Khan Resources Inc.

Annual Information Form

For the year ended September 30, 2011
Dated as of December 15, 2011

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GLOSSARY OF TERMS

The following terms used but not otherwise defined in this Annual Information Form have the meanings set out below:

"assay" means an analysis to determine the presence, absence or concentration of one or more chemical components of interest contained in a sample.

"°C" means degrees Celsius.

"Common Shares" means all of the issued and outstanding common shares in the capital of Khan and **"Common Share"** means any one common share of Khan.

"Corporation" or **"Khan"** means, Khan Resources Inc., a corporation existing under the laws of the Province of Ontario.

"concentrate" means a processing product containing the valuable ore mineral from which most of the waste material has been eliminated.

"cut-off grade" means the minimum mineral grade at which material can be economically mined and processed (used in the calculation of reserves).

"deposit" means a mineralized body which has been physically delineated by sufficient drilling, trenching and/or underground work and found to contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures; such a deposit does not qualify as a commercially mineable ore body or as containing Mineral Reserves until final legal, technical and economic factors have been resolved.

"Feasibility Study" means a comprehensive study of a deposit in which all geological, engineering, operating, economic and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production.

"grade" means the amount of mineral in each tonne of ore.

"Indicated Mineral Resources" means that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and test information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

"Inferred Mineral Resources" means that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

"leach pad" means a site prepared with an impermeable base for the piling of ore that will be treated with solutions to extract valuable metals (usually gold and silver).

"leaching" means a method of extraction in which a solvent is passed through a mixture to remove some desired substance from it. Leaching is used to remove metals from their ores.

"Measured Mineral Resource" is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations

such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

"mineral" means an inorganic substance occurring in nature, having a characteristic and homogeneous chemical composition, definite physical properties, and, usually, a definite crystalline form. A few of the minerals (e.g., carbon, arsenic, bismuth, antimony, gold, silver, copper, lead, mercury, platinum, and iron) are elements, but the vast majority are chemical compounds. Minerals combine with each other to make up rocks. Many minerals, especially the metals, are of great economic importance to a highly industrialized civilization, entering into the composition of many manufactured articles. Some minerals, which would otherwise be of no economic significance, are highly valued as gems.

"Mineral Reserve" means the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a pre-feasibility study. This study must include adequate information on mining, processing metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes allowances for dilution and losses that may occur when the material is mined.

"Mineral Resource" means a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

"mineralization" means the concentration of minerals within a body of rock.

"MW" means megawatts.

"NI 43-101" means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*.

"NP 46-201" means National Policy 46-201 – *Escrow for Initial Public Offerings.*

"NI 52-110" means National Instrument 52-110 – *Audit Committees.*

"open pit mining" means an excavation for removing minerals which is open to the surface.

"ore" means a metal or mineral, or a combination of these, of sufficient value as to quality and quantity to enable it to be mined and processed at a profit.

"outcrop" means an exposure of bedrock at the surface.

"oz" means ounces.

"placer" means a surfacial mineral deposit formed by the mechanical concentration of mineral particles from weathered debris.

"pre-feasibility study" means a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established and an effective method of mineral processing has been determined, and includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are sufficient for a Qualified Person, acting reasonably, to determine if all or part of the Mineral Resource may be classified as a Mineral Reserve.

"Probable Mineral Reserve" means the economically mineable part of an Indicated Mineral Resource, and in some circumstances a Measured Mineral Resource demonstrated by at least a pre-feasibility study. The pre-

feasibility study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

"Qualified Person" means an individual who (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; (b) has experience relevant to the subject matter of the mineral project and the technical report related thereto; and (c) is a member in good standing of a professional association as defined by NI 43-101.

"reclamation" means the process by which lands disturbed as a result of mining activity are modified to support beneficial land use. Reclamation activity may include the removal of buildings, equipment, machinery and other physical remnants of mining, closure of tailings storage facilities, impoundments, leach pads and other mine features, and contouring, covering and re-vegetation of waste rock piles and other disturbed areas.

"recovery" is a term used in process metallurgy to indicate the proportion of valuable material physically recovered in the processing of an ore. It is generally stated as a percentage of valuable metal in the ore that is recovered compared to the total valuable metal originally present in the ore.

"SEDAR" means the System for Electronic Document Analysis and Retrieval.

"Shareholder Rights Plan" means the amended and restated shareholder rights plan agreement dated as of November 14, 2006 between Khan and Equity Transfer & Trust Company adopted by the holders of Common Shares on February 15, 2007, as amended, supplemented or replaced from time to time.

"stripping ratio" means the tonnage or volume of waste material which must be removed to allow the mining of one tonne of ore in an open pit.

"Technical Report" means a technical report completed in compliance with NI 43-101.

"TSX" means the Toronto Stock Exchange.

"U" means uranium.

"U_3O_8", "**uranium oxide"** or "**yellowcake"** means a concentrated uranium oxide obtained by milling a mixture of uranium oxide ore to produce "pulped" ore. This is then bathed in sulphuric acid to leach out the uranium. Yellowcake is what remains after drying and filtering and is usually represented by the formula U_3O_8. It is radioactive, forming a coarse powder which is insoluble in water and contains about 80% uranium oxide (U_3O_8), and melts at approximately 2,878°C. The yellowcake produced by most modern mills is actually brown or black, not yellow; the name comes from the colour and texture of the concentrates produced by early mining operations. This fine powder is packaged in drums and sent to a conversion plant that produces uranium hexaflouride (UF_6) as the next step in the manufacture of nuclear fuel.

EXPLANATORY NOTES

Unless otherwise indicated or the context otherwise indicates, in this document, "Khan" refers to Khan Resources Inc. and the "Corporation" refers to Khan and its direct and indirect subsidiaries on a consolidated basis.

Unless otherwise stated, all dollar amounts are expressed in United States dollars.

Forward-Looking Information

Certain information in this Annual Information Form, including any information as to Khan's future financial or operating performance, 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 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, other legal proceedings and regulatory matters, constitutes "forward-looking information" under applicable Canadian securities laws. All statements, other than statements of historical fact, contain forward-looking information. In this Annual Information Form, the words "believe", "plan", "expect", "budget", "schedule", "estimate", "forecast", "intend", "anticipate", "may", "could", "would", or "will" and similar expressions or variations (including negative variations) of such words and phrases, often, but not always, identify forward-looking information. Forward-looking information can also be identified by use of statements that certain actions, events, performance or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Statements containing forward-looking information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Khan, are inherently subject to significant business, economic, political, regulatory, social and competitive uncertainties and contingencies and involve known and unknown risks and other factors which may cause the actual results, performance, events or achievements of the Corporation to be materially different from any future results, performance, events or achievements expressed or implied by the forward-looking information. Such risks, uncertainties and factors include, but are not limited to: the impact of International, Mongolian and Canadian laws, trade agreements, treaties and regulatory requirements on the Corporation's business, licenses, operations and capital structure; the Corporation'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 the Corporation and Macusani carry on business; the nature and outcome of the international arbitration proceedings against the Government of Mongolia, the litigation against Atomredmetzoloto JSC or any other future litigation, arbitration and other legal or regulatory proceedings; the speculative nature of mineral exploration and developments; 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 the Corporation's securities; the lack of any strategic transactions or the terms and conditions of any such strategic 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 the Corporation, including those transactions that may produce strategic value for shareholders; changes in the worldwide price of certain commodities such as uranium, coal, fuel, electricity and fluctuations in resource prices; the need to obtain and maintain licenses and permits and comply with national and international laws, regulations or other regulatory requirements; risks involved in the exploration, development and mining business; uncertainty in the estimation of mineral reserves and resources; results of exploration activities; results of reclamation activities and obligations; conclusions of

economic evaluations; fluctuations in currency exchange rates and interest rates, including fluctuations in the value of the United States dollar and the Canadian dollar relative to the Mongolian Togrog (the "MNT"); fluctuations in the price of uranium; changes in project parameters as plans continue to be refined; future prices of uranium; variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Bermuda, the Netherlands, Mongolia or the British Virgin Islands and any other jurisdiction in which the Corporation or Macusani carries on business; political instability, insurrection, war or terrorism, hostilities and the occurrence of natural disasters; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, the timing and amount of estimated future development or production, costs of development, production and capital; operating and exploration expenditures; costs and timing of the development of new deposits; costs and timing of future exploration; requirements for additional capital; environmental risks; reclamation expenses; contests over title to properties; limitations of insurance coverage; 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; as well as those risk factors discussed in the section entitled "*Risk Factors*" in this Annual Information Form. Many of these risks, uncertainties and contingencies can affect the Corporation's actual results, performance, events or achievements and could cause actual performance, actions, events or results to differ materially from those expressed or implied in any forward-looking information. All of the forward-looking information in this Annual Information Form is qualified by these cautionary statements. Forward-looking statements contained herein are made as of the date of this Annual Information Form. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements containing forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information.

The Corporation may, from time to time, provide oral forward-looking information or statements. The Corporation advises that the above paragraph and the risk factors described in this Annual Information Form and in the Corporation's other documents filed with the Canadian securities commissions should be read for a description of certain risks, uncertainties and factors that could cause the actual results, performance, events or achievements of the Corporation to materially differ from those in the oral forward-looking information and statements. The Corporation disclaims any intention or obligation to update or revise any oral or written forward-looking information and statements whether as a result of new information, future events or otherwise, except as required by applicable law.

CORPORATE STRUCTURE

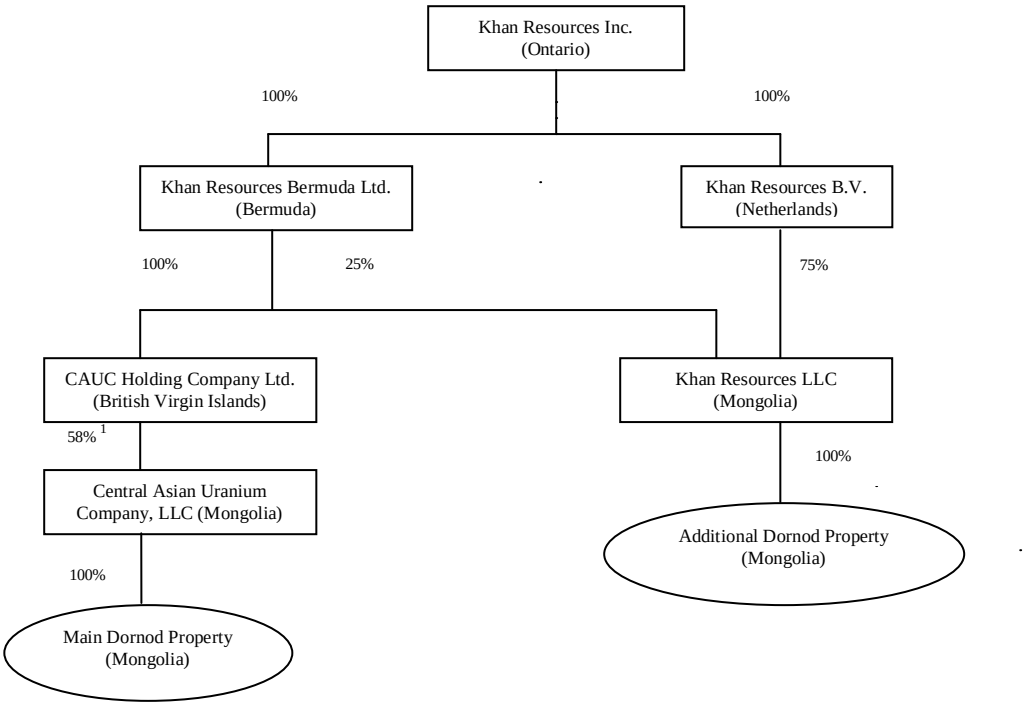
Name and Incorporation

Khan was incorporated under the name "2016594 Ontario Inc." pursuant to the *Business Corporations Act* (Ontario) (the "OBCA") on October 1, 2002. By a certificate and articles of amendment dated January 6, 2003, Khan amended its articles and changed its name to "Khan Resources Inc.". Khan's articles were further amended on May 31, 2004 by a certificate and articles of amendment removing restrictions in connection with the transferability of its shares.

The Corporation's head and registered office is located at Suite 1007, 141 Adelaide Street West, Toronto, Ontario M5H 3L5. Khan's Mongolian office is located at Ochir House Building, Room 204, Peace Avenue 15A/5, Ulaan Baatar 211213, Mongolia.

Intercorporate Relationships

Khan's corporate structure, its material subsidiaries, the percentage ownership in its material subsidiaries and the jurisdiction of incorporation of such corporations are set out in the following chart. The chart also indicates particulars of Khan's current ownership of its uranium properties.



Notes:
1. The remaining 42% of Central Asian Uranium Company, LLC is owned as to 21% by each of MonAtom LLC ("MonAtom"), a Mongolian state owned company, and JSC Priargunsky Industrial Mining and Chemical Union ("Priargunsky"), a subsidiary of Atomredmetzoloto JSC ("ARMZ"), a Russian state owned company. Priargunsky was the operator of the Main Dornod Property from 1988 to 1995 when it was excavating uranium ore for shipment to Russia..

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

The Corporation is a Canadian-based mineral exploration and development company engaged in the acquisition, exploration and development of uranium, primarily in Mongolia. The Corporation has interests in 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). As a result of certain actions by the Mongolian Government, the Corporation's interests in the Main Dornod Property and the Additional Dornod Property are uncertain at this time. The Corporation commenced, in January 2011, an International Arbitration process against the Government of Mongolia and certain of its agencies for actions taken by the Government to effectively expropriate Khan's licenses. Khan also holds 15,523,330 common shares and 4,031,665 share purchase warrants of Macusani Yellowcake Inc. ("Macusani"), a Canadian exploration company listed on the venture exchange of the Toronto Stock Exchange ("TSX-V") under the symbol YEL. Macusani holds properties and explores for uranium in the Macusani Plateau district in southern Peru.

At September 30, 2011, the Corporation had a total of 10 employees: 3 in Canada and 7 in Mongolia.

Initial Listing

Khan listed its common shares (the "Common Shares") as well as class E warrants (the "Class E Warrants") on the Toronto Stock Exchange (the "TSX") effective August 2, 2006 when it also became a reporting issuer in Ontario, British Columbia, Alberta, Saskatchewan and Manitoba. The Class E Warrants expired on August 2, 2008.

Acquisition of the Main Dornod Property

Khan was incorporated on October 1, 2002 for the purpose of acquiring uranium and gold interests in Mongolia.

Khan and its wholly-owned subsidiary, Khan Resources Bermuda Ltd. ("Khan Bermuda"), were formed to effect the indirect acquisition of a 58% interest in Central Asian Uranium Company, LLC ("CAUC"), a Mongolian company and the owner of the Main Dornod Property, and a 100% interest in Ikh Tokhoirol LLC, the owner of the Big Bend Gold Property. The Big Bend Gold Property was sold on October 11, 2007; see "*General Development of the Business – Sale of the Big Bend Gold Property*".

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, Priargunsky, a subsidiary of ARMZ, a Russian state owned company, extracted approximately 590,000 tonnes of ore at an average grade of 0.118 per cent uranium oxide ("U_3O_8") from Dornod Deposit No. 2. At Dornod Deposit No. 7, two shafts have been sunk to depths of 510 and 500 metres and approximately 20,000 metres of development drifts, which extend onto the Additional Dornod Property, are in place. The mining license 237A in respect of the Main Dornod Property is registered in the name of CAUC, in which the Khan holds a 58% interest through a subsidiary. The other shareholders of CAUC, who each hold a 21% interest are MonAtom, a Mongolian state owned company and Priargunsky, a Russian state owned company. Khan operates the Main Dornod Property

through a joint venture with MonAtom and Priargunsky. Khan expects the interests of the shareholders of CAUC will change as a result of the eventual implementation of the 2009 Nuclear Energy Law. However, in light of the 2009 law, a notice by the Government of Mongolia on November 12, 2010 stating that it would not be renewing CAUC's mining license and the launching of an International Arbitration action by Khan against the government of Mongolia in January, 2011, Khan's interests in the Main Dornod Property are uncertain at this time. See *"Legal Proceedings – International Arbitration"*.

The acquisition of the Main Dornod Property was effected in two stages. In the first stage of the acquisition, by agreement dated July 30, 2003, Khan Bermuda acquired 100% of the issued shares of CAUC Holding Company Limited ("CAUC Holding") (then known as World Wide Mongolia Mining Inc.), a British Virgin Islands company, which in turn owns 58% of the issued shares of CAUC, the owner of the Main Dornod Property and related mining license.

In the second stage of the acquisition, following the acquisition of CAUC Holding by Khan Bermuda, Khan acquired all of the issued and outstanding shares of Khan Bermuda pursuant to a share exchange agreement (the "Share Exchange Agreement") dated July 31, 2003 between Wallace Mays, as vendor, Khan, as purchaser, and Khan Bermuda.

Acquisition of the Additional Dornod Property

In March 2005, pursuant to an agreement dated January 27, 2005 (the "Western Prospector Agreement") with Western Prospector Group Ltd., a Canadian corporation with uranium properties in Mongolia ("Western Prospector"), the Corporation acquired the "Additional Dornod Property" which consists of exploration license 9282X in respect of approximately 243 hectares of land contiguous with the Main Dornod Property. In addition to the remainder of Dornod Deposit No. 7, the Additional Dornod Property contains part of another underground deposit ("Dornod Deposit No. 5"). In consideration of this purchase, Khan issued 400,000 Common Shares to Western Prospector and granted a 3% royalty on revenues generated from any mineral product extracted from the Additional Dornod Property. 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 Khan currently holds a 100% interest through its Bermudian and Netherlands subsidiaries. Khan expects its interest in KRL to decrease as a result of the eventual implementation of the 2009 Nuclear Energy Law. However, in light of the 2009 law, a notice by the Government of Mongolia on November 12, 2010 stating that it would not be renewing KRL's exploration license and the launching of an International Arbitration action by Khan against the Government of Mongolia in January, 2011, Khan's interests in the Additional Dornod Property are uncertain at this time. See *"Legal Proceedings – International Arbitration"*.

Mining and Exploration Licenses

The mining license held by CAUC in respect of the Main Dornod Property was submitted to the Mineral Resources and Petroleum Authority of Mongolia ("MRPAM") Department of Geology and Mining Cadastre for re-registration and was re-registered on January 23, 2007 with a term of 30 years commencing September 30, 1997 in accordance with the Minerals Law (defined below). The mining license previously had a term of 15 years commencing September 30, 1997. All other terms and conditions of the mining license were unaltered. See "*Narrative Description of the Business – Mongolia – Mining Legislation*"".

On July 15, 2009, the Corporation reported that it had received notice from the Mineral Resources Authority of Mongolia ("MRAM") (formerly MRPAM) 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, the Corporation 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, the Corporation 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. The Corporation viewed this settlement as having finally resolved the July 2009 suspension of the mining license, despite subsequent reports circulated by the Mongolian Nuclear Energy Agency (the "NEA") that the settlement was not valid. The MRAM formal report on such reserve and resource calculations is still pending as of the date of this Annual Information Form. Notwithstanding its continued efforts to register its reserves to date, CAUC has not received approval or registration of its reserves in respect of the Main Dornod Property. The Minerals Council did not appoint a group of experts to review the Corporation's reserve and resource calculations until late 2009, following repeated requests by the Corporation. The Minerals Council has yet to convene a meeting to review and approve the experts' report. Accordingly, having submitted the reserve calculations as required, obtaining approval and registration of its reserves continues to lie within the purview and control of the Minerals Council of Mongolia. The Corporation continues to believe that CAUC has complied with the terms of the mining license and applicable laws in all material respects and, accordingly, the Minerals Council should register the resources/reserves.

The exploration license was renewed for an additional three-year period in February 2008 with expiry on February 11, 2011. Under the Minerals Law (defined below), the license may be renewed for one additional three-year period. The Corporation had previously taken steps to convert the exploration license for the Additional Dornod Property into a mining license in accordance with the Minerals Law. To this end, the Corporation has submitted the reserve and resource calculation for the Additional Dornod Property, prepared in accordance with Mongolian standards and requirements, to MRAM. This is a necessary precondition in the process of converting an exploration license to a mining license in accordance with the Minerals Law. The MRAM formal report on such reserve and resource calculations is still pending as of the date of this Annual Information Form, as described above. See also "*Narrative Description of the Business – Mongolia – Mining Legislation*".

As discussed further below under "*Narrative Description of the Business – Mongolia – Nuclear Energy Legislation*", on July 16, 2009, the Mongolian Parliament passed a 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 enacted certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit an application to the State Administrative Authority and renew and re-register their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants were required to agree to abide by all of the conditions and requirements set out in the Nuclear Energy Law, including acceptance of the State's 51% or 34% share participation in the license holder, as applicable. Any licenses not re-registered under the Nuclear Energy Law, as required, were considered to automatically be suspended. The Corporation submitted the applications for the renewal and re-registration of the mining license and exploration license in respect of the Dornod Uranium Project on November 10, 2009. 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. The Corporation 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, the Corporation 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 temporarily suspended pending re-registration under the new law. As discussed above, the Corporation submitted the applications for the renewal and re-registration of the mining license and exploration license for the Dornod Uranium Project on November 10, 2009. The applications were in compliance with the requirements of the new legislation, including the requirement to state that the license holder accepted the ability of the Mongolian State to take an ownership interest in the license-holder.

Subsequently, CAUC received a formal notice from the State Property Committee (the "SPC") of Mongolia requiring CAUC to propose to its shareholders a resolution to approve an increase of the Mongolian State ownership in CAUC to 51%. The notice provided that if a favourable resolution was not provided to SPC by January 31, 2010, CAUC's mining license would be in danger of revocation. In response to the SPC notice, effective January 25, 2010, each of MonAtom and CAUC Holding, the subsidiary through which Khan holds its interest in CAUC, on the basis of their collective 79% holding of the outstanding capital of CAUC, authorized and approved an increase in MonAtom's ownership interest in CAUC from 21% to 51%, with a corresponding dilution of ownership interests of CAUC Holding and Priargunsky. Priargunsky, a 21% shareholder and voting member of CAUC, abstained from voting. The CAUC shareholders' resolution was subsequently submitted to the SPC by the January 31, 2010 deadline. As of the date of this Annual Information Form, KRL has not yet received a similar notice from the SPC in respect of its exploration licence. In addition, neither the Government of Mongolia nor any of its agencies has made any request or initiated any action to reallocate the existing share positions or to receive additional shares of CAUC or KRL.

Subsequently, 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 in respect of the mining license. In response, CAUC and KRL filed separate formal claims in, and received favourable rulings from, 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.

However, the NEA has yet to reinstate and re-register the Corporation's licenses pursuant to the Nuclear Energy Law. 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, among 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, under Mongolian law, must include the legal reasons for making such a decision. The NEA continues to hold to their position of not reissuing the licenses. The Corporation 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. The Corporation has formally demanded to receive the official decision of the NEA in respect of its licenses, but has yet to receive a formal response.

In January, 2011, Khan initiated an International Arbitration action against the Government of Mongolia for causing substantial loss and damage to Khan through expropriatory, unlawful, unfair and discriminatory

treatment in relation to Khan's licenses for the Dornod Project. The action is for $200 million in compensation for the losses sustained by Khan.

See "*Legal Proceedings –Invalidation of Mining and Exploration Licenses*" and "*Legal Proceedings – International Arbitration"* for further details.

Pre-Feasibility Study

On August 15, 2007, the Corporation announced that it had completed a pre-feasibility study ("PFS") in respect of the Dornod Uranium Project. The PFS resulted in a greater than 16% increase in the NI 43-101 compliant Indicated Mineral Resource previously reported for the Dornod Uranium Project, for a total of 25.3 million tonnes of ore grading 0.116% U_3O_8 representing 64.3 million pounds of U_3O_8. The Inferred Mineral Resource estimated in the PFS was 2.2 million tonnes of ore grading 0.050% U_3O_8 representing 2.4 million pounds of U_3O_8. Further, a significant portion of the Indicated Mineral Resource was upgraded to the Probable Mineral Reserve category. The new Probable Mineral Reserve for Dornod Deposit No. 2 and Dornod Deposit No. 7 was 18.2 million tonnes of ore grading 0.122% U_3O_8 representing 49.1 million pounds of U_3O_8 out of the 64.3 million pounds of Indicated Mineral Resource. The Technical Report dated September 27, 2007 in respect of the PFS was filed on SEDAR at www.sedar.com on October 17, 2007.

The PFS assumed a uranium price of $55 per pound U_3O_8, and a through-put of 3,500 tonnes per day over a 15.5 year mine life, which gave an average annual production rate of 2.9 million pounds of U_3O_8, at a cost of $19.99 per pound U_3O_8 or $49.21 per tonne of ore. This yielded an Internal Rate of Return ("IRR") of 37.1%, and a Net Present Value ("NPV") of $288 million using a 10% discount rate. The capital cost of the project was projected to be approximately $283 million.

Definitive Feasibility Study

On March 11, 2009, the Corporation announced the results of its definitive Feasibility Study ("DFS") for the Dornod Uranium Project. The study was jointly completed by engineering consultants, Aker Metals, a division of Aker Solutions Canada Inc. ("Aker Solutions"), and resource consultants, Scott Wilson Roscoe Postle Associates Inc. ("Scott Wilson RPA"), and resulted in a study confirming the previous economic robustness of the Dornod Uranium Project.

The DFS was based on the NI 43-101 compliant indicated mineral resource previously reported for the project, prepared by Scott Wilson RPA, of 25.3 million tonnes at an average grade of 0.116% uranium oxide (U_3O_8) for 64.3 million lbs of U_3O_8 and an inferred mineral resource of 2.2 million tonnes at an average grade of 0.050% U_3O_8 for 2.4 million lbs of U_3O_8.

The probable mineral reserve, prepared by P&E Mining Consultants Inc., for the No. 2 open pit and No. 7 underground deposits was 18.0 million tonnes at an average grade of 0.133% U_3O_8 for 52.9 million lbs of U_3O_8 out of the 64.3 million lbs of indicated mineral resources. Khan, at the time, had a 58% interest in the No. 2 deposit and two-thirds of the No. 7 deposit, plus a 100% interest in the remaining one-third of the No. 7 deposit. This level of ownership gave Khan an overall interest of approximately 69% of the uranium contained in both deposits.

The DFS assumed a long-term uranium price of $65 per lb U_3O_8, and a through-put of 3,500 tonnes per day over a 15 year mine life, and generated an average annual production rate of 3.0 million lbs U_3O_8, at a cost of

$23.22 per lb U_3O_8 or $58.26 per tonne of ore. Almost half of the total uranium production was in the first five years. The initial capital cost of the project was projected to be approximately $333 million. The above parameters yielded a project internal rate of return ("IRR") after tax of 29.1%, a net present value (NPV) at a 10% discount rate of $276 million and a payback period of 2.3 years. The after tax NPV at 10% using a uranium price of $70 per lb U_3O_8 was $339 million and the after tax IRR was 32.5%.

On April 24, 2009, the complete Technical Report (NI 43-101) on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia, dated April 22, 2009, was posted and is available on SEDAR at www.sedar.com.

Hrayr Agnerian, P.Geo., Associate Consulting Geologist at Scott Wilson RPA, E.J. (Gene) Puritch, P.Eng. and Malcolm Buck, P.Eng., P&E Mining Consultants Inc., and Les Heymann, P.Eng., Senior Process Consultant, Aker Solutions, were the qualified persons (as defined under NI 43-101) on the Dornod Uranium Project and supervised the preparation of the scientific and technical information contained in the Technical Report (NI 43-101) on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia, dated April 22, 2009 and the related prior news release issued by Khan on March 11, 2009 in respect of the results of the DFS, which form the basis for the written scientific and technical information reproduced in this Annual Information Form, and copies of which are available on SEDAR at www.sedar.com.

For additional information, see "*Narrative Description of the Business – Dornod Uranium Property – Technical Report of April 22, 2009"*.

Activities at the Dornod Uranium Project

In September 2008, the Corporation announced that it had entered into contracts for the construction of a power line and sedimentation pond for the Dornod Uranium Project. The electric power line would be constructed from the Xin Xin Mine, a zinc mine owned by a Chinese company, to the Dornod Uranium Property, a distance of about 26 kilometres and an electrical substation would be constructed at the site. The Xin Xin Mine is connected to an electric power line from the Choibalsan generating plant, approximately 120 kilometres to the south. In conjunction with the contract for the power line, an agreement for the supply of up to 15 MW of electricity had been entered into with the Choibalsan generating plant. The availability of electrical power from this plant would eliminate the use of diesel powered generators at the site and provide sufficient electricity for the future dewatering and rehabilitation of the underground mine workings. Water from the future dewatering of the underground mine workings would be pumped to the lined sedimentation pond to allow for the settlement and retention of sediments and particulate matter before the water was released into the environment. The sedimentation pond was substantially completed in June 2009. In April 2010, the contractor stopped work on the power line project. After several meetings with the contractor, it became apparent that the project would not be completed. A notice of default under the terms of the contract was sent to the contractor in November 2010, and the power line project has not progressed any further. The Dornod site is currently on a care and maintenance basis.

Sale of the Big Bend Gold Property

The "Big Bend Gold Property" is a gold property located in the Zaamar goldfield district of Mongolia. Ikh Tokhoirol LLC ("Ikh Tokhoirol"), a former wholly-owned Mongolian subsidiary of Khan Bermuda, acquired the Big Bend Gold Property and the corresponding licenses for $1,667,000 pursuant to an agreement dated July 30, 2003.

On October 11, 2007, Khan Bermuda sold all of the issued and outstanding shares of Ikh Tokhoirol to Berleg Mining LLC for $2.5 million. Khan no longer owns any interest in the Big Bend Gold Property.

Purchase of interest in Macusani Yellowcake Inc.

On November 30, 2009, Khan acquired, by way of private placement, 10,000,000 common shares of Macusani Yellowcake Inc. ("Macusani"), a Canadian TSX Venture Exchange company which holds uranium properties in the Macusani Plateau district of Peru, at a subscription price of Cdn$0.20 per share resulting in the Company holding approximately 17.9% of the then-outstanding common shares of Macusani immediately following the acquisition. Under separate agreement, Khan has a right to maintain its pro rata ownership of Macusani in certain subsequent treasury issuances for a period of two and a half years from the date of the private placement.

On November 4, 2010, Khan acquired by way of private placement 2,540,000 Macusani units at a subscription price of Cdn$0.25 per unit, each unit consisting of one Macusani common share and one Macusani share purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn$0.35 per share for a period of 24 months after the acquisition. On March 23, 2011, Macusani completed a public offering of units. The Company purchased 2,983,330 of these 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. 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.

Khan has acquired the Macusani common shares and common share purchase warrants 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.

ARMZ Offer for Khan

On November 27, 2009, Khan announced that it was informed that Atomredmetzoloto JSC ("ARMZ"), a Russian state-owned nuclear energy corporation and the owner of Priargunsky (a 21% joint venture partner in CAUC), 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. The Board of Directors unanimously believed that the ARMZ Offer was inadequate, failed to recognize the full value of Khan and contained objectionable terms and conditions. Subsequently, on February 1, 2010, ARMZ issued a press release and filed a notice of extension, extending the ARMZ Offer until March 1, 2010. On March 1, 2010, ARMZ announced that it was allowing the unsolicited ARMZ Offer to expire.

Memorandum of Understanding ("MOU")

After ARMZ launched its unsolicited offer to acquire all of the outstanding common shares of Khan, an independent Special Committee of the Khan Board of Directors was established and spent considerable amounts of time exploring and discussing possible strategic alternatives that would be in the best interests of

Khan and would maximize value for its shareholders. A particular focus was on transactions that involved MonAtom LLC ("MonAtom"), a Mongolian state owned company and a 21% joint venture partner in CAUC, and the Mongolian Government, in an attempt to find a mutually satisfactory transaction that would satisfy the state-ownership requirements set out in the Nuclear Energy Law while also providing Khan with a stable ownership and regulatory framework within which it could proceed to 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 the Corporation'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. 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 agreement was 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's only remaining alternative was to negotiate a friendly transaction with CNNC (described below), whereby CNNC agreed to make an offer to acquire all of the outstanding shares of Khan at a price superior to the ARMZ Offer.

CNNC Offer

On February 1, 2010, Khan announced that it had entered into a definitive support agreement with CNNC Overseas Uranium Holding Ltd. ("CNNC"), a subsidiary of China National Nuclear Corporation, pursuant to which CNNC agreed to make an offer to acquire all of Khan's outstanding common shares for Cdn$0.96 per share in cash (the "CNNC Offer"), upon and subject to the terms and conditions of the definitive agreement. The CNNC Offer represented a premium of approximately 118% to the closing share price prior to the ARMZ unsolicited bid, and a 48% premium to ARMZ's unsolicited Cdn$0.65 per share bid.

Khan announced on February 26, 2010 that the CNNC Offer had formally commenced. Khan's Board of Directors supported the CNNC Offer and recommended that shareholders tender their shares to the CNNC Offer. The CNNC Offer was initially open for acceptance until April 6, 2010 and was subsequently extended until May 25, 2010. On May 21, 2010, Khan announced that it had been informed by CNNC that it had failed to obtain the requisite Chinese regulatory approval for the CNNC Offer and, accordingly, would allow the CNNC Offer to expire at the scheduled expiry time on May 25, 2010.

According to information provided by CNNC, on May 21, 2010, CNNC was notified by the National Energy Administration, an arm of the Chinese National Development Reform Commission ("NDRC"), that the CNNC Offer was not approved. No reasons were given in the notice, nor have any reasons been provided by CNNC or otherwise since been made known to Khan as to why the NDRC refused to approve the transaction. The CNNC Offer was conditional upon CNNC receiving all necessary Chinese government and regulatory approvals, including NDRC approval.

NARRATIVE DESCRIPTION OF THE BUSINESS

Business Objectives and Strategy

The Corporation is engaged in the acquisition, exploration and development of uranium, primarily in Mongolia. The Corporation's primary business objective is to develop the Dornod Uranium Project and become a supplier of U_3O_8 to the nuclear power industry. The Corporation currently owns 58% of CAUC which in turn holds a mining license in respect of the Main Dornod Property and indirectly holds 100% of an exploration license in respect of the Additional Dornod Property. The status of these interests are currently uncertain. See *"Legal Proceedings – Invalidation of Mining and Exploration Licenses"* and *"Legal Proceedings – International Arbitration"*.

The Corporation has completed a Definitive Feasibility Study in respect of the Dornod Uranium Project.

Assuming the renewal and re-registration of the Corporation's mining license and exploration license under the new Nuclear Energy Law, the timing and status of which is still pending, the conversion of the exploration license into a mining license, the successful negotiation of satisfactory updated joint venture development arrangements with its CAUC partners and an Investment Agreement with the Government of Mongolia, the Corporation intends to (i) bring Dornod Deposit No. 2 and Dornod Deposit No. 7, located on the Main Dornod Property, and the remaining 1/3 of Dornod Deposit No. 7 located on the Additional Dornod Property, into production, and (ii) construct on-site modern milling and processing facilities on the Main Dornod Property and Additional Dornod Property. The Dornod Uranium Project implementation schedule is conservatively estimated to be approximately 36 months from the start of the Detail Engineering to the start of plant production. The results of the DFS are anticipated to be optimized with respect to cost and schedule during Detail Engineering.

The renewal and re-registration of the Corporation's mining license and exploration license and the conversion of the exploration license into a mining license are prerequisites to the negotiation of any agreements. There can be no certainty as to the timing or outcome of the renewal and re-registration and conversion. The successful negotiation of an updated joint venture development agreement with its CAUC partners and an Investment Agreement with the Government of Mongolia are also considered by Khan to be prerequisites to any major mine development work. While the Corporation would like to enter into such agreements as soon as possible, there can be no certainty as to the timing to complete negotiations with its CAUC joint venture partners or the Government of Mongolia (see "*Risk Factors – Negotiation of Investment Agreement with the Government of Mongolia* and "*Risk Factors – Negotiation of Updated Joint Venture Development Agreement with CAUC Participants*").

Overview of the Uranium Industry

Mining and Milling

Uranium ore is recovered by excavation or by in situ leaching techniques. Excavation may be open pit or underground mining. In general, open pit mining is used where deposits are close to the surface and underground mining is used for deep deposits, typically greater than 120 metres deep. Underground mines have relatively small surface disturbance and the quantity of material that must be removed to access the ore is considerably less than in the case of an open pit mine. In situ leaching involves pumping a liquid into the

ground to dissolve the uranium and then pumping that liquid back to the surface. (Source: World Nuclear Association ("WNA")

After the uranium ore has been mined it is milled. Milling, which is generally carried out close to a uranium mine, extracts the uranium from the ore. At the mill the ore is crushed and ground to a fine slurry. Sulphuric acid or a strong alkaline solution is used to dissolve the uranium to allow the separation of uranium from the waste rock. It is then recovered from solution and precipitated as uranium oxide (U_3O_8) concentrate. This is sometimes referred to as "yellowcake" and generally contains more than 80% uranium. The original ore may contain as little as 0.1% uranium. After drying and usually heating, it is packed in 200-litre drums as a concentrate. The remainder of the ore, containing most of the radioactivity and nearly all the rock material, becomes tailings, which are placed in engineered facilities near the mine (often in mined out pits). (Source: WNA)

Conversion and Enrichment

Uranium found in nature consists largely of two isotopes, U-235 and U-238. The production of energy in the form of heat in nuclear reactors is from the 'fission' or splitting of the U-235 atoms. Natural uranium contains 0.7% of the U-235 isotope. The remaining 99.3% is mostly the U-238 isotope which does not contribute directly to the fission process. Most nuclear reactors require uranium enriched to 3 to 5 percent U-235 as their fuel. The Canadian-designed Candu and the British Magnox reactors use natural uranium as their fuel. (Source: WNA)

Uranium enrichment requires the material to be in gaseous form. The product of a uranium mine is not directly usable and the uranium oxide must be converted into uranium hexafluoride (UF6) which is a gas at relatively low temperature. There are conversion plants in Europe, Russia and North America. At a conversion facility, the U_3O_8 is first refined to uranium dioxide, which can be used as the fuel for those types of reactors that do not require enriched uranium. Most is then converted into uranium hexafluoride, ready for the enrichment plant. (Source: WNA)

Uranium is enriched into U-235 by gaseous diffusion or centrifuge technology. Both of these processes work on the principle of separating the lighter U-235 from the heavier U-238, when in the form of uranium hexafluoride gas. At present the gaseous diffusion process accounts for about 40% of world enrichment capacity. However, because they are old and energy-inefficient, most gaseous diffusion plants are being phased out over the next five years and the focus is on energy-efficient centrifuge enrichment technology which will replace them. (Source: WNA)

Price

There is no formal exchange for uranium as there is for other commodities such as gold or oil. Uranium price indicators are developed by a small number of private business organizations that independently monitor uranium market activities, including offers, bids, and transactions. Such price indicators are owned by and proprietary to the business that has developed them.

The uranium spot price ($/pound U_3O_8) steadily increased from $7 per pound in December 2000 to a peak of $135 per pound in June 2007. The spot price then fell for a period of three years to a level of $41.00 per lb in July 2010 and began rising again reaching a level of $73 per lb in February 2011. Following the earthquake and tsunami in Japan in March 2011 and the resultant serious damage to the Fukushima Daichi nuclear station, the spot price again fell and stood at $52.00 per lb as at the end of November, 2011.

Demand

About 433 reactors with combined capacity of 369 gigawatts require 62,500 tonnes of uranium from mines (or the equivalent from stockpiles or secondary sources) each year. The capacity is growing and at the same time, the reactors are being run more productively, with higher capacity factors and reactor power levels. (Source: WNA)

Because of the cost structure of nuclear power generation, with high capital and low fuel costs, the demand for uranium fuel is predictable. Once reactors are built, it is very cost-effective to keep them running at high capacity and for utilities to make any adjustments to load trends by cutting back on fossil fuel use. Demand forecasts for uranium thus depend largely on installed and operable capacity, regardless of economic fluctuations. (Source: WNA)

As at December 2011, the WNA listed the following statistics as the generation capacity for the nuclear industry.

	GW
operable generation capacity	369
capacity under construction	63
planned capacity	173
proposed capacity	392

The above capacities will give rise to a substantial increase in uranium requirement.

Supply

As at December, 2011, the WNA listed the following supply table for uranium

Uranium Production
(000 tonnes U)

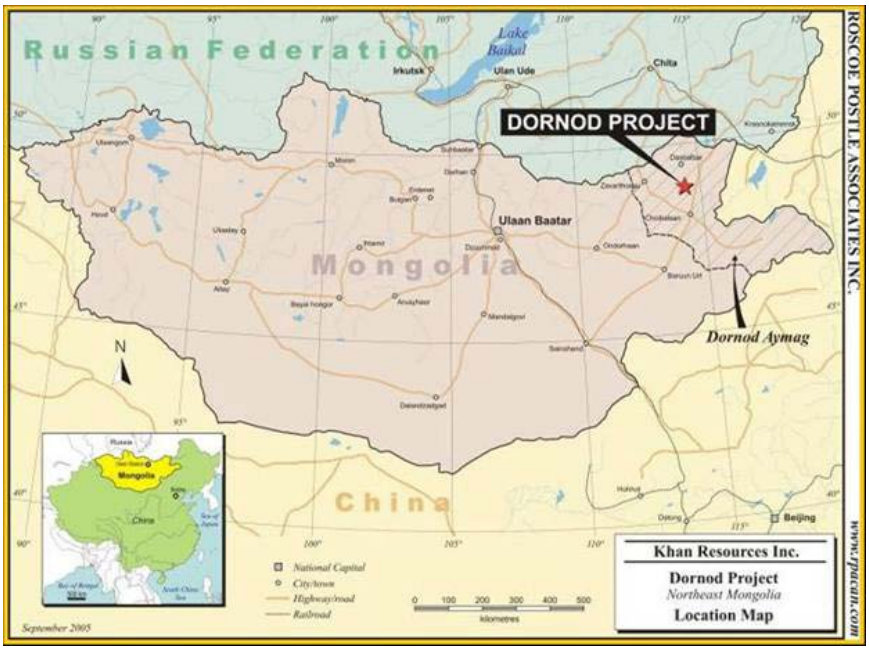
2005	2006	2007	2008	2009	2010
41	40	41	44	51	54

With the anticipated nuclear construction program listed above, demand for uranium should increase substantially.

Mongolia

Introduction

Mongolia is a landlocked country, located in northeast Asia between Russia and China. The country has a total area of 1,565,600 km^2 and shares a 4,673 km long border with China on its eastern, western and southern sides and a 3,485 km long border with Russia to the north. The population of Mongolia is estimated at 2.7 million people with approximately 1 million people living in Ulaan Baatar, the capital and largest city. Some 40% of the population lives in the countryside, primarily subsisting as nomadic livestock herders, while the rest live in cities or small settlements spread throughout the country. The official national language is "Khalkha Mongol" and the primary religion is Buddhism.



The latitude of Mongolia, between 42° and 52° north, is approximately the same as that of Central Europe; however, because the country is far from the ocean and has a relatively high median altitude of 1,580 m above sea level, the climate is characterized by an extreme continental climate with large temperature fluctuations and low total rainfall, averaging 200-220 mm per year. Most precipitation falls during the short summer, while winter is generally dry and extremely cold. Temperatures in summer average approximately 25°C, while winter temperatures average -21°C.

The Corporation's Dornod Uranium Project is located in the north-eastern portion of Mongolia some 650 km to the east of the capital city of Ulaan Baatar.

The descriptions below of certain mining, nuclear energy, tax, permitting and environmental laws and regulations potentially relevant to the Corporation, and the descriptions elsewhere in this Annual Information Form concerning other laws relevant to the Corporation and its business, assets and operations, are of a general nature only and are not intended to be, nor should they be considered to be, legal or tax advice and no representation is made with respect thereto. Readers who are seeking legal or tax advice should consult their own advisors concerning the application and effect of such laws.

Infrastructure

Mongolia, being a land-locked country with a small rural population, has limited transportation infrastructure. Although there are some second-class roads, travel to remote areas is difficult and requires the use of off-road vehicles or camel/horse trains. There are railway links with Russia and China, and excellent air links with Moscow, Beijing, Seoul, Western Europe and other East Asian countries.

The infrastructure in Mongolia is improving annually due to an increase in tourism, and the resulting need to provide western style accommodations and services.

Mining Industry

The mining sector is Mongolia's single largest industry. Prior to 1970, Mongolia was not able to develop its vast mineral resources due to a lack of infrastructure and lack of financing for mineral resource development. However, beginning in 1970, various deposits of copper, gold, fluorspar, uranium, and coal were developed by joint ventures formed in partnership with the former Soviet Union and its allies. The most notable of these ventures is the Erdenet copper mine, a joint venture between Mongolia and Russia.

In the mid-1990s, some major western companies, such as BHP Billiton Plc and Rio Tinto Plc, as well as a number of junior companies, began exploring for minerals in Mongolia, principally copper and gold. Following the enactment of a new minerals law in 1997 (which was replaced in 2006 as described below), and the general rise in prices of commodities in subsequent years, many other companies have initiated exploration programs in Mongolia.

Gold mining is second in importance to copper in mineral production from Mongolia with the largest proportion of that gold production being derived from alluvial gold deposits in the Zaamar region. Deposits of coking coal, used in making iron and steel, are expected to be exploited. Resources at the Tavan-Tolgoi deposits, about 530 km from the capital, Ulaan Baatar, are estimated at more than 5 billion tonnes. The quality of these coal resources reportedly are on par with deposits in Australia and Canada, major players in the world coal market.

Until recently, foreign investment and direct participation by foreign companies in exploration for, and extraction and processing of, mineral resources, as well as in a wide range of mining-related industries, was actively encouraged. However, Mongolia's national policies concerning its mineral sector are continuously under review, and on July 8, 2006, the Mongolian Parliament adopted a new Minerals Law that contains provisions relating to, among other things, state ownership that are inconsistent with the policy of actively encouraging foreign investment in the mining industry. (See "*Political Landscape*" and "*Mining Legislation*".) With respect to uranium resources, the Mongolian Parliament passed a new Nuclear Energy Law on July 16, 2009 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 and is discussed in greater detail below.

Political Landscape

Mongolia has a democratic form of government based on a unicameral (one chamber) parliamentary system and a directly elected president. The prime minister is nominated by and serves on behalf of the majority party in the Great Khural ("Parliament"), which is the parliament of Mongolia. The Constitution enshrines the concepts of democracy, freedom of speech, and judicial independence, among others.

The first multiparty elections were held in July of 1990 at which the Mongolian People's Revolutionary Party (the "MPRP") became the dominant political party. The MPRP was victorious again in the July 1992 elections but lost to a coalition of opposition groups (the "Democratic Coalition") in the elections of 1996. The MPRP regained power in 2000.

In 2004, MPRP and the Democratic Coalition each gained control of roughly one-half of the parliamentary seats. In order to form a government, the groups entered into a power sharing agreement that caused it to be difficult for the Government of Mongolia to maintain consistent policies and administrative practices, most notably within the minerals sector.

On the legislative side, as a consequence of the governance gridlock following the 2004 elections, and a growing populist sentiment that foreign mining companies are profiting from the extraction and sale of Mongolia's mineral resources and that Mongolia is not getting its fair share, various individuals and groups seized the opportunity to propose radical changes to the existing minerals legislation. These proposals reflected a widespread public sentiment for establishing a new paradigm for the development and marketing of the country's natural resources and provoked strong negative responses from companies engaged in exploration and mining in Mongolia, as well as the World Bank and other institutional donors.

On June 29, 2008, a general election was held in Mongolia. The MPRP won the majority of seats in the Parliament. After the election, a new Ministry of Mineral Resources and Energy was established. Previously, the Ministry of Industry and Trade was responsible for mining and energy matters.

Mining Legislation

On July 8, 2006, the Parliament revised the existing minerals legislation substantially changing the legal regime that governed the exploration and exploitation of mineral resources in Mongolia. The Minerals Law allowed the State to participate in a mining license-holder's company where a mineral deposit is defined by the State as being "strategically important". By definition, a strategically important minerals deposit is any deposit whose "scope may have a potential impact on national security, national or regional economic and social development, or that is producing or has the potential to produce more than 5% of total annual Gross Domestic Product". Additionally, the Minerals Law generally provided for increased reporting requirements, environmental bonds, new permitting requirements, consents and approvals from a broader range of government authorities prior to the commencement of commercial mining and changes to yearly exploration expenditures and fees payable to the State by mineral license-holders. Beginning in 2007, the Dornod Uranium Project was designated as a deposit of "strategic importance" under the Minerals Law. The activities of the Corporation were primarily regulated by the Minerals Law until the passage of the Nuclear Energy Law on July 16, 2009.

While the Minerals Law no longer directly regulates the exploration and exploitation of radioactive minerals (as uranium is defined in and governed by the Nuclear Energy Law), it remains an integral part of the Nuclear Energy Law in that many of the definitions, procedures and requirements of the Minerals Law have been incorporated and remain requirements for minerals license-holders under the Nuclear Energy Law.

To a lesser extent, the Subsoil Law of Mongolia ("Subsoil Law"), in addition to the Minerals Law and the Nuclear Energy Law, also regulates mineral license-holders. In particular, the Subsoil Law regulates the license-holder's obligation to commence operations under a mining license as well as regulates the construction of mine support and process facilities.

Nuclear Energy Legislation

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The law became effective on August 15, 2009.

The Nuclear Energy Law gives the Mongolian Government the right to take ownership without payment of not less than 51% (if uranium resources were determined with State funding), or not less than 34% (if uranium resources were determined without State funding) of the shares of a license holder, and the further right to revoke outstanding licenses if the license holders did not agree to abide by these provisions and submit applications in the required form to re-register their existing licenses in accordance with the Nuclear Energy Law by November 15, 2009.

Generally, the law gives the State Administrative Authority, being the Mongolian Nuclear Energy Agency (the "NEA"), the responsibility over the implementation and enforcement of State policy on the exploitation of radioactive minerals and nuclear energy, including the power to grant, suspend or revoke any licenses granted pursuant to the Nuclear Energy Law. The Nuclear Energy Law requires licenses to be obtained to conduct a variety of activities relating to radioactive minerals and nuclear energy, including an exploration license to prospect and explore for radioactive minerals, and a mining license to exploit radioactive minerals.

To obtain an exploration license, the law provides that the applicant must, among other things, conduct its activities in a transparent and stable manner, be financially capable to conduct exploration activity of radioactive minerals and reclamation, conduct responsible mining, and have sufficient experience in the field of mining. Exploration licenses are to be issued to persons who best meet the conditions set out in the Nuclear Energy Law, and agree to accept the state ownership of the required percentage of shares of the license holder, discussed above.

In addition to satisfying the conditions applicable to exploration licenses, an applicant for a mining license must also, among other things, hold a stable and leading position producing and selling radioactive minerals on the world market, be financially independent and have the capacity to sell radioactive minerals for peaceful purposes at the world market price, have the financial capacity to mine radioactive minerals and have experience in mining radioactive minerals.

The Nuclear Energy Law also requires that a holder of a mining license conclude a mining agreement with the State Administrative Authority within 60 days from issuance of the mining license, setting out, among other things, the reasons for mining radioactive minerals, the term of exploitation, the type and grade of deposit and deposit reserves, the technology, production capacity and quantity of products to be mined as

reflected in the feasibility study, conditions of sale, an environmental protection and reclamation plan including the associated implementation costs, a mine closure plan, and the other rights, obligations and responsibilities of the parties. The State Administrative Authority can revoke the license if a mining agreement is not concluded within the 60-day period.

The Nuclear Energy Law also provides that an Investment Agreement may be concluded between the State and an exploration and/or mining license holder for up to a 10-year term. The law further provides that an Investment Agreement may be extended for a further term of up to 10 years. There is no minimum investment threshold and investors of exploration or mining license are given the same protections as provided in the Minerals Law.

In connection with the passing of the Nuclear Energy Law, the 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. As noted above, existing license holders were required to submit an application to the State Administrative Authority for the renewal and re-registration of their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants were required to 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 as required are considered to automatically be suspended**.** As noted elsewhere in this Annual Information Form, robust applications to re-register both the mining and the exploration licenses for the Dornod Uranium Project were submitted prior to the November 15, 2009 deadline. However, as discussed elsewhere in this Annual Information Form, to-date, the NEA has refused to reinstate and register the Corporation's licenses. The Corporation 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. The Corporation has formally demanded to receive the official decision of the NEA in respect of its licenses, but has yet to receive a formal response. For further details, see "*General Development of the Business – Mining and Exploration Licenses"* and "*Legal Proceedings –Invalidation of Mining and Exploration Licenses*".

Royalties

The Minerals Law as incorporated into the Nuclear Energy Law provides for a royalty at the rate of 5% with respect to the sales value of minerals that are sold, shipped for sale, or otherwise used. In addition, as discussed above under "*General Development of the Business – Acquisition of the Additional Dornod Property*", in consideration for Khan's acquisition of the Additional Dornod Property, Khan granted Western Prospector a 3% royalty on any revenues generated from any mineral product extracted from that property.

Tax Legislation

Mongolia does not have a comprehensive tax code, but rather relies on a collection of individual laws. Generally, the relevant tax laws in the case of uranium mining companies are the economic entities tax law ("Corporate Tax Law") and the value added tax law ("VAT Law").

The following is only a general summary of pertinent provisions of the Corporate Tax Law and the VAT Law:

- Income tax rates applicable to business entities are 10% on the first three billion Togrogs and 25% on amounts in excess of this amount.

- Subject to certain exemptions and other adjustments, VAT is imposed at the rate of 10% and is payable to the central government with respect to imported and exported goods, services and work rendered, goods sold, work and services rendered within Mongolia and services rendered by foreign persons to Mongolian citizens residing in Mongolia. As a general rule, most export goods are "zero-rated" (i.e. the VAT rate for exports is 0% and the exporter can credit VAT paid to produce the exports against other taxes payable). Parliament amended the VAT Law in July 2009 to include certain "finished" mining products in the category of zero-rated export goods.

- A broad range of business expenses are allowed as deductions in calculating taxable income.

- A four to eight year loss carry-forward provision (with losses carried forward capped at 50% of the company's taxable income in each carry-forward year) is allowed where the exact loss carry-forward period (within the range of four to eight years) is determined by Cabinet resolution.

- 10% of invested capital in priority sectors can be applied as a credit against income taxes payable.

Permitting Legislation

The Minerals Law, the Nuclear Energy Law, the Subsoil Law and various other laws generally require that a mining license-holder obtain permits, approvals, consents or approvals from various State and local government authorities prior to the commencement of commercial mining operations.

Environmental Legislation

The Environmental Protection Law of Mongolia together with the Environmental Impact Assessment Law and the Minerals Law generally regulate how mineral resource companies must comply with environmental legislation related to their mining and development activities. All minerals resource companies have a duty to use the natural environment (which includes land and soil, water, underground and mineral wealth, flora, fauna and air) in a safe and healthy manner so as to prevent ecological imbalance. This duty includes the obligations to (i) conduct environmental impact assessments defining how the mining companies' exploitation of mineral resources will impact the environment, and the measures taken by the mining companies to minimize and/or mitigate the adverse effects of such activities, (ii) prepare environmental protection plans and conduct ongoing environmental monitoring related to those plans, (iii) report yearly on the mining companies' compliance with the environmental protection plans and monitoring requirements, (iv) maintain records on toxic substance disposal and waste discharges as well as the operation of any monitoring equipment, and (v) properly fund State-held reclamation accounts in accordance with the level of mining companies' mining and related activities for each given year.

Dornod Uranium Project – Technical Report of April 22, 2009

A reproduction of the summary from the Technical Report entitled "Technical Report (NI 43-101) on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia" dated April 22, 2009 and prepared by Aker Solutions (Hrayr Agnerian, M.Sc., Eugene Puritch, P.Eng., Malcolm Buck, P.Eng., and Leslie H. Heymann, P.Eng.) is attached hereto as Exhibit A. The Technical Report was prepared in conformity with the requirements of NI 43-101. Each of Mr. Agnerian, Puritch, Buck and Heymann was an independent Qualified Person as defined in NI 43-101 and Form 43-101F1.

RISK FACTORS

Renewal and Re-registration of Licences

On July 16, 2009, the Mongolian Parliament passed a 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 under the Minerals Law 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.

The Corporation submitted robust applications for the renewal and re-registration of the mining license and exploration license for the Dornod Uranium Project on November 10, 2009. On April 13, 2010, Khan announced that it had received notices from the NEA that CAUC's mining license for the Main Dornod Property and KRL's exploration license for the Additional Dornod Property had been invalidated. On November 12, 2010, the NEA published, in a local newspaper, what it called an official notification that it did not intend to reissue the CAUC and the KRL licenses. To-date, the NEA has not reinstated and registered the Corporation's licenses. The Corporation 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.

The Corporation commenced in January, 2011, an International Arbitration action against the Government of Mongolia for its unlawful treatment of Khan in relation to the Dornod Uranium Project.

There can be no certainty as to the timing, status or outcome of the renewal and re-registration of the essential mining and exploration licenses for the Dornod Uranium Project. A significant delay or denial of the license re-registration is likely to have a material adverse effect on Khan, its subsidiaries, and their business, assets and financial condition, including the Corporation's continued eligibility for listing on the TSX. For further details, see "*General Development of the Business – Mining and Exploration Licenses", "Legal Proceedings –Invalidation of Mining and Exploration Licenses*", and "*Legal Proceedings – International Arbitration*".

Nuclear Energy Law

The Nuclear Energy Law gives the Mongolian Government the right to take ownership without payment of not less than 51% (if uranium resources were determined through exploration with State funding), or not less than 34% (if uranium resources were determined without State funding) of the shares of a license holder, and the further right to revoke outstanding licenses if the license holders did not agree to abide by these provisions and submit applications in the required form to re-register their existing licenses in accordance with the Nuclear Energy Law by November 15, 2009. It is not certain whether or on what terms Mongolia would seek to acquire additional equity in the license holders, or the amount of such additional equity. The acquisition of any interest in Khan or its subsidiaries or joint venture without payment or otherwise pursuant to the Nuclear

Energy Law is likely to have a material adverse effect on Khan and/or its subsidiaries or joint ventures, and their business, assets and financial condition. see "*Narrative Description of the Business – Mongolia – Nuclear Energy Legislation"*.

Legal Proceedings

In the course of its business, the Corporation may from time to time become involved in various claims, arbitration and other legal proceedings, with and without merit. The nature and results of any such proceedings cannot be predicted with certainty. As discussed in further detail below under "*Legal Proceedings*", the Corporation has initiated a claim against ARMZ in the Ontario Superior Court of Justice, which claim is currently in the process of being served on the defendants. The Corporation has also obtained favourable rulings from the Mongolian Courts in respect of its prior claims against the NEA in relation to the NEA's purported invalidation of the Corporation's mining and exploration licenses, although, to-date, the NEA has not reinstated and re-registered the Corporation's essential licenses. In addition, the Corporation initiated, in January 2011, an International Arbitration action against MonAtom and the Government of Mongolia in connection with the ongoing issues surrounding the Corporation's licenses, including the Government's expropriatory, unlawful, unfair and discriminatory treatment in respect of the Dornod Uranium Project and the related licenses. Such proceedings, and any potential future claims and proceedings, are likely to be of a material nature. In addition, such claims, arbitration and other legal proceedings can be lengthy and involve the incurrence of substantial costs and resources by the Corporation, and the outcome, and the Corporation's ability to enforce any ruling(s) obtained pursuant to such proceedings, are subject to inherent risks and uncertainty. The initiation, pursuit and/or outcome of any particular claim, arbitration or legal proceeding could have a material adverse affect on the Corporation's financial position and results of operations, and on the Corporation's business, assets and prospects. In addition, if the Corporation is unable to resolve any existing or future potential disputes and proceedings favourably, or obtain enforcement of any favourable ruling, if any, that may be obtained pursuant to such proceedings, it is likely to have a material adverse impact on the Corporation's business, financial condition and results of operations and the Corporation's assets and prospects.

Foreign Operations

The Corporation is currently dependent, in large part, upon its exploration and development properties in Mongolia and any adverse development affecting those properties or the interests, licenses and permits relating thereto is likely to have a material adverse effect on the Corporation, its business, assets, prospects, results of operations and condition (financial or otherwise). The Corporation also has a significant investment in a company whose properties are located in Peru.

There can be no assurance that industries deemed of national or strategic importance to Mongolia or Peru, such as mineral resources, will not be nationalized. Government policy may change to discourage foreign investment, renationalization of mining industries may occur and other government limitations, restrictions or requirements may be implemented. There can be no assurance that the Corporation's assets in Mongolia or Macusani's assets in Peru will not be subject to nationalization, requisition, expropriation or confiscation, whether legitimate or not, by any authority or body. In addition, the political, social and economic environment in Mongolia presents a number of serious risks, including: corruption, requests for improper payments or other corrupt practices; uncertain legal enforcement; invalidation, confiscation, expropriation or rescission of governmental orders, permits, licenses, agreements and/or property rights; the effects of local

political, labour and economic developments, instability and unrest; currency fluctuations; and significant or abrupt changes in the applicable regulatory or legal climate.

In addition, the Corporation's licenses, permits and assets in foreign countries may be susceptible to arbitrary revocation, invalidation and/or termination and are often affected in varying degrees, and often to significant degrees, by political instability and governmental regulations, bureaucratic processes and potential corruption, any one or more of which could preclude the Corporation from carrying out business activities fairly in such countries, which is likely to have a material adverse effect on the Corporation and its business, assets, prospects, condition and results of operations. Legal redress for such actions, if available, is uncertain and can often involve significant costs and delays.

Political Stability and Government Regulation

Khan is exposed to risks of political instability and changes in government policies, laws and regulations in countries in which it has interests . The majority of the Corporation's assets consist of its mineral interests in Mongolia that may be adversely affected in varying degrees by political instability, government regulations relating to the mining industry and foreign investment therein, and the policies of other nations in respect of Mongolia. Any changes in regulations or shifts in political conditions are beyond Khan's control and may adversely affect its business. The Corporation's operations may be adversely affected in varying degrees by government regulations, including those with respect to restrictions on foreign ownership, state ownership of strategic resources, production, price controls, export controls, income taxes, expropriation of property, employment, land use, water use, environmental legislation and mine safety. The regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. Khan's operations may also be adversely affected in varying degrees by economic instability, economic or other sanctions imposed by other nations, terrorism, military repression, crime, risk of corruption including violations under U.S. and Canadian foreign corrupt practices statutes, fluctuations in currency exchange rates and high inflation.

The Corporation's operations, and the development of its properties, are subject to obtaining and maintaining licenses and permits from appropriate governmental authorities. There is no assurance that such licenses and permits can be obtained, renewed or re-registered, as applicable, or that delays will not occur in obtaining all necessary licenses and permits or renewals of such licenses and permits for Khan's existing properties or additional permits required in connection with future exploration and development programs. Prior to any development of the Dornod Uranium Project, the Corporation must receive licenses and permits from appropriate governmental authorities, including the re-registration of its mining and exploration licenses under the Nuclear Energy Law. There can be no assurance that the Corporation will obtain or continue to hold all licenses and permits necessary to develop or continue operating the Dornod Uranium Project. Any failure to obtain or maintain the necessary licenses and permits to advance the development of the Dornod Uranium Project will have a material adverse impact on the Corporation and its business, assets, financial condition, results of operations and prospects.

Even if the Dornod Uranium Project can be advanced to development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protections, mine safety and other matters. In addition, new laws and regulations governing operations and activities of mining companies, including without limitation the Nuclear Energy Law and related regulations, could have a material adverse impact on any of the Corporation's projects in the mine development stage.

Inability to Enforce the Corporation's Legal Rights in Certain Circumstances

In the event of a dispute arising in respect of the Corporation's foreign operations, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or elsewhere. The Corporation may also be hindered or prevented from enforcing its rights with respect to a government entity or instrumentality because of, among other things, the doctrine of sovereign immunity. Any adverse or arbitrary decision of a court, arbitrator or other governmental or regulatory body may have a material adverse impact on the Corporation's business, assets, prospects, financial condition and results of operations. See also "Risks relating to Legal Proceedings" above.

In addition, the dispute resolution provisions of the CAUC founding agreements stipulate that any dispute between the parties thereto is to be submitted to international arbitration. However, there can be no assurance that a particular governmental entity or instrumentality or ARMZ or MonAtom will either comply with the provisions of these or other agreements or voluntarily submit to arbitration. Nor can there be any assurance as to the outcome of any such arbitration proceedings, if pursued.

The Corporation's inability to enforce its contractual rights could have a material adverse effect on its future cash flows, earnings, results of operations and financial condition, as well as its business, assets and prospects.

Additional Capital Requirements

In addition to obtaining the essential mining and exploration licenses for the Dornod Uranium Project, in order to continue exploring and ultimately developing (and operating) Khan's mineral properties and acquiring additional properties, management will be required to pursue additional sources of financing. While Khan has been successful in obtaining such financing in the past, there is no assurance that it will be successful in the future. Failure to obtain sufficient financing may result in delaying or indefinitely postponing exploration, development of or production on any or all of the Corporation's properties or even loss of property interest. It may also prevent the Corporation from meeting its obligations under agreements to which it is a party as a result of which its interest in the properties may be reduced. There can be no assurance that additional capital or other types of financing, if needed, will be available or, if available, that the terms of any such financing will be favourable to the Corporation.

Global financial markets have been subject to significant volatility, with numerous financial institutions having either gone into bankruptcy or having to be rescued by government authorities. Access to financing has been negatively impacted by various factors. These factors, among others, may negatively impact the ability of the Corporation to obtain loans and/or other credit facilities or project financing in the future if development of the Dornod Uranium Project is pursued and, even if obtained, may impact the terms on which any such financing may be obtained.

The amount of administrative expenditures is related to the level of financing and exploration activities that are being conducted from time to time, which in turn depends on, among other things, the Corporation's recent exploration experience and prospects, as well as general market conditions relating to the availability of funding for exploration-stage resource companies. As a result, there may not be predictable or observable trends in the Corporation's business activities and comparison of financial operating results with prior years may not be meaningful.

Adequacy of Infrastructure

Development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure, including the fact that Khan conducts most of it operations in remote regions of Mongolia with limited available infrastructure, could adversely affect the Corporation's business, operations, financial condition and results of operations.

Mineral Reserves and Mineral Resources

Calculations of Mineral Reserves and Mineral Resources and metal recovery are only estimates, and there can be no assurance about the quantity and grade of minerals until reserves or resources are actually mined. Until reserves or resources are actually mined and processed, the quantity of reserves or resources and grades must be considered as estimates only. In addition, the quantity of reserves or resources may vary depending on commodity prices. Any material change in the quantity of resources, grade or stripping ratio or recovery rates may adversely affect the economic viability of the Corporation’s properties and its financial condition and prospects.

No Operating History

The Corporation does not have an operating history and there can be no assurance of its ability to operate the Dornod Uranium Project profitably, if at all, in the future. While Khan currently expects in the future to generate additional working capital through the operation, development, sale or possible syndication of the Dornod Uranium Property if its mining and exploration licenses are re-registered under the Nuclear Energy Law, through debt or equity financings, or in combination with one or more third parties through some form of strategic transaction, there is no assurance that it will be capable of developing or operating the Dornod Uranium Project or producing positive cash flow or, if successful, that any such funds will be available for exploration and development programs.

Ability to Continue as a Going Concern

The Corporation’s ability to continue as a going concern is uncertain and is dependent upon its ability to secure re-registration of the essential mining and exploration licenses for the Dornod Uranium Project, which, to date, the NEA has refused to do, and to raise adequate financing and to commence profitable operations in the future. In addition, before commencing any major mine development at the Dornod Uranium Project, the Corporation will have to successfully negotiate an updated joint venture development agreement with its joint venture partners in CAUC and an Investment Agreement with the Government of Mongolia. Any material delays, or failure of, the pending license re-registrations or in the negotiation of these agreements is likely to have a material adverse impact on the business, operations and prospects of the Corporation and the ability of the Corporation to raise adequate financing and commence or continue operations, which in turn is likely to have a material adverse impact on the Corporation's business, assets and financial condition (see also “Renewal and Re-registration of Licenses”, “ Negotiation of Investment Agreement with the Government of Mongolia” and Negotiation of Updated Joint Venture Development Agreement with CAUC Participants” in this "*Risk Factors*" section).

Joint Ventures

The Corporation operates the Main Dornod Property through a joint venture with MonAtom and Priargunsky, and may, in the future, enter into one or more additional joint ventures. The Corporation is therefore subject to the typical risks associated with the conduct of joint ventures, including disagreement on how to develop, operate or finance the project. The joint venture development agreements currently in place for the Main Dornod Property were implemented in 1997 and do not adequately address the next stage of mine development. While the Corporation intends to actively seek to re-negotiate the joint venture development agreements if its licenses are re-registered by the NEA and had previously initiated discussions with its joint venture partners, there can be no assurances that satisfactory agreements will be entered into.

Negotiation of Updated Joint Venture Development Agreement with CAUC Participants

Khan considers the successful negotiation of an updated joint venture development agreement with MonAtom and Priargunsky to be a prerequisite to any major mine development work on the Main Dornod Property. While the Corporation intends to commence these negotiations at the earliest practicable date if its licenses are reinstated and re-registered, there can be no certainty as to MonAtom's and Priargunsky's willingness or ability to enter into such negotiations and, even if they do, the amount of time that will be required to complete such negotiations or whether the negotiations will ultimately be successful. Any party's refusal to engage in, or any material delays in, or the failure of, those negotiations could materially affect the Corporation's ability to develop the Dornod Uranium Property and the Corporation's business, assets and financial position.

Negotiation of Investment Agreement with the Government of Mongolia

Khan considers the successful negotiation of an Investment Agreement with the Government of Mongolia to be a prerequisite to any major mine development work on the Dornod Uranium Property. While Khan intends to commence the negotiation of, and enter into, an Investment Agreement with the Government of Mongolia at the earliest practicable date if its licenses are reinstated and re-registered, there can be no certainty as to when such negotiations with the Government of Mongolia will commence or the amount of time that will be required to complete these negotiations and finalize an agreement. Any material delays in, or the failure of, those negotiations could materially affect Khan's ability to develop the Dornod Uranium Property.

Title to Properties

In light of the NEA's refusal to reissue CAUC and KRL their mining and exploration licenses, there can be no assurance that the Corporation continues to have an ownership interest in its Mongolian properties. There is no assurance that such interests are free from defects nor that material contractual arrangements between the Corporation and entities owned or controlled by foreign governments will not be unilaterally altered or revoked, particularly in light of the new Nuclear Energy Law. In addition, as discussed further below under "*Legal Proceedings – ARMZ*", the Russian Government and the Mongolian Government have been engaged in ongoing discussions, and have entered into agreements, to form a Dornod Uranium joint venture pursuant to which such Governments propose to jointly develop the Dornod region to the exclusion of the Corporation. Accordingly, there is no assurance that such rights will not be revoked, invalidated, expropriated or significantly altered, to the Corporation's detriment. In addition, there can be no assurance that Khan's rights will not be challenged or impugned by third parties, including local governments. While the Corporation intends to pursue appropriate legal remedies to protect its rights and interests, there can be no assurance that

the outcome of any claims, arbitration or other legal proceedings that the Corporation may undertake will be successful or, even if successful, will be capable of enforcement by the Corporation. See "*Risks relating to Legal Proceedings*".

Exploration and Development Risks

All of the Corporation's operations involve exploration and development and there is no guarantee that any such activity will result in commercial production of mineral deposits. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. Unusual or unexpected formations, pressures, fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and other natural disasters and the inability to obtain adequate suitable machinery, equipment or labour, among other things, are all risks involved in the conduct of an exploration program. These risks and hazards could result in: damage to, or destruction of, properties; personal injury or death; environmental damage; delays; monetary losses; and possible legal liability.

The commercial viability of a mineral deposit is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, commodity prices which are highly cyclical, and government regulations, including regulations relating to ownership, prices, taxes, royalties, allowable production, land tenure, land use, importing and exporting of minerals and environmental protection, most of which factors are outside of the Corporation's control. The exact effect of these factors cannot be accurately predicted, but the negative combination of these and other factors may result in the Corporation not being able to pursue the development, operation or production in respect of any deposit and/or not receiving an adequate return on invested capital. There is no certainty that expenditures made by Khan will result in discoveries or production of commercial quantities of ore.

Competition from Other Energy Sources and Public Acceptance of Nuclear Energy

Nuclear energy competes with other sources of energy, including oil, natural gas, coal and hydro-electricity. These other energy sources are to some extent interchangeable with nuclear energy, particularly over the longer term. Lower prices of oil, natural gas, coal and hydro-electricity may result in lower demand for uranium concentrate and uranium conversion services. Furthermore, the growth of the uranium and nuclear power industry beyond its current level will depend upon continued and increased acceptance of nuclear technology as a means of generating electricity, among other things. Because of unique political, technological, regulatory and environmental factors that affect the nuclear industry, the industry is subject to public opinion and regulatory risks which could have an adverse impact on the demand for nuclear power and increase the regulation of the nuclear power industry which, in turn, could have a material adverse effect on the Corporation and its business, assets and prospects.

Competition in the Uranium Industry

The international uranium industry is highly competitive. The uranium mining industry is global and was consolidated during the 1990s by takeovers, mergers and closures. In 2009, ten companies marketed 89% of the world's uranium mine production. Competition for new mining properties by these larger, more established companies may prevent Khan from maintaining its interest in its current properties and from acquiring interests in additional properties or mining operations. Significant and increasing competition

exists for mineral acquisition opportunities in Mongolia. As a result of this competition, some of which is with foreign governments and large, better established mining companies with substantial capabilities and greater financial and technical resources than the Corporation, the Corporation may be unable to maintain or acquire rights to exploit and mine existing or additional attractive mineral properties or on terms it considers acceptable. Accordingly, there can be no assurance that Khan will maintain or acquire any interest in existing or additional operations that would yield reserves or result in commercial mining operations.

Possible Strategic Opportunities and Transactions

The Corporation evaluates from time to time strategic opportunities to acquire or invest in uranium mining assets and businesses, such as its investment in Macusani. These acquisitions or investments may be significant in size, may change the scale of the Corporation's business and may expose it to new geographic, political, operating, financial and geological risks. In addition, the Corporation evaluates from time to time possible strategic opportunities that may be in the best interests of the Corporation and accretive to its shareholders. The Corporation's success in pursuing any such strategic opportunities depends on, among other things, its ability to identify suitable candidates and enter into arrangements with such candidates on acceptable terms. Any strategic opportunity that the Corporation may pursue would be accompanied by risks, such as the difficulty of completing a strategic transaction and, if completed, the difficulty of integrating operations, if appropriate; the potential disruption to the Corporation's ongoing business; the inability of management to maximize the financial and strategic position of the Corporation; additional expenses and resources associated with pursuing and/or completing such opportunities; possible dilution of the Corporation's shareholders or its interest in its subsidiaries, joint ventures and/or assets; and potential unknown risks and liabilities associated with assets and businesses in whom the Corporation invests or enters into some other strategic transaction, among other things. There can be no assurance that the Corporation will be successful in identifying, pursuing or completing any proposed or future strategic opportunity or that the Corporation will be successful in overcoming any risks associated with any proposed, completed or future strategic opportunity pursued by the Corporation. Accordingly, such strategic opportunities and transactions may have a material adverse effect on the Corporation's business, results of operations, financial condition, assets, cash flows and liquidity. In addition, there may be no right for shareholders to evaluate the merits or risks of any future strategic transaction undertaken by the Corporation except as required by applicable laws and regulations.

Currency Fluctuations

Fluctuations in currency exchange rates may adversely affect the Corporation's financial position. Fluctuations in currency exchange rates may significantly impact Khan's financial position and results. Khan does not have in place a policy for managing or controlling foreign currency risks since, to date, its primary activities have not resulted in material exposure to foreign currency risk.

Market Factors and Volatility of Uranium Prices

There is no assurance that a profitable market will exist for the sale of mineralized material which may be acquired or discovered by Khan. There can be no assurance that uranium prices received will be such that the Corporation's properties can be mined at a profit, if at all. The price of uranium has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Corporation's control. Commodity prices are subject to volatile price changes from a variety of factors, including international economic and political trends, expectations of inflation, global and regional demand, currency exchange

fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods, among other things. The uranium spot price ($/pound U_3O_8) steadily increased from $7 per pound in December 2000 to a peak of $135 per pound in June 2007. Since that time, the uranium spot price has ranged from $40 to $123 and was $51.75 as at the date hereof. (Source: Ux Consulting Company – www.uxc.com)

Future mineral prices cannot be accurately predicted. A severe decline in the price of a mineral being produced or expected to be produced by the Corporation would have a material adverse effect on it, and could result in the suspension of exploration, development and/or mining operations by the Corporation, if such mining operations are commenced. Factors impacting the price of uranium include demand for nuclear power, political and economic conditions in uranium producing and consuming countries, reprocessing spent fuel and the re-enrichment of depleted uranium tails or waste, sales of excess civilian and military inventories (including from the dismantling of nuclear weapons) by governments and industry participants and production levels and costs of production in other jurisdictions.

Commodity Prices and Exchange Rates

The estimates of commodity prices and currency exchange rates used in the Corporation's technical reports and/or feasibility studies are based on conditions prevailing at the time of writing of such reports. These conditions can change significantly over relatively short periods of time and, as such, there can be no assurance that the estimates of uranium prices or currency exchange rates used in such reports will remain accurate. See also "*Currency Fluctuations*" and "*Market Factors and Volatility of Uranium Prices*".

Lack of Earnings and Dividend Record

The Corporation has no earnings or dividend record. The Corporation has not paid dividends on its Common Shares since incorporation and does not anticipate doing so in the foreseeable future. Payments of any dividends will be at the discretion of the Board of Directors of Khan (the "Board") after taking into account many factors, including the financial condition and current and anticipated cash needs of the Corporation.

Environmental Regulations

The Corporation is subject to substantial environmental and other regulatory requirements and such regulations are becoming more stringent. All phases of the Corporation's development operations are subject to environmental regulations. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing environmental regulation or future changes in environmental regulation, if any, will not adversely affect the Corporation's assets or operations. Environmental hazards may exist on the properties in which Khan holds interests which are presently unknown to it and which have been caused by previous or existing owners or operators of the properties.

Difficulty in Recruiting and Retaining Management and Key Personnel

Khan is dependent on a relatively small number of key directors, officers and employees. Loss of any one of those persons could have an adverse effect on it. Recruiting and retaining qualified personnel is critical to the Corporation's success. However, competition for personnel in the industry in which the Corporation operates is intense, and the Corporation may not be successful in attracting and retaining qualified personnel. If the Corporation's business activity grows, it may also require additional key financial, administrative and mining personnel, which will also be subject to intense competition. There can be no assurance that the Corporation will be successful in attracting and/or retaining qualified personnel.

Market Price and Volatility of Common Shares

Securities have experienced an extreme level of price and volume volatility over the past couple of years and the market price of securities of many companies has experienced wide fluctuations which, in many cases, have not necessarily been related to the performance, underlying asset values or prospects of such companies. The trading price of the Common Shares has been, and may continue to be, subject to large fluctuations and, therefore, may result in losses to investors. In addition, following periods of volatility in the market price of a company's securities, shareholders have instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and diversion of management attention and resources, which could significantly harm the Corporation's business, condition, prospects and reputation.

Internal Controls

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation. Any failure in the Corporation's internal controls over financial reporting may have a material adverse impact on the Corporation, its financial condition or its results of operations.

Insurance Coverage

While the Corporation maintains insurance against certain risks, the nature of these risks is such that liability could exceed policy limits or could be excluded from coverage. There are also risks against which the Corporation cannot insure or against which it may elect not to insure for various reasons. The potential costs associated with any liabilities not covered by insurance, or in excess of insurance coverage, or compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future business, assets, prospects, financial condition and results of operations of the Corporation.

DESCRIPTION OF CAPITAL STRUCTURE

Khan's share capital consists of an unlimited number of Common Shares, of which there are 54,525,445 issued and outstanding as of the date hereof.

Holders of Common Shares are entitled to receive notice of any meetings of shareholders of Khan, and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Board at its discretion and to receive, on a pro rata basis, the net assets of Khan after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions. For a full description of the characteristics of the Common Shares of the Corporation, reference should be made to the articles of amendment and by-laws of Khan and the relevant provisions of the OBCA.

The following table sets forth particulars of the fully-diluted share capitalization of Khan as of the date hereof:

Securities	**Number of Common Shares**
Issued and Outstanding Common Shares	54,525,445
Shares Issuable Upon Exercise of Stock Options	3,478,333
Total	58,003,779

DIVIDENDS

Khan has not paid any dividends on its outstanding Common Shares and does not anticipate paying any dividends in the foreseeable future. The Board, from time to time, and on the basis of any earnings and the Corporation's financial requirements or any other relevant factor may consider paying dividends in the future when its operational circumstances permit, including earnings, cash flow, financial and legal requirements and business considerations.

MARKET FOR SECURITIES

Trading Price and Volume

Khan's Common Shares are listed and posted for trading on the TSX under the trading symbol "KRI". The following table outlines the high and low share price trading range for Common Shares and volume of Common Shares traded by month in the 2011 fiscal year:

Common Share Price per share Volumes Traded on the TSX (in Canadian dollars)			
	High	**Low**	**Volume**
October 2010	0.49	0.36	4,105,206
November 2010	0.68	0.35	10,928,190

December 2010	0.55	0.40	3,543,900
January 2011	0.67	0.44	8,203,990
February 2011	0.65	0.52	3,439,956
March 2011	0.56	0.28	3,794,303
April 2011	0.42	0.29	904,104
May 2011	0.365	0.285	685,644
June 2011	0.32	0.28	859,206
July 2011	0.35	0.285	217,963
August 2011	0.31	0.22	528,705
September 2011	0.31	0.23	915,105

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

The following table sets forth the names and municipalities of residence, offices or positions with Khan and principal occupations of the current directors and officers of Khan. The term of each director of Khan expires as of the next annual general meeting of Khan.

Name and Address of Director or Officer	Position Presently Held	Principal Occupation	Director Since
James B. C. Doak[(1) ((4)] Toronto, Ontario, Canada	Director, Chairman	President and Managing Partner of Megantic Asset Management Inc., an investment management company	2005
Raffi Babikian[(3)] Montreal, Québec, Canada	Director	Corporate finance and marketing consultant to uranium mining companies	2010
Jean-Pierre Chauvin[(1) (2) (4)] Oakville, Ontario, Canada	Director	Corporate Director	2005
Grant A. Edey Mississauga, Ontario, Canada	Director, President & Chief Executive Officer	Officer of Khan	2007
Marc C. Henderson[(1)(4)] Toronto, Ontario, Canada	Director	President and Chief Executive Officer of Laramide Resources Ltd., a resource company and holder of 13% of Khan's outstanding common shares	2010
Hon. Robert P. Kaplan[(2) (3)] Toronto, Ontario, Canada	Director	Corporate Director	2007
David L. McAusland [(2)] Montreal, Quebec, Canada	Director	Corporate Director, consultant, and lawyer	2008

Name and Address of Director or Officer	Position Presently Held	Principal Occupation	Director Since
Martin Quick[(3)] Niagara on the Lake, Ontario, Canada	Director	Corporate Director	2006
K. Bruce Gooding Toronto, Ontario, Canada	Chief Financial Officer	Certified Management Accountant	-
Jeremy Budd Toronto, Ontario, Canada	Corporate Secretary	Lawyer	-

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Notes:

[1] Member of the Audit and Finance Committee.
[2] Member of the Compensation Committee.
[3] Member of the Corporate Governance and Nominating Committee
[4] Member of the Strategic Review Committee.

As of the date hereof, as a group, all directors and executive officers listed above beneficially owned, or controlled or directed, directly or indirectly, 1,642,500 Common Shares, representing approximately 3.0% of the total issued and outstanding Common Shares. In addition, as of that date, Khan's directors and executive officers, as a group, held 2,933,334 options exercisable to acquire an aggregate of 2,933,334 Common Shares.

A description of each of the directors and officers of Khan is set out below.

James B. C. Doak, Chairman and Director of Khan, has over 25 years' experience as a Chartered Financial Analyst. Mr. Doak has served as the President and Managing Partner of Megantic Asset Management Inc., a Toronto-based investment company, since 2002. Jim Doak is also a Director of Cascades Inc., Purepoint Uranium Group Inc. and of Eurocopter Canada Ltd. Mr. Doak serves as Chair, Audit Committee for both Eurocopter and Purepoint and as Chair, Corporate Governance Committee for Cascades. As well, he is a former Director of PetroKazakhstan Inc., Superior Propane Inc. and Spar Aerospace Inc. Mr. Doak held senior positions at ScotiaMcLeod Inc., First Marathon Securities Ltd., McLeod Young Weir Ltd., was a founder of Enterprise Capital Management Inc., where he served as President and Managing Partner from 1997 to 2002, and is a past President and Director of the Toronto Society of Financial Analysts and a past Chair and Director of the Toronto French School and a past Chair and Director of l'Alliance Française de Toronto. Mr. Doak has published a number of columns in two Canadian financial publications as well as a submission to the House of Commons Special Committee on Energy. Mr. Doak was educated at McGill University and the University of Toronto and holds his CFA designation.

Raffi Babikian, Director of Khan, is a corporate finance and marketing advisor to global uranium mining companies. He was previously Vice-President, Investment Banking at Dundee Securities, where he was responsible for the firm's uranium mining practice. Raffi began his professional career at AREVA SA, the world's leading nuclear fuel cycle company, at the company's headquarters in Paris, France. His first responsibilities there involved evaluating growth opportunities for the company's reprocessing/recycling business. He subsequently joined Areva's Uranium Mining Business unit, working to identify, evaluate and implement merger and acquisition opportunities and associated marketing strategies. Mr. Babikian has a

Bachelor of Engineering from McGill University, a MSc. from MIT, and an MBA from the Collège des Ingénieurs in Paris.

Jean-Pierre Chauvin, P. Eng., Director of Khan, has over 30 years of experience in the mining and construction industries. Mr. Chauvin also serves as a director of Macusani Yellowcake Inc., Andean American Gold Inc., PC Gold Inc. and Lakeside Minerals Corp. As of December 12, 2011, Mr. Chauvin became the Interim President and CEO of PC Gold Inc. From July 2006 to January 2009, Mr. Chauvin has served as Chief Operating Officer of GlobeStar Mining Corp. and was promoted to President in October 2006. Prior to March 2006, he was President, Chief Executive Officer and a Director of Patricia Mining Corporation, having assumed these positions in 2004. Since 2001, Mr. Chauvin has also acted as President and Senior Consultant of Chauvin Engineering Ltd., based in Oakville, Ontario. This company consults in the mining industry focusing on operational reviews and feasibility studies. Prior to 2001, he has served as a Director of Battle Mountain Canada Ltd., Crown Butte Resources Ltd., the Mining Association of Canada and the Ontario Mining Association. Mr. Chauvin has also served as General Manager of Canadian Operations for Battle Mountain Gold Co. Mr. Chauvin is an engineer holding a B.Sc. in Mining Engineering from Queen's University.

Grant A. Edey, President and CEO and Director of Khan, has over 40 years of experience in the mining industry. Mr. Edey was Chief Financial Officer at IAMGOLD Corporation from 2003 to 2007. From 1996 to 2002, he was Vice-President, Finance, Chief Financial Officer and Corporate Secretary of Repadre Capital Corporation. Prior to 1996, he held senior positions with Strathcona Mineral Services Limited, TransCanada Pipelines Limited, Eldorado Nuclear Limited, Rio Algom Limited and INCO Limited. Mr. Edey is also a director of Primero Mining Corp. Mr. Edey holds a B.Sc. in Mining Engineering from Queen's University and an M.B.A. from the University of Western Ontario.

Marc C. Henderson, Director of Khan, is the President and CEO and a director of Laramide Resources Ltd. ("Laramide"), a Toronto-based resource company specializing in the acquisition, discovery and development of uranium projects and Khan's single largest shareholder holding approximately 13% of Khan's outstanding shares. Mr. Henderson has more than 20 years of experience running junior mining companies and has served as president of a number of public companies, including Aquiline Resources Inc. from 1998 until its sale to Pan American Silver in 2009.

Hon. Robert P. Kaplan, P.C., Q.C. Director of Khan, has over 40 years of experience as a lawyer, businessman and elected politician. Mr. Kaplan retired from a 25-year career in elective politics in 1993. He was a Federal Member of Parliament and Cabinet Minister in the Governments of the Rt. Hon. Pierre-Elliott Trudeau and Rt. Hon. John N. Turner. Mr. Kaplan was a trustee of H&R REIT, Canada's second largest real estate trust, from its establishment until last year. As well, he is a former Director and Chairman of PetroKazakhstan, Inc. Mr. Kaplan is a founding Trustee of the State Hermitage Museum Foundation of Canada, one of five international foundations which support the Hermitage Museum in St Petersburg, Russia. He has also been honoured by being named a Chevalier of the Legion of Honour by the President of France. Mr. Kaplan has served as the Honourary Consul General of Kazakhstan for Canada for the last 16 years. Mr. Kaplan holds a B.A. in Sociology and an LL.B. from the University of Toronto. He was called to the Ontario Bar in 1963.

David L. McAusland, Director of Khan, is a senior lawyer and corporate director. A graduate of the Faculty of Law of McGill University, he practiced law for over 20 years at a prominent Montreal law firm. In 1999,

he became a senior executive with Alcan Inc., a major Canadian industrial and resource company, retiring as Executive Vice President, Corporate Development and Chief Legal Officer in 2008 when the company was acquired. In 2009, Mr. McAusland joined McCarthy Tétrault LLP as a partner.

Mr. McAusland currently acts as director of Cogeco Inc. and Cogeco Cable Inc., Cascades Inc., and ATS Automation Tooling Systems Inc. He serves as a member of the Corporate Governance Committee for all the above companies, as Chairman of the Human Resource Committee of Cascades Inc., and Chairman of the Board of Directors of ATS Automation Tooling Systems Inc.

He is the Chairman of the Foundation of the National Circus School and director of the Montreal General Hospital Foundation.

Martin Quick, Director of Khan, has over 47 years of worldwide experience in the mining industry, including engineering, operations, and senior corporate fields. He has held senior mining production and engineering positions in Africa, Australia, Fiji, the United States and Canada.

He retired as President and CEO of Khan Resources Inc. in June 2010 having served in that position for 4 ½ years. From August 2004 until December 2005, Mr. Quick was President and Chief Operating Officer of Power Resources Inc., a wholly-owned subsidiary of Cameco Corporation, a global producer of uranium for the nuclear power industry. Prior to this appointment, from March 2001 to July 2004, Mr. Quick was Vice President - Mining with Cameco Corporation, based in Saskatoon, where he was responsible for Cameco's Northern Saskatchewan operations including the world's largest uranium mine at McArthur River/Key Lake, and the planning and development of the Cigar Lake project. Prior to joining Cameco, Mr. Quick held senior operating positions with Areva and Rio Algom.

He is a Professional Engineer (P.Eng.) in the province of Saskatchewan and a graduate of the Camborne School of Metalliferous Mining (ACSM), in the United Kingdom.

Other directorships held – Crown Gold Corporation (TSX.V:CWN), and Noravena Capital Corporation (TSX-V:NRV).

Bruce Gooding, Chief Financial Officer of Khan, is a Certified Management Accountant with over 30 years of experience in senior management positions. Most recently he has managed his own practice providing financial project and management services to smaller public companies in the mining and other industries. Prior to establishing his own practice, Bruce held various senior finance roles at McDonald's Restaurants of Canada Limited, Consumers Distributing Inc. and Foot Locker Canada Inc. He has acted as Treasurer of Ronald McDonald House Charities of Canada and other not-for-profit corporations.

Jeremy Budd, Corporate Secretary of Khan, is a partner in the law firm of Boyle & Co. LLP representing issuers and underwriters in a wide variety of capital market transactions. Mr. Budd obtained his LL.B./M.B.A. from Osgoode Hall Law School and the Schulich School of Business at York University in 2005 and holds a bachelor of arts in philosophy from Huron University College at the University of Western Ontario.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or executive officer of Khan is, as at the date hereof, or was within 10 years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including Khan), that:

(a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or

(b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as disclosed below, no director or executive officer of Khan, or a shareholder holding a sufficient number of securities of Khan to affect materially the control of Khan:

(a) is, as at the date hereof, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company (including Khan) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or

(b) has, within the 10 years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

The Hon. Robert P. Kaplan ceased to be a director of Mooney Aerospace Group, Ltd. approximately ten months prior to June 2004 when the company filed voluntary petitions for reorganization under Chapter 11 of United States federal bankruptcy laws.

No director or executive officer of Khan, or a shareholder holding a sufficient number of securities of Khan to affect materially the control of Khan, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors or officers of Khan are, or may become, directors or officers of other companies with businesses which may conflict with the business of Khan. In accordance with the OBCA, directors are required to act honestly and in good faith with a view to the best interests of Khan. In addition, directors in a conflict of

interest position are required to disclose certain conflicts to Khan and to abstain from voting in connection with the matter. To the best of Khan's knowledge, there are no known existing or potential conflicts of interest between Khan or a subsidiary of Khan and a director or officer of Khan or a subsidiary of Khan as a result of their outside business interests at the date hereof. However, certain of the directors and officers serve as directors and/or officers of other companies including Marc C. Henderson, who is the President and CEO and a director of Laramide, a resource company specializing in the acquisition, discovery and development of uranium projects and Khan's single largest shareholder holding 13% of Khan's outstanding common shares and Jean-Pierre Chauvin, a director of Macusani, a company which holds uranium properties in the Macusani Plateau district in Peru and which the Company currently holds approximately 14.7% of the outstanding common shares. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of Khan.

LEGAL PROCEEDINGS

Mining License Suspension

On July 15, 2009, the Corporation reported that it had received notice from the Mineral Resources Authority of Mongolia ("MRAM") (formerly MRPAM) that the mining license for the Main Dornod Property, held by CAUC, had been suspended. On January 14, 2010, the Corporation 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 (See "*General Development of the Business – Mining and Exploration Licenses*").

Invalidation of Mining and Exploration Licenses

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

Subsequently, CAUC and KRL filed separate formal claims in the Capital City Administrative Court in Mongolia challenging the legal basis for the notices received from the NEA purporting to invalidate CAUC's mining license and KRL's exploration license.

On July 19, 2010, the Capital City Administrative court ruled in favour of CAUC and declared that the notice by the NEA purporting to invalidate CAUC's mining license was itself illegal and invalid. On August 2, 2010, the Court ruled in favour of KRL, also declaring the notice by the NEA purporting to invalidate KRL's exploration license was illegal and invalid. The NEA appealed the CAUC decision but not the KRL decision. On October 27, 2010, the Company received a favourable written decision from the Mongolian Appellate Court in respect of the CAUC appeal which, effectively, re-confirmed that the notice to CAUC was illegal and invalid.

The Appellate Court's ruling, while containing some variations, stated that an official decision by the authorized authority has not been made in respect of CAUC's mining license in accordance with procedures stated in Mongolian law. Following these decisions, CAUC and KRL again requested the NEA to re-register the licenses as applied for in November 2009.

On November 12, 2010, the NEA published what it called an official notification in certain Mongolian newspapers stating that it did not intend to reissue the CAUC and KRL licenses. The notices broadly accused KRL and CAUC, amongst other things, of disrespecting state laws and legislation and failing to fulfill conditions and requirements set out by law. The newspaper notice does not constitute an official decision pursuant to Mongolian law, which must include the legal reasons for making such a decision. The Corporation 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. The Corporation has formally demanded to receive the official decision of the NEA but has yet to receive a response.

International Arbitration

In July 2010, Khan retained the Washington, D.C. law firm of Crowell & Moring LLP to study the possibility of initiating International Arbitration proceedings against the Government of Mongolia. Following the failure of the NEA to reissue the Dornod licenses to Khan, 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 claim seeks over US$200 million in compensation for losses and damages.

The arbitration, which is brought by Khan and several of its subsidiaries, is governed by 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 presiding Tribunal for the International Arbitration action was constituted on May 9, 2011 and consists 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 held its first hearing on June 21, 2011 to discuss scheduling and procedural matters. Prior to this hearing, Mongolian counsel for the action had brought a motion seeking "bifurcation" of the hearings into two separate phases: the first phase to hear various jurisdictional objections made by Mongolia (asserting, for example, that the Tribunal does not have jurisdiction over certain of the claims and parties included in the arbitration, or, alternatively, that the Tribunal many not consider all of the claims together in a single case), and then a second phase to hear the merits of the case. The Tribunal held a hearing on September 19, 2011 to address the issue. Following the hearing, the Company and the Government of Mongolia agreed to a two phase process. As part of the agreement, the Government of Mongolia has explicitly consented that all of the claims will be heard in this single action rather than in multiple arbitrations. The Tribunal will hold a two to three day hearing on the jurisdictional objections in May 2012.

ARMZ

On August 20, 2010, the Corporation announced that it and certain of its subsidiaries had filed a statement of claim against ARMZ and its affiliate Priargunsky with the Ontario Superior Court of Justice. The claim has been brought by the Corporation and seeks damages from ARMZ and its affiliate in the total amount of CDN$300,000,000, including equitable compensation resulting from their breach of fiduciary duties as one of Khan's joint venture partners and a shareholder of CAUC, general damages resulting from their unlawful interference with the plaintiffs' economic relations, general damages resulting from their deliberately causing damage to Khan's and its subsidiaries' rights, business reputation and property and aggravated, exemplary and punitive damages.

The statement of claim alleges, among other things, that the harmful conduct of ARMZ and it affiliates, namely in seeking to establish a joint venture with the Government of Mongolia over the Dornod uranium region without regard to Khan's rights and interests, impugning the legitimacy of Khan's interests in Mongolia, interfering with its economic relations with MonAtom (Khan's other joint venture partner in CAUC and the Mongolian state-owned entity with which Khan sought to pursue a strategic transaction), and

interfering with the competing and superior take-over bid by CNNC, all with the goal of eliminating Khan's interests in Mongolia, has caused Khan, its subsidiaries and its shareholders substantial damage.

Subsequent to filing the statement of claim against ARMZ, various reports have circulated concerning the advancement of a proposed Dornod uranium joint venture between the Russian and Mongolian Governments to develop the Dornod region to the exclusion of Khan and its subsidiaries. These reports culminated in an announcement on December 14, 2010 that Russia and Mongolia signed an agreement on the principles of creating a joint venture to develop the Dornod resource. According to media reports, the agreement was signed in Moscow on December 14th by Rosatom Corp. (Russia's nuclear power company), ARMZ, and Mongolia's state-owned MonAtom and the NEA.

The statement of claim against ARMZ and Priargunsky was filed with the Russian Department of Justice in October 2010 to be legally served in accordance with the applicable laws and protocols. The Russian Department of Justice informed the Company in February 2011 that it had 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 Russian Department of Justice 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, 2011. Prior to the scheduled date of the motion, at the request of ARMZ, 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 reinitiated its motion which was then re-scheduled to be heard on June 29, 2011.

ARMZ then successfully petitioned the Court to allow ARMZ to cross-examine both Khan and its Russian counsel on Khan's request to dispense with the need for service. The cross-examination took place in July. A new Court hearing on Khan's original motion to dispense with or substitute service took place on September 7, 2011. On October 31, 2011, the Court released its decision on the matter and ruled in favour of Khan. ARMZ has appealed the decision and the appeal will be heard on January 24, 2012.

MATERIAL CONTRACTS

Except for contracts entered into by Khan in the ordinary course of business or otherwise disclosed herein, the only material contracts entered into by Khan within the most recently completed financial year, or entered into prior to the most recently completed financial year but still in effect, are the following:

The Western Prospector Agreement

See "*General Development of the Business – Acquisition of the Additional Dornod Property*".

The Amended and Restated Shareholder Rights Plan Agreement

On November 14, 2006, Khan implemented an amended and restated shareholder rights plan (the "Shareholder Rights Plan") which was approved by the shareholders at Khan's Annual and Special Meeting

of Shareholders held on February 15, 2007. The continuation of the shareholder rights plan was subsequently ratified and approved at an Annual and Special Meeting of Shareholders held on March 24, 2010. The terms are contained in the Shareholder Rights Plan Agreement dated as of November 14, 2006 between Khan and Equity Financial Trust Company, as rights agent. The Shareholder Rights Plan is intended to provide the Board with sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made for Khan and to provide every shareholder with an equal opportunity to participate in such bid. The Shareholder Rights Plan will be in effect for a period of three years, unless reconfirmed by shareholders. A shareholder or any other interested party may obtain a copy of the Shareholder Rights Plan on SEDAR at www.sedar.com.

REGISTRAR AND TRANSFER AGENT

Khan's registrar and transfer agent is Equity Financial Trust Company, located at Suite 400, 200 University Avenue, Toronto, Ontario M5H 4H1.

AUDIT COMMITTEE AND AUDITORS

Audit Committee Charter

The text of the charter (the "Charter") of the audit and finance committee (the "Audit Committee") of the Board is attached hereto as Exhibit B.

Composition of the Audit Committee

The Audit Committee is composed of James B.C. Doak, Jean-Pierre Chauvin, and Marc C. Henderson, all of whom are independent and financially literate in accordance with NI 52-110. The following table describes the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member.

Name of Audit Committee Member	Relevant Experience and Qualifications
James B. C. Doak	Over 25 years of experience as an Economist and Chartered Financial Analyst Director of Cascades Inc., Purepoint Uranium Group Inc. and Eurocopter Canada Ltd. and a former Director of PetroKazakhstan Inc., Superior Propane Inc. and Spar Aerospace Inc. Held senior positions at ScotiaMcLeod Inc., First Marathon Securities Ltd. and McLeod Young Weir Ltd. Past President and Director of the Toronto Society of Financial Analysts B.A. in Economics from the University of Toronto
Jean-Pierre Chauvin	Over 30 years of experience in the mining and construction industries. Interim President and CEO of PC Gold Inc. as of December 12, 2011. President of Globestar Mining Corp. from October 2006 to January 2009. Director of Macusani Yellowcake Inc. P. Eng., B.Sc. in Mining Engineering from Queen's University.
Marc C. Henderson	Over 20 years of experience in the resource industry. President and Chief Executive Officer of Laramide Resources Ltd. Chartered Financial Analyst, B.A. in Economics from the University of Colorado.

Audit Committee Oversight

At no time since the commencement of the Khan's most recently completed financial year was a recommendation to nominate or compensate an external auditor not adopted by the Board.

Pre-Approval Policies and Procedures

The Charter provides that the Audit Committee must pre-approve any non-audit services to be provided to the Corporation by the external auditor.

External Auditor Service Fees

The current auditors of Khan are Ernst & Young LLP ("Ernst & Young") and are located at 222 Bay Street, Toronto-Dominion Centre, Toronto, Ontario M5K 1J5. The following Ernst & Young fees were incurred by Khan for the year ended September 30, 2011 and 2010 for professional services rendered to Khan:

Fees	2011	2010
Audit Fees[1]	Cdn.$102,000	Cdn.$112,000
Audit-Related Fees[2]	-	-
Tax Fees[3]	-	Cdn.$14,300
All Other Fees[4]	Cdn.$36,650	
Total	Cdn.$138,650	Cdn.$126,300

Notes:

1 Audit Fees are the aggregate fees billed by Ernst & Young in each of the last two fiscal years for audit services. Included in these aggregate fees are the amounts for the audit of the annual consolidated financial statements.

2 Audit-Related Fees are the aggregate fees billed in each of the last two fiscal years for assurance and related services by Ernst & Young that are reasonably related to the performance of the audit or review of Khan's financial statements and are not Audit Fees, including for consultations on accounting developments and the accounting for potential corporate transactions.

3 Tax Fees are the aggregate fees billed in each of the last two fiscal years for professional services rendered by Ernst & Young for tax compliance, tax advice, and tax planning.

4 All Other Fees are the aggregate fees billed in each of the last two fiscal years for products and services provided by Ernst & Young, other than Audit Fees, Audit-Related Fees or Tax Fees.

INTERESTS OF EXPERTS

Scientific or technical information in this Annual Information Form relating to the Dornod Uranium Project is based upon a Technical Report prepared by Aker Solutions. The Technical Report provides an independent technical review of the Mineral Reserves and Mineral Resources and the mining plan of the Dornod Uranium Project. The Technical Report was prepared by Hrayr Agnerian, M.Sc., Eugene Puritch, P.Eng., Malcolm Buck, P.Eng., and Leslie H. Heymann, P.Eng. Each of Messrs. Agnerian, Puritch, Buck and Heymann was a Qualified Person. To the best of Khan's knowledge, all of the authors of the Technical Report were independent of the Corporation within the meaning of NI 43-101 and none of them held any registered or beneficial interest, directly or indirectly, in any securities or other property of Khan or its associates or affiliates.

Ernst & Young has prepared an auditor's report on the annual financial statements of Khan for the year ended September 30, 2011. Ernst & Young has advised that it is independent with respect to Khan within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information relating to Khan may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Khan's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in Khan's information circular for its annual and special meeting of shareholders held on March 24, 2010. Additional financial information is provided in Khan's financial statements and MD&A for its most recently completed financial year, all of which are filed on SEDAR at www.sedar.com.

EXHIBIT A

SUMMARY OF TECHNICAL REPORT ON THE DORNOD URANIUM PROJECT, MONGOLIA

The summary information set out herein has been extracted from the Technical Report (NI 43-101) on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia, dated April 22, 2009, available on SEDAR at www.sedar.com. The information that follows is a summary only and is current as of the date of that Technical Report, and is subject to the more detailed information, including the assumptions, limitations and qualifications, set out in the Technical Report.

Executive Summary

The purpose of this Report is to present the results of the Definitive Feasibility Study (DFS) compiled by Aker Metals, a division of Aker Solutions Canada Inc. (Aker Solutions) and numerous consultants for Khan Resources Inc. (Khan). The DFS was commissioned by Khan to update and augment the Scott Wilson Roscoe Postle Associates Inc. (Scott Wilson RPA) Technical Reported dated September 27, 2007. This update provides an evaluation of the economics of establishing underground and open-pit mining and mineral processing facilities at the Dornod Project site in northeastern Mongolia. The DFS assumes a production rate of 1 225 000 t of ore per year (3500 t/d, 350 d/a).

The Dornod Project comprises several uranium deposits and some infrastructure. There are two deposits for which mineral resources and reserves have been estimated.

- An open-pit mine at the No. 2 Deposit. From 1988 to 1995, Priargunsky Industrial Mining and Chemical Enterprise (Priargunsky) extracted some 590 000 t of material at an average grade of 0.118% U_3O_8. Currently, the open pit is full of water.

- An underground uranium deposit (No. 7) which remains partially developed by two shafts and approximately 20 000 m of development drifts. Some of this development is also related to the nearby Nos. 4 and 5 Deposits. Currently, the underground workings are flooded.

Khan is a Canadian reporting issuer with a corporate office in Toronto. Khan, in joint venture with Priargunsky (a Russian government entity, based in Krasnokamensk, Eastern Siberia), and Mongol Erdene (a division of the Ministry of Energy, Geology and Mining of Mongolia) (now MonAtom), plans to bring the Dornod Project into production.

Conclusions and Recommendations

The DFS commissioned by Khan for the Dornod Project shows a positive economic outcome, including the following key results:

(a) Mineral Resources

At the 0.040% U_3O_8 cutoff grade and 5-m minimum vertical thickness of mineralization, the No. 7 Deposit contains 14.36 Mt of Indicated mineral resources at an average grade of 0.154% U_3O_8.

At the 0.025% U_3O_8 cutoff grade and 2-m minimum vertical thickness of mineralization, the No. 2 Deposit contains 10.95 Mt of Indicated mineral resources at an average grade of 0.065% U_3O_8 and 2.18 Mt of Inferred mineral resources at an average grade of 0.050% U_3O_8.

Several additional uranium deposits and showings have been discovered in the general Dornod area. In particular, the No. 5 Deposit is situated within the Additional Dornod Property (Mineral License 9282X). Two other deposits, Nos. 8 and 9, are situated outside the present property.

Past and recent exploration work has been carried out in a systematic manner and is well documented. These data are acceptable to estimate mineral resources.

(b) Mineral Reserves

The proven and probable reserve estimate for the No. 2 Deposit open-pit mine, at 0.028% U_3O_8 cutoff grade, is 7 407 000 t grading 0.074% U_3O_8. Mining dilution of 15% at a 0.018% U_3O_8 grade is included.

The proven and probable reserve estimate for the No. 7 Deposit at a 0.061% U_3O_8 cutoff is 10 634 000 t grading 0.174% U_3O_8. Underground mining recovery of 88% and dilution of 10% at 0% U_3O_8 grade is forecast.

(c) Mining

Underground and open-pit mines are planned, producing a total of approximately 1 225 000 t of ore per year, at a rate of 3500 t/d.

A total of 18.04 Mt of ore at an average grade of 0.133% U_3O_8 will be mined from the Nos. 7 and 2 Deposits over a period of 15 years.

(d) Processing

Uranium mineralization of the No. 7 Deposit is refractory. This is presumed to be due to the presence of brannerite, (a uranium titanate mineral), zircon, and the high carbonate content (4% to 7%) associated with the mineralization.

In order to liberate the uranium, it is necessary that a significant amount of silica in the ore be dissolved. The presence of the dissolved silica causes a gel to form and hinder the filtering of uranium. To overcome these problems, a Resin in Pulp (RIP) method of removing the uranium from the ore has been selected.

A metallurgical recovery of 84.86% has been used for No. 7 Deposit and 89.28% has been used for No. 2 Deposit.

Uranium mineralization of the No. 2 Deposit is free milling. This is based on previous testwork and results by Priargunsky.

A milling rate of 3500 t/d is planned for the combined production from the Nos. 7 and 2 Deposits.

(e) Water Management

There are no perennial rivers in the vicinity of the Project site. Fresh water requirements for the operation of the processing plant will have to be supplied either from the harvesting of surface water runoff (from occasional rainfall events or from seasonal thaw), or from groundwater. Surface water runoff will be highly intermittent and relatively unreliable; therefore, groundwater will have to be the primary source.

The water currently in the open pit represents a source of water which can be used for the start up of operations. The open pit can also be used as a source of water on an ongoing basis. Historical observations of pit water levels suggest that it may be possible to withdraw up to about 500 000 m^3 annually, providing that the pit water level is fully drawn down to stimulate groundwater inflow and to reduce evaporative losses. It has not been demonstrated that such large yields can be sustained on a year-to-year basis. The long-term sustainable yield from the open pit will depend on the size of the drawdown cone and the rate of recharge. Hydrogeologic studies should be undertaken as part of future studies to allow estimation of the long-term sustainable yield of the open pit.

It is anticipated that the Project will be operated such that it does not produce any liquid effluent. Inflows and outflows can be kept in balance by controlling the open-pit water level.

(f) Closure Plan

Golder Associates Ltd. (Golder) has prepared a conceptual closure plan to ensure long-term physical and chemical stability of the Project components remaining on-site at closure, to minimise long-term care and maintenance requirements, and to minimise the health and safety hazards posed by the site with regard to local residents and their livestock.

The principal closure measures that will be employed include:

- Construction of a boulder-berm around the open-pit rim and placement of a lockable swing gate at the entrance to the pit ramp
- Regrading of waste rock stockpile slopes to 2.5 H:1 V and placement of revegetated cover over the dump footprints
- Placement of a cover on the surface of the Residue Management Area (RMA) to provide clean surface runoff
- Decommissioning and removal of Water Collection Pond and Polishing Pond
- Caping of all shafts and ventilation raises and the backfilling of the production ramp and portal, and the return air raises
- Decommissioning and demolition / removal of the processing facility and other surface infrastructure and equipment.

Long-term care and maintenance will consist of the following actions.

- Local labour will be employed to ensure site security is maintained during closure implementation
- Periodic site inspections and maintenance will be carried out for the RMA and drainage work in the long term.
- Quarterly surface water quality sampling will be performed during Years 1 to 5 at the open-pit lake, the RMA Pond, and at locations upstream and downstream until stable trends are established; sampling will occur annually thereafter
- Quarterly groundwater quality sampling will be performed during Years 1 to 5 at one location downstream of the RMA, two locations upstream of the RMA, one location upstream of the Waste Rock Storage Facilities, and one location downstream of the Project site, until settable trends are established, reducing to annually thereafter.

Economic Analysis

A financial analysis has been completed for the Project. This evaluation has been done from the perspective of the joint venture.

(a) Capital Cost

The capital cost for mining and surface facilities as described in this Report is USD 332,786,000 in fourth quarter 2008 United States dollars, with no allowance for escalation, interest or financing during construction.

The direct costs (Items D0 to D9, Table 3-1) are all the costs associated with permanent facilities. This includes equipment and material costs, as well as construction and installation costs.

The indirect costs (Items IA to IQ, Table 3-1) cover all the costs associated with temporary construction facilities and services, construction support, freight, Vendor representatives, spare parts, initial fills and inventory, Owner's costs, Engineering, Procurement and Construction Management (EPCM), commissioning and start up.

The contingency allowance of 11.4% of process plant and infrastructure direct and indirect costs has been included in the estimate. P&E, based on their experience, has allowed a 15% contingency on the mining portion. The overall contingency, therefore, is 13.3% of total direct and indirect costs, exclusive of Owner's costs.

The capital cost estimate is presented in Table 3-1.

(b) Operating Cost Estimates

Operating cost estimates reflect fourth quarter 2008 US dollars. The DFS operating cost estimates are prepared by major area – Mining, Plant, General and Administration, and consider the mine plan and processing schedule.

Life-of-mine total operating costs are presented in Table 3-2. Note that Years 2009 to 2011 are considered as preproduction and their costs are included in mine capital cost estimates.

Table 3-1 - Capital Cost Estimate

	DESCRIPTION	HOURS	LABOR	EQP USAGE	MATERIAL	SUBCONTR	EQUIPMENT	TOTAL
D0	Mining	0	0	0	0	66,752,600	0	66,752,600
D1	Earthworks	327067	4,716,107	579,081	1,462,257	16,208,405	0	22,965,851
D2	Concrete	311860	4,585,069	3,113,608	6,295,400	0	0	13,994,077
D3	Structural Steel	173110	2,850,089	2,685,044	7,056,601	0	0	12,591,735
D4	Architectural	182548	2,667,975	381,531	2,164,376	2,270,000	0	7,483,883
D5	Mechanical	381620	5,888,396	1,908,100	1,250,000	600,000	38,609,684	48,256,180
D6	Electrical	200846	3,054,873	401,692	4,955,850	581,500	8,711,550	17,705,466
D7	Instumentation	73089	1,125,386	147,979	794,058	0	2,048,101	4,115,525
D8	Piping	212334	3,516,272	1,061,703	4,100,192	0	0	8,678,167
D9	Plant Mobile Equipment	0	0	0	0	0	2,892,000	2,892,000
IA	Temporary Building & Facilities	0	0	0	0	2,500,000	0	2,500,000
IB	Temporary Construction Utility Services	0	0	0	0	884,000	0	884,000
IC	Winter Work and Lost Productivity	0	0	0	0	387,000	0	387,000
ID	Construction Site Support & Operations	0	0	0	0	2,972,000	0	2,972,000
IE	Construction Camp and Catering	0	0	0	0	6,225,560	0	6,225,560
IF	Power During Construction	0	0	0	0	8,160,000	0	8,160,000
IG	Spare Parts	0	0	0	0	2,410,389	0	2,410,389
IH	Initial Fills	0	0	0	0	3,816,836	0	3,816,836
IJ	Freight and Insurance	0	0	0	0	5,431,361	0	5,431,361
IK	Vendor Representative	0	0	0	0	964,000	0	964,000
IL	Owner Costs	0	0	0	0	12,420,000	0	12,420,000
IN	EPCM	0	0	0	0	38,747,944	0	38,747,944
IP	Commisioning and Startup	0	0	0	0	4,714,316	0	4,714,316
IQ	Contingency	0	0	0	0	37,717,106	0	37,717,106
REPORT TOTALS		1863378	28,404,169	10,278,741	28,078,737	213,763,017	52,261,335	332,786,000

Table 3-2
Life-of-Mine Operating Costs

Year		Tonne Milled (x '000)	Mining (USD)	Plant (USD)	G&A (USD)	Total (USD)	Cost/Tonne Milled (USD)
2009							
2010							
2011							
2012	1	854	32,976,454	20,443,546	7,040,000	60,460,000	70.83
2013	2	1,225	44,664,514	31,246,486	7,040,000	82,951,000	67.72
2014	3	1,225	43,142,514	31,246,486	7,040,000	81,429,000	66.47
2015	4	1,225	44,169,514	31,246,486	7,040,000	82,456,000	67.31
2016	5	1,225	47,345,714	30,880,286	6,300,000	84,526,000	69.00
2017	6	1,228	46,680,714	30,880,286	6,300,000	83,861,000	68.29
2018	7	1,225	44,334,714	30,880,286	6,160,000	81,375,000	66.43
2019	8	1,225	50,113,714	30,880,286	6,160,000	87,154,000	71.15
2020	9	1,225	52,096,714	30,880,286	6,160,000	89,137,000	72.76
2021	10	1,225	31,863,386	22,334,614	4,977,000	59,175,000	48.31
2022	11	1,225	28,903,738	20,930,262	4,977,000	54,811,000	44.74
2023	12	1,225	29,184,738	20,930,262	4,977,000	55,092,000	44.97
2024	13	1,225	27,133,738	20,930,262	4,977,000	53,041,000	43.30
2025	14	1,225	29,708,738	20,930,262	4,977,000	55,616,000	45.40
2026	15	1,262	20,756,000	14,626,000	4,977,000	40,359,000	31.98
TOTAL		**18,044**	**573,074,904**	**389,266,096**	**89,102,000**	**1,051,443,000**	**58.26**
Cost/lb U3O8		45,279,000	12.71	8.60	1.97	23.22	
Cost/Tonne Milled			31.76	21.56	4.94	58.26	

Note that the above amounts do not include VAT or the interest costs associated with the leasing of mining equipment. The interest on the leased equipment is shown in the Project Cash Flow, Table 20-34.

(c) Manpower

A total of 933 people will be employed during an average year. A breakdown of the workforce is presented in Table 3-3.

Table 3-3

Total Manpower – Average Year

	Staff	Hourly	Total
Mine	46	665	711
Mill	22	127	144
G&A	27	36	63
Camp	8	2	10
TOTAL	**103**	**830**	**933**

The percentage of expatriates to total labour complement in the average years of the mine life is 2.5%.

(d) Financial Analysis

A financial model for the underground and open-pit mine with an annual production rate of 1 225 000 t was prepared. Key production and financial parameters are summarised in Table 3-4.

(e) General Parameters

The financial analysis model covers the time span from Year -3 through Year +16. The preproduction years are Years -3, -2 and -1. Production years are from +1 to +16. Underground mining is from Years +1 to +9, whilst open-pit mining will commence from Years +10 to +16. Year 16 is allowed for Project closure.

The mill feed rate from the mine is 1 225 000 t/a, with first year of production at 854 000 t, thus allowing the mill to ramp up to full production. The total ore mined over the life of mine is 10 634 000 t. The average head grade over the life of mine is 0.133% U_3O_8. The average head grade for underground mining is 0.174% and for the open pit 0.074%.

The process recovery for uranium (U_3O_8) is 84.5% for the underground and 89.28% for the open pit. Over the life of mine, the total production of U_3O_8 is 20 538 t (45 279 000 lb).

Product pricing is based on the recommendation of Khan and is assumed to be on an FOB mine site basis.

Table 3-4
Financial and Production Data

Annual mine throughput	1 225 000 t
Mine life	15 years
Average grade	0.133% U_3O_8
Recovered U_3O_8	45,279,000 lb
Average value	USD 65/lb

Tables 3-5 and 3-6 summarise the financial analysis model. NPV is calculated on end-year basis.

Table 3-5

Financial Data

(USD '000)

	TOTAL
Revenue	2,943,111
Operating Costs, Mine Site	1,051,443
Other Operating Costs including Royalties	158,109
Total Operating Costs	1,175,028
Total Initial Capital Investment Costs	371,174[1]
Nett Initial Capital Investment Costs	332,786
Sustaining Capital Investment Costs	154,706
Pretax Cumulative Cash flow	1,242,203
Taxes, Income	317,273
After Tax Cumulative Cash flow	924,929

[1]Initial capital investment plus VAT.

Table 3-6

IRR and NPV Values

(USD '000)

	End of Year	
	Pre-tax	**After Tax**
IRR	36.4%	29.1%
NPV @ 0%	1,242,203	924,929
NPV @ 10%	406,827	275,993
Payback Period, Years	1.9	2.3

The Project is subject to graduated levels of taxation and flat rate royalty based on gross revenue. Income tax is payable at a rate of 10% for initial income of 3,000,000,000 tugriks (USD 1.94 million) and below and at a rate of 25% for income over the 3,000,000,000 tugriks threshold. Royalty is payable at 5% of gross revenue.

The close-out cost is estimated at USD 37.4 million. USD 1.4 million is for close-out engineering and is applied in Year +15, whilst the close-out cost is applied in Year +16.

Chart 3.1 revolves around the after tax NPV @ 10% of USD 275,993,000 calculated on the end of year basis.

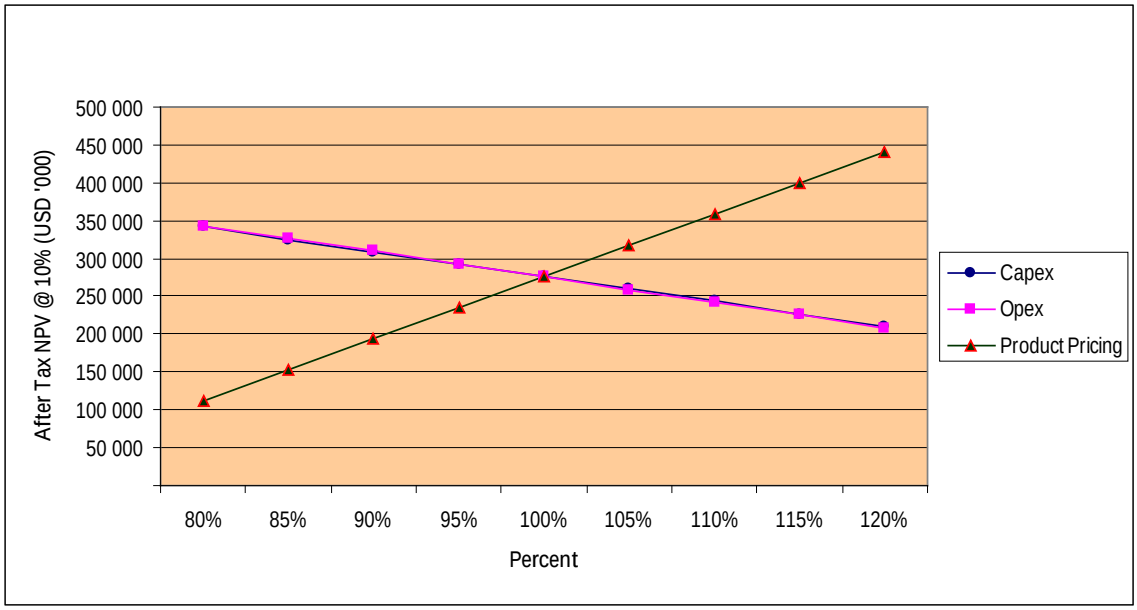

Chart 3.1
Sensitivity Graph

(f) Project Implementation

The Project Execution Plan, Figure 3.1 outlines the summary of major activities leading to successful completion of the Project. The major activities are grouped into major categories: Agreements, Environmental Assessment, Engineering, Mining, Construction, Commissioning and Ramp up.

The scheduled start of the EPCM activities is October 9, 2009, dependent on receiving Government of Mongolia approval for the Project. The schedule identifies activities occurring during the first half of 2010 necessary to maintain the planned completion date.

The overall duration from March 2010 to achieving full production is 33 months. From the start of detail engineering to completion of precommissioning is 28 months. The construction duration of the surface facilities is 18 months. A 3-month duration for production ramp-up is planned.

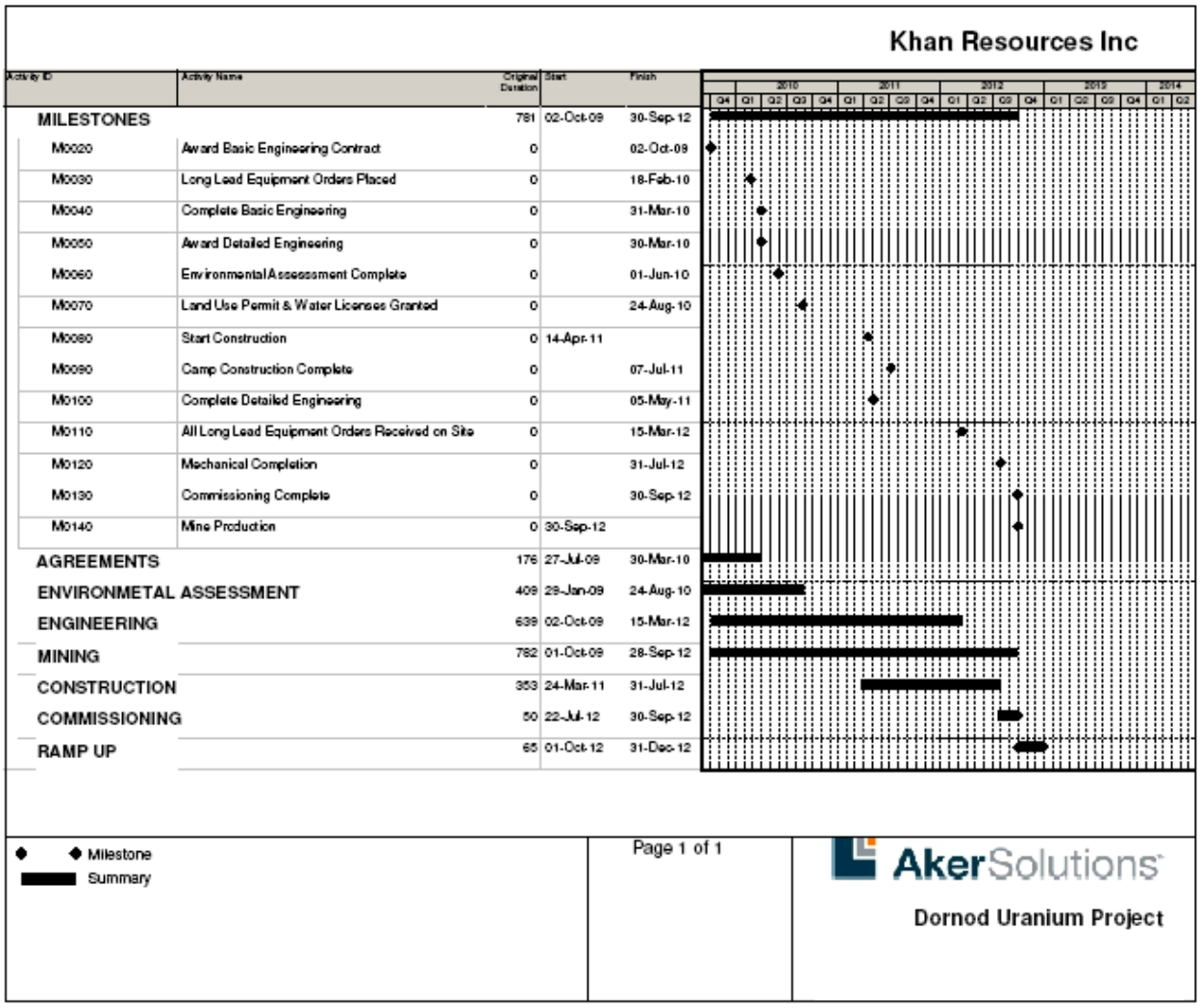

Figure 3.1
Project Execution Schedule

(g) Key Project Dates

The following activity key dates are identified.

▪ October 2, 2009	Award Basic Engineering Contract
▪ February 18, 2010	Long-Lead Equipment Orders Placed
▪ March 30, 2010	Complete Basic Engineering and Award Detailed Engineering
▪ August 24, 2010	Land Use Permit and Water Licenses Granted
▪ April 14, 2011	Start of Construction
▪ May 5, 2011	Complete Detailed Engineering
▪ July 7, 2011	Construction Camp Completed
▪ March 15, 2012	All long-lead equipment orders received on-site
▪ July 31, 2012	Mechanical Completion
▪ September 30, 2012	Commissioning Complete

Technical Summary

Property Location and Description

The Dornod Project is located in northeastern Mongolia, approximately 125-km north of Choibalsan, capital of the Dornod Aimag (province). The population of Choibalsan is about 15,000, and it is situated along a major east-west road connecting the town with Ulaanbaatar, the capital of Mongolia, some 650 km to the west. The abandoned settlement of Mardai, built for Russian mineral exploration crews, is 14-km west of the Project.

Land Tenure and Ownership

The Dornod Property consists of two mineral licences, a Mining Licence (237A, originally U-27) and an Exploration Licence (9282X). Mining Licence 237A, known as the Main Dornod Property, was granted by the Office of Geological and Mining Cadastre (OGMC), of the Minerals Resources and Petroleum (MRPAM) Authority of Mongolia, to Central Asian Uranium Corporation (CAUC), a limited liability company organised under the laws of Mongolia. Khan, through a subsidiary corporation, holds 58% of the issued and outstanding common shares of CAUC.

An application to convert the exploration license to a mining license was submitted in September 2007. The application included the August 2007 Pre-Feasibility Study. Exploration License 9282X, known as the additional Dornod Property, has an area of 243 ha and is contiguous with the Main Dornod Property. It is registered through a wholly owned subsidiary of the

Corporation, and was renewed for a 3-yr period in February 2008. The corporation is currently taking all necessary steps to convert the exploration license into a mining license, in accordance with the Revised Minerals Law of Mongolia (RMLM). To this end, the Corporation has recently submitted the reserve calculation and environmental impact assessment for the Additional Dornod Property, prepared in accordance with Mongolian standards and requirements. These are necessary preconditions in the process of converting an exploration license to a mining license in accordance with the RMLM.

Permitting

The Mineral Resources and Petroleum Authority of Mongolia (MRPAM) is the authority that oversees mining and exploration licensing in Mongolia. To change a license from exploration to mining, the company must submit:

- Mineral resource / reserve approved by the Minerals Council
- Feasibility study approved by the Mining Department of MRPAM
- Mongolian Environmental Impact Assessment (EIA) approved by the Ministry of Nature, Environment and Tourism.

Khan expects that the DFS will satisfy the requirements for a feasibility study as it includes a Life of Mine Plan.

To date, all permits and licenses are in place for the program presently underway. All licenses for the properties are in good standing.

The Project status and schedule is dependent on the company obtaining an investment agreement from the Mongolian Government. Khan expects that government review will commence in the third quarter of 2009 and this process will be finished and approved by the end of the fourth quarter of 2009. It is not known at this time what impact these negotiations will have on the existing ownership structure.

Access

Access to the Dornod Property is by paved road, about 100-km east from Ulaanbaatar to the coal mining town of Baganoor, then 550-km east by dirt road from Baganoor to Choibalsan in northeastern Mongolia and then about 125-km north by dirt road from Choibalsan to Mardai. The main access road to the mine, from the town of Choibalsan, is presently an unimproved dirt road and will have to be graded and maintained to provide year-round access.

Infrastructure

Infrastructure near the Project is limited. Power is generated at Choibalsan. A power line is presently under construction and is scheduled to be completed in May 2009. Telephone service is available at the site. Water is available from wells near the property. Some mining equipment and personnel are available at Choibalsan, Ulaanbaatar, and in northern Mongolia, where a few open-pit gold deposits are being developed.

History

Historic mining and prospecting activities in the Dornod Uranium District of northeastern Mongolia, which hosts the Dornod deposits, date back to the 1940s. Early prospecting work led to the discovery of the Dornod No. 2 uranium deposit and production started from an open pit in 1988. The area is host to numerous undeveloped uranium occurrences. From 1988 to 1995, some 590 000 t of material at an average grade of 0.118% U_3O_8 were mined from the No. 2 Deposit of the Dornod site. The advent of Perestroika in 1985 and the dissolution of the Soviet Union in 1991 led to cessation of mining activity.

In 1995, Priargunsky - on behalf of World Wide Minerals Ltd. (World Wide), a predecessor company to Khan - commenced stripping and mining operations at the No. 2 Deposit as an open-pit mine. Due to low uranium prices, however, the mine was shut down in 1995. Until 2005, the Project had been maintained on a care and maintenance basis. In early 2005, Khan became operator and began a confirmation drilling program on the areas of the Nos. 2 and 7 Deposits. Results of this program confirmed earlier Priargunsky results and established the continuity of uranium mineralization at the two deposits. Khan commissioned a Scoping Study on Dornod in 2005, followed by a PFS in 2006, and a DFS in 2008 which is the subject of this report.

Geology

Mongolia is within the Central Asian branch of the Ural-Mongolian Mobile Belt. The Main Mongolian Lineament, an arcuate series of deep-seated faults that extend generally east-west through the mid-section of the country, divides Mongolia into Northern and Southern Megablocks. The Dornod uranium district is within the North Choibalsan mineral region in extreme northeast Mongolia, in the Northern Megablock at the eastern end of the Central Mongolian Fold System.

Although uranium mineralization is common throughout the Dornod Complex, economic concentrations of uranium mineralization occur in a narrow stratigraphic interval in the lower part of the Complex. Mineralization is most extensive in horizons of porous sedimentary and volcanic rocks usually enriched with organic or sulphide minerals. Deposits are controlled by major zones of steeply dipping fractures of the northerly and northeasterly faults and their junctures with northwesterly faults.

The area of the Dornod Property is underlain by Jurassic volcanic and sedimentary rocks. The volcanic rocks are comprised of amygdaloidal basalt, andesite, ignimbrite, rhyolite and tuff. The sedimentary rocks are predominantly sandstone and conglomerate containing interbed carbonaceous partings.

Uranium mineralization in the Dornod district is found at depths of 30 m to 700 m and is concentrated within a 30-km^2 area. Thirteen deposits have been identified in the Dornod district, of which five have been explored in detail. The No. 7 Deposit, which is the largest, has been partially developed for underground exploration. The No. 2 Deposit, which is closer to surface, has been partially mined by open pit methods.

Uranium mineralization occurs as pitchblende-coffinite assemblages associated with carbonaceous partings and fragments in areas of structural preparation. The uranium mineralization occurs as “blanket-like” horizons from less than 1-m thick to greater than 30-m

thick within the volcano-sedimentary succession at depths from 30 m to greater than 450 m below surface. A number of uranium deposits and target areas have been outlined in the Dornod area by systematic exploration work.

The No. 7 Deposit is situated at the northern end of the Dornod uranium district and occupies the southern half of the area covered by Mining Licence 237A. The Deposit is situated approximately 1-km south of the No. 2 Deposit. The No. 7 Deposit comprises a number of separate, flat-lying uraniferous horizons spread over an area measuring 1000 m by 500 m. The most continuous zone is a 30- to 40-m-thick tabular body of high-grade uranium mineralization occurring at vertical depths between 410 and 450 m below surface.

The No. 2 Deposit comprises a number of separate uraniferous horizons spread over an area measuring approximately 1800 m by 1500 m. There are at least five horizons of sedimentary rocks hosting uranium mineralization, which are interlayered with felsic to intermediate volcanic rocks. The most continuous zone (Layer 3) is a 6- to 10-m-thick layer of low-grade uranium mineralization which is stratabound and defines the broad southwest trending synform in the area. This layer occurs at vertical depths between 75 and 225 m below surface, and was the target of most past mining activity.

Russian exploration of the No. 7 Deposit included 123 surface diamond drill holes, 143 underground diamond drill holes and approximately 20 000 m of underground development including drifts, cross-cuts, and three shafts, which extend to the No. 5 Deposit area. Russian exploration of the No. 2 Deposit included 450 surface diamond drill holes.

From August 2005 to April 2007, Khan completed a program of confirmation drilling in both deposits, totalling 5885 m in 23 vertical diamond drill holes.

In 2007, Khan continued to test the area between the Nos. 2 and 7 Deposits, as well as the area southeast of the No. 2 open pit, by drilling. In total, some 1987 m of drilling was completed in eight diamond drill holes.

In late 2007, Khan completed two large diameter diamond drill holes and sampled the central part of the No. 7 Deposit for metallurgical testwork.

Mineral Resources

Scott Wilson RPA updated the mineral resources of the Nos. 7 and 2 Deposits, based on a new digital database of previous results, and additional confirmation drilling results. The Scott Wilson RPA mineral resource estimate is in accordance with the Mineral Resource / Reserve Classification as recommended by the CIM Committee on Mineral Resources / Reserves. The mineral resources are presented in Table 3-7.

Table 3-7
Mineral Resource Estimate

Location	Category	Tonnes (million)	% U_3O_8	lbs U_3O_8 (million)
No. 7 Deposit	Indicated	14.36	0.154	48.6
No. 2 Deposit	Indicated	10.95	0.065	15.7
TOTAL	**Indicated**	**25.31**	**0.116**	**64.3**
No. 2 Deposit	Inferred	2.18	0.050	2.4

Notes:

1. CIM definitions were followed for mineral resources.
2. Mineral resources were estimated using a U_3O_8 price of USD 55/lb.
3. Mineral resources were estimated using a cutoff grade of 0.04% U_3O_8 for No. 7 Deposit, and 0.025% U_3O_8 for No. 2 Deposit.
4. No. 7 Deposit was modeled at a minimum of 5- m-vertical thickness, No. 2 Deposit was modeled at a minimum of 2-m-vertical thickness.
5. Mineral resources are inclusive of, not in addition to, mineral reserves.
6. The numbers for tonnage, % U_3O_8 and contained lbs U_3O_8 are rounded figures.

Systematic density measurements, made on drill core by staff of Priargunsky, and confirmed by more recent testing, result in an average density of 2.60 g/cc for the host rock siltstones.

Interpretation of mineralization was done at a threshold of approximately 0.015% U_3O_8 for the No. 7 Deposit, and approximately 0.010% U_3O_8 for the No. 2 Deposit. Separate block models were evaluated for each deposit, within the interpreted wireframes. Blocks in the models were compared to higher cutoff grades, calculated using operating costs, metallurgical recoveries, and the uranium price.

Scott Wilson RPA classified the mineral resources in the Nos. 7 and 2 Deposits into the Indicated category based on drill-hole spacing, apparent continuity of mineralization, and the results of the recent confirmation drilling. A small additional part of the No. 2 Deposit has been classified as Inferred mineral resources, in an area extending both inside and outside (north) of the current boundary of Mineral Licence 237A.

In plan view, the No. 7 Deposit block model shows a high-grade central core, with a large halo of mineralization in which the grade declines smoothly towards the edges. The No. 2 Deposit block model shows several areas of higher-grade (>0.10% U_3O_8) mineralization, with the largest area concentrated underneath the current pit, and another area to the southeast. West of the current pit, grades start below 0.10% U_3O_8, and decrease gradually.

Mineral Reserves

Mineral reserves were estimated by P&E Mining Consultants Inc. (P&E) for the DFS assuming underground longhole open stoping methods with cemented and uncemented waste rock backfill for the No. 7 Deposit, with stope sizes and pillar layouts as described in a geotechnical study by Golder Associates. Mineral reserves for the No. 2 Deposit assume open-pit mining. Mineral reserves are summarised in Table 3-8.

Table 3-8
Mineral Reserve Estimate

Location	**Category**	**Tonnes** (million)	**% U_3O_8**	**lbs U_3O_8** (million)
No. 7 Deposit	Probable	10.63	0.174	40.8
No. 2 Deposit	Probable	7.41	0.074	12.1
TOTAL	**Probable**	**18.04**	**0.133**	**52.9**

Notes:

1. CIM definitions were followed for mineral reserves.
2. Mineral reserves were estimated using a U_3O_8 price of USD 55/lb.
3. Mineral reserves were estimated using an underground cutoff grade of 0.061% U_3O_8 for No. 7 Deposit, and an open-pit cutoff grade of 0.028% U_3O_8 for No. 2 Deposit.
4. The numbers for tonnage, % U_3O_8 and contained lbs U_3O_8 are rounded figures.

(a) Dilution – No. 7 Deposit

External dilution for No. 7 Deposit stopes is estimated to average 10% at zero grade, including hanging wall and backfill dilution.

(b) Dilution – No. 2 Deposit

Examination of the block model for the No. 2 Deposit shows the gently-dipping mineralized layers angling into, and out of, successive benches. Open-pit grade control will have to be applied to each bench, in order to determine boundaries for ore definition, on a scale that matches the selectivity of the mining equipment. A dilution allowance of 15% at a grade of 0.018% was factored into bench grades to account for this problem.

(c) Resource Extraction – No. 7 Deposit

Mineral reserve tonnage (exclusive of dilution) totals 74% of mineral resource tonnage for the No. 7 Deposit. Metal content in mineral reserves (40.8 million pounds) totals 84% of mineral resource metal. Extraction was assessed in two stages; first, by application of stope outlines, with some resources rejected for being too thin or scattered

to form stopes; and second, by application of expected recoveries for various stope configurations.

(d) Resource Extraction – No. 2 Deposit

Portions of mineralized layers will be rejected by open-pit grade control, where dilution within an ore bench is too high or mineralization lies under too much waste stripping cover. A resource extraction factor of 68% was calculated.. Actual mining extraction within the open-pit design was determined to be 95%.

Mining Operations

The DFS outlined mining of the Nos. 2 and 7 Deposits, at a production rate of 3500 t/d, or 1.225 Mt/a. Mining of all Mineral Reserves is expected to require slightly more than 15 years.

The No. 7 Deposit was partially developed for exploration, with two shafts, and development drifting on 550 Level. The exploration drifting was extended southwards to test other potential deposits (Nos. 4 and 5 Deposits), with another ventilation shaft (No. 2 Shaft) serving that area. Currently, the underground workings are flooded and the mine needs to be dewatered before a full evaluation of their condition can be completed. For the most part, the mine infrastructure, which supported the original exploration, has been destroyed or removed and has to be replaced.

Underground mining is proposed for No. 7 Deposit, using Longhole Open Stoping with cemented and uncemented waste rockfill backfill. Production at the full rate of 3500 t/d for the first 8 years will come from the No. 7 Deposit.

The No. 2 Deposit was mined as an open-pit operation from 1988 to 1995 by Priargunsky. The open pit is currently partially flooded, and is expected to serve as a reservoir for process water during the early years of operation. As production from the No. 7 Deposit decreases. Phase 1 open pit mining will begin. Two additional phases are proposed, with total open-pit mining expected to last just over 7 years.

(a) Underground Mine Design – No. 7 Deposit

Golder completed a geotechnical review entitled “Mine Geotechnical Underground Design for Dornod Project Mongolia,” dated September 2006. Golder’s review, based on evaluation of drill core, included recommendations for stope dimensions and ground support requirements, which are used for the DFS.

Access to the underground mineralized zones and old development areas will be by an inclined ramp from surface. The ramp portal is situated near the processing plant. This ramp will also facilitate truck haulage of ore to the processing plant.

The mining method is Longhole Open Stoping will mainly use longholes drilled in a downhole fan pattern. In areas near the top of the orebody, to minimise development, stopes with heights of less than 15 m will be mined using upholes drilled in a parallel pattern. Stopes will be nominally 15-m wide by 18-m long and a maximum of 30-m height (floor to floor).

The orebody geometry, with a length of approximately 600 m and a width of approximately 500 m, requires that the stopes be combined into mining blocks with barrier pillars left between mining blocks, to provide regional stability as mining progresses. This divides the orebody into a chequer board of blocks with each mining block having dimensions of 150 m in the west-east direction and 108 m north-south. The regional pillars between mining blocks will be 38-m wide. Each mining block between levels is subdivided into individual stopes having nominal dimensions of 15-m wide by 18-m long. A mining block will therefore consist of 60 stopes.

Barrier pillars between mining blocks are oriented north-south and east-west. The east-west pillars are called primary pillars and the north-south secondary pillars.

All Primary Access Drift and Secondary Access Crosscut headings will be 5 m by 5 m to accommodate haul trucks and ventilations requirements. Truck loading areas will be developed at all remucks by taking down the backs to a height which will accommodate truck loading by load, haul, dump (LHD) vehicles.

A slot raise will be developed at the far end (north) of each stope. The stope will be drilled off in a fan pattern. The first stope blast will break into the slot raise and subsequent blasts into the mucked-out void. Each stope will be ring blasted in three blasts.

Broken ore will be loaded in the undercut sill crosscuts into 6.1-m^3 LHDs and transported to the closest orepass. Orepasses deliver ore to the 480 Level for loading into the haul trucks for haulage to surface.

Within each mining bloc, stopes will be mined in a primary / secondary sequence, where primary stopes on either side of a secondary stope are mined and backfilled, after which the secondary stope is mined. In addition, each north-south line of primary stopes (six stopes per line) in a mining block will be retreated from north to south, ahead of the retreating lines of secondary stopes. The same sequence will also be extended vertically, where primary and secondary stopes below must be completed, before primary or secondary stopes above are mined.

With the primary and secondary sequencing of stopes, backfilling will use a combination of cemented waste rock backfill in primary stopes and 2/3 of secondary stopes with the remaining stopes backfilled with uncemented waste rock.

Mining block sequencing is dictated by ventilation and pillar recovery requirements. Stope sequencing uses the primary / secondary sequence for mining individual longhole stopes.

Mining blocks will be mined in a sequence to ensure one time use of ventilation air which has been in contact with ore. Mining blocks, in general, will be mined from the northwest to the southeast. When all mining blocks around a primary and secondary pillars are mined out, the pillars will be recovered immediately afterwards to minimise mining problems and allow for areas to be permanently abandoned.

Pillars between mined-out blocks will be recovered by longhole mining as well, with stopes developed at right angles to the pillar drifts and crosscuts. The stopes will be mined with widths of 10 m and lengths of 17.5 m on one side and 12.5 m on the other. The longer stope would be mined and backfilled first, followed by the shorter stope. Stopes will retreat from west to east and north to south of pillar drifts and crosscuts, respectively. All pillar recovery stopes will be backfilled with cemented waste rock.

Due to stress shedding to the pillars, mining conditions will be more difficult, requiring rehabilitation of the sill drifts and extra cable bolting to maintain stope stability.

Waste rock backfill will be delivered by truck to the stopes. The waste rock will be delivered to the 453 and 435 Levels via backfill raises from surface. The bottom of the backfill raise will be equipped with a truck loading chute and slurry addition system. This will produce a cemented waste rock backfill with approximately 4% cement content. The truck will transport the resulting backfill to the stope being backfilled.

Backfill raises will be located in the centre of four mining blocks to provide optimum backfill distribution to the different mining block areas. A total of three backfill raises is planned.

(b) No. 7 Deposit Ventilation

Detailed ventilation design and modeling were undertaken by Intergen Safety and Environment Solutions Inc. of Saskatoon, Saskatchewan, Canada.

The underground ventilation system is required to provide airflow volumes and distribution that will provide wholesome air for all underground workers. Specifically for this Project, the system is designed to control airborne radiation, airborne respirable silica concentrations, and diesel exhaust fume concentrations in the workplace.

The following specific design criteria were adopted for the Project.

(i) The system will be designed to control airborne radiation concentrations to levels that, together with other radiation exposure management measures, are conductive to maintaining radiation exposures consistent with As Low As Reasonably Achievable (ALARA) principle.

(ii) The system will be designed to provide at least 0.05 m^3/s (100 ft^3/min) per brake horsepower (BHP) of diesel equipment operating underground.

Air distribution is dependent on the radiation protection requirements and the manner in which diesel equipment is deployed throughout the mine. Achieving adequate radiation protection requires that the air be moved from the fresh air source to the exhaust in an expedient manner with the controlled reuse of air minimised.

The Fresh Air Raise (FAR), in parallel with Shaft No. 3, will convey the bulk of the intake air to the mine workings. Vitiated air will be removed from the mine to surface via two Return Air Raises (RARs). Intake air will flow from the bottom of FAR on the south side of levels in a northerly direction to the RARs on the north side of the mine.

The proposed main ventilation system will consist of a 6-m-dia intake vent raise (FAR) and a 6-m-diameter downcast shaft (Shaft No. 3) on the south side of the orebody, and two 4-m-diameter exhaust vent raises on the north side of the orebody. The bulk of the fresh air will downcast the Fresh Air Raise (FAR) and a smaller amount will downcast the shaft.

The aim of the ventilation distribution system is to provide fresh air to workers in their workplaces, minimise work in areas that may be upstream of other active working areas, and ensure careful monitoring. Excessive airborne radiation, diesel emission or silica contamination may require localised ventilation arrangements to avoid unnecessary exposure of workers.

(c) Underground Preproduction Development

Preproduction mine development and construction, including initial mining blocks, requires approximately 3 years (Table 3-10). All preproduction development and construction will be performed by a mining contractor. Work during the preproduction period will include:

- Dewatering of existing underground workings and discharge to existing No 2 open pit
- Developing the main ramp from surface to the 483 Level
- Sinking and lining the FAR No. 1 (near No. 3 Shaft) and RAR No. 1 and RAR No. 2
- Constructing and installing main surface ventilation fans on raises and No. 3 Shaft
- Constructing miscellaneous surface facilities related to the mine
- Completing the northwest internal ramp and lateral development on the 483, 453, 435 and 405 Levels
- Installing 483 Level infrastructure (maintenance shop, refuge station, fuel bay, explosives and detonator magazines, sumps, etc.)
- Developing initial internal ventilation raises
- Installing and commissioning all required mine services.

The underground mine development schedule for the preproduction period is shown in Table 3-9.

Table 3-9
Preproduction Development Schedule

Component	Quantity	Units	Dimensions	Year -3				Total	Year -2				Total	Year -1				Total	TOTAL
				Q4	Q3	Q2	Q1	Year -3	Q4	Q3	Q2	Q1	Year -2	Q4	Q3	Q2	Q1	Year -1	
Underground Infrastructure Development																			
Main Ramp Surface to 510 Level	3,860	metres	5m W X 5m H		420	420	420	1,260	420	420	420	420	1,680	420	420	80		920	**3,860**
Lateral Development								0					0					0	
Internal Ramp 482 to 435		metres	5 m W x 5 m H					0					0	96	700			796	**796**
405 Level Main Accesses	115	metres	5m W X 5m H					0					0			62		62	**62**
435 Level Main Accesses	2,515	metres	5m W X 5m H					0					0	193	360	704	118	1,375	**1,375**
453 Level - Main Accesses	633	metres	5m W X 5m H					0					0					0	**0**
483 Level Main Accesses	2,811	metres	5m W X 5m H					0				722	722	155			422	577	**1,299**
Truck Loading Stations	320	metres	5m W X 10m H					0					0				60	60	**60**
Raises																			
Ventilation Raises	832	metres	4m X 4m					0				42	42	664	29		97	790	**832**
Backfill Raise	1,000	metres	2.4m X 2.4m					0					0		500			500	**500**
Mine Services								0					0					0	
483 Trackless Maintenance Shop	18,234	cu.m.						0					0			18,234		18,234	**18,234**
453 Explosives Magazine	803	cu.m.						0					0		803			803	**803**
453 Detonators Magazine	57	cu.m.						0					0		57			57	**57**
483 & 510 Refuge Stations	1,606	cu.m.						0		803			803	803				803	**1,606**
483 and 510 Latrines	148	cu.m.						0		74		74	148					0	**148**
483 Fuel Bay	439	cu.m.						0					0	439				439	**439**
510 Fuel Bay	439	cu.m.						0					0	439				439	**439**
483 & 453 Storage Areas	60	metres	6m X 5m H					0			30		30		30			30	**60**
510 Main Dewatering Sump	705	cu.m.	7 m dia.					0			705		705					0	**705**

All raise development work during preproduction and production period will be performing by the mining contractor.

(d) Underground Mining

The mine production schedule is based on mining 3500 t of ore per day for 350 d/a, or 1 225 000 t of reserves per year.

Each stope produces approximately 1000 t/d during the mucking cycle. A stope is drilled blasted, mucked out and backfilled in a total of approximately 73 days for Longhole Open Stoping – Downholes and 23 days for Longhole Open Sloping – Upholes.

Production requirements will be met with an average of five to six stopes loading, blasting and mucking, six stopes drilling and one stope backfilling per shift. Backfilled stopes will require approximately 30 days curing time before adjacent mining can take place.

It should be noted that all production ore will be transported by 50-t trucks traveling up the ramp to surface.

(e) Open-pit Mining – No. 2 Deposit

The proposed Dornod open pit will be developed at the site of the former uranium open pit. The historic pit will be dewatered and further developed to create the proposed Dornod open pit. It is envisaged that the open pit will be developed concurrent with the last year of underground mining (Year 8), and that the historic pit will be dewatered as part of the underground mining and ore processing operations.

The Dornod open pit will be developed by Khan using its own equipment and workforce. They will have responsibility for: the dewatering of the historic pit and re-establishment of the pit haulage roads; production drilling and blasting; the excavation of ore to the primary crusher and waste rock to the waste rock management area; oversize breakage; haul road maintenance; and equipment maintenance. Khan will provide the open-pit equipment, supervision, operator training, the mine consumables, the pit operations and maintenance facilities, and a pit technical and health and safety program including radiation monitoring and dose assessments.

The open-pit operation will make use of the following site infrastructure components that will have been constructed to service the underground mining operation:

- Surface shops and warehouse facilities
- Dry, camp and office facilities
- Explosive and detonator magazines on surface
- Electrical power distribution system
- Ore crusher on surface.

The site infrastructure will be expanded to include:

- An open-pit equipment maintenance shop

- The addition of a grizzly and rock breaker at the hopper feeding the ROM ore conveyor, grizzly and jaw crusher. The addition of a metal detector and interlocks on the feeder to the ore grizzly and primary crusher to assist in detecting / removing scrap steel including drill bits from the run of pit ore.

(i) Preproduction Development

The preproduction development work consists of prestripping 11 Mt of waste rock.

(ii) Open-pit Production Schedule

The open-pit production schedule includes a preproduction period (Year 8), and the pit operations phase. The pit is scheduled to be developed and readied for production concurrent with the last year of underground mining. It is projected that the pit will produce 7.4 Mt of ore in slightly over 6 years. The pit will supply 1.225-Mt/a ore to the processing plant. The open-pit production schedule is shown in Table 3-10.

Table 3-10
Open-Pit Production Schedule

Year	Ore Tonnage (kt)	Waste Tonnage (kt)	Total Tonnage (k)	Tonnes Per Day (kt/d rock)	Waste / Ore Ratio (t waste:t ore)
8					
9	26	11 249	11 275	55	439.6
10	1 225	18 025	19 250	55	14.7
11	1 225	18 025	19 250	55	14.7
12	1 225	18 025	19 250	55	14.7
13	1 225	18 025	19 250	55	14.7
14	1 225	18 025	19 250	55	14.7
15	1 225	12 577	13 802	39	10.3
16	31	591	32	4	0.02
TOTAL	**7 407**	**113 952**	**121 359**		**15.4**

The open pit will be developed in three phases. The waste rock will be disposed in four waste rock piles to be constructed adjacent to the pit.

(iii) Open-pit Mining Method

The geology of the open pit includes at least five horizons hosting uraniferous mineralization that are interlayered with felsic to intermediate volcanic rocks. These layers dip and angle in and out of the successive pit benches and are flat or near horizontal on some elevations. The ore interceptions, varying ore thicknesses and the need to control dilution and ore losses necessitate that the mining method provide operational flexibility and include ore grade control and survey control programs; as such as follows.

- The pit will use conventional mining equipment and a combination of 10- and 5-m bench heights and flexible mining practices. Most of the waste rock will be mined using 10-m-high benches and conventional open-pit drilling, blasting, excavating and haulage methods. Ore layers that are horizontal or near-flat dipping will be mined using 10-m-high benches or 5-m-high split benches, depending on the ore thickness and ore grade control requirements.

- In parts of the pit, the ore is relatively thinner with gentle to steep sloping surfaces. These areas are not amenable to mining with 10-m-high benches. A combination of 5-m-high split benches and 5-m-high split benches with flitch mining will be used to mine the ore in these areas. The flitch mining

will involve the selective removal of waste rock over the ore layer, followed by the selective mining of the ore layer. A portion of the ore in these areas will be rejected by the ore grade control program or otherwise not recovered by the mining operations.

- The main pit production equipment fleet has been sized for mining 10-m-high benches. The pit will also have a fleet of smaller mobile equipment for mining 5-m-high benches. The smaller equipment will include a hydraulic excavator that will provide improved selectively, in comparison to the loading units to be used to excavate the 10-m benches.

- The pit will have a radiometric ore grade control program to determine the boundaries for ore definition and finalise the blast plans, and a survey control program.

(iv) Open-pit Operations

The open-pit mining operations will be carried out on a two 12-hr shifts per day basis with 2 weeks on, 2 weeks off rotations.

Ten-Metre Benching

The 10-m bench blastholes will be drilled off using two Sandvik model D245S drills. This drill is a diesel-powered self-propelled crawler-mounted blasthole drill that is equipped as a rotary drill for 127-mm to 203-mm (5 in. to 8 in.) diameter holes to a depth of up to 45 m (148 ft).

The drilling and blasting parameters for the 10-m benches are shown in Table 3-11.

Table 3-11
Ten-Metre Bench Drilling and Blasting Parameters

	Parameter	
Item	**Ore**	**Waste**
Bench height	10 m	10 m
Blasthole diameter	172 mm (6-3/4 in.)	172 mm (6-3/4 in.)
Burden	5.25 m	5.25 m
Spacing	5.25 m	6.4 m
Subdrill	1.7 m	1.7 m
Stemming	2 m	2 m
Blasting agent	ANFO at 1.05 g/cc	ANFO at 1.05 g/cc
Tonnage factor	2.6 t/m^3 in-situ	2.6 t/m^3 in-situ
Powder factor	0.32 kg/t (0.85 kg/m^3)	0.27 kg/t (0.70 kg/m^3)

One Caterpillar RH12OE diesel-hydraulic shovel, one Caterpillar 994F wheel loader, and a fleet of Caterpillar 785C haulage trucks were selected for the purposes of this study and are well suited to the Project. The RH 120E hydraulic shovel has a 16.5-m^3 capacity (2:1 heap) bucket. The Caterpillar 994F wheel loader will be equipped with a nominal 16-m^3 bucket.

The Caterpillar 785C haul truck has a nominal payload capacity of 136 t. The number of Caterpillar 785C haul trucks in the equipment fleet in each year of the pit life is shown in Table 3-12.

Table 3-12
Caterpillar 785C Haulage Truck Fleet

Year	Number of Caterpillar 785C Trucks Purchased	Number of Caterpillar 785C Trucks On-site
8	4	4
9	6	10
10	2	12
11		12

12	12
13	12
14	12
15	12

Five-metre Split Benches

The 5-m-high split benches will be mined using a combination of smaller mobile equipment and the main pit production equipment fleet depending upon three general field conditions as shown in Table 3-13. Based upon a review of proposed bench elevations and ore layer geometry and thicknesses, the small equipment fleet will be utilised to mine thinner ore layers. It is assumed that the smaller equipment fleet will be utilised to mine 10% of the ore and waste.

The smaller mine equipment fleet will include the following.

- Two Sandvik DP800 drills – This drill is a self-propelled, crawler-based top hammer drill equipped with a climate-controlled operators cabin, dust collector and a rod changer. It is designed to drill 76 to 127 mm (3 to 5-/2 in.) vertical, inclined or horizontal holes.

- One Caterpillar 345D diesel hydraulic excavator - The 345D is a crawler-mounted excavator equipped with a nominal 1.8-m^3 bucket.

- Two Caterpillar D9T bulldozers – They will be equipped with a single shank ripper, and nominal 13.5-m^3 capacity blade and blade tilt cylinder.

Table 3-13
Flexible Mining Approach

Field Condition	General Approach
1. The ore layer is generally horizontal and ore control allows it to be mined as a 10-m-high bench or a 5-m-high split bench.	Ore is drilled off using the main blasthole drills. The blasted ore is excavated using the main loading and haulage equipment. It is assumed that approximately 90% of the ore and waste will be mined using this approach.
2. The ore layer is generally horizontal within a 5-m-high split bench. Reduce dilution.	The local bench elevation is adjusted and the 5-m-split bench is mined using the main loading and haulage equipment; or smaller track-mounted drills are used to drill off the waste or ore. The blasted waste or ore is removed using a bulldozer or excavator to a nearby location, where it is rehandled by the main loading and haulage equipment.
3. The ore layer dips and angles within a 5-m-high split bench. Ore control requires the selective mining of ore and waste.	Smaller track-mounted drills are used to drill off the waste or ore. The blasted material is removed using a smaller hydraulic excavator and bulldozers and stockpiled nearby for reclaim by the main loading and haulage equipment.

(f) Life-of-Mine Plan

The life-of-mine production plan for both the underground and open-pit mining operations is presented in Table 3-14.

Table 3-14
Dornod Life-of-Mine Production Schedule

		Underground		Open Pit		Total Mined		Mill Feed	
Year	Source	Ore Mined (Tonnes)	Grade (% U3O8)	Ore Tonnes	U3O8 %	Ore Tonnes	U3O8 %	Ore Tonnes	U3O8 %
-2	UG	2,000	0.062			2,000	0.062		
-1	UG	97,000	0.181			97,000	0.181		
1	UG	755,000	0.230			755,000	0.230	854,000	0.224
2	UG	1,228,000	0.234			1,228,000	0.234	1,225,000	0.234
3	UG	1,226,000	0.183			1,226,000	0.183	1,225,000	0.183
4	UG	1,226,000	0.208			1,226,000	0.208	1,225,000	0.208
5	UG	1,226,000	0.166			1,226,000	0.166	1,225,000	0.166
6	UG	1,229,000	0.136			1,229,000	0.136	1,225,000	0.136
7	UG	1,225,000	0.115			1,225,000	0.115	1,225,000	0.115
8	UG	1,225,000	0.149			1,225,000	0.149	1,225,000	0.149
9	UG & Pit	1,195,000	0.167	26,000	0.068	1,221,000	0.164	1,225,000	0.164
10	Pit-Ph-1			1,225,000	0.093	1,225,000	0.093	1,225,000	0.093
11	Pit-Ph-1			1,225,000	0.082	1,225,000	0.082	1,225,000	0.082
12	Pit-Ph-1&2			1,225,000	0.075	1,225,000	0.075	1,225,000	0.075
13	Pit-Ph-1,2&3			1,225,000	0.070	1,225,000	0.070	1,225,000	0.070
14	Pit-Ph-2&3			1,225,000	0.058	1,225,000	0.058	1,225,000	0.058
15	Pit-Ph-3			1,225,000	0.066	1,225,000	0.066	1,225,000	0.066
16	Pit-Ph-3			31,000	0.086	31,000	0.086	37,000	0.086
Total		**10,634,000**	**0.174**	**7,407,000**	**0.074**	**18,041,000**	**0.133**	**18,041,000**	**0.133**

Surface Infrastructure

(a) Water

The water balance calculated for the DFS indicates that about 179 m^3/h of process water will be required for the plant. Process water will be reclaimed from the mine and pit, which should be capable of supply up to 60 m^3/h of water once dewatering is complete. Currently, there is approximately 1.56 Mm^3 of water available in the flooded pit as per last survey performed on-site (Oyu Survey LLC, 2008). An allocation for the drilling of a well at the plant site has been made.

(b) Power

Khan has been informed by both the Aimag Business Development Manager and the Power Plant Manager that the power plant in Choibalsan has been refurbished to consistently produce over 30 MW and spare capacity presently exists within the system to meet Project needs. This will be enhanced once the system is connected to the Mongolian national grid. Power (16 MW) will be brought to the site via an overhead power line currently being constructed by Khan for mine dewatering.

Mineral Processing and Metallurgical Testing

The Dornod claims area contains several known ore deposits. This DFS provides for the mining and processing of Nos. 2 and 7 Deposits. Due to its higher grade, the No. 7 Deposit will be developed first. This is expected to take up to about 9.8 years. After about 9 years, it will become difficult to extract 3500 t/d from the No. 7 Deposit. At this time, the tonnage will be replaced with lower grade No. 2 Deposit ore.

The No. 7 orebody, after dewatering the mine, will be accessed via a new ramp to be sunk adjacent to the richest part of the deposit. The existing No. 3 shaft will become the primary ventilation shaft. The No. 2 Deposit will be developed as an open-pit mine.

A milling rate of 3500 t/d is planned. In Years 1 to 9, treating only No. 7, the ore head grade will be typically 0.2% U_3O_8 for Years 1 to 4 and 0.1 in Years 5 to 7. After Year 9, once No. 2 ore is added to the mix, grade will gradually decrease until it reaches average grade for No. 2 ore only after about Year 10 of 0.08% U_3O_8, dropping to 0.07 in Years 11 and 12 and to 0.06 through the end of mine life at Year 16.

The No. 7 Deposit has proven to be refractory. This is presumed to be as a result of the presence of brannerite, a uranium titanate mineral, due to the ore's high in-situ carbonate content and because the uranium minerals are very fine and are closely associated with gangue particles . These effects result in high acid consumption if acceptable recoveries are to be achieved. The difficulty experienced in the leaching seems to vary throughout the deposit. Although the uranium mineralization has been found to exist as very small and intergrown crystals, it has not been necessary to grind the ore to very fine particle size. It is, however, necessary that a significant amount of silica in the ore be dissolved, in order to liberate the uranium. The presence of this dissolved silica causes a gel to form, making the ore difficult to settle or filter. To overcome these problems, a Resin in Pulp (RIP) method of removing the uranium from the ore has been selected to recover the dissolved uranium.

An average leach recovery of 88% has been achieved in testwork to date on the No. 7 Deposit ore. This recovery, with a precipitation yield of 96%, is used in the financial analysis.

The No. 2 Deposit is free milling and, based on the Russian experience, a leach recovery of 93% has been assumed for this ore. This assumption needs to be confirmed in the laboratory. Reagent consumptions for this material also need to be confirmed at the detailed engineering stage.

The No. 7 ore will be brought to surface through a new ramp in 50-t trucks and dumped into a communal dump hopper. A bypass is provided to stockpile ore should the dump hopper be full. This stockpiled material, along with ore from the No. 2 Deposit surface stockpile, will be fed back to the feed hopper using a front-end loader.

After about 10 years of the mine life, the No. 2 Deposit ore will be transported to the stockpile or the dump hopper using 140-t ore trucks.

The dump hopper is provided with a 300-mm grizzly. The grizzly oversize will be crushed to –300 mm in an open-circuit jaw crusher. This crusher is able to handle the larger ore from the No. 2 orebody pit.

The –300-mm material will be fed to an open-circuit 20-ft-diameter by 12-ft-long (6.1 m by 3.7 m) semi-autogenous grinding (SAG) mill. This will produce an 80% passing 2-mm feed to a 16-ft-diameter by 21-ft-long closed-circuit ball mill. The SAG mill will be equipped with a 2200-kW motor, while the ball mill will be powered with a 1750-kW motor. The grinding circuit will produce 80% passing 75 micron material.

Testwork has indicated that the ore is relatively hard and will produce a critical size which will not break down in the SAG mill. For this reason, a 4-ft pebble crusher has been included in the design. This will crush oversize material scavenged from the SAG mill discharge trommel.

The milled material, before acidification, settles well and will be thickened to a density of 50% solids in a high-rate 7-m-dia thickener. In order to save on acid costs, a portion of the thickener underflow material will be further dewatered on a 10-disk vacuum disk filter. This dewatered material will be mixed with unfiltered thickener underflow and repulped to produce a 58% solids feed stream to feed the leach section.

Some of the residual heat in the leach discharge stream will be used to preheat the leach tank feed. The lowering of the leach discharge pulp temperature is required to protect the integrity of the ion exchange resin in the uranium recovery section.

A conventional sulphuric acid leach section has been designed to treat the two ores. After thickening and preheating, the pulp will be leached in a series of 18 pachuca tanks. A residence time of 42 hours was used in the design. The free acid in the leach section will be maintained at about 25 g/L and the pulp will be heated to 80ºC. This will be done by the injection of live steam produced in the acid plant. Oxygen, produced in a dedicated oxygen plant, will be injected into the leach tanks to maintain the EMF at approximately 480 mV. Each of the tanks will be agitated using a 260-kW agitator.

In order to protect the resin from osmotic shock, after leaching and before the heat exchange, the leached pulp will be partially neutralised to a pH of 2 to 2.5 by the addition of lime.

The dissolved uranium will be removed from the leached pulp by adsorbing the uranium onto anion exchange resin (Purolite A660 or equivalent). The resin and the pulp will flow counter-currently to each other in an eight-stage KEMIX carousel type resin-in-pulp circuit. At the end of the process, the loaded resin will be separated from the pulp stream by screening the pulp on a vibrating screen. The barren pulp will be sent to neutralisation and then to disposal in the tailings dam.

The loaded resin will be washed before being eluted with sulphuric acid in a batch type elution circuit. Provision has been made to periodically wash the stripped resin with a caustic solution to remove any silica that may have adhered to the resin.

Before uranium precipitation from the pregnant liquor, impurities will be removed by adjusting the pH to approximately 3.2. In this way iron, arsenic and sulphates will be removed by the addition of lime and ferric sulphate in an oxidising environment. The resulting solids, mainly gypsum, will be removed on a belt filter. The resulting filtrate will be further clarified by passing it through sand filter clarifiers.

Yellowcake will be precipitated from the clarified solution by the addition of magnesia and hydrogen peroxide to form insoluble uranium oxide. This will be dewatered in a thickener and a centrifuge before being dried in a multi-hearth drier.

Leached pulp from the resin-in-leach (RIL) circuit will be neutralised with lime and treated with ferric sulphate and barium chloride before thickening and sending the material to tailings. This will precipitate heavy metals, radium 226 and arsenic ions into the solid tailing.

An extensive water treatment system has been designed. This system includes neutralisation, clarification and reverses osmosis treatment. All tailings dam return water, underground and open-pit mine water, and surface runoff will report to a surface surge pond before treatment and disposal, or being pumped to the mill process water tank.

Potable water will be produced from open-pit supernatant water by reverse osmosis.

Metallurgical Testwork

The metallurgical testwork that underpins the DFS design is in three parts:

(a) Early work conducted by the Russians

(b) Work in preparation for the PFS that was conducted in 2007 / 2008 and was reported in the PFS

(c) Additional work that was conducted in 2008 for the DFS.

3.1.1 Environmental and Geotechnical Considerations

Water Management

Golder assumes that the open-pit lake will have an available volume of 1.0 Mm^3 of water at start up and will operate as a water storage facility for a period of 7 years before the open-pit prestripping starts in Year 8 under mean annual precipitation conditions.

The main objectives of the water management plan are to collect and manage all water on the site; maximize flow and design for zero discharge to the environment under normal operating conditions.

Three water collection ponds will operate at the site: the RMA Pond; the Water Collection Pond; and the Polishing Pond.

Water from the RMA Pond will be pumped directly to the processing plant. Additional water required for processing will be pumped from the open-pit lake for the first 7 years, and then from the Water Collection Pond after Year 7, when the open pit will be prestripped and mined.

Runoff from adjacent lands, from the surface waste rock dumps, ore stockpiles and overburden stockpiles will be collected in ditches and pumped or directed to either the open-pit lake (first 7 years) or to the RMA or the Water Collection Pond.

Residue Disposal

The process will produce several waste streams, as follows.

(a) Leach residue will be discharged at the end of the RIL section. It will be neutralised and treated with ferric sulphate and barium chloride prior to disposal.

(b) A gypsum stream that results from the neutralisation, with lime, of residual acid in the eluate pregnant solution. This will contain insoluble metal hydroxide ions.

(c) A very small intermittent stream of material similar to the described in Item (b) above which originates in the water treatment section.

(d) Solvent extraction (SX) crud will comprise a small volume of waste from the solvent extraction. It is assumed that, because of the organic content, the SX crud will be disposed of separately from the leach residue.

Prior to disposal, the waste streams will be treated with lime, so that their pH is neutral to slightly basic. In addition to the above process streams, a relatively small volume of ash from coal burning boilers will also be disposed of in a lined RMA, which will be located in the southwest corner of the land use permit area.

Containment for the residue will be provided partially by the surrounding topography and partially by the construction of three perimeter dams. The dams will be constructed in two or more stages. The first stage (i.e., the Starter Dam Stage) was designed to contain approximately 2 years of residue production.

Environmental and Social Impact Assessment

(a) Introduction

An internationally recognised Environmental and Social Impact Assessment (ESIA) for the Dornod Uranium Mining Project (the Project) was prepared by AATA International, Inc., based in Denver, Colorado, U.S.A.

The ESIA provides: comprehensive information about the key environmental and social characteristics of the Project; data on the current or baseline (predevelopment) environmental and social conditions at the Project site based on recent studies at the site and historical information; evaluations of potential impacts of the Project; and, recommendations for impact mitigation measures. It also includes a comprehensive document, the Environmental and Social Management Program (ESMP), which provides detailed information on the policies, practices and procedures that will be implemented by Khan at the Dornod Project to comply with applicable Mongolian regulatory requirements, as well as, conform to international guidelines and standards, to which Khan is committed.

The ESIA was developed in accordance with good international industry practice (GIIP) including those specifically defined by the Performance Standards on Social and Environmental Sustainability of the International Finance Corporation (IFC - a unit of the World Bank) and by the Equator Principles.

The study methodology was comprised of the following activities.

- Obtaining all pertinent historical information on the Project from local and national sources, including mine plans and documents, aerial photography images, government reports and other pertinent documents
- Conducting a review of existing literature and data for the Project area
- Identifying Khan's corporate environmental and social policies and guidelines; Mongolian environmental and social regulations and legislative framework; and, international environmental and social guidelines and standards with which the Project must comply or conform
- Performing field baseline studies to collect Project site-specific data on current environmental and social conditions

- Describing the overall Project with an emphasis on processes that may potentially impact the environmental and social conditions
- Characterising the physical, chemical, biological, and social and radiological components of the environment potentially affected by Project development
- Identifying and ranking environmental and social risks and impacts for each Project component for each phase of the Project
- Developing an environmental and social management program that describes mitigation measures designed to eliminate or minimize environmental and social impacts
- Identifying net Project impacts.

The ESIA report includes an Executive Summary, Introduction, Project Description, Project Alternatives, Regulatory Framework, Description of the Baseline (Existing) Environmental and Social Conditions (including Geology and Mineral Resources), Analysis of Potential Impacts and Mitigation Measures, Waste Management, Occupational Health and Safety, Radiation Protection, Emergency Response and Hazard Prevention, Decommissioning and Reclamation (i.e., Project Closure), and Net Environmental and Social Impacts.

The ESMP has been prepared to satisfy Mongolian laws, international guidelines and standards of environmental and social practice, and standards of industry practice that meet Khan's corporate environmental and social policies.

(b) Net Environmental and Social Impacts

The predicted net environmental and social impacts for the Project are based on an impact analysis conducted for the ESIA with the following assumptions.

- Mongolian laws and regulations applicable to the Project will be complied with in the design, construction, operation and closure of the Project;
- Internationally recognised criteria and standards (e.g., IFC Performance Standards, Equator Principles, WHO guidelines, etc.) will be adopted in the design, construction, operation and closure phases of the Project; and,
- Proper mitigation measures, employing GIIP as defined by the IFC, will be implemented during all phases of the Project.

Many adverse effects that could occur from the Project will be eliminated or minimised by proper design, maintenance, management, and mitigation measures. The net environmental and social analysis assumes that the environmental and social management, monitoring, and reclamation measures will be implemented as discussed in both the ESIA and ESMP.

A table summarising the potential net environmental and social impacts is presented. Net impacts were calculated based on worst-case impact scenarios (i.e., gross impacts), minus the effects of all proposed prevention and mitigation measures.

This analysis indicates that implementation of the environmental and social management, mitigation, monitoring, and reclamation measures that have been proposed by Khan will eliminate or minimise

the potential negative environmental and social impacts of the Project; and, will provide economic and social benefits to the region.

EXHIBIT B

AUDIT COMMITTEE CHARTER

1. General

The Board of Directors (the "Board") of Khan Resources Inc. (the "Company") has established the Audit Committee (the "Committee") to assist in fulfilling the Board's responsibility for oversight of the financial reporting process. The Committee is a key component in fulfilling the Company's commitment to maintaining a higher standard of corporate responsibility.

The Committee will review the Company's financial reports and its process, internal control systems, the management of financial risks, the external audit and assurance process, and the Company's compliance with legal and regulatory requirements and the Company's own code of business conduct and ethics.

2. Organization

2.1 Membership

The Committee will be comprised of a minimum of three members to be nominated and appointed annually by the Board, all of whom are to be independent directors as defined in section 1.4 of National Instrument 52-140.unless exempted under applicable laws and regulations. A member continues in his/her capacity until a successor is appointed or if the member resigns, is removed, or ceases to be a director of the Company.

Members of the Committee must, in the opinion of the Board, be financially literate and at a minimum be capable of reading and understanding all financial information and understand their respective implications over the short and long term.

2.2 Removal

Any member of the Committee may be removed and replaced at any time by the Board. The Board will fill vacancies for the Committee by appointment from among qualified members of the Board or the recommendation of the Committee.

2.3 Committee Chair and Secretary

The Board shall nominate and appoint/reappoint the Chair of the Committee annually. The Chair of the Committee must be an independent director of the Company and meet the Company's standards of Independence outlined in Section 4 of the Corporate Governance Guidelines.

The role of Secretary can be filled by the Corporate Secretary or any other person as may be appointed by the Chair of the Committee.

2.4 Meetings

A quorum for any meeting will be two members in attendance. The Committee shall meet quarterly at a minimum and may invite any outside director or member of senior management to

attend a meeting as an observer or answer questions that the Committee may have. The proceedings will be minuted.

3. Authority

The Board has authorized the Committee, within the parameters of its responsibilities, to seek any required information from any employee or external party, including obtaining outside legal or other professional counsel. The Committee is authorized to set and pay the compensation to those parties. The Committee shall recommend to the Board (i) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company; and (ii) the compensation of the external auditor.

4. Duties and Responsibilities

4.1 Financial Reporting

(a) Audited Annual Financial Statements: The Committee shall review the audited annual and interim financial statements, all related management discussion and analysis ("MD&A"), and earnings press releases for submission to the Board for approval and public disclosure.

(b) Quarterly Review: The Committee shall review the unaudited quarterly financial statements, the related MD&A, and earnings press releases for submission to the Board for approval and public disclosure.

(c) Significant Accounting Principles and Disclosure Issues: The Committee shall review with management and the external auditor, significant accounting principles and disclosure issues, including complex or unusual transactions, highly judgmental areas such as reserves or estimates, significant changes to accounting principles, and alternative treatments under International Financial Reporting Standards ("IFRS") for material transactions. This shall be undertaken with a view to understanding their impact on the financial statements, and to gaining reasonable assurance that the statements are accurate, complete, do not contain any misrepresentations, and present fairly the Company's financial position and the results of its operations in accordance with IFRS.

(d) Compliance: The Committee shall ensure that all of the Company's financial reporting conforms to, and meets or exceeds, the requirements of IFRS and all applicable laws and regulations.

(e) Legal Events: In the event of any actual or anticipated litigation or other events, including tax assessments, the Committee shall examine what material effect the event may have on the Company's current or future financial statements and the manner in which these details have been disclosed in the financial statements.

(f) Off-Balance Sheet Transactions: The Committee shall review any off-balance sheet transactions, arrangements, obligations, and other relationships with unconsolidated entities or other persons, and examine how that may have a material current or future effect on the Company's financial position.

(g) Procedural Review: The Committee shall satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information and periodically assess the adequacy of those procedures.

4.2 Internal Controls

(a) Review and Assessment: The Committee shall periodically review the effectiveness of the Company's system of internal control and management information systems through discussions with management and the external auditor. Based on that review the Committee will advise the Board of the adequacy of these controls and make recommendations for alterations to these controls when deemed necessary.

(b) Fraud: The Committee shall oversee any investigations of alleged fraud and illegality relating to the Company's finances.

(c) Complaints: The Committee shall ensure appropriate systems are in place for the receipt, retention, and treatment of internal and external complaints in an anonymous and confidential manner by the Company regarding accounting, internal accounting controls, or auditing matters.

(d) Hiring from the Auditor: The Committee shall review and approve the Company's hiring policies regarding current or former partners and employees of the current or former external auditor.

4.3 External Audit

(a) Auditor Reporting: The Committee shall be directly responsible for overseeing the work of the external auditor.

(b) Auditor Performance: The Committee shall review the terms of the external auditor's engagement, accountability, experience, qualifications, independence, and overall performance.

(c) Auditor Appointment or Replacement: The Board shall appoint or replace the auditor and set its compensation based on the Committee's evaluation and conclusions of the auditor's performance and adequacy. Audit Plan: The Committee shall review the audit plan and scope of the external audit with the external auditor and management, and consider whether the nature and scope of the planned audit procedures can be relied upon to detect weaknesses in internal controls, frauds or other illegal acts. The Committee shall make adjustments as needed.

(d) Audit Results: The Committee shall review, in the absence of management, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.

(e) Actions to be Taken: The Committee shall ensure that significant findings and recommendations by the external auditors are received and discussed on a timely basis. The Committee shall ensure that management responds to these findings and recommendations.

(f) Disparity and Disagreements: The Committee shall ensure the resolution of any disagreements between management and the external auditor or incongruity between expectations and results regarding financial reporting.

(g) Interim Financial Statements: The Committee may engage the external auditor to review all interim financial statements. The Committee shall review the results of the auditor's review of the interim financial statements and MD&A.

(h) Meeting with External Auditor: The Committee shall meet with the external auditor in the absence of management at least annually to discuss and review specific issues as appropriate as well as any significant matters that the auditor may wish to bring to the Committee for its consideration.

(i) Correspondence Review: The Committee shall review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.

(j) Non-Audit/Audit Services: The Committee must pre-approve any non-audit services to be provided to the Company or its subsidiaries by the external auditor, with reference to compatibility of the service with the external auditor's independence as prescribed by OSC regulations.

(k) Other Audit Matters: The Committee shall review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards.

4.4 Risk Management

The Committee shall undertake an annual review the Company's risk management policies and procedures. The Committee oversees the implementation of these systems and determines their adequacy in mitigating and managing risks.

4.5 Reporting Responsibilities

(a) Adequacy of Charter: The Committee shall assess the continued adequacy of the Committee Charter annually and submit such amendments as the Committee sees fit to the Nominating and Corporate Governance Committee.

(b) Disclosure: The Committee shall oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Company's Annual Information Form and all other applicable disclosure documents.

(c) Reporting to the Board: The Committee shall report regularly to the Board on Committee activities, findings and recommendations. The Committee is responsible for ensuring that the Board is aware of, and understands, any matter that may have a significant impact on the financial condition or affairs of the Company. The Committee shall submit its recommendations with respect to any such matter to the Board.