Khan Resources Inc.
Management's Discussion and Analysis
For the three and nine months ended June 30, 2010

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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 nine months ended June 30, 2010 and 2009 and is intended to be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three and nine months ended June 30, 2010 and 2009 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 August 11, 2010.

Auditor Involvement

The auditor of Khan has not performed a review of the unaudited interim consolidated financial statements for the three and nine months ended June 30, 2010 and 2009.

Description of the Business

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 new Nuclear Energy Law. 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 26, 2009, Khan entered into a subscription agreement with Macusani Yellowcake Inc. ("Macusani"), a Canadian TSX Venture Exchange company which holds uranium properties in the Macusani Plateau district of Peru, to acquire by way of private placement 10 million Macusani common shares at a subscription price of Cdn$0.20 per share. The subscription closed on November 30, 2009 and resulted in the Company acquiring approximately 17.9% of the then-outstanding common shares of Macusani immediately following closing of the subscription. The Company currently holds approximately 16.7% 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 per cent uranium oxide ("U_30_8") from Dornod Deposit No. 2. At Dornod Deposit No. 7, two shafts have been built to depths of 510 and 500 metres and approximately 20,000 metres of development drifts, which extend onto the Additional Dornod Property, have been constructed. 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 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 "Recent 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%.

Recent Developments

Highlights

- Khan wins two court cases in Mongolia (see Invalidation of Mining and Exploration Licenses)
- CNNC Offer expires as Chinese approval not obtained (see CNNC Offer)
- Macusani increases resources (see Macusani Yellowcake Inc.)
- Uranium spot price increases to 2010 high (see Uranium spot price)

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. On April 13, 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 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. On July 19, 2010, the Court ruled in favour of CAUC and declared that the previous purported decision by the NEA to invalidate CAUC's mining license is itself invalid and illegal. On August 2, 2010, the Court ruled in favour of KRL and declared that the previous purported decision by the NEA to invalidate KRL's exploration license is itself invalid and illegal. 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 terminated. Khan views this settlement as having finally resolved the July 2009 suspension of the mining license, despite subsequent reports circulated by the NEA that the settlement is 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. Having submitted its 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 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 applications to the State Administrative Authority to renew and re-register their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants were required to agree to abide by all of the conditions and requirements set out in the Nuclear Energy Law, including acceptance of the State's 51% or 34% share participation in the license holder, as applicable. Any licenses that are not re-registered under the Nuclear Energy Law, as required, are considered to automatically be suspended. 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 in limbo 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 without compensation.

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 may be in danger of revocation. In response to the SPC notice, effective January 25, 2010, each of MonAtom and CAUC Holding, the subsidiary through which Khan holds its interest in CAUC, on the basis of their collective 79% holding of the outstanding capital of CAUC, authorized and approved an increase in MonAtom's ownership interest in CAUC from 21% to 51%, with a corresponding dilution of ownership interests of CAUC Holding and Priargunsky. Priargunsky, a 21% shareholder and voting member of CAUC, abstained from voting. The CAUC shareholders' resolution was subsequently submitted to the SPC by the January 31, 2010 deadline. As of the date of this MD&A, KRL has not yet received a similar notice from the SPC in respect of its exploration licence.

Invalidation of Mining and Exploration Licenses

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

Subsequently, CAUC and KRL filed 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. The claims asserted, among other things, that the NEA had no legal authority to make a decision to invalidate the mining license and exploration license and that the NEA's purported decision to do so violated the provisions of Mongolian law.

On July 19, 2010, the Mongolian Capital City Court ruled in favour of CAUC, and declared that the previous decision by the NEA to invalidate CAUC's mining license was itself invalid and illegal. As a result of the Court's decision, CAUC's mining license is no longer considered invalidated and is therefore pending re-registration by the NEA under the Nuclear Energy Law, in accordance with CAUC's November 2009 application to have the license re-registered. On August 19, 2010, the NEA filed an appeal of the Court's decision. No date has been set for the appeal; however, it is expected to occur in September 2010. The appeal will be vigorously challenged by Khan through all legally available means.

On August 2, 2010, the Mongolian Capital City Court ruled in favour of KRL, and declared that the previous decision by the NEA to invalidate KRL's exploration license was itself invalid and illegal. As a result of the Court's decision, KRL's exploration license is no longer considered invalidated and is therefore pending re-registration by the NEA under the Nuclear Energy Law, in accordance with KRL's November 2009 application to have the license re-registered. The NEA has the right to appeal the Court's decision until August 23, 2010. Khan continues to believe that it and KRL have always operated in compliance with applicable Mongolian laws. As such, any appeal of the Court decisions by the NEA will be vigorously challenged by Khan through all legally available means.

Legal Actions and Ongoing Review

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 to commence international arbitration proceedings against the Government of Mongolia, and the necessary legal work to initiate proceedings on Khan's behalf has begun. Khan believes that it has a strong case and intends to 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 is attributable to Khan based on its current ownership position in the project. Khan has also engaged counsel to carefully examine the conduct and influence of the parties who have been involved in, and have benefited from, the recent events which have affected Khan's interests in Mongolia Khan and its legal counsel intend to vigorously defend its rights and interests, including pursuing all available rights and remedies in Canada, Mongolia and elsewhere, as necessary.

Offers for the Company and Strategic Transactions

Overview

On November 30, 2009, Atomredmetzoloto JSC ("ARMZ"), 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, 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 issued and outstanding common shares (the "Shares") of Khan for Cdn$0.96 in cash per share (the "CNNC Offer") subject to and in accordance with the terms and conditions of the definitive agreement. On February 26, 2010, the Company announced that the CNNC Offer had commenced. The CNNC Offer was initially open until April 6, 2010; however, it was extended by CNNC until 5 p.m. (Toronto time) on May 25, 2010. Khan announced on March 1, 2010 that it acknowledged that ARMZ intended to allow its unsolicited offer to purchase all of the Shares of Khan for Cdn$0.65 per Share to expire. On May 21, 2010, Khan announced that is was informed by CNNC that it failed to obtain Chinese regulatory approval for the CNNC Offer and, accordingly, would allow it to expire at the scheduled expiry time of 5:00 p.m. (Toronto time) 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, 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 hostile offer to acquire all of the outstanding common shares of Khan, the 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 comply with 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 approximate 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 which was 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 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 commenced. Khan's Board of Directors endorsed 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 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 failed to obtain 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, and nor have any reasons been provided by CNNC or otherwise been made known to Khan as to why the NDRC has refused to approve the transaction. The CNNC Offer was conditional upon CNNC receiving all necessary Chinese government and regulatory approvals, including NDRC approval.

Macusani Yellowcake Inc.

On November 26, 2009, Khan entered into a subscription agreement with Macusani, a Canadian TSX Venture Exchange company, to acquire by way of a private placement 10 million Macusani common shares at a subscription price of Cdn$0.20 per share. The subscription closed on November 30, 2009 and resulted in the Company acquiring approximately 17.9% of the then-outstanding common shares of Macusani immediately following closing of the subscription. Under separate agreement, Khan has the right to maintain its 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. Khan has acquired the shares for investment purposes and subject to its pre-emptive rights does not presently have any further intention to acquire ownership of, or control over, additional securities of Macusani.

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 National Instrument 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 per short ton and inferred resources of 14.5 million lbs of U_3O_8 at a grade of 0.34 lbs per 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 deposit. The PEA is based on a NI 43-101 technical resource report dated April 2010 by the Mineral Corporation.

The PEA was prepared by GBM Minerals Engineering Consultants Limited. The PEA supports a robust, positive investment return at a $65 per lb long term U_3O_8 price. The pre-tax internal rate of return ("IRR") is 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 assumes 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").

On August 3, 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).

Power Line

In September 2008, Khan entered into a contract for the construction of a power line for the Dornod Uranium Project. The electric power line will 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 Choilbalsan 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 has been entered into with the Choilbalsan generating plant. The availability of electrical power from this plant will 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. The power line project was suspended in April 2010 pending receipt of electrical substation equipment required to complete the project. The delivery of the equipment is expected in late August 2010.

Uranium Prices

In July 2010, the average month-end spot price was $46 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

June 30, 2010

Total assets of the Company at June 30, 2010 were $29,045,000 compared with $32,589,000 at September 30, 2009. The decrease of $3,544,000 resulted from the decreases in current assets of $5,532,000 and capital assets of $56,000 offset by the increases in investments of $1,691,000 and mineral interests of $353,000. The decrease in current assets was due to the cash used in operating and investing activities during the nine months ended June 30, 2010. The increase in investments was due to the purchase of common shares of Macusani, the increase in mineral interests was due to development costs incurred on the Dornod Uranium Project, and the decrease in capital assets was due to amortization expense being greater than the cost of equipment purchased for the Dornod Uranium Project.

Three months ended June 30, 2010 and 2009

During the three months ended June 30, 2010, the Company incurred a net loss of $1,587,000 or $0.03 per share compared with net income of $340,000 or $0.01 per share in the comparable period of 2009. The net change of $1,927,000 was primarily due to the decrease in interest income of $13,000, the increases in general corporate expense of $456,000 and Mongolian operations expense of $22,000 and the change in foreign exchange of $1,564,000 from a gain of $1,105,000 in 2009 to a loss of $459,000 in 2010; offset by the decrease in stock-based compensation expense of $129,000.

During the three months ended June 30, 2010, the Company recorded a comprehensive loss from the unrealized holding loss on available-for-sale securities arising during the period of $1,115,000, and there was no comparable amount in 2009.

During the three months ended June 30, 2010, cash and cash equivalents decreased by $1,645,000 compared with $4,873,000 in the comparable period of 2009.

The cash used in operating activities was $1,110,000 in 2010 compared with $532,000 in 2009. The increase of $578,000 was due to the decrease in interest income of $13,000 and the increases in general corporate expense of $456,000, Mongolian operations expense of $22,000, cash required for changes in non-cash working capital balances related to operations of $65,000 and realized foreign exchange loss of $22,000.

The cash used in investing activities was $82,000 in 2010 compared with $4,858,000 in 2009, a decrease of $4,776,000. Purchase of short-term investments used cash of $4,227,000 in 2009 and there was no comparable amount in 2010. Restricted cash provided cash of $2,000 in 2009 and there was no comparable amount in 2010. Advances to suppliers provided cash of $45,000 in 2009 and there was no comparable amount in 2010. The purchase of capital assets used cash of $226,000 in 2009 and there was no comparable amount in 2010. The decrease of $226,000 resulted from the suspension of the power line project at the Dornod Uranium Project in 2010 and the completion of the sedimentation pond at the Dornod Uranium Project in June 2009. Mineral interests used cash of $82,000 in 2010 compared with $452,000 in 2009. The decrease of $370,000 resulted from the lower level of activity at the Dornod Uranium Project in 2010 and the completion of the Definitive Feasibility Study for the Dornod Uranium Project in March 2009.

There were no financing activities in 2010. The cash used in financing activities was $22,000 in 2009 and was for the purchase of 53,000 common shares under the Company's normal course issuer bid.

In 2009, there was a foreign exchange loss on cash of $453,000 compared with a foreign exchange gain on cash of $539,000 in 2009. Cash is held primarily in Canadian dollars. The foreign exchange loss on cash was due to the decrease in value of the Canadian cash on hand in terms of the United States dollar during the period.

Nine months ended June 30, 2010 and 2009

During the nine months ended June 30, 2010, the Company incurred a net loss of $3,684,000 or $0.07 per share compared with $4,151,000 or $0.08 per share in the comparable period of 2009. The net decrease of $467,000 was primarily due to the decrease in stock-based compensation expense of $451,000 and the change in foreign exchange of $1,961,000 from a loss of $1,801,000 in 2009 to a gain of $160,000 in 2010; offset by the decrease in interest income of $113,000 and the increases in general corporate expense of $1,815,000 and Mongolian operating expense of $13,000.

During the nine months ended June 30, 2010, the Company recorded a comprehensive loss from the unrealized holding loss on available-for-sale securities arising during the period of $201,000, and there was no comparable amount in 2009.

During the nine months ended June 30, 2010, cash decreased by $5,603,000 compared with $19,833,000 in the comparable period of 2009.

The cash used in operating activities was $3,468,000 in 2010 compared with $1,950,000 in 2009. The increase of $1,518,000 was primarily due to the decrease in interest income of $113,000 and the increase in general corporate expense of $1,815,000; offset by the decreases in cash required for changes in non-cash working capital balances related to operations of $362,000 and realized foreign exchange loss of $61,000.

The cash used in investing activities was $2,297,000 in 2010 compared with $15,552,000 in 2009, a decrease of $13,255,000. Proceeds from sale of investments were $36,000 in 2009 and there was no comparable amount in 2010. Purchase of short-term investments used cash of $11,347,000 in 2009 and there was no comparable amount in 2010. Purchase of investments used cash of $1,891,000 in 2010 compared to $21,000 in 2009. Restricted cash provided cash of $683,000 in 2009 and there was no comparable amount in 2010. Advances to suppliers provided cash of $97,000 in 2009 and there was no comparable amount in 2010. The purchase of capital assets was $1,971,000 in 2010 compared with $68,000 in 2009. The decrease of $1,903,000 resulted from the suspension of the power line project at the Dornod Uranium Project during the third quarter of 2010 and the completion of the sedimentation pond at the Dornod Uranium Project in June 2009. Mineral interests used cash of $3,029,000 in 2010 compared with $338,000 in 2009. The decrease of $2,691,000 resulted from the lower level of activity at the Dornod Uranium Project in 2010 and the completion of the Definitive Feasibility Study for the Dornod Uranium Project in March 2009.

There were no financing activities in 2010. The cash used in financing activities was $56,000 in 2009. The exercise of stock options provided cash of $11,000 and the purchase of 249,000 common shares under the Company's normal course issuer bid used cash of $67,000.

In 2010, there was a foreign exchange gain on cash of $162,000 compared with a foreign exchange loss on cash of $2,275,000 in 2009. Cash is held primarily in Canadian dollars. The foreign exchange gain on cash was due to the increase in value of the Canadian cash on hand 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 nine months ended June 30, 2010 and the three and nine months ended June 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. The Company's objective is to promote and safeguard its ability to continue as a going concern and to continue its efforts to try to advance the exploration and development of the Dornod Uranium Project and bring the Dornod Uranium Project into commercial production.

<u>Three months ended June 30, 2010 and 2009</u>

Revenue

Total revenue decreased by $13,000 during the three months ended June 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. The Company maintains cash balances principally in Canadian and United States dollars.

Expenses

Total expenses increased by $1,914,000 during the three months ended June 30, 2010 from the comparable period in 2009 due primarily to the change in foreign exchange of $1,564,000 from a gain of $1,105,000 in 2009 to a loss of $459,000 in 2010 and the increase in general corporate expense (including fees and expenses incurred by Khan in connection with the CNNC Offer and Mongolian court cases) of $456,000 and Mongolian operations expense of $22,000; offset by the decrease in stock-based compensation expense of $129,000.

General corporate expense increased by $456,000 in 2010 compared with 2009. The following table illustrates the major items included in general corporate expense:

	Three months ended June 30, 2010 000's	Three months ended June 30, 2009 000's
Accounting and audit	$ 38	$ 23
Investor relations	31	13
Insurance	26	26
Legal	394	130
Management remuneration	270	201
Office and travel	197	107
	$ 956	$ 500

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. The Canadian dollar averaged $0.9733 in terms of the United States dollar during the three months ended June 30, 2010 and averaged $0.8568 in terms of the United States dollar during the three months ended June 30, 2009, an increase of 14%.

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

- Accounting and audit expenses increased due to higher audit fees and tax consulting.

- Investor relations increased due to the CNNC Offer.

- Legal fees and expenses increased due to the CNNC Offer and Mongolian court cases.

- Management remuneration increased due to higher directors' fees.

- Office and travel costs increased due to the CNNC Offer.

Mongolian operations expense increased by $22,000 in 2010 compared with 2009 due 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. The Mongolian Togrog averaged $0.00072 in terms of the United States dollar during the three months ended June 30, 2010 and averaged $0.00068 in terms of the United States dollar during the three months ended June 30, 2009, an increase of 6%.

Amortization expense decreased by $1,000 in 2010 compared with 2009 as a number of assets became fully amortized in 2010.

Stock-based compensation expense decreased by $129,000 in 2010 compared with 2009 due to the lower expense associated with the vesting of outstanding options. A significant portion of options granted in prior years were fully vested by March 31, 2010; thus a lower expense for the vesting of options was recorded in 2010 compared with 2009. There were no options granted in the three months ended June 30, 2010 and 2009.

The change in foreign exchange of $1,564,000 from a gain of $1,105,000 in 2009 to a loss of $459,000 in 2010 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 2010, at the beginning of the fiscal period, the Canadian dollar was $0.9844 in terms of the United States dollar compared with $0.9393 at the end of the fiscal period. In 2009, at the beginning of the fiscal period, the Canadian dollar was $0.7928 in terms of the United States dollar compared with $0.8598 at the end of the fiscal period. The average Canadian dollars on hand was 91% of cash during 2010 compared with 84% during 2009.

Mineral Interests

During the three months ended June 30, 2010, the deferred development costs, consisting mainly of camp operations and site maintenance, incurred on the Dornod Uranium Project, were $95,000. The following table sets out the change in deferred development costs:

	As at March 31, 2010 000's	Costs incurred during the three months ended June 30, 2010 000's	As at June 30, 2010 000's
Deferred development costs			
Dornod Uranium Project, Mongolia	$ 11,436	$ 95	$ 11,531

Nine months ended June 30, 2010 and 2009

Revenue

Total revenue decreased by $113,000 during the nine months ended June 30, 2010 from the comparable period in 2010 due to the decrease in interest income resulting from lower cash balances on hand and lower interest rates. The Company maintains cash balances principally in Canadian and United States dollars.

Expenses

Total expenses decreased by $580,000 during the nine months ended June 30, 2010 from the comparable period in 2009 due primarily to the decrease in stock-based compensation expense of $451,000 and the change in foreign exchange of $1,961,000 from a loss of $1,801,000 in 2009 to a gain of $160,000 in 2010; offset by the increases in general corporate expense (including fees and expenses incurred by Khan in connection with the ARMZ Offer, its investigation of possible strategic alternatives, the CNNC Offer and Mongolian court cases) of $1,815,000 and Mongolian operating expense of $13,000.

General corporate expense increased by $1,815,000 in 2010 compared with 2009. The following table illustrates the major items included in general corporate expense:

	Nine months ended June 30, 2010 000's	Nine months ended June 30, 2009 000's
Accounting and audit	$ 136	$ 83
Investor relations	180	138
Insurance	73	78
Legal	1,076	240
Management remuneration	855	514
Office and travel	960	412
	$ 3,280	$ 1,465

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. The Canadian dollar averaged $0.9603 in terms of the United States dollar during the nine months ended June 30, 2010 and averaged $0.8276 in terms of the United States dollar during the nine months ended June 30, 2009, an increase of 16%.

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

- Accounting and audit expenses increased due to higher audit fees and tax consulting.
- Investor relations increased due to the CNNC Offer.
- Legal fees and expenses increased to the unsolicited ARMZ Offer, Khan's investigation of possible strategic alternatives, the CNNC Offer, and Mongolian court cases.

- Management remuneration increased due to higher directors' fees and additional staff.

- Office and travel costs increased due to the unsolicited ARMZ Offer, Khan's investigation of possible strategic alternatives and the CNNC Offer.

Mongolian operations expense increased by $13,000 in 2010 compared with 2009 due to the Mongolian court cases which was partially offset by the decrease in exchange rates between the Mongolian Togrog and the United States dollar, as the majority of this expense is incurred in Mongolian Togrogs. The Mongolian Togrog averaged $0.00071 in terms of the United States dollar during the nine months ended June 30, 2010 and averaged $0.00073 in terms of the United States dollar during the nine months ended June 30, 2009, a decrease of 3%.

Amortization expense decreased by $13,000 in 2010 compared with 2009 as a number of assets became fully amortized in 2010.

Stock-based compensation expense decreased by $451,000 in 2010 compared with 2009 as there were no options granted in 2010 and there was a lower expense associated with the vesting of outstanding 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 compared with 2009. There were no options granted in the nine months ended June 30, 2010 and there were 1,435,000 stock options granted in the nine months ended June 30, 2009.

The change in foreign exchange of $1,961,000 from a loss of $1,860,000 in 2009 to a gain of $160,000 in 2010 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 2010, at the beginning of the fiscal period, the Canadian dollar was $0.9340 in terms of the United States dollar compared with $0.9393 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 $0.8598 at the end of the fiscal period. The average Canadian dollars on hand was 89% of cash during 2010 compared with 82% during 2009.

Mineral Interests

During the nine months ended June 30, 2010, the deferred development costs, consisting mainly of camp operations and site maintenance, incurred on the Dornod Uranium Project, were $353,000. The following table sets out the change in deferred development costs:

	As at September 30, 2009 000's	Costs incurred during the nine months ended June 30, 2010 000's	As at June 30, 2010 000's
Deferred development costs			
Dornod Uranium Project, Mongolia	$ 11,178	$ 353	$ 11,531

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 June 30, 2010	Quarter ended March 31, 2010	Quarter ended December 31, 2009	Quarter ended September 30, 2009
Revenue	$ 17	$ 9	$ 11	$ 20
Expenses	$ 1,604	$ 1,280	$ 837	$ (304)
Net income (loss)	$ (1,587)	$ (1,271)	$ (826)	$ 324
Net income (loss) per share (basic and diluted)	$ (0.03)	$ (0.02)	$ (0.02)	$ 0.01

	Quarter ended June 30, 2009	Quarter ended March 31, 2009	Quarter ended December 31, 2008	Quarter ended September 30, 2008
Revenue	$ 30	$ 38	$ 82	$ 154
Expenses	$ (310)	$ 1,469	$ 3,142	$ 3,464
Net income (loss)	$ 340	$ (1,431)	$ (3,060)	$ (3,310)
Net income (loss) per share (basic and diluted)	$ 0.01	$ (0.03)	$ (0.06)	$ (0.06)

Over the past eight quarters, variations in the quarterly loss are usually 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 in the quarter. The foreign exchange gain or loss arises from the translation of amounts denominated in foreign currencies to United States dollars. In the three months ended September 30, 2008, the Company incurred expenses of $1,593,000 related to its previous offer to purchase by way of take-over bid all the issued and outstanding common shares of Western Prospector Group Ltd.

Liquidity and Capital Resources

As at June 30, 2010, the Company had working capital of $10,963,000 (September 30, 2009 - $16,770,000) which comprised cash of $11,190,000 (September 30, 2009 - $16,794,000), accounts receivable in the amount of $73,000 (September 30, 2009 - $67,000), prepaid expenses and other assets in the amount of $210,000 (September 30, 2009 - $144,000), restricted cash in the amount of $49,000 (September 30, 2009 - $49,000) and current liabilities of $559,000 (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 nine months ended June 30, 2010, the operating activities of Khan used cash of $3,468,000 (2009 - $1,950,000), the investing activities, which consisted of the purchase of investments, capital assets and mineral interests used cash of $2,297,000 (2009 - $15,552,000), the financing activities were nil (2009 – used cash of $56,000) and the foreign exchange gain on cash was $162,000 (2009 – loss of $2,275,000). 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 development costs and to meet its liabilities over the next year. This expectation is based on the forecasted costs associated with the current exploration and development plans for the Dornod Uranium Project (the "Project"). The subsequent development of the Project beyond June 30, 2011 will depend on, among other things, the Company's ability to obtain additional financing and political and regulatory developments or changes in Mongolia, including developments relating specifically to the Project mining and exploration licenses. 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.

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	53,913,779
Shares issuable upon exercise of stock options	2,497,000
Total	56,410,779

Transactions with Related Parties

There were no transactions with related parties during the nine months ended June 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, 2009. 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.

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 calculate 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 interim 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 interim 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 interim 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 interim 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 interim 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 interim statement of comprehensive loss and realized gains and losses recognized in the interim 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 interim 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 interim 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.

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.

Management has begun assessing the implications of IFRS adoption and will prepare a comprehensive IFRS conversion plan in 2010 to identify the key considerations, resources, business implications and timelines associated with the conversion. The project is under the supervision of the Chief Financial Officer. 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 filed with SEDAR on December 21, 2009.

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 nine months ended June 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 June 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 June 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 period, 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.

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 Mongolian and Canadian laws and regulatory requirements on Khan's business, licenses, operations and capital structure; Khan's ability to re-instate, re-register and maintain its Project licenses; legislative, political, social, regulatory and economic developments or changes in jurisdictions in which Khan and Macusani carry on business; 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 superior 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 alternative strategic transactions involving Khan, including those transactions that may produce superior 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 filed on SEDAR on December 21, 2009. 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.

Additional Information

Additional information concerning the Company, including the Annual Information Form in respect of the Company's fiscal year ended September 30, 2009, is available by accessing SEDAR at www.sedar.com.