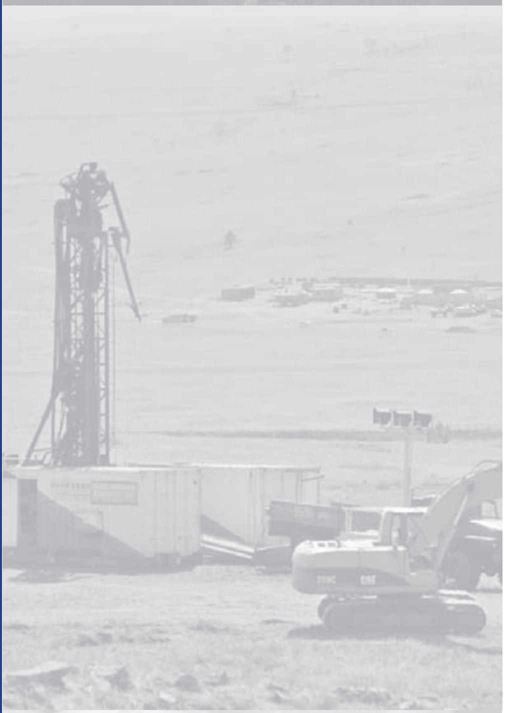
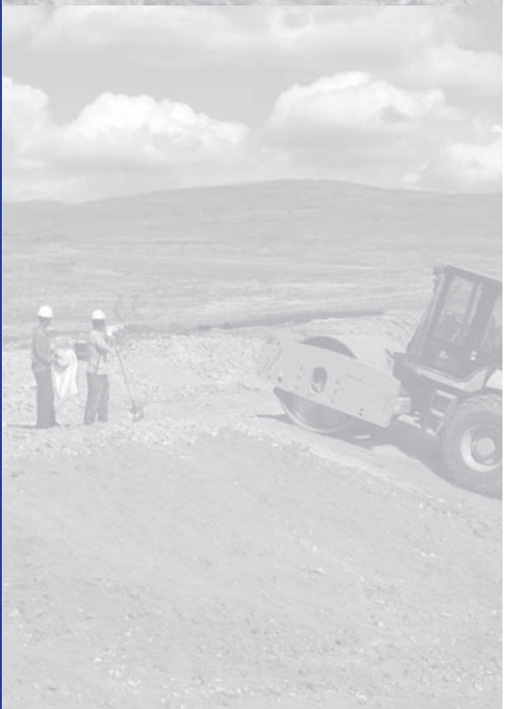
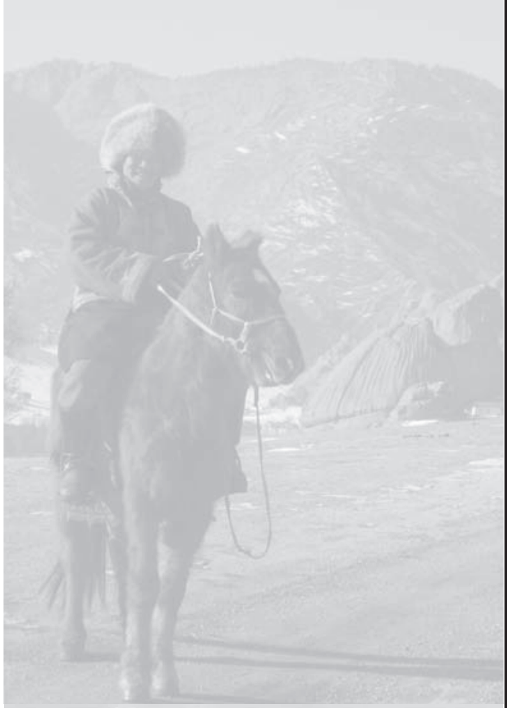
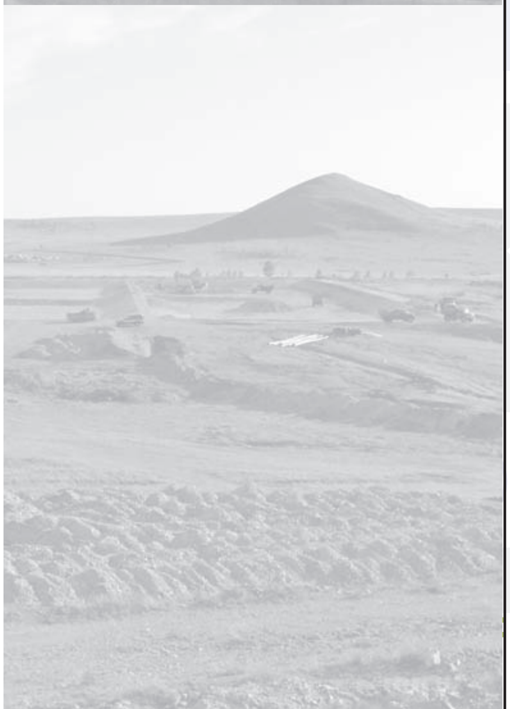




Annual Report 2010



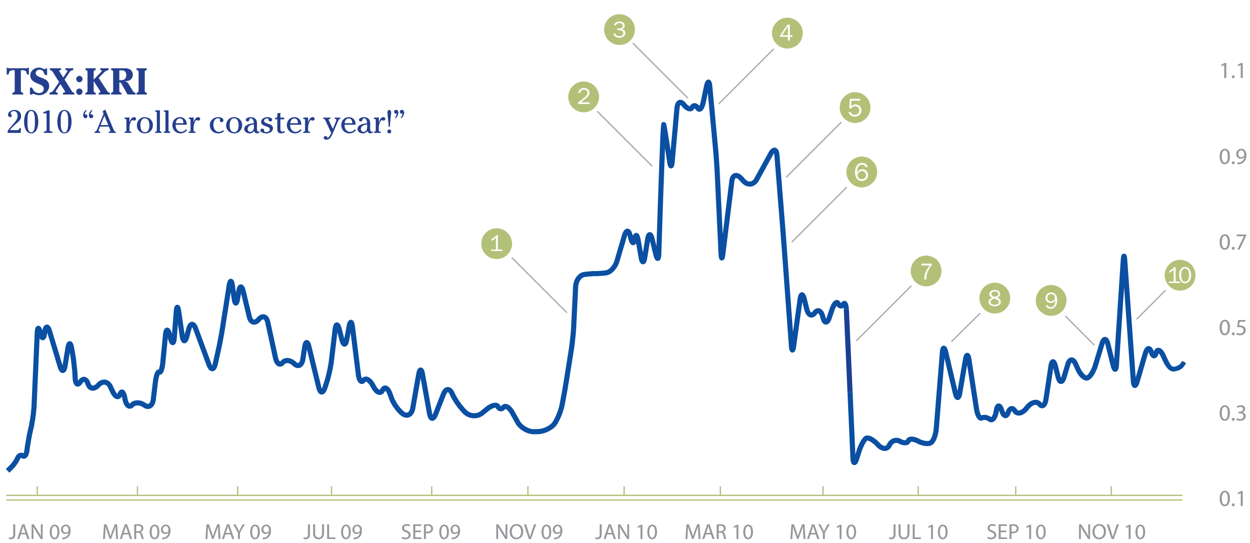


KHAN RESOURCES INC.

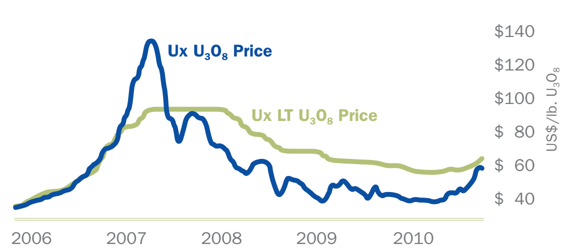
KHAN RESOURCES INC. 2010 ANNUAL REPORT

In calendar 2010, Khan's share price goes on a bumpy ride…

1. ARMZ launches hostile bid for the shares of Khan at $0.65 per share
2. Khan signs Memorandum of Understanding with MonAtom LLC for a joint venture transaction to finalize the ownership structure for the Dornod Uranium Project and allow for its development
3. CNNC announces friendly take-over bid for Khan at $0.96 per share
4. ARMZ announces it is abandoning its unsolicited offer
5. CNNC announces it has yet to receive Chinese government approval and extends offer for Khan to May 25, 2010
6. Mongolian Nuclear Energy Agency (NEA) notifies Khan that Khan's mining and exploration licenses for Dornod are considered invalid
7. CNNC informs Khan that it has failed to receive Chinese government approval for its offer
8. Mongolian Court rules that the NEA notice invalidating Khan's mining license, held by its subsidiary, CAUC, was itself invalid and illegal
9. Mongolian appeal court reconfirms that the NEA's Notice to Khan invalidating the mining license was itself invalid and illegal
10. NEA places notices in Mongolian newspaper stating that it will not be reissuing any mining or exploration licenses to Khan



…while Uranium prices start a long anticipated turn-around



Dornod

The Feasibility Study, completed in March of 2009 confirmed that the Dornod Uranium Project is a robust, world-class project, and the key highlights are shown in the summary table below:

Production Level	3500 tpd or 1.2 M tpa
Life of Mine	15 Years
Total lbs U_3O_8 Produced	45.3 M (Mill Recovery 88%)
Tonnes Milled and Grade of No. 7 Orebody	10.6 M @ 0.174% U_3O_8
Tonnes Milled and Grade of No. 2 Orebody	7.4 M @ 0.074% U_3O_8
Capital Costs	$332 M
Operating Costs	$58.26/t or 23.22/lb U_3O_8
Manpower (average)	933
Life of Mine (LOM) Revenue	$2,943 M
Total Operating Costs (LOM)	$1,175 M
Income Tax (LOM)	$317 M
After Tax Cumulative Cash Flow	$925 M
IRR Post Tax/Payback	29.1%/2.3 yrs
Assumed Long-Term Uranium Price	$65/lb U_3O_8

All dollar figures above are in US dollars, and all tonnage figures are in tonnes (t)

Probable Mineral Reserve

Location	Category	Tonnes (million)	$\%U_3O_8$	lb U_3O_8 (million)
No. 7 Deposit	Probable	10.63	0.174	40.8
No. 2 Deposit	Probable	7.41	0.074	12.1
Total	Probable	18.04	0.133	52.9

Indicated Mineral Resource

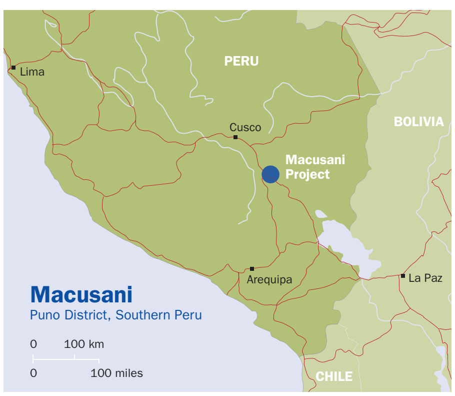
Location	Category	Tonnes (million)	$\%U_3O_8$	lb U_3O_8 (million)
No. 7 Deposit	Indicated	14.36	0.154	48.8
No. 2 Deposit	Indicated	10.95	0.065	15.7
Total Indicated		25.31	0.116	64.3

Notes: The Probable Mineral Reserve is part of the Indicated Mineral Resource.
See www.khanresources.com for qualifying information.

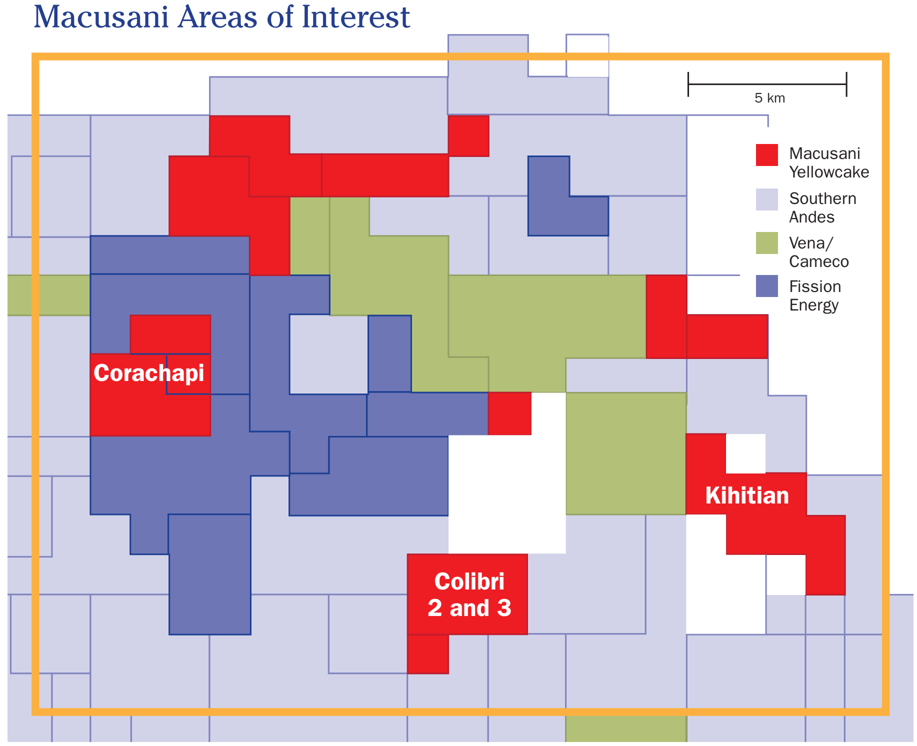
KHAN
RESOURCES INC.

Macusani

In November 2009, Khan purchased 10 million shares of Macusani Yellowcake Inc. (Macusani, TSX-V:YEL) for $2 million. In November 2010, Khan purchased an additional 2.5 million shares and 2.5 million share purchase warrants for $0.64 million. As a result, Khan is Macusani's largest single shareholder with approximately 16% of the outstanding shares. Macusani controls over 20,000 hectares (2,000 km^2) of land located on the Macusani Plateau in the Puno District of Southern Peru. These lands include several advanced stage exploration properties along with some exciting prospects. Macusani has announced that the Colibri II and Colibri III deposits are estimated to contain indicated resources of 10.1 million tons at 0.53 lbs per ton for 5.4 million lbs of contained U_3O_8. Inferred resources are estimated at 37.9 million tons at 0.40 lbs per ton for 15.2 million lbs of contained U_3O_8. A Preliminary Economic Study on these deposits prepared for Macusani produced positive results. Macusani has also announced that their Corapachi deposit contains measured and indicated resources of 4.1 million tons at 0.46 lbs per ton for 1.9 million lbs of U_3O_8. Subsequent to the release of this estimate for Corapachi, Macusani's step-out drilling program intersected significant mineralization at higher grades. In September and November, 2010, Macusani announced some results from their program on their Kihitian prospect. One drill hole included an intersection of 12 metres of mineralization grading 18.3 lbs U_3O_8 per ton while another included a 7 metre mineralized interval grading 36 lbs U_3O_8 per ton.



Macusani Areas of Interest



"Khan's investment in Macusani Yellowcake has more than doubled in value in recent months."

Looking Forward

During 2010, Khan Resources focused its efforts on protecting its investment in the Dornod Project in Mongolia. In addition, the Company invested $2.5 million in Macusani Yellowcake Inc.

Macusani is a very promising uranium project in the Macusani Plateau of southern Peru which has more than doubled in value in recent months.

We continue to look to the future for further opportunities in uranium and resolving our Dornod challenges.

Letter to Shareholders

From the Chairman

Your Board of Directors and management have worked hard to preserve and build shareholder value during 2010 with little tangible results. I personally hold one million shares of Khan and when I say that I share your frustrations I mean it. However, the purpose of this letter is to give credit where credit is due. Grant Edey, your new CEO, explains the details of what Khan endured during the year plus the bright spot of our investment in the Macusani Plateau uranium play in Peru. Let me comment first on the change in CEO during 2010.

Your Company hired Martin Quick, a very experienced uranium mine builder and operator, to be CEO at the beginning of 2006. Martin was an excellent CEO who gave Khan immediate credibility for the development of the Dornod Project in Mongolia. Martin oversaw your Company through the initial Pre-feasibility Study on Dornod then the 2009 Definitive Feasibility Study which concluded that a US$330 million mine and mill operation would have a 29% Internal Rate of Return (IRR) and a net present value at a 10% discount rate of US$275 million both at a sales price of US $65/ lb uranium. The Dornod development would have resulted in over 900 permanent jobs, over US$400 million in taxes and royalties, and a multiple of our capital expenditures contributed to the economy of Mongolia but certain Mongolian politicians chose another course. Martin gave us more years than his initial contract called for and we sincerely appreciate his many efforts on behalf of shareholders. Martin Quick remains a director of Khan Resources.

We are fortunate that Grant Edey, one of our directors, stepped up to be CEO on Martin Quick's retirement. Grant is a very experienced mining executive and director and has worked very hard to defend the interests of Khan shareholders. Grant has reduced our overhead costs and maintained our aggressive legal stance towards expropriation of our property rights in Mongolia as well as exploring other strategic alternatives for your Company.

Khan Resources has always had a Board of Directors and senior management worthy of the larger company we hoped to grow into. During 2010 we lost two long-time directors, Peter Hooper and Steve Harapiak, whom we sincerely thank for their many contributions. We welcome Marc Henderson and Raffi Babikian as their successors.

Sincerely,

James B.C. Doak
Chairman

January 3, 2011

Letter to Shareholders

From the President and CEO

Grant A. Edey

Let us start a review of 2010 on a positive note and discuss our investment in Macusani Yellowcake Inc. ("Macusani"). In November 2009, Khan purchased 10 million shares of Macusani for $0.20 per share. We purchased an additional 2.5 million units (one share plus one warrant) of Macusani in November 2010 for $0.25 per unit. Subsequent to these purchases, Macusani announced intersections of uranium mineralization on their Peruvian property at grades that greatly exceed historical intersections. These intersections moved the share price up dramatically and have changed the face of the uranium play on the Macusani Plateau. Khan is the largest shareholder of Macusani holding 16% of issued and outstanding shares plus 2.5 million warrants. At the time of writing, the share price for Macusani Yellowcake was hovering around the $0.50 per share level, representing an attractive (unrealized) investment gain in excess of $4 million for the Company.

In looking to the future, and while committed to protecting our Mongolian assets, our focus will move more towards new opportunities in the uranium sector like Macusani. This additional focus we hope will bring improvement to our share price as the uranium recovery continues.

Reverting to events in Mongolia, 2010 was an even more tumultuous year than 2009 for the Company and its shareholders. Looking back, fiscal year 2009 started reasonably well with the initiating of the electric power line project to the Dornod minesite and the building of sedimentation ponds for the dewatering of the mine. These events were coupled with the release in the spring of 2009 of the positive results of the Definitive Feasibility Study for the Dornod Project. The development of Dornod has been the primary focus of your Company since inception as Dornod represents one of the best undeveloped uranium projects in the world.

And then in the summer of 2009, matters deteriorated in Mongolia. The mining license of our 58% controlled subsidiary, CAUC, was temporarily suspended in early July followed by the sudden enactment of a new Nuclear Energy Law ("NEL"), an act designed to place ownership of 51% of Dornod (along with other in-country uranium deposits) in the hands of the Mongolian government. While recognizing that the government has ultimate authority over how and when its resources get extracted, a government may not expropriate foreign investment without fair and adequate compensation. The enactment of the NEL rendered serious damage to the prospects of Khan Resources. At the same time, however, management and Board were encouraged by the progress of the massive Oyu Tolgoi copper-gold project that was finally initiated with the signing of an Investment Agreement between Ivanhoe, RTZ, and the Mongolian government. So while fiscal 2009 ended and fiscal 2010 started with a low share price due to the enactment of the Nuclear Energy Law, we remained optimistic that we would be able to move forward with the development of the Dornod Project, and were prepared to work with the government with respect to the new Nuclear Energy Law.

But with our share price diminished by the government's illegal actions, ARMZ, the Russian state-owned uranium company and our assumed partner in Dornod, launched an unsolicited and opportunistic take-over offer for Khan in late November 2009 for $0.65 per share. Your Board diligently studied the offer, rejected it as inadequate, and initiated a process to seek an alternative strategic transaction to increase shareholder value. The process differed from many of the more traditional value seeking exercises, as we were dealing with an asset in a jurisdiction where the government had suspended one of our licenses (for no valid reason) and whose authorized representative, the Mongolian Nuclear Energy Agency ("NEA"), had signed a preliminary co-operation agreement with Russia to develop the Dornod deposit without us. As a result, the list of potential bidders for Khan was understandably quite limited.

Fortunately, the Dornod deposit was, and remains, a robust asset and its continued development represents the best long-term value for shareholders. The potential of the deposit was estimated to translate into a value greatly exceeding ARMZ's $0.65 offer. In fact, we successfully negotiated a non-binding Memorandum of Understanding ("MOU") for the continuing development of the Dornod Project with MonAtom LLC, the Mongolian government's designated uranium development company and our other partner in the project. Both sides felt the MOU was a win-win transaction and was entirely consistent with Mongolian objectives. We were prepared to relinquish a degree of ownership in Dornod, even without compensation, to demonstrate our commitment to Mongolia. The MOU recognized Mongolia's right to 51% of the Dornod Project under the Nuclear Energy Law, advanced the framework for developing the project, and also provided for a minority shareholding of Khan by MonAtom, an arrangement that would solidify our inter-company relationships and ensure that our goals were common.

It was not to be. The NEA mounted a campaign of criticism of the MOU and labelled it invalid and unenforceable. Frustrated again by a lack of co-operation, your Company felt there was no alternative available but to negotiate a take-over of Khan by CNNC, the Chinese government's nuclear company. CNNC was the only other company that had shown any real interest in entering the process and did so by offering $0.96 for the shares of Khan and assuming all Mongolian political risk. While several Mongolian factions were very disturbed by the entry of CNNC, there was no other alternative available to increase shareholder value. Keeping this part of the saga short, CNNC ultimately failed to get Chinese government approval of the transaction, despite extending the allowed time period for approval from 65 days to 115 days.

Prior to the ARMZ offer and during the CNNC offer, the NEA had sent Khan notices purporting to invalidate the mining and the exploration licenses covering the Dornod Project. The notices stated, amongst other particulars, that we had broken Mongolian laws and had undertaken illegal acts. These were hurtful accusations against a company that believes and strives to always act within the law, and was trying to co-operatively develop the Dornod Project to provide multiple benefits to Mongolia and its people. On pages subsequent to this letter, we provide a listing of the NEA's allegations against us and our responses to them. We invite you to read them and form your own opinion as to whether the allegations are meaningful and justify the attempts to invalidate our licenses.

Our recourse to the license invalidations was to take the NEA to court. This we did throughout the summer of 2010, enduring the delays and appeals requested by the NEA. Bottom line—the Mongolian Courts have declared the notices of invalidation of our licenses to be themselves invalid and illegal. The Courts have taken the position that the NEA has not yet made an official decision in respect of the licenses as it is required to do so under Mongolian law.

> “The Company believes it has a very good case under International Arbitration and, if ultimately successful, the award is expected to be in the range of hundreds of millions of dollars.

However, in November 2010 subsequent to the Court decisions, the NEA posted in the local newspaper what they called official notification that the mining and exploration licenses would not be reissued to us. We were falsely accused of providing incorrect information in respect of the court decisions, irresponsibly deceiving the public and our shareholders, failing to fulfill legal conditions and requirements, and disrespecting state laws and legislations. We deny all of these unsubstantiated allegations and continue to press the NEA for an official decision and a valid basis for making such a decision, all in accordance with their own laws.

Management and the Board now believe the issue is no longer solvable through negotiations with the NEA. Considerable efforts have been made by Khan's management to reach agreement on a co-operative basis for re-instatement of the licenses but to no avail. The Company is therefore in the process of initiating international arbitration proceedings against the Government of Mongolia for causing substantial damage and loss to the Company through expropriatory, unlawful, unfair and discriminatory treatment in respect of Dornod. International arbitration can be a long and costly process but Khan believes this action to be necessary at this point. The Company believes it has a very good case under international arbitration and, if ultimately successful, the award is expected to be in the range of hundreds of millions of dollars. This being said, the Company will continue its efforts to seek a co-operative settlement of the Dornod issue with the Government of Mongolia in tandem with advancing the International Arbitration process.

On another front, in the summer of 2010 Khan initiated a lawsuit against ARMZ and its affiliate, JSC Priargunsky, seeking damages for their breach of fiduciary duties as a joint venture partner in Dornod, along with general damages for interference with Khan's economic relations and damage to the Company's rights, business reputation, and property. These damages stem from ARMZ's continued attempts to gain control of the Dornod deposit to the exclusion of Khan's legitimate rights and interests in the property. However, the legal process in Russia is slow moving. The Statement of Claim has been translated into Russian and is now in the process of being legally served. On December 14, 2010, ARMZ continued their prior course of action to increase their control of Dornod by signing an agreement amongst Rosatom, MonAtom and the NEA, whereby ARMZ and MonAtom will develop Dornod on a 49%/51% basis. Khan will continue to pursue all legally available means to protect its assets and interests in Mongolia.

In closing, the Company wishes to thank all of Khan's shareholders for their continued support and loyalty through challenging times. Please be assured that Khan is committed to protecting your existing value and pursuing new value-enhancing opportunities.

Sincerely,

Grant A. Edey
President and CEO

January 3, 2011

Khan Responds to NEA - Allegations made by Mongolia's Nuclear Energy Agency that Khan has not followed relevent laws and regulations in its operations and that therefore Khan's licenses are invalidated

ALLEGATION: Khan Resources LLC's exploration license was in violation of Article 19.2.3 of the Minerals Law because it overlaps with a special protected area.

Response: The exploration license was issued in 2005. As of 2005, the Yakhi special protected area had only vaguely been defined by Parliament and did not appear to include the area of the exploration license. The co-ordinates of the special protected area were not mapped until 2008. The mapping showed a small overlap on a corner of the exploration license. The Mineral Law provides that the license-holder must merely surrender that part of the license that overlaps in exchange for fair compensation. Khan has full documentation showing it offered to do so and without compensation.

ALLEGATION: The parent company, Khan Resources Inc. violated Article 5.4 and Article 5.6 of the Minerals Law when it issued 54 million shares in Canada.

Response: Article 5.4 of the Minerals Law states that the State may participate up to 50% jointly with a private legal person in the exploration of a mineral deposit of strategic importance. In this case, the private legal persons are Khan Resources LLC and CAUC, both Mongolian companies which are indirectly held 100% and 58% respectively by Khan Resources Inc., the Canadian parent company. Khan Resources Inc. has 54 million common shares outstanding that have been issued since its incorporation to fund its activities. Article 5.4 does not and cannot regulate shares issued by the parent company to fund its activities in Mongolia, in Canada or elsewhere. By the NEA's logic, any share issuances by Ivanhoe, RTZ, Denison and/or Cameco (other companies active in Mongolia) would also be in violation of Mongolian laws.

Article 5.6 of the Minerals Law regulates the sale of shares by license-holders on the Mongolian Stock Exchange. The license-holders, Khan Resources LLC and CAUC, as mentioned previously are private Mongolian companies. The shares of Khan Resources LLC and CAUC are not listed or traded anywhere.

ALLEGATION: Khan Resources Inc. violated Article 3 of the Subsoil Law when it issued shares on an international Stock Exchange.

Response: Article 3 of the Subsoil Law makes Mongolian subsoil the property of the State and provides that it cannot be sold, but only leased (licensed). Selling shares on an international Stock Exchange and selling subsoil are totally separate and distinct matters.

> No legal basis for revoking Khan's licenses have been found under any investigation, as none exist.

ALLEGATION: Khan violated Article 33.2 of the Law on Special Protected Areas when it accessed drill core in the special protected area.

Response: The core on the special protected area was drilled by the Russians during their period of tenure at Dornod, a period long before the area was designated as a special protected area, and was stored in a Russian-built shelter. Khan has since moved the core to its own license area. Even if the allegation was true, the Law on Special Protected Area makes it clear that the infraction is merely the basis of an administrative penalty rather than the revocation of a license.

ALLEGATION: Parliament required the NEA to revoke Khan's licenses.

Response: The NEA suggested that it was following the direction of a Working Group of Parliament. However, a direction from a Working Group, if it exists, has no legal basis for a revocation of licenses.

ALLEGATION: Khan did not register its Reserves with the Mineral Resource Authority or report the outcome of its mineral exploration to the Specialized Minerals Council.

Response: Letter No. 141 of October 18, 2007 was sent to Khan by the Mineral Resources Authority of Mongolia and stated that the reserve of the Dornod uranium deposit was registered in the State Integrated Registry. Khan re-estimated the reserve according to Canadian standards and submitted it to the Minerals Council in August 2008. The Minerals Council did not appoint a group of experts to review the calculation until late 2009 after repeated requests by Khan. The Minerals Council has yet to meet to review and approve the experts' report.

ALLEGATION: Article 21.2 of the Law on Underground Wealth states that the right to exploit the ground shall be terminated if the ground was not exploited within three years of its issuance.

Response: The Company has undertaken a variety of activities designed to advance the development of the project, including exploration drilling, metallurgical testing, conducting pre-feasibility and feasibility studies, undertaking environmental studies and constructing electrical power lines to the site. The Company has continually pressed the government to be allowed to proceed with the project but government permits and authorizations have not been forthcoming.

Khan's Conclusions - No legal basis for revoking Khan's licenses have been found under any investigation, as none exist. Khan has not violated any Mongolian laws and there remains no valid reason why its licenses should not be reregistered and reissued.

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") provides a discussion and analysis of the financial condition and results of operations of Khan Resources Inc. (the "Company" or "Khan") for the years ended September 30, 2010 and 2009 and is intended to be read in conjunction with the audited consolidated financial statements of the Company for the years ended September 30, 2010 and 2009 and the related notes thereto. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise indicated, all amounts in this MD&A are expressed in United States dollars.

The date of this MD&A is December 16, 2010.

Company Profile

Khan is a Canadian-based mineral exploration and development company engaged in the acquisition, exploration and development of uranium in Mongolia. The Company is currently engaged in the exploration and development of 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). The Company expects its interests in the Main Dornod Property and the Additional Dornod Property to decrease as a result of the passage of the Nuclear Energy Law In July 2009. The Company has also been affected by other recent developments in Mongolia that may, in turn, impact its properties and assets and its interests therein. See "Recent Developments" below for further details.

On November 30, 2009, Khan acquired, by way of private placement, 10,000,000 common shares of Macusani Yellowcake Inc. ("Macusani") at a price of Cdn$0.20 per share. Macusani is a Canadian TSX Venture Exchange company which holds uranium properties in the Macusani Plateau district of Peru. 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. The Company currently holds approximately 16.1% of the outstanding common shares of Macusani. Further details concerning Khan's investment in Macusani is set out below under the section entitled "Recent Developments - Macusani Yellowcake Inc.".

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, JSC Priargunsky Industrial Mining and Chemical Union ("Priargunsky"), a Russian state-owned company, extracted approximately 590,000 tonnes of ore at an average grade of 0.118% uranium oxide ("U_3O_8") 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 in respect of the Main Dornod Property is registered in the name of Central Asian Uranium Company LLC ("CAUC"), a Mongolian company, in which the Company currently holds a 58% interest through its subsidiary CAUC Holding Company Limited ("CAUC Holding"). The other shareholders of CAUC, who each currently hold a 21% interest are MonAtom LLC ("MonAtom"), a Mongolian state-owned company and Priargunsky. Khan operates the Main Dornod Property through a joint venture with MonAtom and Priargunsky. In January 2010, CAUC received a formal notice from the State Property Committee of Mongolia ("SPC") requiring CAUC to propose to its shareholders a resolution to approve an increase of the Mongolian State ownership in CAUC to 51%, which resolution was subsequently authorized and approved by MonAtom and CAUC Holding, and submitted to the SPC (see "Significant Developments - Mineral Licenses - Nuclear Energy Law" below for further details).

The Additional Dornod Property is contiguous to the Main Dornod Property and consists of approximately one-third of Deposit No. 7 and part of another underground deposit. 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 the Company currently holds a 100% interest through subsidiaries. Although no formal notice has been received, the Company expects that the Additional Dornod Property will be subject to Mongolian State ownership of 51%.

Significant Developments

Highlights

- Khan wins two court cases in Mongolia but NEA still refuses to reissue licenses (see "Mineral Licenses - Invalidation of Mining and Exploration Licenses" below)
- Hostile offer for Khan by ARMZ and friendly offer by CNNC both expire (see "Offers for the Company and Strategic Transactions" below)
- Legal action against ARMZ initiated along with preparatory work on International Arbitration against the Government of Mongolia (see "Legal Actions" below)
- Macusani increases resources and intersects higher grade structures (see "Macusani Yellowcake Inc." below)
- Uranium spot price increases to 2010 high (see "Uranium Prices" below)

Mineral Licenses

Overview

During 2009, the mining license for the Main Dornod Property was temporarily suspended (as described below) and the Government of Mongolia enacted its Nuclear Energy Law. The share price of Khan deteriorated due to uncertainty generated by these and other developments and at times was equivalent to the value of Khan's cash on hand with little or no value attributed to the Dornod Uranium Project. In April 2010, the Company announced that it had received notices from the Mongolian Nuclear Energy Agency (the "NEA") stating that the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property had been invalidated. Shortly thereafter, CAUC and KRL filed separate formal claims in the Capital City Administrative Court (the "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. In July 2010, the Court ruled in favour of CAUC and declared that the previous decision by the NEA to invalidate CAUC's mining license was itself illegal and invalid. In August 2010, the Court ruled in favour of KRL and declared that the previous purported decision by the NEA to invalidate KRL's exploration license was itself illegal and invalid. In November 2010, the Company announced that the NEA had published a notice in certain Mongolian newspapers that it did not intend to reinstate the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property. These events are described in further detail below.

Suspension of Mining License

On July 15, 2009, Khan reported that it had received notice from the Mineral Resources Authority of Mongolia ("MRAM") 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, Khan 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, Khan 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 lifted. Khan viewed this settlement as having finally resolved the July 2009 suspension of the mining license, despite subsequent reports circulated by 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 MD&A. 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 Khan's reserve and resource calculations until 2009, following repeated requests by Khan. 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. Khan continues to believe that CAUC has complied with the terms of the mining license and applicable laws in all material respects.

Nuclear Energy Law

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. 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 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 not re-registered under the Nuclear Energy Law, as required, were considered to automatically be suspended. 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. Khan 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, Khan 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 suspended pending re-registration under the new law. Khan 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 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, however, the SPC has not acted upon the resolution. As of the date of this MD&A, KRL has not yet received a similar notice from the SPC in respect of its exploration license.

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 notices were illegal and invalid. On August 2, 2010, the Court ruled in favour of KRL, also declaring the notices by the NEA to be 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 appeal which effectively re-confirmed that the notices were 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 which must include the legal reasons for making such a decision pursuant to Mongolian law. The Company 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.

Offers for the Company and Strategic Transactions

Overview

On November 30, 2009, Atomredmetzoloto JSC ("ARMZ"), a Russian state-owned nuclear energy corporation and the owner of Priargunsky, made an unsolicited offer to purchase all the issued and outstanding common shares of Khan at a price of Cdn$0.65 per share. On December 15, 2009, Khan filed its directors' circular recommending that shareholders reject the ARMZ bid and, subsequently, on January 25, 2010, the Company announced that, in its efforts to work cooperatively with the Government of Mongolia and to resolve the uncertainty in Mongolia and to enhance shareholder value, it had signed a non-binding memorandum of understanding (the "MOU") with MonAtom, as described further below. Subsequently, after receiving reports that the NEA was making statements that the MOU violated certain laws and was invalid and unenforceable, the Company announced on February 1, 2010 that it had entered into a definitive agreement with CNNC Overseas Uranium Holding Ltd., a subsidiary of China National Nuclear Corporation ("CNNC"), pursuant to which CNNC agreed to make an offer to purchase all of the common shares of Khan for Cdn$0.96 in cash per share (the "CNNC Offer"). The CNNC Offer was initially open until April 6, 2010; however, it was subsequently extended by CNNC to May 25, 2010. In the face of the CNNC Offer, ARMZ allowed its unsolicited offer to purchase all of the shares of Khan to expire. On May 21, 2010, Khan announced that is was informed by CNNC that it had failed to obtain Chinese regulatory approval for the CNNC Offer and, accordingly, would allow the offer to expire on May 25, 2010. These events are described in further detail below.

ARMZ Offer

On November 27, 2009, Khan announced that it was informed that ARMZ, a Russian state-owned nuclear energy corporation and the owner of Priargunsky, 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 had unanimously recommended that shareholders reject the unsolicited ARMZ Offer to acquire all of the outstanding common shares of Khan at Cdn$0.65 in cash per share and not tender their common shares to the ARMZ Offer and filed and mailed its directors' circular dated December 14, 2009 containing its unanimous recommendation. 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 hostile offer to acquire all of the outstanding common shares of Khan, an established independent Special Committee of the Khan Board of Directors spent considerable amounts of time exploring and discussing possible strategic alternatives that would be in the best interests of Khan and maximize value for its shareholders. A particular focus was on transactions that involved MonAtom 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 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 Khan'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, and 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 2.9% of the common shares of Khan at an exercise price equal to the market price on the date that the definitive agreements are 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 was left with no alternative but to negotiate a friendly transaction with CNNC, 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, pursuant to which CNNC agreed to make the CNNC 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 5:00 p.m. (Toronto time) on April 6, 2010 and was subsequently extended until 5:00 p.m. (Toronto time) on 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 of 5:00 p.m. (Toronto 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.

Legal Actions

ARMZ

On August 20, 2010, the Company 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 Company and certain of its subsidiaries, 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 it 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 is in the process of being legally served through the Russian Department of Justice, as required, which can be a lengthy process.

International Arbitration

The Company has broadened the legal actions it will initiate to recover damages and other remedies in respect of its mineral licenses in Mongolia. Khan has retained the Washington D.C. law firm of Crowell & Moring LLP in July 2010 to study the possibility of initiating international arbitration proceedings against the Government of Mongolia. Khan believes that it has a strong case and would seek a substantial damages award that reflects the significant value that Khan has created in the Dornod Uranium Project, as demonstrated by the Definitive Feasibility Study completed in March 2009. As previously disclosed, the Definitive Feasibility Study estimated an after-tax value for the Dornod Uranium Project of US$276 million (using a 10% discount rate), of which approximately $189 million was attributable to Khan based on its ownership position in the project.

Macusani Yellowcake Inc.

On November 30, 2009, Khan acquired, by way of private placement, 10,000,000 common shares of Macusani Yellowcake Inc. ("Macusani") at a price of Cdn$0.20 per share. Macusani is a Canadian TSX Venture Exchange company which holds uranium properties in the Macusani Plateau district of Peru. The Company acquired approximately 17.9% of the outstanding common shares of Macusani at the time of the transaction. Under separate agreement, Khan has the right to maintain it's pro rata ownership of Macusani in certain subsequent treasury issuances for a period of two and a half years. Subsequently, on January 8, 2010, Macusani announced the completion of a private placement of 4,000,000 units at a price of Cdn$0.25 per unit. Each unit consisted of one common share of Macusani and 0.69 of one common share purchase warrant entitling the holder to acquire one common share in exchange for each whole warrant at a price of Cdn$0.30 until January 8, 2012. While the Company was entitled to participate in this private placement, it elected not to do so in light of the ARMZ Offer. As of January 8, 2010, Macusani announced that it had 59,881,284 common shares outstanding and, accordingly, as of such date, the Company's holdings in Macusani represented approximately 16.7% of the then-outstanding common shares.

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. The Company currently holds approximately 16.1% of the outstanding common shares of Macusani.

Macusani controls over 24,000 hectares (240 square kilometres) of mineral properties located on the Macusani Plateau in the Puno District of southern Peru which include several significant advanced stage exploration properties. In June 2009, Macusani acquired the Corapachi and Kihitian Concessions, two properties on the Plateau where higher grade U_3O_8 has been identified. Macusani has conducted an exploration program on these properties subsequent to their acquisition and the Company understands that it is in the process of preparing a NI 43-101 compliant resource estimate for these concessions. In March 2010, Macusani announced indicated resources of 2.1 million lbs of U_3O_8 at a grade of 0.44 lbs of U_3O_8/short ton and inferred resources of 14.5 million lbs of U_3O_8 at a grade of 0.34 lbs/short ton on its Colibri 2 and 3 properties. On July 27, 2010, Macusani announced that infill drilling on the Colibri 2 and 3 properties intersected higher-grade uranium. As a result, Macusani expects that a new resource calculation will be released shortly showing increased uranium tons and grade.

In April 2010, Macusani announced the completion of a positive Preliminary Economic Assessment ("PEA") for the Colibri 2 and 3 uranium deposits. The PEA is based on a NI 43-101 technical resource report dated April 2010 by The Mineral Corporation, South Africa.

The PEA was prepared by GBM Minerals Engineering Consultants Limited. The PEA supports a robust, positive investment return at a long term U_3O_8 price of $65 per lb. The pre-tax internal rate of return ("IRR") was estimated at 20.7% and the pre-tax net present value ("NPV") using a 13% discount rate was calculated at $64.1 million on a 100% equity basis with a payback period of 5.32 years from the start of the two-year construction period (3.32 years from the start of mining). Initial capital costs are estimated at $147.9 million (including a contingency of $20.4 million) and total capital costs are estimated at $162.2 million including the initial capital costs and $14.3 million of sustaining capital. Total operating costs for the project are estimated at $250 million or $21.65 per pound of U_3O_8 (equivalent) produced.

The study assumed an open pit/heap leach operation that would produce an average of 1.17 million lbs of U_3O_8 (equivalent) per year for ten years from 3.0 million tonnes of mineralized material per year (plus 0.3 million tonnes of waste) assuming a head grade of 200 ppm (0.02% or 0.40 lbs/short ton). The uranium would be recovered from the leach solution using a continuous fixed bed ion exchange plant (or "CFIX").

In August 2010, Macusani announced the results of a further updated NI 43-101 compliant resource estimate on Colibri 2 and 3 properties. The resource estimation was completed by The Mineral Corporation, South Africa. Compared with the previous resource estimate, the latest results show an increase of contained U_3O_8 at the 75 ppm cutoff grade in the Indicated category by 158% to 5.41 million lbs at a grade of 0.027% U_3O_8 (0.535 lbs U_3O_8 per ton) compared with 2.10 million lbs at a grade of 0.022% (0.443 lbs U_3O_8 per ton). In addition, the contained U_3O_8 in the Inferred category increased by 4.5% to 15.15 million lbs at a grade of 0.020% (0.389 U_3O_8 per ton) compared with 14.49 million lbs at a grade of 0.017% (0.335 per U_3O_8 per ton).

On September 8, 2010, Macusani announced the results of a NI 43-101 compliant resource estimate on the Corapachi property completed by The Mineral Corporation, South Africa. At the 75 ppm cutoff grade, measured resources were 0.3 million lbs U_3O_8 at a grade of 0.014% U_3O_8 (0.283 lbs U_3O_8 per ton); indicated resources were 4.7 million lbs at a grade of 0.020% (0.404 lbs U_3O_8 per ton); and inferred resources were 1.9 million lbs at a grade of 0.023% (0.461 U_3O_8 per ton).

Power Line

In September 2008, Khan entered into a contract for the construction of a power line and substation 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 will 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 MW of electricity was 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. In April 2010, the contractor stopped work on the project. After several meetings with the contractor, it became apparent that the project would not be completed; therefore, a notice of default under the terms of the contract was sent to the contractor in November 2010.

Uranium Prices

In November 2010, the average month-end spot price was $61 per lb U_3O_8, which was the highest price in 2010. The lowest average month-end spot price in 2010 was $41 per lb U_3O_8 in May.

Organizational Changes

In June 2010, Messrs. Peter J. Hooper and Steven W. Harapiak resigned from the Board of Directors and Messrs. Marc Henderson and Raffi Babikian were appointed as directors to fill the vacancies created by their resignations.

On June 25, 2010, Mr. Martin Quick retired as President and Chief Executive Officer but remains as a director of the Company. At the same time, Mr. Grant Edey, a director of the Company, was appointed as the new President and Chief Executive Officer.

Overall Performance

Financial

Total assets of the Company at September 30, 2010 were $30,096,000 compared with $32,589,000 at September 30, 2009. The decrease of $2,493,000 resulted from the decreases in current assets of $6,199,000 and capital assets of $82,000 offset by increases in investments of $3,401,000 and mineral interests of $387,000. The decrease in current assets was due primarily to the cash used in operating and investing activities during the year ended September 30, 2010. The increase in investments was due to the acquisition of Macusani Yellowcake Inc. common shares and the increase in mineral interests was due to development costs incurred on the Dornod Uranium Project.

During the year ended September 30, 2010, the Company incurred a net loss of $4,130,000 or $0.08 per share compared with $3,827,000 or $0.07 per share in the comparable period of 2009. The net increase of $303,000 was due primarily to the decrease in interest income of $113,000 and the increases in general corporate expense of $1,808,000 and Mongolian operations expense of $84,000 offset by the decrease in stock-based compensation expense of $428,000, the change in foreign exchange of $1,117,000 from a loss in 2009 to a gain in 2010 and the increase in recovery of income taxes of $158,000.

During the year ended September 30, 2010, the Company incurred a comprehensive loss of $2,809,000. An unrealized holding gain on available-for-sale securities of $1,510,000 less future tax expense of $189,000 reduced the comprehensive loss to $2,809,000 from $4,130,000. There was no holding gain in 2009.

During the year ended September 30, 2010, cash decreased by $6,240,000 compared with $7,806,000 in the comparable period of 2009.

The cash used in operating activities was $4,393,000 in 2010 compared with $2,622,000 in 2009. The increase of $1,771,000 was due to the decrease in interest income of $113,000 and the increases in general corporate expense of $1,808,000 and Mongolian operations expense of $84,000 offset by the decreases in realized foreign exchange loss of $51,000 and the cash required for changes in non-cash working capital related to operations of $214,000.

The cash used in investing activities was $2,324,000 in 2010 compared with $4,543,000 in 2009, a decrease of $2,219,000. In 2009, proceeds from the sale of investments provided cash of $36,000, restricted cash provided cash of $683,000 and advances to suppliers provided cash of $97,000. There were no comparable amounts for these items in 2010. Purchase of investments used cash of $1,891,000 compared with $21,000 in 2009. The purchase of capital assets was $49,000 compared with $2,131,000 in 2009. The decrease of $2,082,000 resulted from the substantial completion of a sedimentation pond and the partial completion of a power line at the Dornod Uranium Project in 2009. Mineral interests used cash of $384,000 compared with $3,207,000 in 2009. The decrease of $2,823,000 resulted primarily from the completion of the Definitive Feasibility Study for the Dornod Uranium Project in 2009.

The cash used by financing activities was $56,000 in 2009 and there was no comparable amount in 2010. In 2009, the exercise of stock options provided cash of $11,000 and the purchase of Khan common shares under the normal course issuer bid used cash of $67,000.

The foreign exchange gain on cash was $477,000 in 2010 compared with a foreign exchange loss on cash of $585,000 in 2009. Cash balances are primarily held in Canadian dollars. The foreign exchange gain on cash was due to the increase in value of the Canadian dollars in terms of the United States dollar during the period.

Selected Annual Information

The following table provides a brief summary of Khan's financial operations. For more detailed information, refer to Khan's consolidated financial statements.

	September 30, 2010 $000's	September 30, 2009 $000's	September 30, 2008 $000's
Year ended			
Revenue	**57**	170	722
Expenses	**4,345**	3,997	9,467
Loss before taxes	**(4,288)**	(3,827)	(8,745)
Future tax recovery	**158**	–	822
Net loss	**(4,130)**	(3,827)	(7,923)
Net loss per share - basic and diluted	**(0.08)**	(0.07)	(0.15)
As at			
Cash	**10,554**	16,794	24,600
Working capital	**10,446**	16,770	24,922
Total assets	**30,096**	32,589	36,184

Results of Operations

As a development stage company, Khan has no operating history and has incurred losses in the years ended September 30, 2010 and September 30, 2009. Based on the current exploration and development plans for the Dornod Uranium Project, the Company expects to incur losses for the foreseeable future and will require additional funds to finance exploration and development activities.

Revenue

Total revenue decreased by $113,000 during the year ended September 30, 2010 from the comparable period in 2009 due to the decrease in interest income resulting from lower cash balances on hand and lower interest rates.

Expenses

Total expenses increased by $348,000 during the year ended September 30, 2010 from the comparable period in 2009 due primarily to the increases in general corporate expense of $1,808,000 and Mongolian operations expense of $84,000 offset by the decrease in stock-based compensation of $428,000 and the change in foreign exchange of $1,117,000 from a loss in 2009 to a gain in 2010.

General corporate expense increased by $1,808,000 in 2010 compared with 2009. The following table illustrates the major items included in general corporate expense:

	Year ended September 30, 2010 $000's	Year ended September 30, 2009 $000's
Accounting and audit	**145**	156
Investor relations	**139**	158
Insurance	**109**	102
Legal	**1,277**	410
Management remuneration	**1,068**	702
Office and travel	**1,115**	517
	3,853	2,045

One factor, among others, responsible for the overall increase was the change in exchange rates between the Canadian dollar and the United States dollar as the majority of this expense is incurred in Canadian dollars and translated to United States dollars. The Canadian dollar averaged $0.9606 in terms of the United States dollar during the year ended September 30, 2010 and averaged $0.8470 in terms of the United States dollar during the year ended September 30, 2009, an increase of 13%.

Other significant factors responsible for the changes in general corporate expense were as follows:

- Legal fees and expenses increased due to the ARMZ Offer, the Mongolian MOU, the CNNC Offer and the Mongolian court cases.
- Management remuneration increased due to the implementation of an annual retainer fee for directors and the directors' meeting fees related to the ARMZ Offer and the CNNC Offer.
- Office and travel increased due to the ARMZ Offer, the Mongolian MOU, the CNNC Offer and the Mongolian court cases.

Mongolian operations expense increased by $84,000 in 2010 compared with 2009 due primarily to the Mongolian court cases and the increase in exchange rates between the Mongolian Togrog and the United States dollar as the majority of this expense is incurred in Mongolian Togrogs and translated to United States dollars. The Mongolian Togrog averaged $0.00075 in terms of the United States dollar during the year ended September 30, 2010 and averaged $0.00072 in terms of the United States dollar during the year ended September 30, 2009, an increase of 4%.

Stock-based compensation expense decreased by $428,000 in 2010 compared with 2009 due to the lower expense for the vesting of options. A significant portion of options granted in prior years were fully vested by September 30, 2009; thus a lower expense for the vesting of options was recorded in 2010 than the comparable period in 2009. In 2010, 1,500,000 stock options were granted compared with 1,435,000 stock options granted in 2009.

The change in foreign exchange of $1,117,000 from a loss of $636,000 in 2009 to a gain of $481,000 in 2010 primarily due to the fluctuation in value of the Canadian dollar in terms of the United States dollar and the amount of Canadian dollars on hand. In 2010, at the beginning of the fiscal period, the Canadian dollar was $0.9340 in terms of the United States dollar compared with $0.9718 at the end of the fiscal period. In 2009, at the beginning of the fiscal period, the Canadian dollar was $0.9397 in terms of the United States dollar compared with $0.9340 at the end of the fiscal period; however, the range during the year was from $0.9416 to $0.7698. The average Canadian dollars on hand was 90% of cash during 2010 compared with 83% during 2009.

Mineral interests

During the year ended September 30, 2010, the deferred development costs, consisting mainly of camp operations and site maintenance, incurred on the Dornod Uranium Project, were $387,000. The following table sets out the change in deferred development costs:

	As at September 30, 2009 $000's	Costs incurred during the year ended September 30, 2010 $000's	As at September 30, 2010 $000's
Deferred development costs			
Dornod Uranium Project, Mongolia	11,178	387	11,565

Summary of Quarterly Results

The following table sets out the financial results for Khan's eight most recently completed quarters. The results are expressed in thousands of United States dollars except per share amounts.

	Quarter ended September 30, 2010 $000's	Quarter ended June 30, 2010 $000's	Quarter ended March 31, 2010 $000's	Quarter ended December 31, 2009 $000's
Revenue	**20**	17	9	11
Expenses	**624**	1,604	1,280	837
Net income (loss)	**(446)**	(1,587)	(1,271)	(826)
Net income (loss) per share - basic and diluted	**$ (0.01)**	$ (0.03)	$ (0.02)	$ (0.02)

	Quarter ended September 30, 2009 $000's	Quarter ended June 30, 2009 $000's	Quarter ended March 31, 2009 $000's	Quarter ended December 31, 2008 $000's
Revenue	**20**	30	38	82
Expenses	**(304)**	(310)	1,469	3,142
Net income (loss)	**324**	340	(1,431)	(3,060)
Net income (loss) per share - basic and diluted	**$ 0.01**	$ 0.01	$ (0.03)	$ (0.06)

Over the past eight quarters, variations in the quarterly loss have usually been caused by fluctuations in general corporate expense, stock-based compensation expense, foreign exchange gain or loss and other expense items. General and corporate expense varies according to the level of activity in the head office. Stock-based compensation expense varies from quarter to quarter depending on the number of stock options granted and vested in the quarter. The foreign exchange gain or loss arises from the translation of amounts denominated in foreign currencies to United States dollars.

Liquidity and Capital Resources

As at September 30, 2010, the Company had working capital of $10,446,000 (September 30, 2009 - $16,770,000) which comprised cash of $10,554,000 (September 30, 2009 - $16,794,000), accounts receivable in the amount of $59,000 (September 30, 2009 - $67,000), prepaid expenses and other assets in the amount of $191,000 (September 30, 2009 - $144,000), restricted cash in the amount of $51,000 (September 30, 2009 - $49,000) and current liabilities of $409,000 (September 30, 2009 - $284,000).

The Company earns no income from operations and any significant improvement in working capital results from the issuance of share capital. For the year ended September 30, 2010, the operating activities of Khan used cash of $4,393,000 (2009 - $2,622,000), the investing activities, which consisted of the purchase of investments, capital assets and mineral interests used cash of $2,324,000 (2009 - $4,543,000), the financing activities used cash of nil (2009 - used cash of $56,000) and the foreign exchange gain on cash was $477,000 (2009 - loss of $585,000). The Company's last primary financing activity was on March 1, 2007, when the Company completed a public offering of 8,150,000 Common Shares, which were issued pursuant to a prospectus dated February 21, 2007. The Common Shares were issued at a price of Cdn$3.70 each, for total proceeds of Cdn$30,155,000.

The Company believes that it has sufficient financial resources to pay its ongoing general corporate and Mongolian operations expenses and to meet its liabilities over the next year. This expectation is based on the forecasted costs associated with maintaining the current operations. The Company considers the re-instatement, re-registration and maintenance of the mining and exploration licenses for the Project, an updated joint venture agreement in respect of the CAUC joint venture and the successful negotiation of an investment agreement with the Government of Mongolia to be major prerequisites to any major mine development work. If these are achieved, the subsequent development of the Dornod Uranium Project will depend on, among other things, the Company's ability to obtain additional financing and political and regulatory developments or changes in Mongolia. The Company has issued common shares, warrants and agents' options from time to time to advance the Project through various stages of development; however, debt may be required to bring the Project into production. There can be no assurance that the Company will be successful in raising the required financing.

The Company's capital resources are also dependent on the existence of a profitable market for the sale of mineralized material which it may discover or acquire. There can be no assurance that the uranium price will sustain a level that will enable the Dornod Uranium Project to be mined at a profit.

In addition, the ultimate development of the Dornod Uranium Project is a large, complex undertaking that will require substantial engineering, construction and operating expertise and execution. Potential cost overruns and completion delays are significant risks in projects of this size. In addition, Khan's operations are exposed to significant risks of legislative, political, social, regulatory and economic developments or changes in the jurisdictions in which it carries on business. Any such changes are beyond the Company's control and may adversely affect Khan's business, properties and assets. The Company also considers the re-instatement, re-registration and maintenance of the mining and exploration licenses for the Project, an updated joint venture agreement in respect of the CAUC joint venture and the successful negotiation of an investment agreement with the Government of Mongolia to be major prerequisites to any major mine development work.

The Company 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 a five-year lease for office space that commenced on March 1, 2006, with an annual cost of approximately $85,000 per year. The lease has been extended for one year under the same terms and conditions. The expected rent for the next year is $95,000.

Fourth Quarter

For the three months ended September 30, 2010, the Company recorded a net loss of $446,000 or $0.01 per share compared with a net income of $324,000 or $0.01 per share in the comparable period of 2009.

Total revenue was the same during the quarter ended September 30, 2010 as the comparable period of 2009.

Total expenses increased by $935,000 during the quarter ended September 30, 2010 from the comparable period in 2009 due primarily to the increases in Mongolian operations expense of $71,000 and stock-based compensation expense of $23,000 and the decrease in foreign exchange gain of $844,000.

Outstanding Share Data

The following table sets forth particulars of the fully-diluted share capitalization of Khan as at the date of this MD&A:

Securities	Number of Common Shares
Issued and outstanding common shares	54,010,445
Shares issuable upon exercise of stock options	3,750,334
Total	57,760,779

Transactions with Related Parties

There were no transactions with related parties during the years ended September 30, 2010 and 2009.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

The Company's significant accounting policies are described in note 2 to the audited consolidated financial statements for the year ended September 30, 2010. Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Management uses its judgment and knowledge from past experience as a basis for estimates and other assumptions in connection with the preparation of the financial statements. Management's estimates and assumptions are evaluated and updated regularly. The actual results of the Company may materially differ if management were to use different estimates and assumptions. The following accounting estimates are what management currently considers being the most critical in the preparation of the Company's financial statements.

Mineral interests

The carrying values for development and exploration properties are cost less any writedown to recognize impairment. Management reviews properties when events or changes in circumstances suggest that the carrying value of certain long-lived assets may not be recoverable. An asset impairment charge will be required if the undiscounted cash flows do not exceed the carrying value of the asset tested. The charge to earnings will be the difference between the asset's fair value and the carrying value. Future cash flows are estimated by management based on estimated uranium prices, operating costs, production volume, reclamation costs, capital expenditures and mineral reserves. Each of these variables is subject to uncertainty and risk.

Assets held-for-sale are separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are not depreciated while they are classified as held-for-sale.

Asset retirement obligations

The Company is subject to environmental protection laws governing reclamation of its development and exploration properties. These laws are continually changing and these changes may affect the procedures and costs required to complete reclamation obligations. Estimates of the fair value of the liabilities for asset retirement obligations are recognized in the period they are incurred. Actual future reclamation costs may be materially different from the costs estimated by the Company.

Contingencies

An estimated contingent loss is recorded when it is determined from available information that a loss is probable and that the amount can be reasonably estimated. Contingent liabilities involve the exercise of judgment and an estimate of future outcomes.

Stock-based compensation expense

The Company has a stock-based compensation plan. The Company accounts for stock options using the fair value method. The determination of the fair value of stock options issued requires management to estimate future stock volatility and a risk-free rate of return. Management uses the Black-Scholes option pricing model to estimate the fair value of Khan's stock options. The assumptions made may change from time to time.

Changes in Accounting Policies Including Initial Adoption

Initial Adoption

Financial Instruments - Disclosures

Effective October 1, 2009, the Company adopted the amendment to the Canadian Institute of Chartered Accountants ("CICA") section 3862 (Financial Instruments - Disclosures), which adopted the amendments recently issued by the IASB to IFRS 7 - Financial Instruments: Disclosures, which was issued in March 2009. The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk, of financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with the early adoption permitted. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

Financial Instruments - Recognition and Measurement and Impaired Loans

Effective October 1, 2009, the Company adopted the amendment to the CICA section 3855 (Financial Instruments - Recognition and Measurement) and concurrently accounting section 3025 (Impaired Loans). These amendments affect the classifications that are required or allowed for debt instruments, as well as the impairment model for held-to-maturity financial assets. The amendments are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, restricted cash, investments and accounts payable and accrued liabilities.

Fair Value

Cash is designated as held-for-trading and therefore carried at fair value with the unrealized gains or losses recorded in the consolidated statements of operations and deficit. Accounts receivable are designated as loans and receivables and, therefore, carried at amortized cost with the gains and losses recognized in the consolidated statements of operations and deficit in the period that the asset is derecognized or impaired. Restricted cash is designated as held-for-trading and, therefore, carried at fair value with the unrealized gains or losses recorded in the consolidated statements of operations and deficit. Investments are designated as available-for-sale and recorded at fair value with unrealized gains and losses recognized in the statement of comprehensive loss and realized gains and losses recognized in the consolidated statement of operations and deficit. Accounts payable and accrued liabilities are designated as other financial liabilities and therefore carried at amortized cost with the gains or losses recognized in the consolidated statements of operation and deficit when the financial liability is derecognized or impaired. The estimated fair values of accounts receivable and accounts payable and accrued liabilities approximate their respective carrying values.

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts and guaranteed investment certificates. Bank accounts are held with major banks in Canada and Mongolia. As the majority of the Company's cash is held by a Canadian bank and the guaranteed investment certificate is also held by the same Canadian bank, 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. The Company's secondary exposure to credit risk is on its accounts receivable. This risk is minimal as accounts receivable consist primarily of refundable government taxes.

Currency Risk

The Company operates in Canada and Mongolia and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The majority of these transactions are in Canadian dollars. The Company's cash, accounts receivable, restricted cash, investments and accounts payable and accrued liabilities that are held in Canadian dollars, Euros and Mongolian togrogs are subject to fluctuation against the United States dollar.

Interest Rate Risk

The Company is exposed to interest rate risk as bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The income earned on these bank accounts is subject to the movements in interest rates.

The Company also records transaction costs related to the acquisition or issue of held-for-trading financial instruments to the consolidated statements of operations and deficit as incurred. Transaction costs related to financial instruments not designated as held-for-trading are included in the financial instrument's initial recognition amount.

Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash balances.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed 2011 as the official changeover date for publicly listed Canadian companies to start using International Financial Reporting Standards ("IFRS"). The transition will affect interim and annual financial statements relating to years beginning on or after January 1, 2011. For the Company, the first annual IFRS financial statements would be prepared for the year ended September 30, 2012 and the first interim financial statements under IFRS would be for the three months ended December 31, 2011. These financial statements would also include comparative amounts for the 2011 fiscal year prepared on an IFRS basis.

The Company has prepared a comprehensive IFRS conversion plan and engaged third party advisors to assist with the planning and implementation of its conversion to IFRS. As part of its analysis of potential changes to significant accounting policies, the Company is assessing what changes may be required to its accounting systems and business processes. The adoption of IFRS requires the application of IFRS 1 - First-time Adoption of International Financial Reporting Standards ("IFRS 1") which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period, however IFRS 1 also provides certain optional exceptions and mandatory exceptions to this retrospective treatment. The adoption of IFRS will result in some changes to the Company's accounting policies that are applied in the recognition, measurement and disclosure of balances and transactions in its financial statements

At this time, the Company is not able to quantify the effects of adopting IFRS.

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. Risk factors are more fully described in the Company's Annual Information Form to be filed with SEDAR on or before December 31, 2010.

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the year ended September 30, 2010, an evaluation was carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of September 30, 2010 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

Management's Assessment of Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system is designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the consolidated financial statements. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Chief Executive Officer and Chief Financial Officer have reviewed the internal control procedures in existence as of September 30, 2010, and concluded that the Company's internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). During the most recent fiscal year, there have been no changes in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information, including the AIF of the Company, is available by accessing SEDAR.

Cautionary Note Regarding Forward-Looking Information

This management's discussion and analysis contains "forward-looking statements" and "forward-looking information" that are not historical facts and which include, but are not limited to, statements with respect to the future financial or operating performance of the Company, its subsidiaries and its projects, 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 new 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 and regulatory matters. Often, but not always, forward-looking statements and information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events, performance or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements and information have been prepared for internal planning purposes and may not be appropriate for other purposes. Forward-looking statements and information involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, events or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements and information. Such risks, uncertainties and factors include, among others: significant business, economic, competitive, political, regulatory and social uncertainties and contingencies; the impact of International, Mongolian and Canadian laws, trade agreements, treaties and regulatory requirements on Khan's business, licenses, operations and capital structure; Khan'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 Khan and Macusani carry on business; the nature and outcome of pending and future litigation, arbitration and other legal or regulatory proceedings; the speculative nature of mineral exploration and development; changes in project parameters as plans continue to be refined; the actual results of exploration or reclamation activities; 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 Khan's securities; the lack of any strategic or alternative transactions or the terms and conditions of any such 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 Khan, including those transactions that may produce strategic value to shareholders; changes in the worldwide price of certain commodities such as uranium, coal, fuel, electricity and fluctuations in resource prices; fluctuations in currency exchange rates and interest rates, including fluctuations in the value of United States and Canadian dollars relative to the Mongolian Togrog; inflationary pressures; the occurrence of natural disasters, hostilities, acts of war or terrorism; the need to obtain and maintain licenses and permits and comply with national and international laws, regulations, treaties or other similar requirements; risks involved in the exploration, development and mining business; 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; and uncertainty in the estimation of mineral reserves and resources that will be encountered if any property is developed; failure of plant, equipment or processes to operate as anticipated; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Mongolia, Bermuda, the British Virgin Islands or the Netherlands, as well as other risks associated with resource exploration and mine development described under the heading "Risk Factors" in the Company's Annual Information Form to be filed on SEDAR on or before December 21, 2010. Although the Company believes that the assumptions inherent in the forward-looking statements and information are reasonable, undue reliance should not be placed on these statements and information. Forward-looking statements and information contained herein are made as of the date of this document and the Company disclaims any obligation to update any forward-looking statements or information, whether as a result of new information, future events or results or otherwise, except as required under applicable laws. There can be no assurance that forward-looking statements or information will prove to be accurate, as actual results, performance, achievements and events could differ materially from those anticipated in such statements and information. Accordingly, readers should not place undue reliance on forward-looking statements or information.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Khan Resources Inc. are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include estimates based on the experience and judgement of management in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

The management of the Company and its subsidiaries developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfills its responsibilities for financial reporting with the assistance of the Audit Committee.

The Audit Committee is appointed by the Board of Directors and all its members are independent. The Committee meets periodically to review interim consolidated financial statements and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The committee reviews the Company's interim and annual consolidated financial statements and recommends their approval to the Board of Directors.

These consolidated financial statements have been audited by Ernst & Young LLP on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

Grant A. Edey
President and Chief Executive Officer

Paul D. Caldwell
Chief Financial Officer

Toronto, Ontario
December 10, 2010

Auditors' Report

To the Shareholders of Khan Resources Inc.

We have audited the consolidated balance sheets of Khan Resources Inc. as at September 30, 2010 and 2009 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended and for the cumulative period from inception on October 1, 2002 to September 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended and for the cumulative period from inception on October 1, 2002 to September 30, 2010 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 10, 2010

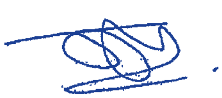
Consolidated Balance Sheets

(Expressed in United States dollars)
(All dollar amounts are in thousands)

	As at September 30, 2010	As at September 30, 2009
Assets		
Current		
Cash	$ 10,554	$ 16,794
Accounts receivable	59	67
Prepaid expenses and other assets	191	144
Restricted cash *(note 5)*	51	49
Total current assets	10,855	17,054
Investments *(note 6)*	3,401	–
Capital assets, net *(note 7)*	3,828	3,910
Mineral interests *(notes 1 and 8)*	12,012	11,625
	$ 30,096	$ 32,589
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 409	$ 284
Commitments and contingencies *(notes 8 and 15)*		
Shareholders' Equity		
Capital stock *(note 9)*	71,247	71,056
Deficit	(42,881)	(38,751)
Accumulated other comprehensive income	1,321	–
	29,687	32,305
	$ 30,096	$ 32,589

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Board:



James B. C. Doak
Director

Grant A. Edey
Director

Consolidated Statements of Operations and Deficit

(Expressed in United States dollars)
(All dollar amounts are in thousands except for per share amounts)

	Years ended September 30		Cumulative from inception on October 1, 2002 to September 30,
	2010	2009	2010
Revenue			
Interest	**$ 57**	$ 170	$ 2,162
Expenses (income)			
General corporate	**3,853**	2,045	17,949
Mongolian operations	**632**	548	2,669
Amortization	**147**	164	545
Stock-based compensation *(note 10)*	**191**	619	11,382
Foreign exchange (gain) loss	**(481)**	636	42
(Gain) loss on sale of assets *(note 11)*	**–**	(15)	782
Write-off of assets	**3**	–	9,745
	4,345	3,997	43,114
Loss before income taxes	**(4,288)**	(3,827)	(40,952)
Recovery of income taxes *(note 12)*	**158**	–	3,552
Net loss for the period	**(4,130)**	(3,827)	(37,400)
Deficit, beginning of period	**(38,751)**	(34,924)	–
Equity financing costs	**–**	–	(5,481)
Deficit, end of period	**$ (42,881)**	$ (38,751)	$ (42,881)
Weighted average number of common shares outstanding (thousands) - basic and diluted *(note 13)*	**53,928**	54,005	
Net loss per common share - basic and diluted *(note 13)*	**$ (0.08)**	$ (0.07)	

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Loss

(Expressed in United States dollars)
(All dollar amounts are in thousands except for per share amounts)

	Years ended September 30		Cumulative from inception on October 1, 2002 to September 30,
	2010	2009	2010
Net loss for the period	**$ (4,130)**	$ (3,827)	$ (37,400)
Other comprehensive income			
Unrealized holding gain on available-for-sale investments arising during the period, net of income taxes ($189)	**1,321**	–	1,321
Other comprehensive income	**1,321**	–	1,321
Comprehensive loss for the period	**$ (2,809)**	$ (3,827)	$ (36,079)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(Expressed in United States dollars)
(All dollar amounts are in thousands)

	Years ended September 30 2010	Years ended September 30 2009	Cumulative from inception on October 1, 2002 to September 30, 2010
Operating Activities			
Net loss for the period	**$ (4,130)**	$ (3,827)	$ (37,400)
Items not affecting cash:			
Amortization expense	**147**	164	545
Stock-based compensation	**191**	619	11,382
(Gain) loss on sale of assets *(note 11)*	**–**	(15)	810
Future tax recovery *(note 12)*	**(189)**	–	(3,583)
Unrealized foreign exchange (gain) loss	**(480)**	586	1,483
Write-off of assets	**3**	–	9,765
	(4,458)	(2,473)	(16,998)
Changes in non-cash working capital balances related to operations *(note 14)*	**65**	(149)	(368)
Cash used in operating activities	**(4,393)**	(2,622)	(17,366)
Investing Activities			
Proceeds from sale of investments	**–**	36	36
Proceeds from sale of mineral interests	**–**	–	2,500
Restricted cash	**–**	683	(49)
Advances to suppliers	**–**	97	–
Purchase of investments	**(1,891)**	(21)	(1,912)
Purchase of capital assets	**(49)**	(2,131)	(4,362)
Mineral interests	**(384)**	(3,207)	(12,398)
Payment of property acquisition liability	**–**	–	(1,667)
Cash used in investing activities	**(2,324)**	(4,543)	(17,852)
Financing Activities			
Capital stock issued for cash	**–**	11	51,979
Capital stock purchased for cash	**–**	(67)	(67)
Equity financing costs	**–**	–	(4,619)
Cash (used in) provided by financing activities	**–**	(56)	47,293
Foreign exchange gain (loss) on cash	**477**	(585)	(1,521)
Net (decrease) increase in cash during the period	**(6,240)**	(7,806)	10,554
Cash, beginning of period	**16,794**	24,600	–
Cash, end of period	**$ 10,554**	$ 16,794	$ 10,554

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements September 30, 2010

(Expressed in United States dollars)
(All dollar amounts are in thousands, except for per share amounts)

1. Nature of Operations

Khan Resources Inc. ("Khan" or the "Company") is in the process of acquiring, exploring and developing mineral properties and is thus considered to be a development stage company. The recoverability of the amounts shown for mineral 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 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 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. Khan submitted the applications for the renewal and re-registration of its mining license and exploration license on November 10, 2009 (note 8(c)).

In April 2010, the Company announced that it had received notices from the Mongolian Nuclear Energy Agency (the "NEA") stating that the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property had been invalidated. Shortly thereafter, the Company filed separate formal claims in the Capital City Administrative Court (the "Court") in Mongolia challenging the legal basis for the notices received from the NEA purporting to invalidate the mining license and the exploration license. In July 2010, the Court ruled in favour of the Company and declared that the notice by the NEA purporting to invalidate the mining license was itself illegal and invalid. In August 2010, the NEA appealed this decision. In October 2010, the Company received a favourable written decision from the Mongolian Appellate Court in respect of the appeal which, effectively, re-confirmed that the notice was illegal and invalid. In August 2010, the Court ruled in favour of the Company and declared that the notice by the NEA purporting to invalidate the exploration license was itself illegal and invalid. The NEA did not appeal this decision. Following these decisions, the Company requested the NEA to re-register the licenses as applied for in November 2009.

There can be no assurance that Khan's licenses will be retained, re-instated or re-registered under the Nuclear Energy Law (or any other law pursuant to which such licenses may in the future be required to be registered) or, if retained, re-instated or registered, the terms and conditions upon which such licenses may be retained, re-instated or registered. If the mining license and exploration license are not retained, re-instated or re-registered, there will be a material impairment charge on the capital assets and mineral interests that are related to the licenses.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not contain any adjustments related to the carrying value and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

The accounting policies of the Company and its subsidiaries are in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies of the Company are summarized as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All references to the Company should be treated as references to the Company and its subsidiaries. Inter-company accounts and transactions have been eliminated on consolidation. The Company's subsidiaries are:

Entity	Jurisdiction incorporated	Date acquired or incorporated	Percentage ownership
Khan Resources Bermuda Ltd.	Bermuda	July 31, 2003	100%
Khan Resources B.V.	Netherlands	Dec. 27, 2007	100%
Khan Resources LLC	Mongolia	May 5, 2003	100%
CAUC Holding Company Limited	British Virgin Islands	July 31, 2003	100%
Central Asian Uranium Company LLC (refer to note 8 (c))	Mongolia	July 31, 2003	58%

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Management has made a number of significant estimates and valuation assumptions, including the useful lives of capital assets, the recoverability of investments in mining interests, and the future costs associated with environmental remediation and site restoration matters and fair value of financial instruments. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

Cash and cash equivalents

Cash consists of cash on deposit with banks. The Company considers all highly liquid instruments with an original maturity date of ninety days or less at the date of acquisition to be cash equivalents. As at September 30, 2010 and 2009, the Company did not have any cash equivalents.

Investments

Investments in marketable securities have been designated as available-for-sale and are recorded at fair value. Fair values for available-for-sale investments are determined by reference to quoted market prices at the balance sheet date. Unrealized gains and losses are recognized in other comprehensive income. Realized gains and losses are recognized in the statement of operations. If a decline in fair value is considered to be other-than-temporary, the loss is recognized in the statement of operations.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives using the straight-line method as follows:

Buildings:	5 years
Equipment, fixtures, furniture and vehicles:	5 years
Computer equipment:	3 years

Mineral interests

The exploration activities of the Company are directed towards the search, evaluation and development of mineral properties. Major expenditures are required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site.

The cost of acquiring mineral interests and related exploration costs are deferred until the properties to which they relate are placed into production, sold or the related licenses or permits are allowed to lapse. These costs will be amortized on a unit-of-production basis over the estimated useful lives of the properties following commencement of commercial production. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures that are not directly related to property maintenance are charged to operations as incurred.

The recoverability of the amounts recorded as mineral properties is dependent upon discovery of economically recoverable reserves, confirmation of the Company's interest in the mineral claims, the ability to obtain necessary financing to complete development and the future profitable production or proceeds from disposition. Management evaluates the carrying value of the Company's interest in each property and when the carrying value is less than its net recoverable value, as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset when quoted market prices are not readily available, is below the asset's carrying value. The Company's estimates of future cash flows are subject to risks and uncertainties.

Assets held-for-sale are separately presented in the consolidated balance sheets and reported at the lower of the carrying amount and fair value less costs to sell, and are not depreciated while they are classified as held-for-sale.

Stock-based compensation plan

The Company has a stock-based compensation plan. The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date as estimated by the Black-Scholes valuation model and recognized over the vesting period of the options granted.

Asset retirement obligations

Asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to remeasurement at each reporting period. The liability is accreted over time through periodic charges to income. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and accounted for in the same manner as for mineral interests. No amount has been recorded in these consolidated financial statements for future site cleanup, reclamation or remediation obligations as no such obligations were incurred as at September 30, 2010.

Foreign currency translation

The Company considers its functional currency to be the United States dollar and all of its foreign operations to be integrated. Therefore, they are translated using the temporal method. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the rate of exchange prevailing at the consolidated balance sheet dates. Non-monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at historical exchange rates. Revenue and expense items, other than amortization, are translated at the average rate of exchange prevailing during the year. An exchange gain or loss that arises on translation or settlement of a foreign currency denominated monetary item is included in the determination of net loss for the year.

Loss per common share

The basic loss per common share amounts are calculated using the weighted average number of common shares outstanding during the period. The treasury method is used to determine the dilutive effect of any dilutive instruments.

Income taxes

The Company follows the liability method of accounting for income taxes. Under the liability method of tax allocation, future income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantively enacted tax rates and laws in which the income tax assets and liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that the benefit of the future income tax assets will not be realized.

Accounting policy changes

Effective October 1, 2009, the Company adopted the amendment to the Canadian Institute of Chartered Accountants ("CICA") section 3862 (Financial Instruments - Disclosures), which adopted the amendments recently issued by the IASB to IFRS 7 - Financial Instruments: Disclosures, which was issued in March 2009. The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk, of financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with the early adoption permitted. The adoption of this standard did not have any impact on the Company's consolidated financial statements (refer to note 4 (a)).

Effective October 1, 2009, the Company adopted the amendment to the CICA section 3855 (Financial Instruments - Recognition and Measurement) and concurrently accounting section 3025 (Impaired Loans). These amendments affect the classifications that are required or allowed for debt instruments, as well as the impairment model for held-to-maturity financial assets. The amendments are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

Recent accounting pronouncements

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for publicly accountable companies. The official change over date is for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. IFRS will be required for Khan's interim and annual consolidated financial statements for the fiscal year beginning on October 1, 2011. The Company has assessed the implications of IFRS adoption and has prepared a comprehensive IFRS conversion plan to identify the key considerations, resources, business implications and time lines associated with the conversion.

In January 2009, the CICA issued accounting section 1582 (Business Combinations), which will replace accounting section 1581 (Business Combinations). The CICA also issued accounting sections 1601 (Consolidated Financial Statements) and 1602 (Non-Controlling Interests), which will replace accounting section 1600 (Consolidated Financial Statements). The new sections are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The objective of the new sections is to harmonize Canadian GAAP for business combinations and consolidated financial statements with the International accounting standards. The new sections are to be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new sections will not be adjusted upon application of these new sections. The Company is currently assessing the potential impact of these new sections.

3. Capital Management

The Company's objectives for managing capital are to safeguard its ability to continue as a going concern and to bring the Dornod Uranium Project ("Project") in Mongolia into production. The Company's strategy remains unchanged from the previous year.

The capital structure of the Company currently consists of common shares and was $61,184 as at September 30, 2010 (September 30, 2009 - $61,209). The Company has issued common shares, warrants and agents' options from time to time to advance the Project through various stages of development; however, debt may be required to bring the Project into production. In order to meet the Company's objectives for managing capital, common shares, warrants, agents' options and debt may be issued in the future.

4. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, restricted cash, investments, accounts payable and accrued liabilities.

(a) Fair Value

Cash is designated as held-for-trading and therefore carried at fair value with the unrealized gains or losses recorded in the consolidated statements of operations and deficit. Accounts receivable are designated as loans and receivables and, therefore, carried at amortized cost with the gains and losses recognized in the consolidated statements of operations and deficit in the period that the asset is derecognized or impaired. Restricted cash is designated as held-for-trading and, therefore, carried at fair value with the unrealized gains or losses recorded in the consolidated statements of operations and deficit.

Investments are designated as available-for-sale and recorded at fair value using quoted prices in active markets, a level 1 category with unrealized gains and losses recognized in the statement of comprehensive loss and realized gains and losses recognized in the consolidated statement of operations and deficit. Accounts payable and accrued liabilities are designated as other financial liabilities and therefore carried at amortized cost with the gains or losses recognized in the consolidated statements of operation and deficit when the financial liability is derecognized or impaired. The estimated fair values of accounts receivable and accounts payable and accrued liabilities approximate their respective carrying values.

(b) Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts and guaranteed investment certificate, whose balance at September 30, 2010 was $10,605. Bank accounts are held with major banks in Canada and Mongolia. As the majority of the Company's cash is held by a Canadian bank and the guaranteed investment certificate is also held by the same Canadian bank, 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. The Company's secondary exposure to credit risk is on its accounts receivable. This risk is minimal as accounts receivable consist primarily of refundable government sales taxes.

Currency Risk

The Company operates in Canada and Mongolia and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The majority of these transactions are in Canadian dollars. The Company's cash, accounts receivable, restricted cash, investments and accounts payable and accrued liabilities that are held in Canadian dollars, Euros and Mongolian togrogs are subject to fluctuation against the United States dollar. A +/- 5% change in the exchange rates between the Canadian and United States dollars would, based on the Company's consolidated financial statements at September 30, 2010, have an effect on the loss before taxes of approximately +/- $454 and on the comprehensive loss before taxes of approximately +/- $624.

Interest Rate Risk

The Company is exposed to interest rate risk as bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The income earned on these bank accounts is subject to the movements in interest rates. A change of 100 basis points in interest rates would have an effect on the loss before taxes for the year ended September 30, 2010 of approximately +/- $137.

Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash. As at September 30, 2010, the Company held cash of $10,554 (2009 - $16,794).

The Company also records transaction costs related to the acquisition or issue of held-for-trading financial instruments to the consolidated statements of operations and deficit as incurred. Transaction costs related to financial instruments not designated as held-for-trading are included in the financial instrument's initial recognition amount.

5. Restricted Cash

Restricted cash consists of a guaranteed investment certificate pledged as security for a corporate credit card facility. This guaranteed investment certificate has a maturity date of less than one year.

6. Investments

On November 30, 2009, the Company purchased 10 million common shares of Macusani Yellowcake Inc. ("Macusani") by way of private placement at a price of Cdn$0.20 per share. The Company recorded a cost of $1,891 for the purchase.

The market value of the investment in Macusani at September 30, 2010 was $3,401. The Company recorded an unrealized holding gain on the investment, net of income taxes of $1,321.

7. Capital Assets

Capital assets consist of the following:

	As at September 30, 2010	As at September 30, 2009
Buildings, equipment, fixtures, furniture and vehicles	$ 835	$ 842
Less: accumulated amortization	540	398
	295	444
Construction in progress	3,533	3,466
	$ 3,828	$ 3,910

8. Mineral Interests

	As at September 30, 2010	As at September 30, 2009
Dornod Uranium Project, Mongolia		
Acquisition costs	$ 447	$ 447
Deferred development costs	11,565	11,178
	$ 12,012	$ 11,625

(a) The Dornod Uranium Project, prior to the passage of the new Nuclear Energy Law (see (c) below) consisted of a 58% interest in the Main Dornod Property which consists of a mining license, a surface uranium deposit and an underground uranium deposit and a 100% interest in the Additional Dornod Property which consists of an exploration license contiguous with and surrounding the Main Dornod Property and an underground uranium deposit. The Company expects its interests in the Main Dornod Property and Additional Dornod Property to decrease as a result of the new Nuclear Energy Law; however, the Company has not been able to determine its new interests at this time. The Company intends to negotiate an Investment Agreement with the Government of Mongolia before commencing any major mine development work on the Dornod Uranium Project.

(b) The Minerals Law of Mongolia (“MLM”) provides for a royalty at the rate of 5% with respect to the sales value of minerals (other than coal and construction minerals) that are sold, shipped for sale or otherwise used. In respect of the Additional Dornod Property, the Company has a royalty obligation equal to 3% on revenues generated from any mineral product mined from this property which is in addition to the royalty under the MLM. The income tax rates applicable to business entities in Mongolia are 10% on the first 3 billion togrogs and 25% on amounts in excess of this amount.

(c) 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 Government of Mongolia the right to take ownership without payment of not less than 51% of the shares of a project or joint venture if uranium resources were determined through exploration with State funding, or not less than 34% of the shares if State funding was not used during exploration to determine the resource.

The law gives the State Administrative Authority 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 will 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 many years of experience in mining radioactive minerals.

The Nuclear Energy Law 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 a 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.

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 prior to the Nuclear Energy Law becoming effective. Existing license-holders were required to submit an application 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 comply with all of the conditions and requirements set out in the Nuclear Energy Law. Khan submitted the applications for the renewal and re-registration of the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property on November 10, 2009. Khan has not been able to determine as to how the State's share participation will be achieved for the mining and exploration licenses.

9. Capital Stock

Capital stock consists of the following:

	As at September 30, 2010	As at September 30, 2009
Common shares (a)	**$ 61,184**	$ 61,209
Contributed surplus (b)	**10,063**	9,847
	$ 71,247	$ 71,056

(a) Common shares

Authorized capital stock of the Company consists of an unlimited number of no par value common shares.

Changes in the issued and outstanding common shares during the years ended September 30, 2009 and 2010 are as follows:

	Number of common shares (000's)		Amount
Balance, September 30, 2008	54,143	$	61,471
Cancellation of common shares (i)	(249)		(282)
Exercise of stock options (ii)	70		20
Balance, September 30, 2009	53,964		61,209
Cancellation of common shares (iii)	(50)		(25)
Balance, September 30, 2010	53,914	$	61,184

(i) On October 21, 2008, the Company announced that the Toronto Stock Exchange ("TSX") had accepted a notice filed by the Company of its intention to make a normal course issuer bid to commence on October 23, 2008. The Company had 54,143,279 common shares issued and outstanding at September 30, 2008. The notice provided that under the normal course issuer bid, the Company may purchase up to 4,056,828 common shares, being 10% of the public float. During the twelve months ended September 30, 2009, the Company purchased 249,000 common shares under the normal course issuer bid and these shares were cancelled.

(ii) The Company has a stock option plan providing for the issuance of stock options to directors, officers, employees and service providers. The number of shares that may be acquired under an option granted to a participant is determined by the Board of Directors. The exercise price of the options granted shall comply with the requirements of the stock exchange or exchanges on which the Company's common shares are listed. The maximum term of any option may not exceed five years. Generally, options vest over 24 months. Compensation expense was recognized for the options issued in 2009 and 2010. At September 30, 2010, there were 1,444,378 options available for grant under the plan.

The summary of the stock option transactions in 2009 and 2010 is as follows:

	Number of options (000's)		Weighted average exercise price (Cdn$)
Balance, September 30, 2008	3,910	$	2.34
Granted to directors, officers and employees	1,435		0.20
Exercised	(70)		0.20
Expired	(320)		2.02
Balance, September 30, 2009	4,955		1.77
Granted to directors, officers and employees	1,500		0.29
Expired	(83)		1.50
Cancelled	(2,425)		2.84
Balance, September 30, 2010	3,947	$	0.56

The following tables summarize information about the stock options outstanding and exercisable at September 30, 2010:

Options outstanding

Exercise prices (Cdn$)	Number outstanding at September 30, 2010 (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price (Cdn$)
0.20 to 0.29	2,865	4.08	0.25
0.89	220	2.67	0.89
1.37 to 1.70	862	1.15	1.51
0.20 to 1.70	3,947	3.36	$ 0.56

Options exercisable

Exercise prices (Cdn$)	Number exercisable at September 30, 2010 (000's)	Weighted average exercise price (Cdn$)
0.20 to 0.29	1,415	0.23
0.89	220	0.89
1.37 to 1.70	862	1.51
0.20 to 1.70	2,497	$ 0.73

(iii) In January, 2010, the Company cancelled 50,000 common shares that were held by a trust as the trust was terminated.

(b) Contributed surplus

The summary of the transactions in the contributed surplus account in 2009 and 2010 is as follows:

	Amount
Balance, September 30, 2008	$ 9,022
Stock options granted to directors, officers and employees	619
Stock options exercised	(9)
Normal Course issuer bid (i)	215
Balance, September 30, 2009	9,847
Stock options granted to directors, officers and employees	191
Cancellation of common shares (ii)	25
Balance, September 30, 2010	$ 10,063

(i) The excess of the value of common shares cancelled after being purchased under the normal course issuer bid over the purchase price is charged to the contributed surplus.

(ii) The value of 50,000 common shares cancelled is charged to the contributed surplus.

10. Stock-based Compensation

The stock-based compensation expense during the year ended September 30, 2010 was $191 (2009 - $619) and this amount was credited to contributed surplus. In the case of options which vest immediately, the fair value of the options is expensed immediately. In the case of options which vest over time, the graded vesting method is used to expense compensation over the vesting period.

The exercise price of the options granted during the year ended September 30, 2010 was Cdn$0.29 (2009 - Cdn$0.20).

The fair value of the stock options granted during the year ended September 30, 2010 was estimated on the date of issue using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life in years: 2.9
Risk-free interest rate: 1.7%
Expected volatility: 120.7%
Dividend yield: 0%

The fair value of the stock options granted during the year ended September 30, 2009 was estimated on the date of issue using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life in years: 5.0
Risk-free interest rate: 2.5%
Expected volatility: 100.0%
Dividend yield: 0%

The weighted average fair value per option of options granted during the year ended September 30, 2010 is Cdn$0.21 (2009 - Cdn$0.15).

11. Sale of Assets

In November 2008, the Company purchased marketable securities at a cost of $21. In February 2009, the Company sold these marketable securities and received proceeds of $36. During the year ended September 30, 2009, the Company recorded a gain on the sale of $15.

12. Income Taxes

The Company utilizes the liability method of accounting for income taxes.

(a) Recovery of (provision for) income taxes

Major items causing the Company's income tax rate to differ from the combined federal and provincial statutory rate of 31.8% (2009 - 33.1%) were as follows:

	2010	2009
Loss before income taxes	$ 4,288	$ 3,827
Expected income tax benefit based on statutory tax rate	$ 1,362	$ 1,268
Stock-based compensation expense	(61)	(205)
Foreign exchange gain (loss)	153	(211)
Sale of assets	–	5
Foreign tax rate differential	(250)	(161)
Adjustment to prior year tax assets	(61)	–
Canadian and Mongolian losses expired	(83)	(14)
Reduction in future tax rates	(919)	(143)
Withholding tax expense	(31)	–
Tax assets previously not recognized	–	393
Tax benefit	110	932
Change in valuation allowance	48	(932)
Recovery of income taxes	$ 158	$ –

(b) Future tax assets and liabilities

The tax effects of temporary differences that give rise to future tax assets and liabilities as at September 30, 2010 and 2009 are as follows:

	2010	2009
Future tax assets		
Non-capital losses	$ 5,878	$ 5,461
Capital assets	45	37
Equity financing costs	314	598
	$ 6,237	$ 6,096
Future tax liabilities		
Unrealized holding gain on available-for-sale investments	$ (189)	$ –
Total future tax assets		
Future tax assets	$ 6,237	$ 6,096
Valuation allowance for future tax assets	(6,048)	(6,096)
	$ 189	$ –
Net future tax assets (liabilities)	$ –	$ –

At September 30, 2010, the Company had Canadian non-capital losses of approximately $23,178 (2009 - $18,539) available for deduction against future taxable income and these losses, if unutilized, will expire from 2014 to 2030; Mongolian non-capital losses of approximately $593 (2009 - $667) available for deduction against future taxable income and these losses, if unutilized, will expire from 2011 to 2014; and Netherlands non-capital losses of approximately $112 (2009 - $91) available for deduction against future taxable income and these losses, if unutilized, will expire from 2017 to 2019. Of the non-capital losses, $22,423 of the Canadian losses have not been tax benefited. As well, no portion of the Mongolian and Netherlands losses have been tax benefited.

13. Loss per Share

Basic and diluted loss per common share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period.

Basic and diluted loss per common share has been calculated using the weighted average number of common shares outstanding of 53,928,000 during the year ended September 30, 2010 (2009 – 54,005,000). Any potential common shares whose effect is anti-dilutive have not been reflected in the calculation of diluted loss per share. The determination of the weighted average number of common shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding stock options since to do so would reduce the loss per share and would therefore be anti-dilutive.

14. Supplemental Cash Flow Information

	Years ended September 30		Cumulative from inception on October 1, 2002 to September 30,
	2010	2009	2010
Changes in non-cash working capital balances related to operations:			
Accounts receivable	**$ 8**	$ 12	$ (59)
Prepaid expenses and other assets	**(47)**	(18)	(191)
Accounts payable and accrued liabilities	**104**	(143)	(118)
	$ 65	$ (149)	$ (368)
Non-cash financing activities:			
Equity financing costs settled by issue of agents options	**$ –**	$ –	604

The accounts payable and accrued liabilities related to capital assets and mineral interests at September 30, 2010, were, respectively, $38 (2009 - nil) and $1 (2009 - $17).

The Company did not pay income taxes or interest during the years ended September 30, 2010 and 2009.

15. Commitments and Contingencies

The Company has entered into a five-year lease for its head office premises that commenced on March 1, 2006. The lease has been extended for one year under the same terms and conditions. The expected rent for the next year is $95.

16. Subsequent Events

(a) Subsequent to September 30, 2010, 96,666 stock options with an exercise price of Cdn$0.20 per common share were exercised. The total proceeds were $19.

(b) 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.

17. Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 consolidated financial statements.

Directors' Biographies

James B.C. Doak Chairman of the Board and Director, Chairman of the Audit and Finance Committee

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 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. As well, he is a former Director of PetroKazakhstan Inc., Superior Propane Inc. and Spar Aerospace Inc. Mr. Doak has 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. Mr. Doak has published a number of columns in two Canadian financial publications. He holds a Diplôme des études collégiales from McGill University and a B.A. in Economics from the University of Toronto.

Raffi Babikian Director

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.

Jean-Pierre Chauvin P. Eng., Director, Chairman of the Compensation and Strategic Review Committees

Director of Khan, with over 30 years of experience in the mining and construction industries. Mr. Chauvin also serves as a director of Macusani Yellowcake Inc. Since January 2009, Mr. Chauvin has been retired. From July 2006 to January 2009, Mr. Chauvin has served as Chief Operating Officer of Globestar Mining Corp. and was promoted to President in October 2006. Prior to March 2006, he was President, Chief Executive Officer and a Director of Patricia Mining Corporation, having assumed these positions in 2004. Since 2001, Mr. Chauvin has also acted as President and Senior Consultant of Chauvin Engineering Ltd., based in Oakville, Ontario. This company consults in the mining industry focusing on operational reviews and feasibility studies. Prior to 2001, he has served as a Director of Battle Mountain Canada Ltd., Crown Butte Resources Ltd., the Mining Association of Canada and the Ontario Mining Association. Mr. Chauvin has also served as General Manager of Canadian Operations for Battle Mountain Gold Co. Mr. Chauvin is an engineer holding a B.Sc. in Mining Engineering from Queen's University.

Grant A. Edey President and CEO and Director
President, CEO and Director of Khan, has over 35 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 Baffinland Iron Mines Corporation and 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 Henderson Director
Director of Khan, is the President and CEO and a director of Laramide Resources Ltd., a Toronto-based resource company specializing in the acquisition, discovery and development of uranium projects and Khan's single largest shareholder holding approximately 13% 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.

Hon. Robert P. Kaplan, P.C., Q.C. Director and Chairman of the Corporate Governance and Nominating Committee
Director of Khan, has over 40 years of experience as a lawyer, businessman and elected politician. Mr. Kaplan retired from a 25-year career in elective politics in 1993. He was a Federal Member of Parliament and Cabinet Minister in the Governments of the Rt. Hon. Pierre-Elliott Trudeau and Rt. Hon. John N. Turner. Mr. Kaplan is a trustee of H&R REIT. As well, he is a former Director and Chairman of PetroKazakhstan, Inc. Mr. Kaplan is a founding Trustee of the State Hermitage Museum Foundation of Canada, one of five international foundations which support the Hermitage Museum in St. Petersburg, Russia. He has also been honoured by being named a Chevalier of the Legion of Honour by the President of France. Mr. Kaplan has served as the Honourary Consul General of Kazakhstan for Canada for the last 15 years. Mr. Kaplan holds a B.A. in Sociology and an LL.B. from the University of Toronto. He was called to the Ontario Bar in 1963.

David McAusland Director

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., Equinox Minerals Ltd. and ATS Automation Tooling Systems Inc. He serves as a member of the Corporate Governance committee for all the above companies, as well as a member of the Compensation Committee and the Health, Safety, Environment and Sustainability Committee for Equinox Minerals Ltd. He is Chairman of ATS Automation Tooling Systems Inc. He is the Chairman of the Foundation of the National Circus School, a director of Centraide of Greater Montreal and a director of Montreal International.

Martin Quick Director

Director of Khan, has over 46 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 4½ 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. Other directorships held - Crown Gold Corporation (TSX.V:CWN), and Noravena Capital Corporation (TSX-V:NRV).

Corporate Information

Directors

James B.C. Doak
Chairman

Raffi Babikian
Director

Jean-Pierre Chauvin
Director

Grant A. Edey
Director

Marc Henderson
Director

Robert P. Kaplan
Director

David L. McAusland
Director

Martin Quick
Director

Officers

Grant A. Edey
President and Chief Executive Officer

Paul D. Caldwell
Chief Financial Officer and Corporate Secretary

Enkhbayar Ochirbal
Vice President, Governmental Affairs
Executive Director and Country Manager,
Khan Resources LLC

Toronto Office

141 Adelaide Street West
Suite 1007
Toronto, Ontario
Canada M5H 3L5

Tel: 416.360.3405
Fax: 416.360.3417

Mongolia Office

Ochir House Building
Suite 403
Peace Avenue 15A/5
Ulaan Baatar 21
Mongolia

Tel: 976 11 311731
Fax: 976 11 318661

Auditors

Ernst & Young LLP
222 Bay Street, 31st Floor
Toronto, Ontario
Canada M5K 1J7

Transfer Agent

Equity Financial Trust Company
200 University Avenue
Suite 400
Toronto, Ontario
Canada M5H 4H1

Listing

Toronto Stock Exchange
Symbol "KRI"

Web Site

www.khanresources.com

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