

**Khan Resources Inc.**  
**Management's Discussion and Analysis**  
**March 31, 2011**

Khan Resources Inc.  
Management's Discussion and Analysis  
For the three and six months ended March 31, 2011

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 three and six months ended March 31, 2011, and is intended to be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three and six months ended March 31, 2011 and 2010 and the related notes thereto. The interim 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 May 9, 2011.

### **Auditor Involvement**

The auditor of Khan has not performed a review of the unaudited interim consolidated financial statements for the three and six months ended March 31, 2011 and 2010.

### **Highlights – Second Quarter, 2011**

- Net loss for the three months period ended March 31, 2011 was \$1,004,000 or \$0.02 per share (basic) compared to a net loss of \$1,271,000 or \$0.02 per share (basic) for the same period in 2010
- NEA continues to not follow required procedures and refuses to re-issue Khan's mining and exploration licenses
- On January 10, 2011, Khan commenced an international arbitration action against the Government of Mongolia for its expropriatory and unlawful treatment of Khan in relation to the Dornod uranium deposit. Mr. Yves Fortier, Mr. Bernard Hanotiau and Mr. David Williams will constitute the arbitration tribunal. Proceedings are expected to begin in earnest in the very near term. (see "International Arbitration" below)
- Following unsuccessful settlement discussions with ARMZ, the Company has reinitiated its motion with the Ontario Superior Court of Justice to dispense with or order substitute service in respect of its lawsuit against ARMZ (see "ARMZ" below)
- Khan subscribed for 3 million units of Macusani Yellowcake Inc. at Cdn\$0.60 per unit, each unit consisting of one common share and one half share purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn\$0.85 per share for a period of 24 months. (see "Macusani Yellowcake" below)
- The earthquake/tsunami in Japan has caused uncertainty in the future outlook for nuclear energy. As a result, and after steady growth in the price of uranium from October 2010 through February 2011, the uranium price has fallen 20% to \$55 per lb from its pre-disaster high of \$73 per lb (see "Uranium Prices" below)

### **Company Profile**

Khan is a Canadian-based mineral exploration and development company engaged in the acquisition, exploration and development of uranium. The Company and its predecessors have held interests for the last 15 years in certain uranium properties that are located in the Dornod district of north eastern Mongolia. 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

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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 "Significant Developments" below for further details.

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 per cent uranium oxide ("U<sub>3</sub>O<sub>8</sub>") 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% as a result of the passage of the Nuclear Energy Law in 2009.

The Company also holds 15,523,330 million common shares of Macusani Yellowcake Inc. ("Macusani"). Macusani is a Canadian TSX Venture Exchange company which holds uranium properties in the Macusani Plateau district of Peru. The Company initially invested in Macusani on November 30, 2009 and has subsequently subscribed to two additional share offerings by that company. Khan's current shareholding represents approximately 14.7% of the outstanding commons shares of Macusani. Khan also holds 4,031,665 Macusani share purchase warrants. Further details concerning Khan's investment in Macusani are set out below under the section entitled "Significant Developments – Macusani Yellowcake Inc."

## **Significant Developments**

### **Mineral Licenses**

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law that, amongst many other things, effectively required that the Mongolian state be provided 51% ownership of the Dornod Uranium Project free of charge. In addition, all existing exploration and mining licenses, including those held by CAUC and KRL were required to be renewed and re-registered. 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.

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

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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. This decision was subsequently appealed by the NEA but the appeal was unsuccessful. In August 2010, the Court also 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.

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 did not constitute an official decision which must include the legal reasons for making such a decision pursuant to Mongolian law. The NEA continues to hold to their position of not reissuing the licenses. 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.

#### International Arbitration

The Company announced on January 10, 2011 that it had formally commenced an international arbitration action against the Government of Mongolia for its expropriatory and unlawful treatment of Khan in relation to the Dornod Uranium Project.

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

The claim seeks over US\$200 million in compensation for losses and damages. Crowell & Moring, a highly-experienced Washington, D.C. based law firm, represents Khan in this matter.

The tribunal has now been constituted. The Tribunal will consist of three well-known and highly respected international arbitrators: Mr. Yves Fortier of Canada (appointed by Khan); Mr. Bernard Hanotiau of Belgium (appointed by Mongolia) and Mr. David A.R. Williams of New Zealand (appointed as the presiding arbitrator by Messrs. Fortier and Hanotiau). The Tribunal is expected to convene an in-person hearing to discuss the procedure by which the arbitration will proceed in the very near future.

#### ARMZ

On August 20, 2010, the Company announced that it and certain of its subsidiaries had filed a statement of claim against Atomredmetzoloto JSC ("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 its affiliates, namely in seeking to establish a joint venture with the Government of Mongolia over the Dornod uranium

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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 in principle for the creation of a joint venture to develop the Dornod resource. According to ARMZ's press release on their website, the agreement was signed on December 14, 2010 by Rosatom Corp. (Russia's nuclear power company), ARMZ, Mongolia's state owned MonAtom and the NEA and approves the terms and conditions of the Dornod Uranium Joint Venture.

The statement of claim against ARMZ and Priargunsky was filed with the Russian Department of Justice to be legally served in accordance with the applicable law. The Department of Justice has informed the Company that it has refused to serve ARMZ and Priargunsky with the Company's statement of claim based on Article 13 of the Hague Convention. Article 13 states that service can be denied only if the State deems that compliance would infringe its sovereignty or security.

Following the refusal by the Department of Justice of Russia to serve ARMZ and Priargunsky with the Company's statement of claim, the Company filed a motion with the Ontario Superior Court of Justice seeking an order dispensing with or substituting service of the statement of claim on ARMZ and Priargunsky. The motion was scheduled to be heard on April 18,

Prior to the scheduled date of the motion, the parties agreed to adjourn the hearing so as to allow the parties to have settlement discussions.

The settlement discussions were not successful and Khan has reinitiated its motion and the motion is expected to be heard in June, 2011.

Macusani Yellowcake Inc.

On November 30, 2009, Khan acquired, by way of private placement, 10,000,000 common shares of 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 its pro rata ownership of Macusani in certain subsequent treasury issuances for a period ending May 31, 2012.

On November 4, 2010, Khan acquired, by way of private placement, 2,540,000 Macusani units at a price of Cdn\$0.25 per unit, each unit consisting of one Macusani common share and one Macusani share purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn\$0.35 per share for a period of 24 months after the acquisition.

On March 23, 2011, the Company purchased, by the way of short form prospectus, 2,983,330 Macusani units at a price of Cdn\$0.60 per unit, each unit consisting of one Macusani common share and one half Macusani purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn\$0.85 per share for a period of 24 months.

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The Company currently holds 15,523,330 Macusani common shares representing approximately 14.7% of the outstanding common shares of Macusani and 4,031,665 Macusani share purchase warrants and remains the largest single shareholder of Macusani.

On March 31, 2011, the closing price for Macusani common shares was Cdn\$0.47 and the closing price for Macusani listed share purchase warrants with the exercise price of Cdn\$0.85 per share was Cdn\$0.17. The value of the unlisted share purchase warrants with an exercise price of Cdn\$0.35 per share was Cdn\$0.12 at March 31, 2011.

The market value of the Company's investment in Macusani at March 31, 2011 was \$8,101,000. The Company recorded an unrealized holding gain on the investment, net of income tax provision of \$282,000, of \$1,970,000 for the six months ended March 31, 2011.

At the closing price of Cdn\$0.38 per Macusani common share on the date of this MD&A, the market value of the Company's investment in Macusani was \$6,315,000.

Macusani is now continuing its ongoing exploration program on its properties on the Macusani Plateau. The current focus is on the Kihitian uranium property where a number of very good intersections of uranium mineralization have been made since September, 2010.

#### Uranium Prices

During the year ended December 31, 2010, the highest average month-end spot price was \$62 per lb U<sub>3</sub>O<sub>8</sub>. In January 2011, the average month-end spot price increased to \$73 per lb U<sub>3</sub>O<sub>8</sub>. In February 2011, the average month-end spot price was \$70 per lb U<sub>3</sub>O<sub>8</sub>. Uranium spot price fell dramatically in March, as the market followed events occurring at a Japanese nuclear plant, which was seriously damaged by the March 11 Tohoku earthquake and subsequent tsunami. Daily uranium spot price fell more than 20 percent in the days following the natural disaster that left the Fukushima Daiichi nuclear station battling numerous reactor problems and settled at \$53 per lb U<sub>3</sub>O<sub>8</sub> on March 18. By March 31, however, the spot market showed signs of stabilizing with the spot price rebounding to \$58.50 per lb U<sub>3</sub>O<sub>8</sub>.

#### Organizational Changes

Effective January 1, 2011, the Chief Financial Officer and Corporate Secretary position was restructured from a full-time to a part-time basis. Effective February 16, 2011, Paul Caldwell resigned as a Corporate Secretary and Jeremy Budd was appointed Corporate Secretary. Mr. Caldwell continues as the Chief Financial Officer of the Company on an interim basis until his successor is appointed.

#### Overall Performance

##### Financial

Total assets of the Company at March 31, 2011 were \$31,259,000 compared with \$30,096,000 at September 30, 2010. The net increase of \$1,163,000 resulted from an increase in investments of \$4,700,000 and mineral interests of \$128,000 offset by the decreases in current assets of \$3,566,000 and capital assets of \$99,000. The decrease in current assets was due primarily to the cash used in operating and investing activities during the six months ended March 31, 2011. The increase in investments was due to the purchase of Macusani units consisting of common shares and warrants and the increase in the market value of Macusani common shares. The increase in mineral interests was due to costs incurred on the Dornod Uranium Project.

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Three months ended March 31, 2011 and 2010

During the three months ended March 31, 2011, the Company incurred a net loss of \$1,004,000 or \$0.02 per share compared with \$1,271,000 or \$0.02 per share in the comparable period of 2010. The net decrease of \$267,000 was due to the decreases in general corporate expense of \$849,000, Mongolian operations expense of \$31,000, amortization expense of \$6,000 and the increase in interest income of \$11,000; offset by the decrease in foreign exchange gain of 181,000, an increase in stock-based compensation of \$205,000 and the provision for income taxes of \$244,000.

During the three months ended March 31, 2011, the Company recorded a comprehensive loss of \$2,697,000. An unrealized holding loss on available-for-sale securities of \$1,934,000, less future tax recovery of \$241,000, increased the comprehensive loss to \$2,697,000 from the net loss of \$1,004,000. During the three months ended March 31, 2010, the Company incurred a comprehensive loss of \$844,000. An unrealized holding gain on available-for-sale securities of \$427,000 reduced the net loss of \$1,271,000 to a comprehensive loss to \$844,000.

During the three months ended March 31, 2011, cash decreased by \$2,337,000 compared with \$1,370,000 in the comparable period of 2010.

The cash used in operating activities was \$692,000 in 2011 compared with \$1,619,000 in 2010. The decrease of \$927,000 was due to the increase in interest income of \$11,000 and the decreases in general corporate expense of \$849,000, Mongolian operations expense of \$31,000 and in cash required for changes in non-cash working capital balances related to operations of \$37,000; offset by the decrease in realized foreign exchange gain of \$1,000.

The cash used in investing activities was \$1,875,000 in 2011 compared with \$119,000 in 2010, an increase of \$1,756,000. Purchase of investments was \$1,833,000 in 2011 and there was no comparable amount in 2010. The purchase of capital assets used cash of \$14,000 in 2010 and there was no comparable amount in 2011. Mineral interests used cash of \$42,000 in 2011 compared with \$105,000 in 2010. The decrease of \$63,000 resulted from the lower level of activity at the Dornod Uranium Project in 2011.

The cash provided by financing activities for the three month period was \$43,000 and there was no comparable amount in 2010. In 2011, the exercise of stock options provided cash of \$43,000.

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The foreign exchange gain on cash was \$187,000 in 2011 compared with \$368,000 in 2010. Cash balances are primarily held in Canadian dollars. The foreign exchange gain on cash was due to the increase in value of the Canadian dollar in terms of the United States dollar during the period.

Six months ended March 31, 2011 and 2010

During the six months ended March 31, 2011, the Company incurred a net loss of \$970,000 or \$0.02 per share compared with \$2,097,000 or \$0.04 per share in the comparable period of 2010. The net decrease of \$1,127,000 was due to the increases in interest revenue of \$24,000 and recovery of income taxes of \$278,000 and decreases in general corporate expense of \$1,151,000, Mongolian operations expense of \$24,000, amortization expense of \$5,000; offset by the increases in stock-based compensation expense of \$205,000 and write-off of assets of \$3,000 and the decrease in foreign exchange gain of \$147,000.

During the six months ended March 31, 2011, the Company recorded comprehensive income of \$1,000,000. An unrealized holding gain on available-for-sale securities of \$2,252,000, less future tax expense of \$282,000, increased the comprehensive income to \$1,000,000 from a net loss of \$970,000. During the six months ended March 31, 2010, the Company incurred a comprehensive loss of \$1,183,000. An unrealized holding gain on available-for-sale securities of \$914,000 reduced the net loss of \$2,097,000 to a comprehensive loss to \$1,183,000.

During the six months ended March 31, 2011, cash decreased by \$3,450,000 compared with \$3,958,000 in the comparable period of 2010.

The cash used in operating activities was \$1,399,000 in 2011 compared with \$2,358,000 in 2010. The decrease of \$959,000 was due to the increases in interest income of \$24,000 and realized foreign exchange gain of \$5,000 and the decreases in general corporate expense of \$1,151,000 and Mongolian operation expense of \$24,000; offset by the increase in cash required for the changes in non-cash working capital balances related to operations of \$245,000.

The cash used in investing activities was \$2,577,000 in 2011 compared with \$2,215,000 in 2010, an increase of \$362,000. Purchase of investments was \$2,448,000 in 2011 compared with \$1,891,000 in 2010. The purchase of capital assets used cash of \$68,000 in 2010 and there was no comparable amount in 2011. Mineral interests used cash of \$129,000 in 2011 compared with \$256,000 in 2010. The decrease of \$127,000 resulted from the lower level of activity at the Dornod Uranium Project in 2011.

The cash provided by financing activities for the six month period was \$62,000 and there was no comparable amount in 2010. In 2011, the exercise of stock options provided cash of \$62,000.

The foreign exchange gain on cash was \$464,000 in 2011 compared with \$615,000 in 2010. Cash balances are primarily held in Canadian dollars. The foreign exchange gain on cash was due to the increase in value of the Canadian dollar in terms of the United States dollar during the period.

### **Results of Operations**

As a development stage company, Khan has no operating history and has incurred losses in the three and six months ended March 31, 2011 and the three and six months ended March 31, 2010. 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.

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Three months ended March 31, 2011 and 2010

Revenue

Total revenue increased by \$11,000 during the three months ended March 31, 2011 from the comparable period in 2010 due to higher interest rates.

Expenses

Total expenses decreased by \$500,000 during the three months ended March 31, 2011 from the comparable period in 2010 due to the decreases in general corporate expense of \$849,000, Mongolian operation expense of \$31,000 and amortization expense of \$6,000; offset by the increase in stock-based compensation expense of \$205,000 and the decrease in foreign exchange gain of \$181,000.

General corporate expense decreased by \$849,000 in 2011 compared with 2010. The following table illustrates the major items included in general corporate expense:

	Three months ended March 31, 2011 000's		Three months ended March 31, 2010 000's
Accounting and audit	\$ 60	\$	40
Investor relations	70		110
Insurance	34		23
Legal	154		365
Management remuneration	205		388
Office and travel	95		541
	\$ 618	\$	1,467

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

- Accounting and audit expense increased due to fees related to transition to IFRS ;
- Investor relations expense decreased due to a lower level of activity;
- Insurance expense increased due to higher premiums for directors and officers insurance;
- Legal fees and expenses decreased due to a lower level of activity;
- Management remuneration expense decreased due to change from full-time to part-time basis for certain staff and lower directors' fees ;
- Office and travel costs decreased due to a lower level of activity.

Mongolian operations expense decreased by \$31,000 in 2011 compared with 2010 due to fewer staff and a lower level of activity.

Amortization expense decreased by \$6,000 in 2011 compared with 2010 as a number of assets became fully amortized in 2011.

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Stock-based compensation expense increased by \$205,000 in 2011 compared with 2010 due to the higher expense associated with 1,225,000 stock options granted during the three months ended March 31, 2011. There were no options granted in the three months ended March 31, 2010.

The decrease in foreign exchange gain of \$181,000 from \$370,000 in 2010 to \$189,000 in 2011 was 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 2011, at the beginning of the fiscal period, the Canadian dollar was 1.0054 in terms of the United States dollar compared with 1.0314 at the end of the fiscal period. In 2010, at the beginning of the fiscal period, the Canadian dollar was \$0.9515 in terms of the United States dollar compared with \$0.9844 at the end of the fiscal period. The average Canadian dollars on hand was 97% of cash during 2011 compared with 89% during 2010.

Mineral Interests

During the three months ended March 31, 2011, the deferred development costs, consisting mainly of camp operations and site maintenance incurred on the Dornod Uranium Project, were \$41,000. The following table sets out the change in deferred development costs:

	As at December 31, 2010 000's	Costs incurred during the three months ended March 31, 2011 000's	As at March 31, 2011 000's
Deferred development costs			
Dornod Uranium Project, Mongolia	\$ 12,099	\$ 41	\$ 12,140

Six months ended March 31, 2011 and 2010

Revenue

Total revenue increased by \$24,000 during the six months ended March 31, 2011 from the comparable period in 2010 due to higher interest rates.

Expenses

Total expenses decreased by \$825,000 during the six months ended March 31, 2011 from the comparable period in 2010 due to the decreases in general corporate expense of \$1,151,000, Mongolian operation expense of \$24,000 and amortization expense of \$5,000; offset by the increase in stock-based compensation expense of \$205,000, decrease in foreign exchange gain of \$147,000 and write-off of assets of \$3,000.

General corporate expense decreased by \$1,151,000 in 2011 compared with 2010. The following table illustrates the major items included in general corporate expense:

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	Six months ended March 31, 2011 000's		Six months ended March 31, 2010 000's
Accounting and audit	\$ 109	\$	98
Investor relations	70		149
Insurance	69		47
Legal	260		682
Management remuneration	443		585
Office and travel	222		763
	\$ 1,173	\$	2,324

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

- Accounting and audit expense increased due to fees related to transition to IFRS;
- Investor relations expense decreased due to a lower level of activity;
- Insurance expense increased due to higher premiums for directors and officers insurance;
- Legal fees and expenses decreased due to a lower level of activity;
- Management remuneration expense decreased due to change from full-time to part-time basis for certain staff and lower directors' fees;
- Office and travel costs decreased due to a lower level of activity.

Mongolian operations expense decreased by \$24,000 in 2011 compared with 2010 due to fewer staff and lower level of activity.

Amortization expense decreased by \$5,000 in 2011 compared with 2010 as a number of assets became fully amortized in 2011.

Stock-based compensation expense increased by \$205,000 in 2011 compared with 2010 due to the higher expense associated with 1,225,000 stock options granted during the six months ended March 31, 2011. There were no options granted in the six months ended March 31, 2010.

The decrease in foreign exchange gain of \$147,000 from \$619,000 in 2010 to \$472,000 in 2011 was 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 2011, at the beginning of the fiscal period, the Canadian dollar was 0.9718 in terms of the United States dollar compared with 1.0314 at the end of the fiscal period. In 2010, at the beginning of the fiscal period, the Canadian dollar was \$0.9340 in terms of the United States dollar compared with \$0.9844 at the end of the fiscal period. The average Canadian dollars on hand was 96% of cash during 2011 compared with 89% during 2010.

#### Mineral Interests

During the six months ended March 31, 2011, the deferred development costs, consisting mainly of camp operations and site maintenance incurred on the Dornod Uranium Project, were \$128,000. The following table sets out the change in deferred development costs:

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	As at September 30, 2010 000's	Costs incurred during the six months ended March 31, 2011 000's	As at March 31, 2011 000's
Deferred development costs			
Dornod Uranium Project, Mongolia	\$ <u>12,012</u>	\$ <u>128</u>	\$ <u>12,140</u>

**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 dollars except per share amounts.

	Quarter ended March 31, 2011 \$000's	Quarter ended December 31, 2010 \$000's	Quarter ended September 30, 2010 \$000's	Quarter ended June 30, 2010 \$000's
Revenue	\$ <u>20</u>	\$ <u>24</u>	\$ <u>20</u>	\$ <u>17</u>
Expenses	<u>1,024</u>	<u>(10)</u>	<u>624</u>	<u>1,604</u>
Net income (loss)	<u>(1,004)</u>	<u>34</u>	<u>(446)</u>	<u>(1,587)</u>
Net income (loss) per common share - basic and diluted	\$ <u>(0.02)</u>	\$ <u>0.00</u>	\$ <u>(0.01)</u>	\$ <u>(0.03)</u>
	Quarter ended March 31, 2010 \$000's	Quarter ended December 31, 2009 \$000's	Quarter ended September 30, 2009 \$000's	Quarter ended June 30, 2009 \$000's
Revenue	\$ <u>9</u>	\$ <u>11</u>	\$ <u>20</u>	\$ <u>30</u>
Expenses	<u>1,280</u>	<u>837</u>	<u>(304)</u>	<u>(310)</u>
Net income (loss)	<u>(1,271)</u>	<u>(826)</u>	<u>324</u>	<u>340</u>
Net income (loss) per common share - basic and diluted	\$ <u>(0.02)</u>	\$ <u>(0.02)</u>	\$ <u>0.01</u>	\$ <u>0.01</u>

Over the past eight quarters, variations in the quarterly net income or net 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

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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 March 31, 2011, the Company had working capital of \$7,039,000 (September 30, 2010 - \$10,446,000) which comprised cash of \$7,104,000 (September 30, 2010 - \$10,554,000), accounts receivable in the amount of \$50,000 (September 30, 2010 - \$59,000), prepaid expenses and other assets in the amount of \$80,000 (September 30, 2010 - \$191,000), restricted cash in the amount of \$55,000 (September 30, 2010 - \$51,000) and current liabilities of \$250,000 (September 30, 2010 - \$409,000).

The Company earns no income from operations and any significant improvement in working capital results from the issuance of share capital. For the six months ended March 31, 2011, the operating activities of Khan used cash of \$1,399,000 (2010 - \$2,358,000), the investing activities, which consisted of the purchase of investments, capital assets and mineral interests used cash of \$2,577,000 (2010 - \$2,215,000), the financing activities provided cash of \$62,000 (2010 - nil) and the foreign exchange gain on cash was \$464,000 (2010 - \$615,000). 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 forecast costs associated with maintaining the current operations. The Company considers the reinstatement, re-registration and maintenance of the mining and exploration licenses for the Dornod Uranium 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 Dornod Uranium 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, develop 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.

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.

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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. The lease has been extended for one year under the same terms and conditions. The total expected rent until the termination of the lease is \$71,000.

**Outstanding Share Data**

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

Securities	Number of Common Shares
Issued and outstanding common shares	54,225,445
Shares issuable upon exercise of stock options	<u>4,510,334</u>
Total	<u><u>58,735,779</u></u>

**Transactions with Related Parties**

There were no transactions with related parties during six months ended March 31, 2011 and March 31, 2010.

**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 write down 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.

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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.

**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.

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### 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 the analysis of potential changes to significant accounting policies, the Company is assessing what changes may be required to its

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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. By the time of this MD&A, the Company was able to identify major differences between IFRS and GAAP applicable to the Company, analyzed choices regarding accounting policies where IFRS allows alternatives, make decisions of IFRS 1 exemptions and prepare preliminary first-time adoption reconciliation required under IFRS 1 between GAAP and IFRS opening balance sheet as at October 1, 2010. The adoption of IFRS will result in some changes to the Company’s accounting policies, financial statements’ format and disclosures and modification of accounting software system. The following areas will have the greatest impact on the Company’s accounting policies, financial reporting and information system requirements:

IFRS 1 – First Time Adoption  
IAS 21 – The Effect of Changes in Foreign Exchange Rates  
IFRS 6 – Exploration and Evaluation Assets  
IAS 16 – Property, Plant and Equipment  
IFRS 2 – Share Based Payments  
IAS 38 – Intangible Assets  
IAS 36 – Impairment of Assets

Based on the scope of the IFRS transition project, third party advisors engaged by the Company to assist with the IFRS transition project were able to quantify their fees which would be within a \$35,000-\$55,000 range.

### **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 (the “AIF”) filed on SEDAR on December 17, 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 six months ended March 31, 2011, 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 March 31, 2011 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 March 31, 2011, 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;

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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 AIF. 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.