Khan Resources Inc.

Management Discussion and Analysis

March 31, 2013

KHAN RESOURCES INC.

RESULTS FOR THE SIX MONTHS ENDED MARCH 31, 2013

This Management Discussion and Analysis ("MD&A") has been approved in accordance with a resolution of the Board of Directors dated May 16, 2013. It should be read in conjunction with the condensed interim consolidated financial statements of the Company for the six months ended March 31, 2013

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. With that filing, Khan's claim has been revised upwards from $200 to $326 million. The December 7, 2012 submissions were pursuant to the Tribunal's ruling on July 26, 2012 which dismissed all of Mongolia's objections to the continuance of the suit. A Statement of Defense and Counterclaim by the Respondents was submitted to the Tribunal on April 5, 2013. Additional submissions by both the Claimants and Respondents will be submitted 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.
- Atomredmetzoloto ("ARMZ") litigation – On April 2, 2013 the Court of Appeal for Ontario dismissed Khan's appeal to validate, substitute or dispense with service of Khan's Statement of Claim. ARMZ had avoided service of the Statement of Claim as the Russian Ministry of Justice had invoked Section 13 of the Hague Convention which allowed Russia to refuse to serve ARMZ as a matter of Russian sovereignty or security. Khan is reviewing the decision and is considering the options available to it. The next stage of appeal would be the Supreme Court of Canada.
- 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 March 31, 2013 was $1,708,000, a decrease of $466,000 from its value at September 30, 2012.
- The following table summarizes financial results of the Company for the three and six months ended March 31, 2013 and 2012.

In thousands of dollars

	2013	2012	Change %
Net loss			
Three months ended March 31	**(964)**	(1,259)	23.4%
Six months ended March 31	**(2,167)**	(2,191)	1.1%
Basic and diluted earnings per share ($)			
Three months ended March 31	**(0.01)**	(0.02)	38.7%
Six months ended March 31	**(0.03)**	(0.04)	20.8%
Cash flow			
Six months ended March 31	**(1,975)**	(2,016)	2.0%
Cash and cash equivalents			
As at March 31	**2,705**	3,911	-30.8%

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 filed their rejoinder to the Company's submission on April 5, 2013 as previously scheduled. Additional submissions by both the Claimants and Respondents will be submitted 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. On April 2, 2013 the Court of Appeal for Ontario dismissed Khan's appeal to validate, substitute or dispense with service of the Statement of Claim. Khan is reviewing the decision and is considering the options available to it. If the Company decides to proceed to another stage of the litigation then it would appeal to the Supreme Court of Canada.

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

Mongolia

The investment climate for mining in Mongolia has suffered significant deterioration over the last few years. 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. 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.

As a result of actual work performed on restoration activities in 2012 to close the camp, the Company revised its estimate of the provision upwards by $16,000. During the three month period ending March 31, 2013 $30,000 ($41,000 year-to-date) was 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 and Year-to-Date Information

In thousands of dollars

	Three months		Six month	
	2013	2012	**2013**	2012
Revenue	**7**	19	**18**	43
Net loss	**(964)**	(1,259)	**(2,167)**	(2,191)
Total assets	**4,546**	21,810	**4,546**	21,810
Total non-current liabilities	**-**	-	**-**	-
Basic and diluted earnings per share ($)	**(0.01)**	(0.02)	**(0.03)**	(0.04)

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 March 31, 2013 compared to prior year.

Results of Operations

Revenue

In thousands of dollars

		Three months		Six months	
	Notes	**2013**	2012	**2013**	2012
Revenue					
Other income		**-**	10	**-**	21
Finance income		**7**	9	**18**	22
Total revenue		**7**	19	**18**	43

Other income during the three and six months ended March 31, 2012 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 March 31, 2013 and by $4,000 year-to-date compared to prior year as a result of lower cash balances on hand.

Legal Expenses

Legal expenses of $564,000 (2012 - $711,000) and $1,444,000 (2012 - $1,133,000) during the three and six months ended March 31, 2013 were primarily related to the international arbitration and ARMZ litigation proceedings. The year-to-date expenses in 2013 were higher than the prior year due to increased arbitration activity. In September, 2012, the agreement for lower fixed monthly fees for the period from September, 2012 to November, 2013 was signed with the law firm that represents the Company in the International Arbitration. It resulted in the drop in legal costs for the second quarter of 2013 compared with the second quarter of 2012.

General Corporate Expenses

March, 2013
In thousands of dollars

	Three months		Six months	
	2013	2012	**2013**	2012
Accounting and audit	**18**	61	**35**	90
Investor relations	**36**	30	**36**	37
Insurance	**17**	32	**34**	63
Salaries	**118**	143	**265**	324
Office and travel	**79**	91	**154**	174
Total general corporate expenses	**268**	357	**524**	688

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

Mongolian operations

Operating expenses in Mongolia were $12,000 less for the quarter and $30,000 less year-to-date than in the comparable periods of 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 was $12,000 less for the three months and $44,000 less for the six months ended March 31, 2013 than in the comparable periods of 2012. Options, granted in prior years with higher Black-Scholes value were fully vested by September 30, 2012 which resulted in lower compensation expense in 2013.

Income Tax

The Company recognized a deferred tax liability of $10,000 for the unrealized gain of an available-for-sale security (Macusani) during the first quarter of 2013. In accordance with IFRS, the unrealized gain and related tax expense were recorded in Other Comprehensive Income (OCI). The Company has deferred tax assets that can be used to offset the deferred tax liability.

Since the Company's deferred tax assets originated in operations, in accordance with IFRS, the Company recognized a related tax benefit of $10,000 in net income for the first quarter of 2013. During the second quarter, the shares of Macusani declined in value which resulted in an unrealized loss for the six months ended March 31, 2013; so the deferred income tax expense of $10,000 in OCI and corresponding tax benefit of $10,000 in net income were reversed in the second quarter of 2013. There were no comparable amounts in 2012.

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 OCI. The net result at six months is zero. The total income tax expense of $2,000 (2012- $3,000) for the three months and $5,000 (2012-$5,000) for the six months ended March 31, 2013 is the Government of Mongolia's withholding tax on intercompany interest expense.

Summary of Quarterly Results

In thousands of dollars

	31-Mar 2013	Dec. 31 2012	Sep. 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011
Revenue	7	11	19	32	19	24	278	18	30
Expenses	(971)	(1,214)	(2,563)	(16,920)	(1,278)	(956)	(2,216)	(1,381)	(1,252)
Net loss	(964)	(1,203)	(2,544)	(16,888)	(1,259)	(932)	(1,938)	(1,363)	(1,222)
Basic and diluted earnings per share ($)	(0.01)	(0.02)	(0.04)	(0.26)	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)

Cash Flows

Operating cash flow for the six months ended March 31, 2013 was a negative outflow of $1,948,000, an improvement of $6,000 from the comparable period last year. A reduction in general corporate expense in 2013 was offset by an increase in legal expenses resulting in this small variance in operating cash flow year-over-year.

$25,000 of investing cash outflow during the six months ended March 31, 2013 is related to the restoration cost incurred at the Dornod camp. During the six months ended March 31, 2012, the Company spent $24,000 on care and maintenance at Dornod and $1,000 on acquisition of fixed assets.

There were no financial cash flows during the six months ended March 31, 2012 and 2011.

Liquidity and Capital Resources

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.

Included in working capital is the Company's investment in Macusani with a fair market value of $1,708,000 as at March 31, 2013. This investment has been classified as available-for-sale.

With cash of $2,705,000 on hand as of March 31, 2013, 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 12 months.

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 $19,000 for these legal services for the three months ended March 31, 2013 (2012 -$49,000) and $37,000 for the six months ended March 31, 2013 (2012-$54,000).

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 $7,000 (at the time of the impairment) 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.