Khan Resources Inc.

Management Discussion and Analysis

December 31, 2012

KHAN RESOURCES INC.

RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012

This Management Discussion and Analysis ("MD&A") has been approved in accordance with a resolution of the Board of Directors dated February 13, 2013. It should be read in conjunction with the condensed interim consolidated financial statements of the Company for the three months ended December 31, 2012.

Highlights

- International arbitration action against the Government of Mongolia — Submissions on the merits and damages arising from the Mongolian Government's expropriatory and unlawful treatment of Khan were filed by the Company on December 7, 2012. A Statement of Defense and Counterclaim by the respondents is due on April 5, 2013. Khan's claim has been revised upwards from $200 to $326 million. This submission was pursuant the Tribunal's ruling on July 26, 2012 which dismissed all of Mongolia's objections to the continuance of the suit.
- The decision of the Court of Appeal for Ontario remains pending regarding the $300 million lawsuit against Atomredmetzoloto JSC ("ARMZ"). The appeal was heard on September 11, 2012.
- The Company closed and began decommissioning the Dornod site on June 30, 2012. By the end of January, 2013, in conjunction with closing the Dornod camp, most of the assets at the camp, with the exception of a transformer and power lines, have been sold and removed or demolished.
- Khan holds 15.5 million common shares of Macusani Yellowcake Inc. ("Macusani") which represents 9.7% of the 159.5 million Macusani outstanding common shares. The value of the Company's investment in Macusani as at December 31, 2012 was $2,251,000, an increase of $78,000 from its value at September 30, 2012.
- The following table summarizes financial results of the Company for the three months ended December 31, 2012 and 2011.

In thousands of dollars

	2012	2011	Change %
Net loss			
Three months ended December 31	**(1,203)**	(932)	-29.1%
Basic and diluted earnings per share ($)			
Three months ended December 31	**(0.02)**	(0.02)	-3.3%
Cash flow			
Three months ended December 31	**(659)**	(922)	28.5%
Cash and cash equivalents			
As at December 31	**4,021**	5,005	-19.7%

Overall Performance

International Arbitration

The Company is advancing its $326 million international arbitration action against the Government of Mongolia and its state-owned uranium company, MonAtom LLC for the Government of Mongolia's failure to reissue the Company's mining and exploration licenses. A hearing took place in Paris in May 2012 to address jurisdictional matters governing the arbitration. On July 26, 2012, the Tribunal hearing the action, consisting of three senior and experienced international arbitrators, ruled entirely in Khan's favour on matters of jurisdiction. The Tribunal ruled that they had full jurisdiction over the action and dismissed all of Mongolia's objections to the continuance of the suit. The merits and damages phase of the action then commenced. A seven volume submission on the merits and damages of the case was filed by Khan (the "Claimants" in this action) on December 7, 2012. Included in the submissions was documentation of an increase in Khan's claim for damages from US$200 million to US$326 million. The Respondents will file their rejoinder to the Company's submission by April 5, 2013 followed by additional submissions by both the Claimants and Respondents in the summer and fall of 2013. The formal hearing by the Tribunal on the merits and damages for the case is scheduled for November 11 through November 15, 2013.

The Company continues to believe it has a very strong case against the Government of Mongolia and intends to continue to press its case to the maximum extent allowable.

The Notice of Arbitration is posted on the Company's website. The Company has requested permission from the Government of Mongolia to release the Tribunal's decision on jurisdiction but such permission has not yet been received.

ARMZ

The Company filed a statement of claim in 2010 against ARMZ and its affiliate Priargunsky, with the Ontario Superior Court of Justice. The claim is for damages in the amount of $300 million arising from, among other things, their breach of fiduciary duties as one of Khan's joint venture partners and as a shareholder of Khan's Mongolian subsidiary, Central Asian Uranium Company LLC ("CAUC"). ARMZ avoided service of the statement of claim through the Russian Ministry of Justice invoking Section 13 of the Hague Convention which allowed Russia to refuse to serve ARMZ as a matter of Russian sovereignty or security. Khan appealed the decision and this initial appeal was favourable. The Superior Court of Justice validated service of the statement of claim on ARMZ in October 2011. ARMZ, however, appealed that decision and on March 9, 2012, the Ontario Superior Court decided in favour of ARMZ's appeal. On April 19, 2012 the Company filed a subsequent appeal of the March 9, 2012 order with the Court of Appeal of Ontario. In the appeal, Khan sought to, among other things, restore the prior order of the Superior Court of Justice that validated service of the Statement of Claim on ARMZ. The appeal was heard on September 11, 2012 and the Company is currently waiting for the decision of the Appeal Court. In the event of an adverse ruling, the next and final stage of appeal would be to the Supreme Court of Canada.

Khan also understands that major shareholders of the Company have initiated a suit in the Ontario Courts against ARMZ for inadequate disclosure of information during ARMZ's hostile take-over bid for Khan initiated in December 2009. The start of that suit remains pending the decision of the Appeal Court.

The original Statement of Claim against ARMZ and the Notice of Appeal to the Appeal Court are posted on the Company's website.

Mongolia

The investment climate for mining in Mongolia has suffered significant deterioration over the last few years and particularly over the last three months. In December, 2012, the Government tabled a draft mining law which includes an increased effective tax rate for "strategic" deposits to 50% and increased bureaucracy and lack of clarity in the administration of the proposed law. The Government of Mongolia is also continuing its call for increased control of the massive $6 billion Oyu Tolgoi copper-gold project as that project is about to start commercial production and despite the Government signing a definitive Investment Agreement with the project shareholders before the start of construction. The IPO for the company controlling the country's large

Tavan Tolgoi coal project has also been put on hold and the respected COO of that company has been reported to have tendered his resignation. A Presidential election will be held in Mongolia in June of this year and increased resource nationalism has become a popular platform for all candidates.

Dornod camp

The decision to close and decommission the Dornod camp was made in June, 2012. The camp has now been demolished and/or removed and minor clean-up activities continued during the quarter ended December 31, 2012.

Initially, the Company recognized a total provision for estimated restoration costs of Dornod camp for $100,000. Subsequently, as a result of actual work performed on the restoration activities to close the camp, the Company reassessed its initial estimate of the provision and adjusted the restoration provision to $72,000, recognizing the change in estimate of $28,000 in the income statement for the year ended September 30, 2012. During the three months ended December 31, 2012, $11,000 net of exchange difference of $1,000 was incurred and charged against the provision.

The decision to close the camp does not affect the office in Ulaanbaatar. The office will remain open to support the international arbitration proceedings and to wait on future developments.

Selected Quarterly Information

In thousands of dollars

	Dec. 31 2012	Dec. 31 2011
Revenue	11	24
Net loss	(1,203)	(932)
Total assets	6,393	22,428
Total non-current liabilities	-	-
Basic and diluted earnings per share ($)	(0.02)	(0.02)

During the year ended September 30, 2012, the Company recorded non-cash impairment losses of $16.1 million related to Dornod Project resulting in a significant reduction in total assets as at December 31, 2012 compared to prior year.

Results of Operations

Revenue

In thousands of dollars

	Three months	
Notes	**2012**	2011
Revenue		
Other income	**-**	11
Finance income	**11**	13
Total revenue	**11**	24

Other income during the quarter ended December 31, 2011 consisted of rental income from subletting corporate office space. This arrangement ended in June, 2012 when the sub-tenant took over the lease and became the primary occupant of the above mentioned office space. At the same time, the Company signed a sublease agreement with the primary occupant thereby reducing the Company’s occupancy costs.

Finance income declined by $2,000 in the quarter ended December 31, 2012 compared to prior year as a result of lower cash balances on hand.

Legal Expenses

Legal expenses of $880,000 during the quarter were primarily related to the international arbitration and ARMZ litigation proceedings (2011 - $422,000). The quarterly expenses in 2012 were higher than the prior year due to increased arbitration activity.

General Corporate Expenses

In thousands of dollars

	Three months	
	2012	2011
Accounting and audit	**17**	29
Investor relations	**-**	6
Insurance	**17**	31
Management remuneration	**147**	181
Office and travel	**75**	83
Total general corporate expenses	**256**	330

Expenses have been reduced through staff reductions and reduced operating activity.

Mongolian operations

Operating expenses in Mongolia during the quarter were $18,000 less than the comparable quarter in the prior year. As with the corporate office, expenses have been reduced through staff reductions and reduced operating activity.

Amortization

Amortization expense was reduced as most assets have been fully amortized or impaired.

Share-based compensation

The share-based compensation expense for the three months ended December 31, 2012 was $32,000 less than in the comparable period of 2011. This is due to the lower valuation of options vested in the current quarter which is determined using the Black-Scholes valuation model.

Income Tax

The Company has a deferred tax liability of $10,000 for the unrealized gain of an available-for-sale security (the shares of Macusani Yellowcake held by the Company). In accordance with IFRS, the unrealized gain is recorded in Other Comprehensive Income (OCI). As such, the deferred tax expense is also recorded in OCI.

The Company has deferred tax assets that can be used to offset the deferred tax liability. The Company has a legally enforceable right to offset current tax assets and liabilities when the deferred tax asset and liability relate to income taxes levied by the same taxation authority on the same taxable entity.

The Company's deferred tax assets originated in operations therefore IFRS requires that the related tax benefit of $10,000 be recognized in net income. Note 12 to the condensed interim consolidated financial statements sets out the net result of the deferred tax benefit recognized in net income and the deferred tax expense recognized in other OCI. The net result is zero. The total income tax expense is $3,000 which relates to the Government of Mongolia's withholding tax on intercompany interest expense.

Summary of Quarterly Results

In thousands of dollars

	Dec. 31 2012	Sep. 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010
Revenue	11	19	32	19	24	278	18	30	24
Expenses	(1,214)	(2,563)	(16,920)	(1,278)	(956)	(2,216)	(1,381)	(1,252)	(324)
Net loss	(1,203)	(2,544)	(16,888)	(1,259)	(932)	(1,938)	(1,363)	(1,222)	(300)
Basic and diluted earnings per share ($)	(0.02)	(0.04)	(0.26)	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)	(0.01)

Cash Flows

Operating cash flow for the first quarter of 2013 was negative at $651,000, an improvement of $270,000 from the comparable period last year. This was primarily attributable to a reduction in general corporate expenses and a related increase in non-cash working capital.

$11,000 of investing cash outflow during the first quarter of 2012 is related to the restoration cost incurred at the Dornod camp. In the first quarter of 2011, the Company spent $15,000 on care and maintenance at Dornod.

There were no financial cash flows in the first quarters of 2012 and 2011.

Liquidity and Capital Resources

With cash of $4,021,000 on hand as of December 31, 2012, the Company believes that it has sufficient liquidity to cover its obligations, including the cost of the International arbitration and other litigation over the next year.

The Company has positive working capital and does not have any contractual obligations, including those in the nature of long-term debt, capital lease obligations, operating leases, purchase obligations or other long-term obligations other than leases for office space in Toronto and Ulaanbaatar.

Additionally the Company holds an investment in Macusani with a fair market value of $2,251,000 as at December 31, 2012. This investment has been classified as available-for-sale.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Transactions with Related Parties

An officer of the Company is a partner in a firm that provides legal services to the Company. The Company paid $20,000 for these legal services for the three months ended December 31, 2012 (2011 -$7,000).

Financial Instruments and Financial Risks

The Company's primary financial instruments consist of cash and cash equivalents and its current and non-current financial assets, including its investments and intercompany receivables with its Mongolian subsidiaries.

Bank accounts are held with major banks in Canada and Mongolia. As a Canadian bank holds the majority of the Company's cash and the same Canadian bank also holds the guaranteed investment certificate, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. Interest rate risk is minimal at this time.

The Company is exposed to equity price risk through its holdings of marketable equity securities that will fluctuate in value as a result of trading on Canadian financial markets. As the Company's investments are mainly in mining companies, the value will also fluctuate based on commodity prices.

The Company is also exposed to foreign exchange risk through its investment in its Mongolian subsidiaries and their on-going financing. The Company finances these subsidiaries through inter-company loans and receivables. All these transactions are denominated in the Mongolian tugrik ("MNT"). The recovery amount of these investments and financings will partially depend on the strengthening or weakening of the MNT against the Canadian dollar. This exposure is not hedged.

Proposed Transactions

The Company does not have any proposed asset or business acquisitions or dispositions that are awaiting the approval of the Board of Directors at the date of this MD&A.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

Estimates

i. Impairment of assets

At each reporting date, the Company assesses whether there is objective evidence that an asset is impaired. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance.

With respect to property, plant and equipment, the Company has recognized a material impairment of the Dornod properties and related assets during the year ended September 30, 2012. (see Judgments i below).

ii. Restoration provision

The provision at the balance sheet date represents management's best estimate of the removal of residual materials and remediation of disturbed areas. The cost estimates are updated at regular intervals to reflect known developments. Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and are measured at fair value.

iii. Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized on the balance sheet. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

iv. Fair value of financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Judgments

i. ***Recoverability of mineral rights and properties***

The recoverability of the amounts shown for mineral rights and properties is dependent upon the tenure of mineral licenses, the existence of economically recoverable reserves, and the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production and/or the proceeds from the disposition thereof. To date, the Company has not earned any revenues from its properties.

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law (NEL) 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 NEL, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the NEL becoming effective. Existing license holders were required to submit an application to the newly created Nuclear Energy Agency (NEA) and renew and re-register their existing licenses by November 15, 2009. Khan submitted the applications for the renewal and re-registration of its mining license and exploration license on November 10, 2009.

To date, the mining and exploration licenses have not been reissued to Khan and the Company has initiated an International Arbitration action against the Government of Mongolia for its failure to do so.

On June 30, 2012 the Company made a determination based on the judgment that it was now highly unlikely that the mining and exploration licenses would be renewed and returned, and hence the Company resolved to close the Dornod mine camp. For that reason, the Company has recognized significant non-cash impairment losses of $16.1 million that have reduced all of the Company’s tangible assets to their estimated recoverable value of in light of the fact that the Company is highly unlikely to be able to continue the development program necessary to enable it to realize the carrying value of those assets. All tangible assets have been impacted because, for accounting purposes, the Company consists of a single cash-generating unit.

ii. Functional currency

The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, certain secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in both Canada and Mongolia, and sources of debt and equity financing.

Risks and Uncertainties

Khan’s success depends upon a number of factors, many of which are beyond its control. Typical risk factors include, among others, political risk, financing risk, title risks, exploration and development risks, joint venture risks, commodity price, and currency exchange rate risks, operating and environmental hazards encountered in the mining business and changing laws and public policies.

Outstanding Common Shares

The number of outstanding common shares as at the date of this MD&A is 68,125,445.

Additional Information

Additional information is available by accessing SEDAR at www.sedar.com or the Company's website at www.khanresources.com.

Forward-Looking Statements

Certain statements included or incorporated by reference in this MD&A, including information as to the future financial or operating performance of the Company, its subsidiaries and its projects, constitute forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "schedule" and similar expressions identify forward-looking statements. Forward-looking statements include, among other things, statements regarding targets, estimates and assumptions in respect of commodity prices, operating costs, results and capital expenditures, mineral reserves and mineral resources and anticipated grades and recovery rates. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. Such factors include, among others, risks relating to additional funding requirements, political and foreign risk, uninsurable risks, competition, environmental regulation and liability, government regulation, currency fluctuations, recent losses and write-downs and dependence on key employees. See "Risk Factors" section of this MD&A. Due to risks and uncertainties, including the risks and uncertainties identified above, actual events may differ materially from current expectations. Investors are cautioned that forward-looking statements are not guarantees of future performance and, accordingly, investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein. Forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update publicly such forward-looking statements, whether as a result of new information, future events or results or otherwise.