₈ or \$58.26 per tonne of ore. Almost half of the total uranium production was in the first five years. The initial capital cost of the project was projected to be approximately \$333 million. The above parameters yielded a project internal rate of return (“IRR”) after tax of 29.1%, a net present value (NPV) at a 10% discount rate of \$276 million and a payback period of 2.3 years. The after tax NPV at 10% using a uranium price of \$70 per lb U₃O₈ was \$339 million and the after tax IRR was 32.5%.

On April 24, 2009, the complete Technical Report (NI 43-101) on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia, dated April 22, 2009, was posted and is available on SEDAR at www.sedar.com.

Hrayr Agnerian, P.Geo., Associate Consulting Geologist at Scott Wilson RPA, E.J. (Gene) Puritch, P.Eng. and Malcolm Buck, P.Eng., P&E Mining Consultants Inc., and Les Heymann, P.Eng., Senior Process Consultant, Aker Solutions, were the qualified persons (as defined under NI 43-101) on the Dornod Uranium Project and supervised the preparation of the scientific and technical information contained in the Technical Report (NI 43-101) on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia, dated April 22, 2009 and the related prior news release issued by Khan on March 11, 2009 in respect of the results of the DFS, which form the basis for the written scientific and technical information reproduced in this Annual Information Form, and copies of which are available on SEDAR at www.sedar.com.

Activities at the Dornod Uranium Project

In September 2008, the Corporation announced that it had entered into contracts for the construction of a power line and sedimentation pond for the Dornod Uranium Project. The electric power line would be constructed from the Xin Xin Mine, a zinc mine owned by a Chinese company, to the Dornod Uranium Property, a distance of about 26 kilometres and an electrical substation would be constructed at the site. The Xin Xin Mine is connected to an electric power line from the Choibalsan generating plant, approximately 120 kilometres to the south. In conjunction with the contract for the power line, an agreement for the supply of up to 15 megawatts of electricity had been entered into with the Choibalsan generating plant. The availability of electrical power from this plant would eliminate the use of diesel powered generators at the site and provide sufficient electricity for the future dewatering and rehabilitation of the underground mine workings. Water from the future dewatering of the underground mine workings would be pumped to the lined sedimentation pond to allow for the settlement and retention of sediments and particulate matter before the water was released into the environment. The sedimentation pond was substantially completed in June 2009. In April 2010, the contractor stopped work on the power line project. After several meetings with the contractor, it became apparent that the project would not be completed. A notice of default under the terms of the contract was sent to the contractor in November 2010, and the power line project has not progressed any further. The Dornod site was on a care and maintenance basis until June, 2012 at which time the decision was made to close and vacate the site.

Sale of the Big Bend Gold Property

The “Big Bend Gold Property” is a gold property located in the Zaamar goldfield district of Mongolia. Ikh Tokhoirol LLC (“Ikh Tokhoirol”), a former wholly-owned Mongolian subsidiary of Khan Bermuda, acquired the Big Bend Gold Property and the corresponding licenses for \$1,667,000 pursuant to an agreement dated July 30, 2003.

On October 11, 2007, Khan Bermuda sold all of the issued and outstanding shares of Ikh Tokhoirol to Berleg Mining LLC for \$2.5 million. Khan no longer owns any interest in the Big Bend Gold Property.

Purchase of interest in Macusani Yellowcake Inc.

On November 30, 2009, Khan acquired, by way of private placement, 10,000,000 common shares of Macusani Yellowcake Inc. (“Macusani”), a Canadian TSX Venture Exchange company which holds uranium properties in the Macusani Plateau district of Peru, at a subscription price of Cdn\$0.20 per share resulting in the Company holding approximately 17.9% of the then-outstanding common shares of Macusani immediately following the acquisition. Under separate agreement, Khan has a right to maintain its pro rata ownership of Macusani in certain subsequent treasury issuances for a period of two and a half years from the date of the private placement.

On November 4, 2010, Khan acquired by way of private placement 2,540,000 Macusani units at a subscription price of Cdn\$0.25 per unit, each unit consisting of one Macusani common share and one Macusani share purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn\$0.35 per share for a period of 24 months after the acquisition. On March 23, 2011, Macusani completed a public offering of units. The Company purchased 2,983,330 of these units at a price of Cdn\$0.60 per unit, each unit consisting of one Macusani common share and one half Macusani

purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn\$0.85 per share for a period of 24 months.

On April 20, 2012, Macusani announced that it completed a merger with Southern Andes Energy Inc. (“Southern Andes”) by issuing 0.8 of a common share of Macusani for each Southern Andes share held. The merged company now controls approximately 900 km² of uranium exploration ground in the Macusani Plateau uranium district in south-eastern Peru.

The Company currently holds 15,523,330 Macusani common shares representing approximately 9.24% of the outstanding common shares of Macusani and 4,031,665 Macusani share purchase warrants.

Khan has acquired the Macusani common shares and common share purchase warrants for investment purposes and subject to its pre-emptive rights does not presently have any further intention to acquire ownership of, or control over, additional securities of Macusani.

ARMZ Offer for Khan

On November 27, 2009, Khan announced that it was informed that ARMZ, a Russian state-owned nuclear energy corporation and the owner of Priargunsky (a 21% joint venture partner in CAUC), intended to make an unsolicited offer to purchase all of the outstanding common shares of Khan for Cdn\$0.65 per share (the “ARMZ Offer”). On November 30, 2009, ARMZ filed a copy of its offer to purchase and related take-over bid circular on SEDAR and published an advertisement formally commencing its ARMZ Offer. On December 15, 2009, Khan announced that its Board of Directors (“Board” or “Board of Directors”) had unanimously recommended that shareholders reject the unsolicited ARMZ Offer. The Board of Directors unanimously believed that the ARMZ Offer was inadequate, failed to recognize the full value of Khan and contained objectionable terms and conditions. Subsequently, on February 1, 2010, ARMZ issued a press release and filed a notice of extension, extending the ARMZ Offer until March 1, 2010. On March 1, 2010, ARMZ announced that it was allowing the unsolicited ARMZ Offer to expire.

Memorandum of Understanding (“MOU”)

After ARMZ launched its unsolicited offer to acquire all of the outstanding common shares of Khan, an independent Special Committee of the Khan Board of Directors was established and spent considerable amounts of time exploring and discussing possible strategic alternatives that would be in the best interests of Khan and would maximize value for its shareholders. A particular focus was on transactions that involved MonAtom LLC (“MonAtom”), a Mongolian state owned company and a 21% joint venture partner in CAUC, and the Mongolian Government, in an attempt to find a mutually satisfactory transaction that would satisfy the state-ownership requirements set out in the Nuclear Energy Law while also providing Khan with a stable ownership and regulatory framework within which it could proceed to develop the Dornod Uranium Project. These efforts initially culminated in the entering into of a non-binding MOU with MonAtom, announced by Khan on January 25, 2010, which sought to establish the principal elements of a joint venture transaction which could finalize the ownership structure surrounding the Dornod Uranium Project and create a framework for developing the project and bringing it into operation. Khan’s objective in entering into the MOU was to protect and preserve value for Khan’s shareholders in light of the Nuclear Energy Law, the uncertain status of the Corporation’s mining license and exploration license and the hostile bid by ARMZ.

The MOU contemplated that Khan and MonAtom would enter into a new joint venture arrangement whereby Khan and MonAtom would each hold shares of a joint venture company which would have ownership in both CAUC and KRL. Generally, the proposed structure contemplated MonAtom acquiring a 51% interest in each of CAUC and KRL in accordance with the Nuclear Energy Law. MonAtom would then transfer to Khan part of its interest in the joint venture in exchange for newly issued shares of Khan representing approximately 17% of Khan's outstanding common shares, and a warrant to purchase an additional approximate 2.9% of the common shares of Khan at an exercise price equal to the market price on the date that the definitive agreement was signed. This transfer was anticipated to result in Khan owning 65% of the joint venture company and the joint venture company owning 74% of CAUC and 100% of KRL.

The transaction contemplated under the non-binding MOU was subject to a number of conditions including negotiating and signing a formal joint venture agreement, operator agreements and related definitive documentation, as well as obtaining required approvals, including by the Khan and MonAtom boards and, accordingly, there was no assurance that the transactions contemplated by the MOU would be concluded or that the terms and conditions or proposed final structure would not change.

The MOU was carefully prepared in close consultation with MonAtom so as to satisfy the requirements of the Nuclear Energy Law. Khan also understood that the MOU had the approval of senior members of the Mongolian Government. A key condition to the MOU was that the licenses would be re-registered under the Nuclear Energy Law by no later than January 29, 2010. The license re-registrations, however, did not occur and towards the end of January, reports began circulating that the NEA had publicly stated that the MOU was invalid and contrary to the laws of Mongolia and therefore unenforceable. When it became apparent that the NEA was not able or willing to honour the MOU, and in the face of the threat of a then-still-outstanding hostile take-over bid by ARMZ, Khan's only remaining alternative was to negotiate a friendly transaction with CNNC (described below), whereby CNNC agreed to make an offer to acquire all of the outstanding shares of Khan at a price superior to the ARMZ Offer.

CNNC Offer

On February 1, 2010, Khan announced that it had entered into a definitive support agreement with CNNC Overseas Uranium Holding Ltd. ("CNNC"), a subsidiary of China National Nuclear Corporation, pursuant to which CNNC agreed to make an offer to acquire all of Khan's outstanding common shares for Cdn\$0.96 per share in cash (the "CNNC Offer"), upon and subject to the terms and conditions of the definitive agreement. The CNNC Offer represented a premium of approximately 118% to the closing share price prior to the ARMZ unsolicited bid, and a 48% premium to ARMZ's unsolicited Cdn\$0.65 per share bid.

Khan announced on February 26, 2010 that the CNNC Offer had formally commenced. Khan's Board of Directors supported the CNNC Offer and recommended that shareholders tender their shares to the CNNC Offer. The CNNC Offer was initially open for acceptance until April 6, 2010 and was subsequently extended until May 25, 2010. On May 21, 2010, Khan announced that it had been informed by CNNC that it had failed to obtain the requisite Chinese regulatory approval for the CNNC Offer and, accordingly, would allow the CNNC Offer to expire at the scheduled expiry time on May 25, 2010.

According to information provided by CNNC, on May 21, 2010, CNNC was notified by the National Energy Administration, an arm of the Chinese National Development Reform Commission ("NDRC"), that the CNNC Offer was not approved. No reasons were given in the notice, nor have any reasons been

provided by CNNC or otherwise since been made known to Khan as to why the NDRC refused to approve the transaction. The CNNC Offer was conditional upon CNNC receiving all necessary Chinese government and regulatory approvals, including NDRC approval.

Private Placement

On April 18, 2012, the Corporation completed a private placement of 13,600,000 Common Shares at a price of CAD\$0.17 per Common Share for gross proceeds of CAD\$2,312,000. No fees or commissions were paid as part of the private placement.

NARRATIVE DESCRIPTION OF THE BUSINESS

Business Objectives and Strategy

The Corporation's primary business objective is to obtain value for its interests in the Dornod Uranium Project and its investment in Macusani. The Corporation currently owns 58% of CAUC which in turn holds a revoked mining license in respect of the Main Dornod Property and indirectly holds 100% of a revoked exploration license in respect of the Additional Dornod Property. The status of these interests are currently uncertain. See "*Legal Proceedings – Invalidation of Mining and Exploration Licenses*", "*Legal Proceedings – International Arbitration*" and "*Legal Proceedings – ARMZ*".

The Corporation has completed a Definitive Feasibility Study in respect of the Dornod Uranium Project. It is very unlikely that resolution of the International Arbitration action against Mongolia would include the renewal and re-registration of the Corporation's mining license and exploration license under the new Nuclear Energy Law. However, if this event took place, the Corporation would then take steps to: (1) convert the exploration license into a mining license; (2) negotiate updated joint venture development arrangements with its CAUC partners; and (3) negotiate an investment agreement with the Government of Mongolia before committing substantial funds to the further development of the Dornod Uranium Project.

The successful negotiation of any updated joint venture development agreement with its CAUC partners and any investment agreement with the Government of Mongolia are considered by Khan to be prerequisites to any major mine development work. There can be no certainty as to the timing to complete negotiations with its CAUC joint venture partners or the Government of Mongolia. (see "*Risk Factors – Negotiation of Investment Agreement with the Government of Mongolia*" and "*Risk Factors – Negotiation of Updated Joint Venture Development Agreement with CAUC Participants*").

Mongolia

Introduction

Mongolia is a landlocked country, located in northeast Asia between Russia and China. The country has a total area of 1,565,600 km² and shares a 4,673 km long border with China on its eastern, western and southern sides and a 3,485 km long border with Russia to the north. The population of Mongolia is estimated at 2.7 million people with approximately 1 million people living in Ulaan Baatar, the capital and largest city. Some 40% of the population lives in the countryside, primarily subsisting as nomadic livestock herders, while the rest live in cities or small settlements spread throughout the country. The official national language is "Khalkha Mongol" and the primary religion is Buddhism.



The latitude of Mongolia, between 42° and 52° north, is approximately the same as that of Central Europe; however, because the country is far from the ocean and has a relatively high median altitude of 1,580 m above sea level, the climate is characterized by an extreme continental climate with large temperature fluctuations and low total rainfall, averaging 200-220 mm per year. Most precipitation falls during the short summer, while winter is generally dry and extremely cold. Temperatures in summer average approximately 25°C, while winter temperatures average -21°C.

The Corporation's Dornod Uranium Project is located in the north-eastern portion of Mongolia some 650 km to the east of the capital city of Ulaan Baatar.

The descriptions below of certain mining, nuclear energy, tax, permitting and environmental laws and regulations potentially relevant to the Corporation, and the descriptions elsewhere in this Annual Information Form concerning other laws relevant to the Corporation and its business, assets and operations, are of a general nature only and are not intended to be, nor should they be considered to be, legal or tax advice and no representation is made with respect thereto. Readers who are seeking legal or tax advice should consult their own advisors concerning the application and effect of such laws.

Infrastructure

Mongolia, being a land-locked country with a small rural population, has limited transportation infrastructure. Although there are some second-class roads, travel to remote areas is difficult and requires the use of off-road vehicles or camel/horse trains. There are railway links with Russia and China, and excellent air links with Moscow, Beijing, Seoul, Western Europe and other East Asian countries.

The infrastructure in Mongolia is improving annually due to an increase in tourism and industrialization, and the resulting need to provide western style accommodations and services.

Mining Industry

The mining sector is Mongolia's single largest industry. Prior to 1970, Mongolia was not able to develop its vast mineral resources due to a lack of infrastructure and lack of financing for mineral resource development. However, beginning in 1970, various deposits of copper, gold, fluorspar, uranium, and coal were developed by joint ventures formed in partnership with the former Soviet Union and its allies. The most notable of these ventures is the Erdenet copper mine, a joint venture between Mongolia and Russia.

In the mid-1990s, some major western companies, such as BHP Billiton Plc and Rio Tinto Plc, as well as a number of junior companies, began exploring for minerals in Mongolia, principally copper and gold. Following the enactment of a new minerals law in 1997 (which was replaced in 2006 as described below), and the general rise in prices of commodities in subsequent years, many other companies have initiated exploration programs in Mongolia.

Gold, copper and thermal coal are important minerals currently being produced in Mongolia. Deposits of coking coal, used in making iron and steel, are expected to be exploited. Resources at the Tavan-Tolgoi deposits, about 530 km from the capital, Ulaan Baatar, are estimated at more than 5 billion tonnes. The quality of these coal resources reportedly are on par with deposits in Australia and Canada, major players in the world coal market.

Until recently, foreign investment and direct participation by foreign companies in exploration for, and extraction and processing of, mineral resources, as well as in a wide range of mining-related industries, was actively encouraged. However, Mongolia's national policies concerning its mineral sector are continuously under review, and on July 8, 2006, the Mongolian Parliament adopted a new Minerals Law that contains provisions relating to, among other things, state ownership that are inconsistent with the policy of actively encouraging foreign investment in the mining industry. (See "*Political Landscape*" and "*Mining Legislation*".) With respect to uranium resources, the Mongolian Parliament passed a new Nuclear Energy Law on July 16, 2009 that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009 and is discussed in greater detail below.

Political Landscape

Mongolia has a democratic form of government based on a unicameral (one chamber) parliamentary system and a directly elected president. The prime minister is nominated by and serves on behalf of the majority party in the Great Khural ("Parliament"), which is the parliament of Mongolia. The Constitution enshrines the concepts of democracy, freedom of speech, and judicial independence, among others.

The first multiparty elections were held in July of 1990 at which the Mongolian People's Revolutionary Party (the "MPRP") became the dominant political party. The MPRP was victorious again in the July 1992 elections but lost to a coalition of opposition groups in the elections of 1996. The MPRP regained power in 2000.

In 2004, MPRP and the Democratic Party each gained control of roughly one-half of the parliamentary seats. In order to form a government, the groups entered into a power sharing agreement that caused it to be difficult for the Government of Mongolia to maintain consistent policies and administrative practices, most notably within the minerals sector.

On the legislative side, as a consequence of the governance gridlock following the 2004 elections, and a growing populist sentiment that foreign mining companies are profiting from the extraction and sale of Mongolia's mineral resources and that Mongolia is not getting its fair share, various individuals and groups seized the opportunity to propose radical changes to the existing minerals legislation. These proposals reflected a widespread public sentiment for establishing a new paradigm for the development and marketing of the country's natural resources and provoked strong negative responses from companies engaged in exploration and mining in Mongolia, as well as the World Bank and other institutional donors.

Following the general election held on June 29, 2008, where the MPRP won the majority of seats in the Parliament, a new Ministry of Mineral Resources and Energy was established. Previously, the Ministry of Industry and Trade was responsible for mining and energy matters.

On June 28, 2012, another general election was held in Mongolia where the Democratic Party won most but not a majority of seats in the Parliament. The Democratic Party has subsequently formed a coalition government with certain smaller parties and the coalition now constitutes the majority of seats in the Parliament.

Mining Legislation

On July 8, 2006, the Parliament revised the existing minerals legislation substantially changing the legal regime that governed the exploration and exploitation of mineral resources in Mongolia. The Minerals Law allowed the State to participate in a mining license-holder's company where a mineral deposit is defined by the State as being "strategically important". By definition, a strategically important minerals deposit is any deposit whose "scope may have a potential impact on national security, national or regional economic and social development, or that is producing or has the potential to produce more than 5% of total annual Gross Domestic Product". Additionally, the Minerals Law generally provided for increased reporting requirements, environmental bonds, new permitting requirements, consents and approvals from a broader range of government authorities prior to the commencement of commercial mining and changes to yearly exploration expenditures and fees payable to the State by mineral license-holders. Beginning in 2007, the Dornod Uranium Project was designated as a deposit of "strategic importance" under the Minerals Law. The activities of the Corporation were primarily regulated by the Minerals Law until the passage of the Nuclear Energy Law on July 16, 2009.

While the Minerals Law no longer directly regulates the exploration and exploitation of radioactive minerals (as uranium is defined in and governed by the Nuclear Energy Law), it remains an integral part of the Nuclear Energy Law in that many of the definitions, procedures and requirements of the Minerals Law have been incorporated and remain requirements for minerals license-holders under the Nuclear Energy Law.

To a lesser extent, the Subsoil Law of Mongolia ("Subsoil Law"), in addition to the Minerals Law and the Nuclear Energy Law, also regulates mineral license-holders.

Nuclear Energy Legislation

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The law became effective on August 15, 2009.

The Nuclear Energy Law gives the Mongolian Government the right to take ownership without payment of not less than 51% (if uranium resources were determined with State funding), or not less than 34% (if uranium resources were determined without State funding) of the shares of a license holder, and the further right to revoke outstanding licenses if the license holders did not agree to abide by these provisions and submit applications in the required form to re-register their existing licenses in accordance with the Nuclear Energy Law by November 15, 2009.

Generally, the law gives the State Administrative Authority, being the Mongolian Nuclear Energy Agency (the “NEA”), the responsibility over the implementation and enforcement of State policy on the exploitation of radioactive minerals and nuclear energy, including the power to grant, suspend or revoke any licenses granted pursuant to the Nuclear Energy Law. The Nuclear Energy Law requires licenses to be obtained to conduct a variety of activities relating to radioactive minerals and nuclear energy, including an exploration license to prospect and explore for radioactive minerals, and a mining license to exploit radioactive minerals.

To obtain an exploration license, the law provides that the applicant must, among other things, conduct its activities in a transparent and stable manner, be financially capable to conduct exploration activity of radioactive minerals and reclamation, conduct responsible mining, and have sufficient experience in the field of mining. Exploration licenses are to be issued to persons who best meet the conditions set out in the Nuclear Energy Law, and agree to accept the state ownership of the required percentage of shares of the license holder, discussed above.

In addition to satisfying the conditions applicable to exploration licenses, an applicant for a mining license must also, among other things, hold a stable and leading position producing and selling radioactive minerals on the world market, be financially independent and have the capacity to sell radioactive minerals for peaceful purposes at the world market price, have the financial capacity to mine radioactive minerals and have experience in mining radioactive minerals.

The Nuclear Energy Law also requires that a holder of a mining license conclude a mining agreement with the State Administrative Authority within 60 days from issuance of the mining license, setting out, among other things, the reasons for mining radioactive minerals, the term of exploitation, the type and grade of deposit and deposit reserves, the technology, production capacity and quantity of products to be mined as reflected in the feasibility study, conditions of sale, an environmental protection and reclamation plan including the associated implementation costs, a mine closure plan, and the other rights, obligations and responsibilities of the parties. The State Administrative Authority can revoke the license if a mining agreement is not concluded within the 60-day period.

The Nuclear Energy Law also provides that an Investment Agreement may be concluded between the State and an exploration and/or mining license holder for up to a 10-year term. The law further provides that an Investment Agreement may be extended for a further term of up to 10 years. There is no minimum investment threshold and investors of exploration or mining license are given the same protections as provided in the Minerals Law.

In connection with the passing of the Nuclear Energy Law, the Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. As noted above, existing license holders were required to submit an application to the State Administrative Authority for the renewal and re-registration of their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants were required to abide by all of the conditions and requirements set out in the Nuclear Energy Law, including acceptance of the State's 51% or 34% share participation in the license holder, as applicable. Any licenses that are not re-registered as required are considered to automatically be suspended. As noted elsewhere in this Annual Information Form, robust applications to re-register both the mining and the exploration licenses for the Dornod Uranium Project were submitted prior to the November 15, 2009 deadline. However, as discussed elsewhere in this Annual Information Form, to-date, the NEA has refused to reinstate and register the Corporation's licenses. The Corporation continues to believe that there exists no legal basis for the NEA to refuse to reinstate and re-register its licenses and that it has always acted in conformance with Mongolian laws. The Corporation has formally demanded to receive the official decision of the NEA in respect of its licenses, but has yet to receive a formal response. For further details, see "*General Development of the Business – Mining and Exploration Licenses*" and "*Legal Proceedings –Invalidation of Mining and Exploration Licenses*".

Royalties

The Minerals Law as incorporated into the Nuclear Energy Law provides for a royalty at the rate of 5% with respect to the sales value of minerals that are sold, shipped for sale, or otherwise used. In addition, as discussed above under "*General Development of the Business – Acquisition of the Additional Dornod Property*", in consideration for Khan's acquisition of the Additional Dornod Property, Khan granted Western Prospector a 3% royalty on any revenues generated from any mineral product extracted from that property.

Permitting Legislation

The Minerals Law, the Nuclear Energy Law, the Subsoil Law and various other laws generally require that a mining license-holder obtain permits, approvals, consents or approvals from various State and local government authorities prior to the commencement of commercial mining operations.

Environmental Legislation

The Environmental Protection Law of Mongolia together with the Environmental Impact Assessment Law and the Minerals Law generally regulate how mineral resource companies must comply with environmental legislation related to their mining and development activities. All minerals resource companies have a duty to use the natural environment (which includes land and soil, water, underground and mineral wealth, flora, fauna and air) in a safe and healthy manner so as to prevent ecological imbalance. This duty includes the obligations to (i) conduct environmental impact assessments defining how the mining companies' exploitation of mineral resources will impact the environment, and the measures taken by the mining companies to minimize and/or mitigate the adverse effects of such activities, (ii) prepare environmental protection plans and conduct ongoing environmental monitoring related to those plans, (iii) report yearly on the mining companies' compliance with the environmental protection plans and monitoring requirements, (iv) maintain records on toxic substance disposal and waste discharges as well as the operation of any monitoring equipment, and (v) properly fund State-held

reclamation accounts in accordance with the level of mining companies' mining and related activities for each given year.

RISK FACTORS

Renewal and Re-registration of Licences

On July 16, 2009, the Mongolian Parliament passed a Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The new law became effective on August 15, 2009. In connection with the passing of the Nuclear Energy Law, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held under the Minerals Law prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit applications to the State Administrative Authority to renew and re-register their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants were required to agree to abide by all of the conditions and requirements set out in the Nuclear Energy Law, including acceptance of the State's 51% or 34% share participation in the license holder, as applicable. Any licenses that are not re-registered under the Nuclear Energy Law, as required, are considered to automatically be suspended.

The Corporation submitted robust applications for the renewal and re-registration of the mining license and exploration license for the Dornod Uranium Project on November 10, 2009. On April 13, 2010, Khan announced that it had received notices from the NEA that CAUC's mining license for the Main Dornod Property and KRL's exploration license for the Additional Dornod Property had been invalidated. On November 12, 2010, the NEA published, in a local newspaper, what it called an official notification that it did not intend to reissue the CAUC and the KRL licenses. To-date, the NEA has not reinstated and registered the Corporation's licenses. The Corporation continues to believe that there exists no legal basis for the NEA to refuse to reinstate and re-register its licenses and that it has always acted in conformance with Mongolian laws.

The Corporation commenced in January, 2011, an International Arbitration action against the Government of Mongolia for its unlawful treatment of Khan in relation to the Dornod Uranium Project.

The Company believes it is unlikely that the essential mining and exploration licenses for the Dornod Uranium Project will be renewed and reregistered. For further details, see "*General Development of the Business – Mining and Exploration Licenses*", "*Legal Proceedings – Invalidation of Mining and Exploration Licenses*", and "*Legal Proceedings – International Arbitration*".

Nuclear Energy Law

The Nuclear Energy Law gives the Mongolian Government the right to take ownership without payment of not less than 51% (if uranium resources were determined through exploration with State funding), or not less than 34% (if uranium resources were determined without State funding) of the shares of a license holder, and the further right to revoke outstanding licenses if the license holders did not agree to abide by these provisions and submit applications in the required form to re-register their existing licenses in accordance with the Nuclear Energy Law by November 15, 2009. It is not certain whether or on what terms Mongolia would seek to acquire additional equity in the license holders, or the amount of such additional equity. The acquisition of any interest in Khan or its subsidiaries or joint venture without

payment or otherwise pursuant to the Nuclear Energy Law is likely to have a material adverse effect on Khan and/or its subsidiaries or joint ventures, and their business, assets and financial condition. see “*Narrative Description of the Business – Mongolia – Nuclear Energy Legislation*”.

Legal Proceedings

In the course of its business, the Corporation may from time to time become involved in various claims, arbitration and other legal proceedings, with and without merit. The nature and results of any such proceedings cannot be predicted with certainty. As discussed in further detail below under “*Legal Proceedings*”, the Corporation has initiated a claim against ARMZ in the Ontario Superior Court of Justice, which claim is currently in the process of being served on the defendants. The Corporation has also obtained favourable rulings from the Mongolian Courts in respect of its prior claims against the NEA in relation to the NEA’s purported invalidation of the Corporation’s mining and exploration licenses, although, to-date, the NEA has not reinstated and re-registered the Corporation’s essential licenses. In addition, the Corporation initiated, in January 2011, an International Arbitration action against MonAtom and the Government of Mongolia in connection with the ongoing issues surrounding the Corporation’s licenses, including the Government’s expropriatory, unlawful, unfair and discriminatory treatment in respect of the Dornod Uranium Project and the related licenses. Such proceedings, and any potential future claims and proceedings, are likely to be of a material nature. In addition, such claims, arbitration and other legal proceedings can be lengthy and involve the incurrence of substantial costs and resources by the Corporation, and the outcome, and the Corporation’s ability to enforce any ruling(s) obtained pursuant to such proceedings, are subject to inherent risks and uncertainty. The initiation, pursuit and/or outcome of any particular claim, arbitration or legal proceeding could have a material adverse effect on the Corporation’s financial position and results of operations, and on the Corporation’s business, assets and prospects. In addition, if the Corporation is unable to resolve any existing or future potential disputes and proceedings favourably, or obtain enforcement of any favourable ruling, if any, that may be obtained pursuant to such proceedings, it is likely to have a material adverse impact on the Corporation’s business, financial condition and results of operations and the Corporation’s assets and prospects.

Foreign Operations

The Corporation is currently dependent, in large part, upon its exploration and development properties in Mongolia and any adverse development affecting those properties or the interests, licenses and permits relating thereto is likely to have a material adverse effect on the Corporation, its business, assets, prospects, results of operations and condition (financial or otherwise). The Corporation also has a significant investment in a company whose properties are located in Peru.

There can be no assurance that industries deemed of national or strategic importance to Mongolia or Peru, such as mineral resources, will not be nationalized. Government policy may change to discourage foreign investment, renationalization of mining industries may occur and other government limitations, restrictions or requirements may be implemented. There can be no assurance that the Corporation’s assets in Mongolia or Macusani’s assets in Peru will not be subject to nationalization, requisition, expropriation or confiscation, whether legitimate or not, by any authority or body. In addition, the political, social and economic environment in Mongolia presents a number of serious risks, including: corruption, requests for improper payments or other corrupt practices; uncertain legal enforcement; invalidation, confiscation, expropriation or rescission of governmental orders, permits, licenses, agreements and/or property rights; the effects of local political, labour and economic developments, instability and unrest; currency fluctuations; and significant or abrupt changes in the applicable regulatory or legal climate.

In addition, the Corporation's licenses, permits and assets in foreign countries may be susceptible to arbitrary revocation, invalidation and/or termination and are often affected in varying degrees, and often to significant degrees, by political instability and governmental regulations, bureaucratic processes and potential corruption, any one or more of which could preclude the Corporation from carrying out business activities fairly in such countries, which is likely to have a material adverse effect on the Corporation and its business, assets, prospects, condition and results of operations. Legal redress for such actions, if available, is uncertain and can often involve significant costs and delays.

Political Stability and Government Regulation

Khan is exposed to risks of political instability and changes in government policies, laws and regulations in countries in which it has interests. The majority of the Corporation's assets consist of its mineral interests in Mongolia that may be adversely affected in varying degrees by political instability, government regulations relating to the mining industry and foreign investment therein, and the policies of other nations in respect of Mongolia. Any changes in regulations or shifts in political conditions are beyond Khan's control and may adversely affect its business. The Corporation's operations may be adversely affected in varying degrees by government regulations, including those with respect to restrictions on foreign ownership, state ownership of strategic resources, production, price controls, export controls, income taxes, expropriation of property, employment, land use, water use, environmental legislation and mine safety. The regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. Khan's operations may also be adversely affected in varying degrees by economic instability, economic or other sanctions imposed by other nations, terrorism, military repression, crime, risk of corruption including violations under U.S. and Canadian foreign corrupt practices statutes, fluctuations in currency exchange rates and high inflation.

The Corporation's operations, and the development of its properties, are subject to obtaining and maintaining licenses and permits from appropriate governmental authorities. There is no assurance that such licenses and permits can be obtained, renewed or re-registered, as applicable, or that delays will not occur in obtaining all necessary licenses and permits or renewals of such licenses and permits for Khan's existing properties or additional permits required in connection with future exploration and development programs. Prior to any development of the Dornod Uranium Project, the Corporation must receive licenses and permits from appropriate governmental authorities, including the re-registration of its mining and exploration licenses under the Nuclear Energy Law. There can be no assurance that the Corporation will obtain all licenses and permits necessary to develop the Dornod Uranium Project. Any failure to obtain or maintain the necessary licenses and permits to advance the development of the Dornod Uranium Project will have a material adverse impact on the Corporation and its business, assets, financial condition, results of operations and prospects.

Even if the Dornod Uranium Project can be advanced to development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protections, mine safety and other matters. In addition, new laws and regulations governing operations and activities of mining companies, including without limitation the Nuclear Energy Law and related regulations, could have a material adverse impact on any of the Corporation's projects in the mine development stage.

Inability to Enforce the Corporation's Legal Rights in Certain Circumstances

In the event of a dispute arising in respect of the Corporation's foreign operations, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or elsewhere. The Corporation may also be hindered or prevented from enforcing its rights with respect to a government entity or instrumentality because of, among other things, the doctrine of sovereign immunity. Any adverse or arbitrary decision of a court, arbitrator or other governmental or regulatory body may have a material adverse impact on the Corporation's business, assets, prospects, financial condition and results of operations. See also "*Risks relating to Legal Proceedings*" above.

In addition, the dispute resolution provisions of the CAUC founding agreements stipulate that any dispute between the parties thereto is to be submitted to international arbitration. However, there can be no assurance that a particular governmental entity or instrumentality or ARMZ or MonAtom will either comply with the provisions of these or other agreements or voluntarily submit to arbitration. Nor can there be any assurance as to the outcome of any such arbitration proceedings, if pursued.

The Corporation's inability to enforce its contractual rights could have a material adverse effect on its future cash flows, earnings, results of operations and financial condition, as well as its business, assets and prospects.

Additional Capital Requirements

In addition to obtaining the essential mining and exploration licenses for the Dornod Uranium Project, in order to continue exploring and ultimately developing (and operating) Khan's mineral properties and acquiring additional properties, management will be required to pursue additional sources of financing. While Khan has been successful in obtaining such financing in the past, there is no assurance that it will be successful in the future. Failure to obtain sufficient financing may result in delaying or indefinitely postponing exploration, development of or production on any or all of the Corporation's properties or even loss of property interest. It may also prevent the Corporation from meeting its obligations under agreements to which it is a party as a result of which its interest in the properties may be reduced. There can be no assurance that additional capital or other types of financing, if needed, will be available or, if available, that the terms of any such financing will be favourable to the Corporation.

Global financial markets have been subject to significant volatility, with numerous financial institutions having either gone into bankruptcy or having to be rescued by government authorities. Access to financing has been negatively impacted by various factors. These factors, among others, may negatively impact the ability of the Corporation to obtain loans and/or other credit facilities or project financing in the future if development of the Dornod Uranium Project is pursued and, even if obtained, may impact the terms on which any such financing may be obtained.

The amount of administrative expenditures is related to the level of financing and exploration activities that are being conducted from time to time, which in turn depends on, among other things, the Corporation's recent exploration experience and prospects, as well as general market conditions relating to the availability of funding for exploration-stage resource companies. As a result, there may not be predictable or observable trends in the Corporation's business activities and comparison of financial operating results with prior years may not be meaningful.

Adequacy of Infrastructure

Development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure, including the fact that Khan conducts most of its operations in remote regions of Mongolia with limited available infrastructure, could adversely affect the Corporation's business, operations, financial condition and results of operations.

Mineral Reserves and Mineral Resources

Calculations of Mineral Reserves and Mineral Resources and metal recovery are only estimates, and there can be no assurance about the quantity and grade of minerals until reserves or resources are actually mined. Until reserves or resources are actually mined and processed, the quantity of reserves or resources and grades must be considered as estimates only. In addition, the quantity of reserves or resources may vary depending on commodity prices. Any material change in the quantity of resources, grade or stripping ratio or recovery rates may adversely affect the economic viability of the Corporation's properties and its financial condition and prospects.

No Operating History

The Corporation does not have an operating history and there can be no assurance of its ability to operate the Dornod Uranium Project profitably, if at all, in the future. While Khan currently expects in the future to generate additional working capital through the operation, development, sale or possible syndication of the Dornod Uranium Property if its mining and exploration licenses are re-registered under the Nuclear Energy Law, through debt or equity financings, or in combination with one or more third parties through some form of strategic transaction, there is no assurance that it will be capable of developing or operating the Dornod Uranium Project or producing positive cash flow or, if successful, that any such funds will be available for exploration and development programs.

Ability to Continue as a Going Concern

The Corporation's ability to continue as a going concern is uncertain and is dependent upon its ability to secure re-registration of the essential mining and exploration licenses for the Dornod Uranium Project, which, to date, the NEA has refused to do, and to raise adequate financing and to commence profitable operations in the future. In addition, before commencing any major mine development at the Dornod Uranium Project, the Corporation will have to successfully negotiate an updated joint venture development agreement with its joint venture partners in CAUC and an Investment Agreement with the Government of Mongolia. Any material delays, or failure of, the pending license re-registrations or in the negotiation of these agreements is likely to have a material adverse impact on the business, operations and prospects of the Corporation and the ability of the Corporation to raise adequate financing and commence or continue operations, which in turn is likely to have a material adverse impact on the Corporation's business, assets and financial condition (see also "*Renewal and Re-registration of Licenses*", "*Negotiation of Investment Agreement with the Government of Mongolia*" and "*Negotiation of Updated Joint Venture Development Agreement with CAUC Participants*" in this "Risk Factors" section).

Joint Ventures

The Corporation operates the Main Dornod Property through a joint venture with MonAtom and Priargunsky, and may, in the future, enter into one or more additional joint ventures. The Corporation is therefore subject to the typical risks associated with the conduct of joint ventures, including disagreement on how to develop, operate or finance the project. The joint venture development agreements currently in place for the Main Dornod Property were implemented in 1997 and do not adequately address the next stage of mine development. While the Corporation might seek to re-negotiate the joint venture development agreements if its licenses are re-registered by the NEA and had previously initiated discussions with its joint venture partners, there can be no assurances that satisfactory agreements will be entered into.

Negotiation of Updated Joint Venture Development Agreement with CAUC Participants

Khan considers the successful negotiation of an updated joint venture development agreement with MonAtom and Priargunsky to be a prerequisite to any major mine development work on the Main Dornod Property. While the Corporation might commence these negotiations at the earliest practicable date if its licenses are reinstated and re-registered, there can be no certainty as to MonAtom's and Priargunsky's willingness or ability to enter into such negotiations and, even if they do, the amount of time that will be required to complete such negotiations or whether the negotiations will ultimately be successful. Any party's refusal to engage in, or any material delays in, or the failure of, those negotiations could materially affect the Corporation's ability to develop the Dornod Uranium Property and the Corporation's business, assets and financial position.

Negotiation of Investment Agreement with the Government of Mongolia

Khan considers the successful negotiation of an Investment Agreement with the Government of Mongolia to be a prerequisite to any major mine development work on the Dornod Uranium Property. While Khan might commence the negotiation of, and enter into, an Investment Agreement with the Government of Mongolia at the earliest practicable date if its licenses are reinstated and re-registered, there can be no certainty as to when such negotiations with the Government of Mongolia will commence or the amount of time that will be required to complete these negotiations and finalize an agreement. Any material delays in, or the failure of, those negotiations could materially affect Khan's ability to develop the Dornod Uranium Property.

Title to Properties

In light of the NEA's refusal to reissue CAUC and KRL their mining and exploration licenses, there can be no assurance that the Corporation continues to have an ownership interest in its Mongolian properties. There is no assurance that such interests are free from defects nor that material contractual arrangements between the Corporation and entities owned or controlled by foreign governments will not be unilaterally altered or revoked, particularly in light of the new Nuclear Energy Law. In addition, as discussed further below under "*Legal Proceedings – ARMZ*", the Russian Government and the Mongolian Government have been engaged in ongoing discussions, and have entered into agreements, to form a Dornod Uranium joint venture pursuant to which such Governments propose to jointly develop the Dornod region to the exclusion of the Corporation. Accordingly, there is no assurance that such rights will not be revoked, invalidated, expropriated or significantly altered, to the Corporation's detriment. In addition, there can be no assurance that Khan's rights will not be challenged or impugned by third parties, including local

governments. While the Corporation intends to pursue appropriate legal remedies to protect its rights and interests, there can be no assurance that the outcome of any claims, arbitration or other legal proceedings that the Corporation may undertake will be successful or, even if successful, will be capable of enforcement by the Corporation. See *“Risks relating to Legal Proceedings”*.

Exploration and Development Risks

All of the Corporation’s operations involved exploration and development and there is no guarantee that any such activity will result in commercial production of mineral deposits. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. Unusual or unexpected formations, pressures, fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and other natural disasters and the inability to obtain adequate suitable machinery, equipment or labour, among other things, are all risks involved in the conduct of an exploration program. These risks and hazards could result in: damage to, or destruction of, properties; personal injury or death; environmental damage; delays; monetary losses; and possible legal liability.

The commercial viability of a mineral deposit is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, commodity prices which are highly cyclical, and government regulations, including regulations relating to ownership, prices, taxes, royalties, allowable production, land tenure, land use, importing and exporting of minerals and environmental protection, most of which factors are outside of the Corporation’s control. The exact effect of these factors cannot be accurately predicted, but the negative combination of these and other factors may result in the Corporation not being able to pursue the development, operation or production in respect of any deposit and/or not receiving an adequate return on invested capital. There is no certainty that expenditures made by Khan will result in discoveries or production of commercial quantities of ore.

Competition from Other Energy Sources and Public Acceptance of Nuclear Energy

Nuclear energy competes with other sources of energy, including oil, natural gas, coal and hydro-electricity. These other energy sources are to some extent interchangeable with nuclear energy, particularly over the longer term. Lower prices of oil, natural gas, coal and hydro-electricity may result in lower demand for uranium concentrate and uranium conversion services. Furthermore, the growth of the uranium and nuclear power industry beyond its current level will depend upon continued and increased acceptance of nuclear technology as a means of generating electricity, among other things. Because of unique political, technological, regulatory and environmental factors that affect the nuclear industry, the industry is subject to public opinion and regulatory risks which could have an adverse impact on the demand for nuclear power and increase the regulation of the nuclear power industry which, in turn, could have a material adverse effect on the Corporation and its business, assets and prospects.

Competition in the Uranium Industry

The international uranium industry is highly competitive. The uranium mining industry is global and was consolidated during the 1990s by takeovers, mergers and closures. In 2009, ten companies marketed 89% of the world’s uranium mine production. Competition for new mining properties by these larger, more established companies may prevent Khan from maintaining its interest in its current properties and from acquiring interests in additional properties or mining operations. Significant and increasing competition exists for mineral acquisition opportunities in Mongolia. As a result of this competition, some of which is

with foreign governments and large, better established mining companies with substantial capabilities and greater financial and technical resources than the Corporation, the Corporation may be unable to maintain or acquire rights to exploit and mine existing or additional attractive mineral properties or on terms it considers acceptable. Accordingly, there can be no assurance that Khan will maintain or acquire any interest in existing or additional operations that would yield reserves or result in commercial mining operations.

Possible Strategic Opportunities and Transactions

The Corporation evaluates from time to time strategic opportunities to acquire or invest in uranium mining assets and businesses, such as its investment in Macusani. These acquisitions or investments may be significant in size, may change the scale of the Corporation's business and may expose it to new geographic, political, operating, financial and geological risks. In addition, the Corporation evaluates from time to time possible strategic opportunities that may be in the best interests of the Corporation and accretive to its shareholders. The Corporation's success in pursuing any such strategic opportunities depends on, among other things, its ability to identify suitable candidates and enter into arrangements with such candidates on acceptable terms. Any strategic opportunity that the Corporation may pursue would be accompanied by risks, such as the difficulty of completing a strategic transaction and, if completed, the difficulty of integrating operations, if appropriate; the potential disruption to the Corporation's ongoing business; the inability of management to maximize the financial and strategic position of the Corporation; additional expenses and resources associated with pursuing and/or completing such opportunities; possible dilution of the Corporation's shareholders or its interest in its subsidiaries, joint ventures and/or assets; and potential unknown risks and liabilities associated with assets and businesses in whom the Corporation invests or enters into some other strategic transaction, among other things. There can be no assurance that the Corporation will be successful in identifying, pursuing or completing any proposed or future strategic opportunity or that the Corporation will be successful in overcoming any risks associated with any proposed, completed or future strategic opportunity pursued by the Corporation. Accordingly, such strategic opportunities and transactions may have a material adverse effect on the Corporation's business, results of operations, financial condition, assets, cash flows and liquidity. In addition, there may be no right for shareholders to evaluate the merits or risks of any future strategic transaction undertaken by the Corporation except as required by applicable laws and regulations.

Currency Fluctuations

Fluctuations in currency exchange rates may adversely affect the Corporation's financial position. Fluctuations in currency exchange rates may significantly impact Khan's financial position and results. Khan does not have in place a policy for managing or controlling foreign currency risks since, to date, its primary activities have not resulted in material exposure to foreign currency risk.

Market Factors and Volatility of Uranium Prices

There is no assurance that a profitable market will exist for the sale of mineralized material which may be acquired or discovered by Khan. There can be no assurance that uranium prices received will be such that the Corporation's properties can be mined at a profit, if at all. The price of uranium has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Corporation's control. Commodity prices are subject to volatile price changes from a variety of factors, including international economic and political trends, expectations of inflation, global and regional demand, currency exchange

fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods, among other things. The uranium spot price (\$/pound U₃O₈) steadily increased from \$7 per pound in December 2000 to a peak of \$135 per pound in June 2007. Since that time, the uranium spot price has ranged from \$40 to \$123 and was \$42 as at the date hereof. (Source: Ux Consulting Company – www.uxc.com)

Future mineral prices cannot be accurately predicted. A severe decline in the price of a mineral being produced or expected to be produced by the Corporation would have a material adverse effect on it, and could result in the suspension of exploration, development and/or mining operations by the Corporation, if such mining operations are commenced. Factors impacting the price of uranium include demand for nuclear power, political and economic conditions in uranium producing and consuming countries, reprocessing spent fuel and the re-enrichment of depleted uranium tails or waste, sales of excess civilian and military inventories (including from the dismantling of nuclear weapons) by governments and industry participants and production levels and costs of production in other jurisdictions.

Commodity Prices and Exchange Rates

The estimates of commodity prices and currency exchange rates used in the Corporation's technical reports and/or feasibility studies are based on conditions prevailing at the time of writing of such reports. These conditions can change significantly over relatively short periods of time and, as such, there can be no assurance that the estimates of uranium prices or currency exchange rates used in such reports will remain accurate. See also "*Currency Fluctuations*" and "*Market Factors and Volatility of Uranium Prices*".

Lack of Earnings and Dividend Record

The Corporation has no earnings or dividend record. The Corporation has not paid dividends on its Common Shares since incorporation and does not anticipate doing so in the foreseeable future. Payments of any dividends will be at the discretion of the Board after taking into account many factors, including the financial condition and current and anticipated cash needs of the Corporation.

Environmental Regulations

The Corporation is subject to substantial environmental and other regulatory requirements and such regulations are becoming more stringent. All phases of the Corporation's development operations are subject to environmental regulations. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing environmental regulation or future changes in environmental regulation, if any, will not adversely affect the Corporation's assets or operations. Environmental hazards may exist on the properties in which Khan holds interests which are presently unknown to it and which have been caused by previous or existing owners or operators of the properties.

Difficulty in Recruiting and Retaining Management and Key Personnel

Khan is dependent on a relatively small number of key directors, officers and employees. Loss of any one of those persons could have an adverse effect on it. Recruiting and retaining qualified personnel is critical to the Corporation's success. However, competition for personnel in the industry in which the Corporation operates is intense, and the Corporation may not be successful in attracting and retaining qualified personnel. If the Corporation's business activity grows, it may also require additional key financial, administrative and mining personnel, which will also be subject to intense competition. There can be no assurance that the Corporation will be successful in attracting and/or retaining qualified personnel.

Market Price and Volatility of Common Shares

Securities have experienced an extreme level of price and volume volatility over the past couple of years and the market price of securities of many companies has experienced wide fluctuations which, in many cases, have not necessarily been related to the performance, underlying asset values or prospects of such companies. The trading price of the Common Shares has been, and may continue to be, subject to large fluctuations and, therefore, may result in losses to investors. In addition, following periods of volatility in the market price of a company's securities, shareholders have instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and diversion of management attention and resources, which could significantly harm the Corporation's business, condition, prospects and reputation.

Internal Controls

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation. Any failure in the Corporation's internal controls over financial reporting may have a material adverse impact on the Corporation, its financial condition or its results of operations.

Insurance Coverage

While the Corporation maintains insurance against certain risks, the nature of these risks is such that liability could exceed policy limits or could be excluded from coverage. There are also risks against which the Corporation cannot insure or against which it may elect not to insure for various reasons. The potential costs associated with any liabilities not covered by insurance, or in excess of insurance coverage, or compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future business, assets, prospects, financial condition and results of operations of the Corporation.

DESCRIPTION OF CAPITAL STRUCTURE

Khan's share capital consists of an unlimited number of Common Shares, of which there are 68,125,445 issued and outstanding as of the date hereof.

Holders of Common Shares are entitled to receive notice of any meetings of shareholders of Khan, and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Board at its discretion and to receive, on a pro rata basis, the net assets of Khan after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions. For a full description of the characteristics of the Common Shares of the Corporation, reference should be made to the articles of amendment and by-laws of Khan and the relevant provisions of the OBCA.

The following table sets forth particulars of the fully-diluted share capitalization of Khan as of the date hereof:

<u>Securities</u>	<u>Number of Common Shares</u>
Issued and Outstanding Common Shares	68,125,445
Shares Issuable Upon Exercise of Stock Options	4,853,334
Total	<u>72,978,779</u>

DIVIDENDS

Khan has not paid any dividends on its outstanding Common Shares and does not anticipate paying any dividends in the foreseeable future. The Board, from time to time, and on the basis of any earnings and the Corporation's financial requirements or any other relevant factor may consider paying dividends in the future when its operational circumstances permit, including earnings, cash flow, financial and legal requirements and business considerations.

MARKET FOR SECURITIES

Trading Price and Volume

Khan's Common Shares were listed and posted for trading on the TSX until May 11, 2012. On May 14, 2012, Khan's Common Shares commenced trading on the CNSX under the trading symbol "KRI". The following table outlines the high and low share price trading range for Common Shares and volume of Common Shares traded by month in the 2012 fiscal year:

Common Share Price per share Volumes Traded (in Canadian dollars)				
Market	Period	High	Low	Volume
TSX	October 2011	\$0.27	\$0.23	409,593
TSX	November 2011	\$0.26	\$0.20	788,226
TSX	December 2011	\$0.25	\$0.18	656,496
TSX	January 2012	\$0.23	\$0.185	713,460
TSX	February 2012	\$0.20	\$0.16	893,089
TSX	March 2012	\$0.175	\$0.145	1,357,223
TSX	April 2012	\$0.18	\$0.145	1,418,513
TSX	May 1, 2012 to May 11, 2012	\$0.17	\$0.155	592,578
CNSX	May 14, 2012 to May 31, 2012	\$0.155	\$0.155	81,000
CNSX	June 2012	\$0.16	\$0.13	1,296,448
CNSX	July 2012	\$0.165	\$0.14	169,001
CNSX	August 2012	\$0.21	\$0.15	106,984
CNSX	September 2012	\$0.21	\$0.145	1,163,885

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

The following table sets forth the names and municipalities of residence, offices or positions with Khan and principal occupations of the current directors and officers of Khan. The term of each director of Khan expires as of the next annual general meeting of Khan:

Name and Address of Director or Officer	Position Presently Held	Principal Occupation	Director Since
James B. C. Doak ⁽¹⁾ Toronto, Ontario, Canada	Director, Chairman	President and Managing Partner of Megantic Asset Management Inc., an investment management company	2005
Raffi Babikian ⁽¹⁾⁽³⁾ Montreal, Québec, Canada	Director	Corporate finance and marketing consultant to uranium mining companies	2010
Grant A. Edey Mississauga, Ontario, Canada	Director, President & Chief Executive Officer	Officer of Khan	2007
Marc C. Henderson ⁽¹⁾⁽²⁾ Toronto, Ontario, Canada	Director	President and Chief Executive Officer of Laramide Resources Ltd. ("Laramide"), a resource company and holder of 10.72% of Khan's outstanding common shares	2010

Name and Address of Director or Officer	Position Presently Held	Principal Occupation	Director Since
David L. McAusland ⁽²⁾ Montreal, Quebec, Canada	Director	Corporate Director, consultant, and lawyer	2008
Martin Quick ⁽³⁾ Niagara on the Lake, Ontario, Canada	Director	Corporate Director	2006
K. Bruce Gooding Toronto, Ontario, Canada	Chief Financial Officer	Certified Management Accountant	-
Jeremy Budd Toronto, Ontario, Canada	Corporate Secretary	Lawyer	-

Notes:

- (1) Member of the Audit and Finance Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance and Nominating Committee

Mr. Jean-Pierre Chauvin, who was a member of the Board since July 2005, did not stand for re-election as a director at the Corporation's most recent annual and special meeting of shareholders held on February 16, 2012.

The Hon. Robert P. Kaplan who was a member of the Board since February 2007, passed away on November 5, 2012.

As of the date hereof, as a group, all directors and executive officers listed above beneficially owned, or controlled or directed, directly or indirectly, 2,145,900 Common Shares, representing approximately 3.15% of the total issued and outstanding Common Shares. In addition, as of that date, Khan's directors and executive officers, as a group, held 3,483,334 options exercisable to acquire an aggregate of 3,483,334 Common Shares.

A description of each of the directors and officers of Khan is set out below.

James B. C. Doak, Chairman and Director of Khan, has over 25 years' experience as a Chartered Financial Analyst. Mr. Doak has served as the President and Managing Partner of Megantic Asset Management Inc., a Toronto-based investment company, since 2002. Jim Doak is also a Director of Cascades Inc., Purepoint Uranium Group Inc. and of Eurocopter Canada Ltd. Mr. Doak serves as Chair, Audit Committee for both Eurocopter and Purepoint and as Chair, Corporate Governance Committee for Cascades. As well, he is a former Director of PetroKazakhstan Inc., Superior Propane Inc. and Spar Aerospace Inc. Mr. Doak held senior positions at ScotiaMcLeod Inc., First Marathon Securities Ltd., McLeod Young Weir Ltd., was a founder of Enterprise Capital Management Inc., where he served as President and Managing Partner from 1997 to 2002, and is a past President and Director of the Toronto Society of Financial Analysts and a past Chair and Director of the Toronto French School and a past Chair and Director of l'Alliance Française de Toronto. Mr. Doak has published a number of columns in two Canadian financial publications as well as a submission to the House of Commons Special

Committee on Energy. Mr. Doak was educated at McGill University and the University of Toronto and holds his CFA designation.

Raffi Babikian, Director of Khan, is a corporate finance and marketing advisor to global uranium mining companies. He was previously Vice-President, Investment Banking at Dundee Securities, where he was responsible for the firm's uranium mining practice. Raffi began his professional career at AREVA SA, the world's leading nuclear fuel cycle company, at the company's headquarters in Paris, France. His first responsibilities there involved evaluating growth opportunities for the company's reprocessing/recycling business. He subsequently joined Areva's Uranium Mining Business unit, working to identify, evaluate and implement merger and acquisition opportunities and associated marketing strategies. Mr. Babikian has a Bachelor of Engineering from McGill University, a MSc. from MIT, and an MBA from the Collège des Ingénieurs in Paris.

Grant A. Edey, President and CEO and Director of Khan, has over 40 years of experience in the mining industry. Mr. Edey was Chief Financial Officer at IAMGOLD Corporation from 2003 to 2007. From 1996 to 2002, he was Vice-President, Finance, Chief Financial Officer and Corporate Secretary of Repadre Capital Corporation. Prior to 1996, he held senior positions with Strathcona Mineral Services Limited, TransCanada Pipelines Limited, Eldorado Nuclear Limited, Rio Algom Limited and INCO Limited. Mr. Edey is also a director of Primero Mining Corp. Mr. Edey holds a B.Sc. in Mining Engineering from Queen's University and an M.B.A. from the University of Western Ontario.

Marc C. Henderson, Director of Khan, is the President and CEO and a director of Laramide, a Toronto-based resource company specializing in the acquisition, discovery and development of uranium projects and a large shareholder of Khan holding approximately 10.72% of Khan's outstanding shares. Mr. Henderson has more than 20 years of experience running junior mining companies and has served as president of a number of public companies, including Aquiline Resources Inc. from 1998 until its sale to Pan American Silver in 2009.

David L. McAusland, Director of Khan, is a senior lawyer and corporate director. A graduate of the Faculty of Law of McGill University, he practiced law for over 20 years at a prominent Montreal law firm. In 1999, he became a senior executive with Alcan Inc., a major Canadian industrial and resource company, retiring as Executive Vice President, Corporate Development and Chief Legal Officer in 2008 when the company was acquired. In 2009, Mr. McAusland joined McCarthy Tétrault LLP as a partner.

Mr. McAusland currently acts as director of Cogeco Inc. and Cogeco Cable Inc., Cascades Inc., and ATS Automation Tooling Systems Inc. He serves as a member of the Corporate Governance Committee for all the above companies, as Chairman of the Human Resource Committee of Cascades Inc., and Chairman of the Board of Directors of ATS Automation Tooling Systems Inc.

He is the Chairman of the Foundation of the National Circus School and director of the Montreal General Hospital Foundation.

Martin Quick, Director of Khan, has over 47 years of worldwide experience in the mining industry, including engineering, operations, and senior corporate fields. He has held senior mining production and engineering positions in Africa, Australia, Fiji, the United States and Canada.

He retired as President and CEO of Khan Resources Inc. in June 2010 having served in that position for 4 ½ years. From August 2004 until December 2005, Mr. Quick was President and Chief Operating Officer of Power Resources Inc., a wholly-owned subsidiary of Cameco Corporation, a global producer of uranium for the nuclear power industry. Prior to this appointment, from March 2001 to July 2004, Mr. Quick was Vice President - Mining with Cameco Corporation, based in Saskatoon, where he was responsible for Cameco's Northern Saskatchewan operations including the world's largest uranium mine at McArthur River/Key Lake, and the planning and development of the Cigar Lake project. Prior to joining Cameco, Mr. Quick held senior operating positions with Areva and Rio Algom.

He is a Professional Engineer (P.Eng.) in the province of Saskatchewan and a graduate of the Camborne School of Metalliferous Mining (ACSM), in the United Kingdom.

Bruce Gooding, Chief Financial Officer of Khan, is a Certified Management Accountant with over 30 years of experience in senior management positions. Most recently he has managed his own practice providing financial project and management services to smaller public companies in the mining and other industries. Prior to establishing his own practice, Bruce held various senior finance roles at McDonald's Restaurants of Canada Limited, Consumers Distributing Inc. and Foot Locker Canada Inc. He has acted as Treasurer of Ronald McDonald House Charities of Canada and other not-for-profit corporations.

Jeremy Budd, Corporate Secretary of Khan, is a partner in the law firm of Boyle & Co. LLP representing issuers and underwriters in a wide variety of capital market transactions. Mr. Budd obtained his LL.B./M.B.A. from Osgoode Hall Law School and the Schulich School of Business at York University in 2005 and holds a bachelor of arts in philosophy from Huron University College at the University of Western Ontario.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or executive officer of Khan is, as at the date hereof, or was within 10 years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including Khan), that:

- (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or
- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of Khan, or a shareholder holding a sufficient number of securities of Khan to affect materially the control of Khan:

- (a) is, as at the date hereof, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company (including Khan) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or

compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or

- (b) has, within the 10 years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

No director or executive officer of Khan, or a shareholder holding a sufficient number of securities of Khan to affect materially the control of Khan, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors or officers of Khan are, or may become, directors or officers of other companies with businesses which may conflict with the business of Khan. In accordance with the OBCA, directors are required to act honestly and in good faith with a view to the best interests of Khan. In addition, directors in a conflict of interest position are required to disclose certain conflicts to Khan and to abstain from voting in connection with the matter. To the best of Khan's knowledge, there are no known existing or potential conflicts of interest between Khan or a subsidiary of Khan and a director or officer of Khan or a subsidiary of Khan as a result of their outside business interests at the date hereof. However, certain of the directors and officers serve as directors and/or officers of other companies including Marc C. Henderson, who is the President and CEO and a director of Laramide, a resource company specializing in the acquisition, discovery and development of uranium projects and one of Khan's largest shareholders holding approximately 10.72% of Khan's outstanding common shares. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of Khan.

LEGAL PROCEEDINGS

Mining License Suspension

On July 15, 2009, the Corporation reported that it had received notice from the Mineral Resources Authority of Mongolia ("MRAM") (formerly MRPAM) that the mining license for the Main Dornod Property, held by CAUC, had been suspended. On January 14, 2010, the Corporation announced that a settlement had been reached with MRAM whereby the suspension of the mining license for the Main Dornod Property, held by CAUC, had been terminated (See "*General Development of the Business – Mining and Exploration Licenses*").

Invalidation of Mining and Exploration Licenses

Khan announced on April 13, 2010 that CAUC and KRL had received notices from the NEA that the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property had been invalidated. The invalidations purported to be effective as of October 8, 2009 and purported to be based on a failure by CAUC and KRL to address violations of Mongolian law stemming from a July 2009 report issued by an inspection team appointed by the Mongolian State Specialized Inspection Agency (the “SSIA”) in respect of the mining license.

Subsequently, CAUC and KRL filed separate formal claims in the Capital City Administrative Court in Mongolia challenging the legal basis for the notices received from the NEA purporting to invalidate CAUC’s mining license and KRL’s exploration license.

On July 19, 2010, the Capital City Administrative court ruled in favour of CAUC and declared that the notice by the NEA purporting to invalidate CAUC’s mining license was itself illegal and invalid. On August 2, 2010, the Court ruled in favour of KRL, also declaring the notice by the NEA purporting to invalidate KRL’s exploration license was illegal and invalid. The NEA appealed the CAUC decision but not the KRL decision. On October 27, 2010, the Company received a favourable written decision from the Mongolian Appellate Court in respect of the CAUC appeal which, effectively, re-confirmed that the notice to CAUC was illegal and invalid.

The Appellate Court’s ruling, while containing some variations, stated that an official decision by the authorized authority has not been made in respect of CAUC’s mining license in accordance with procedures stated in Mongolian law. Following these decisions, CAUC and KRL again requested the NEA to re-register the licenses as applied for in November 2009.

On November 12, 2010, the NEA published what it called an official notification in certain Mongolian newspapers stating that it did not intend to reissue the CAUC and KRL licenses. The notices broadly accused KRL and CAUC, amongst other things, of disrespecting state laws and legislation and failing to fulfill conditions and requirements set out by law. The newspaper notice does not constitute an official decision pursuant to Mongolian law, which must include the legal reasons for making such a decision. The Corporation continues to believe that there exists no legal basis for the NEA to refuse to reinstate and re-register its licenses and that it has always acted in conformance with Mongolian laws. The Corporation has formally demanded to receive the official decision of the NEA but has yet to receive a response.

International Arbitration

In July 2010, Khan retained the Washington, D.C. law firm of Crowell & Moring LLP to study the possibility of initiating International Arbitration proceedings against the Government of Mongolia. Following the failure of the NEA to reissue the Dornod licenses to Khan, the Company announced on January 10, 2011 that it had formally commenced an international arbitration action against the Government of Mongolia for its expropriatory and unlawful treatment of Khan in relation to the Dornod Uranium Project. The claim seeks US\$326 million in compensation for losses and damages.

The arbitration, which is brought by Khan and several of its subsidiaries, is governed by the Arbitration Rules of the United Nations Commission on International Trade Law, and asserts claims under the Energy Charter Treaty, the Foreign Investment Law of Mongolia, and the Founding Agreement between Khan and the Mongolian Government. The claim was served on various officials of the Government of Mongolia on January 10, 2011.

The presiding Tribunal for the International Arbitration action was constituted on May 9, 2011 and consists of three well-known and highly respected international arbitrators: Mr. Yves Fortier of Canada (appointed by Khan); Mr. Bernard Hanotiau of Belgium (appointed by Mongolia) and Mr. David A.R. Williams of New Zealand (appointed as the presiding arbitrator by Messrs. Fortier and Hanotiau).

The Tribunal held its first hearing on June 21, 2011 to discuss scheduling and procedural matters. Prior to this hearing, Mongolian counsel for the action had brought a motion seeking “bifurcation” of the hearings into two separate phases: the first phase to hear various jurisdictional objections made by Mongolia (asserting, for example, that the Tribunal does not have jurisdiction over certain of the claims and parties included in the arbitration, or, alternatively, that the Tribunal may not consider all of the claims together in a single case), and then a second phase to hear the merits of the case. The Tribunal held a hearing on September 19, 2011 to address the issue. Following the hearing, the Company and the Government of Mongolia agreed to a two phase process. As part of the agreement, the Government of Mongolia has explicitly consented that all of the claims will be heard in this single action rather than in multiple arbitrations.

Following a hearing on May 14, 2012, the Tribunal ruled entirely in Khan’s favour on matters of jurisdiction and dismissed all of the Government of Mongolia’s objections to the continuance of the suit. The action has now progressed to the quantum and damages phase. On Dec 7, 2012, Khan submitted to the Tribunal seven volumes of documentation in support of its claim. Khan’s claim for damages totals \$326 million, including interest from the July, 2009 date of the expropriation of the Dornod deposit by the Government of Mongolia.

ARMZ

On August 20, 2010, the Corporation announced that it and certain of its subsidiaries had filed a statement of claim against ARMZ and its affiliate Priargunsky with the Ontario Superior Court of Justice. The claim has been brought by the Corporation and seeks damages from ARMZ and its affiliate in the total amount of CDN\$300,000,000, including equitable compensation resulting from their breach of fiduciary duties as one of Khan’s joint venture partners and a shareholder of CAUC, general damages resulting from their unlawful interference with the plaintiffs’ economic relations, general damages resulting from their deliberately causing damage to Khan’s and its subsidiaries’ rights, business reputation and property and aggravated, exemplary and punitive damages.

The statement of claim alleges, among other things, that the harmful conduct of ARMZ and its affiliates, namely in seeking to establish a joint venture with the Government of Mongolia over the Dornod uranium region without regard to Khan’s rights and interests, impugning the legitimacy of Khan’s interests in Mongolia, interfering with its economic relations with MonAtom (Khan’s other joint venture partner in CAUC and the Mongolian state-owned entity with which Khan sought to pursue a strategic transaction), and interfering with the competing and superior take-over bid by CNNC, all with the goal of eliminating Khan’s interests in Mongolia, has caused Khan, its subsidiaries and its shareholders substantial damage. Subsequent to filing the statement of claim against ARMZ, various reports have circulated concerning the advancement of a proposed Dornod uranium joint venture between the Russian and Mongolian

Governments to develop the Dornod region to the exclusion of Khan and its subsidiaries. These reports culminated in an announcement on December 14, 2010 that Russia and Mongolia signed an agreement on the principles of creating a joint venture to develop the Dornod resource. According to media reports, the agreement was signed in Moscow on December 14th by Rosatom Corp. (Russia's nuclear power company), ARMZ, and Mongolia's state-owned MonAtom and the NEA.

The statement of claim against ARMZ and Priargunsky was filed with the Russian Department of Justice in October 2010 to be legally served in accordance with the applicable laws and protocols. The Russian Department of Justice informed the Company in February 2011 that it had refused to serve ARMZ and Priargunsky with the Company's statement of claim based on Article 13 of the Hague Convention. Article 13 states that service can be denied only if the State deems that compliance would infringe its sovereignty or security. The Ministry of Justice provided no reason or explanation for why service would infringe Russian sovereignty or security.

Following the refusal by the Russian Department of Justice to serve ARMZ and Priargunsky with the Company's statement of claim, the Company filed a motion with the Ontario Superior Court of Justice seeking an order dispensing with or substituting service of the statement of claim on ARMZ and Priargunsky. The motion was scheduled to be heard on April 18, 2011. Prior to the scheduled date of the motion, at the request of ARMZ, the parties agreed to adjourn the hearing so as to allow the parties to have settlement discussions. The settlement discussions were not successful and Khan reinitiated its motion which was then re-scheduled to be heard on June 29, 2011.

ARMZ then successfully petitioned the Court to allow ARMZ to cross-examine both Khan and its Russian counsel on Khan's request to dispense with the need for service. The cross-examination took place in July. A new Court hearing on Khan's original motion to dispense with or substitute service took place on September 7, 2011. On October 31, 2011, the Court released its decision on the matter and ruled in favour of Khan. ARMZ appealed the decision and on March 9, 2012, the Court released its decision on the matter and ruled in favour of ARMZ. The effect of the decision, unless overturned on appeal, is that Khan and its affiliates will not be able to proceed in Ontario with their lawsuit commenced against ARMZ and JSC PIMCU.

On April 20, 2012, Khan announced that it filed an appeal with the Court of Appeal of Ontario in relation to the March 9, 2012 decision of the Ontario Superior Court of Justice. As set out in its Notice of Appeal, Khan seeks to, among other things, restore a prior order of the Superior Court of Justice that validated service of the Statement of Claim on ARMZ. The Court of Appeal heard the appeal on September 11, 2012. The court's decision remains outstanding.

MATERIAL CONTRACTS

Except for contracts entered into by Khan in the ordinary course of business or otherwise disclosed herein, the only material contracts entered into by Khan within the most recently completed financial year, or entered into prior to the most recently completed financial year but still in effect, are the following:

The Amended and Restated Shareholder Rights Plan Agreement

On November 14, 2006, Khan implemented an amended and restated shareholder rights plan (the “Shareholder Rights Plan”) which was approved by the shareholders at Khan’s Annual and Special Meeting of Shareholders held on February 15, 2007. The continuation of the shareholder rights plan was subsequently ratified and approved at an Annual and Special Meeting of Shareholders held on March 24, 2010. The terms are contained in the Shareholder Rights Plan Agreement dated as of November 14, 2006 between Khan and Equity Financial Trust Company, as rights agent. The Shareholder Rights Plan is intended to provide the Board with sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made for Khan and to provide every shareholder with an equal opportunity to participate in such bid. The Shareholder Rights Plan will be in effect for a period of three years, unless reconfirmed by shareholders. A shareholder or any other interested party may obtain a copy of the Shareholder Rights Plan on SEDAR at www.sedar.com.

REGISTRAR AND TRANSFER AGENT

Khan’s registrar and transfer agent is Equity Financial Trust Company, located at Suite 400, 200 University Avenue, Toronto, Ontario M5H 4H1.

AUDIT COMMITTEE AND AUDITORS

Audit Committee Charter

The text of the charter (the “Charter”) of the audit and finance committee (the “Audit Committee”) of the Board is attached hereto as Exhibit “A”.

Composition of the Audit Committee

The Audit Committee is composed of James B. C. Doak, Raffi Babikian, and Marc C. Henderson, all of whom are independent and financially literate in accordance with National Instrument 52-110 – *Audit Committees*. The following table describes the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member.

Name of Audit Committee Member	Relevant Experience and Qualifications
James B. C. Doak	Over 25 years of experience as an Economist and Chartered Financial Analyst Director of Cascades Inc., Purepoint Uranium Group Inc. and Eurocopter Canada Ltd. and a former Director of PetroKazakhstan Inc., Superior Propane Inc. and Spar Aerospace Inc. Held senior positions at ScotiaMcLeod Inc., First Marathon Securities Ltd. and McLeod Young Weir Ltd. Past President and Director of the Toronto Society of Financial Analysts B.A. in Economics from the University of Toronto

Name of Audit Committee Member	Relevant Experience and Qualifications
Raffi Babikian	Corporate finance advisor Vice President, Investment Banking at Dundee Securities Corp. from July 2007 to January 2010 M.B.A. from College des Ingénieurs
Marc C. Henderson	Over 20 years of experience in the resource industry President and Chief Executive Officer of Laramide Resources Ltd. Chartered Financial Analyst, B.A. in Economics from the University of Colorado

Audit Committee Oversight

At no time since the commencement of the Khan's most recently completed financial year was a recommendation to nominate or compensate an external auditor not adopted by the Board.

Pre-Approval Policies and Procedures

The Charter provides that the Audit Committee must pre-approve any non-audit services to be provided to the Corporation by the external auditor.

External Auditor Service Fees

The current auditors of Khan are Ernst & Young LLP ("Ernst & Young") and are located at 222 Bay Street, Toronto-Dominion Centre, Toronto, Ontario M5K 1J5. The following Ernst & Young fees were incurred by Khan for the year ended September 30, 2012 and 2011 for professional services rendered to Khan:

Fees	2012	2011
Audit Fees ¹	\$75,000	.\$102,000
Audit-Related Fees ²	-	-
Tax Fees ³	\$15,200	-
All Other Fees ⁴	\$8,000	\$34,500
Total	106,200	\$129,500

Notes:

- (1) Audit Fees are the aggregate fees billed by Ernst & Young in each of the last two fiscal years for audit services. Included in these aggregate fees are the amounts for the audit of the annual consolidated financial statements.

- (2) Audit-Related Fees are the aggregate fees billed in each of the last two fiscal years for assurance and related services by Ernst & Young that are reasonably related to the performance of the audit or review of Khan's financial statements and are not Audit Fees, including for consultations on accounting developments and the accounting for potential corporate transactions.
- (3) Tax Fees are the aggregate fees billed in each of the last two fiscal years for professional services rendered by Ernst & Young for tax compliance, tax advice, and tax planning.
- (4) All Other Fees are the aggregate fees billed in each of the last two fiscal years for products and services provided by Ernst & Young, other than Audit Fees, Audit-Related Fees or Tax Fees.

INTERESTS OF EXPERTS

Scientific or technical information in this Annual Information Form relating to the Dornod Uranium Project is based upon a Technical Report prepared by Aker Solutions. The Technical Report provides an independent technical review of the Mineral Reserves and Mineral Resources and the mining plan of the Dornod Uranium Project. The Technical Report was prepared by Hrayr Agnerian, M.Sc., Eugene Puritch, P.Eng., Malcolm Buck, P.Eng., and Leslie H. Heymann, P.Eng. Each of Messrs. Agnerian, Puritch, Buck and Heymann was a Qualified Person. To the best of Khan's knowledge, all of the authors of the Technical Report were independent of the Corporation within the meaning of NI 43-101 and none of them held any registered or beneficial interest, directly or indirectly, in any securities or other property of Khan or its associates or affiliates.

Ernst & Young has prepared an auditor's report on the annual financial statements of Khan for the year ended September 30, 2012. Ernst & Young has advised that it is independent with respect to Khan within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information relating to Khan may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Khan's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in Khan's information circular for its annual and special meeting of shareholders held on February 16, 2011. Additional financial information is provided in Khan's financial statements and MD&A for its most recently completed financial year, all of which are filed on SEDAR at www.sedar.com.

EXHIBIT "A"

AUDIT COMMITTEE CHARTER

1. General

The Board of Directors (the "Board") of Khan Resources Inc. (the "Company") has established the Audit Committee (the "Committee") to assist in fulfilling the Board's responsibility for oversight of the financial reporting process. The Committee is a key component in fulfilling the Company's commitment to maintaining a higher standard of corporate responsibility.

The Committee will review the Company's financial reports and its process, internal control systems, the management of financial risks, the external audit and assurance process, and the Company's compliance with legal and regulatory requirements and the Company's own code of business conduct and ethics.

2. Organization

2.1 Membership

The Committee will be comprised of a minimum of three members to be nominated and appointed annually by the Board, all of whom are to be independent directors as defined in section 1.4 of National Instrument 52-140 unless exempted under applicable laws and regulations. A member continues in his/her capacity until a successor is appointed or if the member resigns, is removed, or ceases to be a director of the Company.

Members of the Committee must, in the opinion of the Board, be financially literate and at a minimum be capable of reading and understanding all financial information and understand their respective implications over the short and long term.

2.2 Removal

Any member of the Committee may be removed and replaced at any time by the Board. The Board will fill vacancies for the Committee by appointment from among qualified members of the Board or the recommendation of the Committee.

2.3 Committee Chair and Secretary

The Board shall nominate and appoint/reappoint the Chair of the Committee annually. The Chair of the Committee must be an independent director of the Company and meet the Company's standards of Independence outlined in Section 4 of the Corporate Governance Guidelines.

The role of Secretary can be filled by the Corporate Secretary or any other person as may be appointed by the Chair of the Committee.

2.4 Meetings

A quorum for any meeting will be two members in attendance. The Committee shall meet quarterly at a minimum and may invite any outside director or member of senior management to attend a meeting as an observer or answer questions that the Committee may have. The proceedings will be minuted.

3. Authority

The Board has authorized the Committee, within the parameters of its responsibilities, to seek any required information from any employee or external party, including obtaining outside legal or other professional counsel. The Committee is authorized to set and pay the compensation to those parties. The Committee shall recommend to the Board (i) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company; and (ii) the compensation of the external auditor.

4. Duties and Responsibilities

4.1 Financial Reporting

- (a) Audited Annual Financial Statements: The Committee shall review the audited annual and interim financial statements, all related management discussion and analysis ("MD&A"), and earnings press releases for submission to the Board for approval and public disclosure.
- (b) Quarterly Review: The Committee shall review the unaudited quarterly financial statements, the related MD&A, and earnings press releases for submission to the Board for approval and public disclosure.
- (c) Significant Accounting Principles and Disclosure Issues: The Committee shall review with management and the external auditor, significant accounting principles and disclosure issues, including complex or unusual transactions, highly judgmental areas such as reserves or estimates, significant changes to accounting principles, and alternative treatments under International Financial Reporting Standards ("IFRS") for material transactions. This shall be undertaken with a view to understanding their impact on the financial statements, and to gaining reasonable assurance that the statements are accurate, complete, do not contain any misrepresentations, and present fairly the Company's financial position and the results of its operations in accordance with IFRS.
- (d) Compliance: The Committee shall ensure that all of the Company's financial reporting conforms to, and meets or exceeds, the requirements of IFRS and all applicable laws and regulations.
- (e) Legal Events: In the event of any actual or anticipated litigation or other events, including tax assessments, the Committee shall examine what material effect the event may have on the Company's current or future financial statements and the manner in which these details have been disclosed in the financial statements.
- (f) Off-Balance Sheet Transactions: The Committee shall review any off-balance sheet transactions, arrangements, obligations, and other relationships with unconsolidated entities or other persons, and examine how that may have a material current or future effect on the Company's financial position.
- (g) Procedural Review: The Committee shall satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information and periodically assess the adequacy of those procedures.

4.2 Internal Controls

- (a) Review and Assessment: The Committee shall periodically review the effectiveness of the Company's system of internal control and management information systems through discussions with management and the external auditor. Based on that review the Committee will advise the Board of the adequacy of these controls and make recommendations for alterations to these controls when deemed necessary.
- (b) Fraud: The Committee shall oversee any investigations of alleged fraud and illegality relating to the Company's finances.
- (c) Complaints: The Committee shall ensure appropriate systems are in place for the receipt, retention, and treatment of internal and external complaints in an anonymous and confidential manner by the Company regarding accounting, internal accounting controls, or auditing matters.
- (d) Hiring from the Auditor: The Committee shall review and approve the Company's hiring policies regarding current or former partners and employees of the current or former external auditor.

4.3 External Audit

- (a) Auditor Reporting: The Committee shall be directly responsible for overseeing the work of the external auditor.
- (b) Auditor Performance: The Committee shall review the terms of the external auditor's engagement, accountability, experience, qualifications, independence, and overall performance.
- (c) Auditor Appointment or Replacement: The Board shall appoint or replace the auditor and set its compensation based on the Committee's evaluation and conclusions of the auditor's performance and adequacy. Audit Plan: The Committee shall review the audit plan and scope of the external audit with the external auditor and management, and consider whether the nature and scope of the planned audit procedures can be relied upon to detect weaknesses in internal controls, frauds or other illegal acts. The Committee shall make adjustments as needed.
- (d) Audit Results: The Committee shall review, in the absence of management, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.
- (e) Actions to be Taken: The Committee shall ensure that significant findings and recommendations by the external auditors are received and discussed on a timely basis. The Committee shall ensure that management responds to these findings and recommendations.

- (f) Disparity and Disagreements: The Committee shall ensure the resolution of any disagreements between management and the external auditor or incongruity between expectations and results regarding financial reporting.
- (g) Interim Financial Statements: The Committee may engage the external auditor to review all interim financial statements. The Committee shall review the results of the auditor's review of the interim financial statements and MD&A.
- (h) Meeting with External Auditor: The Committee shall meet with the external auditor in the absence of management at least annually to discuss and review specific issues as appropriate as well as any significant matters that the auditor may wish to bring to the Committee for its consideration.
- (i) Correspondence Review: The Committee shall review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
- (j) Non-Audit/Audit Services: The Committee must pre-approve any non-audit services to be provided to the Company or its subsidiaries by the external auditor, with reference to compatibility of the service with the external auditor's independence as prescribed by OSC regulations.
- (k) Other Audit Matters: The Committee shall review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards.

4.4 Risk Management

The Committee shall undertake an annual review the Company's risk management policies and procedures. The Committee oversees the implementation of these systems and determines their adequacy in mitigating and managing risks.

1.5 Reporting Responsibilities

- (a) Adequacy of Charter: The Committee shall assess the continued adequacy of the Committee Charter annually and submit such amendments as the Committee sees fit to the Nominating and Corporate Governance Committee.
- (b) Disclosure: The Committee shall oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Company's Annual Information Form and all other applicable disclosure documents.
- (c) Reporting to the Board: The Committee shall report regularly to the Board on Committee activities, findings and recommendations. The Committee is responsible for ensuring that the Board is aware of, and understands, any matter that may have a significant impact on the financial condition or affairs of the Company. The Committee shall submit its recommendations with respect to any such matter to the Board.