LETTER TO SHAREHOLDERS

While some progress was made, 2011 was generally a difficult year for Khan Resources Inc. ("Khan" or the "Company"). The year commenced quite positively with rising uranium prices, and the attendant rise in share values. The Khan share price started 2011 at a value of $0.48 and rose to $0.63 by early February. Similarly, the value of our investment in Macusani Yellowcake Inc. ("Macusani") had increased, with their share price rising from $0.58 at the start of the year to $1.20 by mid-February. Then the Japanese earthquake and tsunami occurred on March 11, 2011 causing extensive damage to the Fukushima Daiichi nuclear power plants. As you well know, this disaster resulted in some countries reassessing their nuclear power programs which put the uranium industry into a tailspin. While many forecasters thought the effects of the disaster would be temporary, its effects have persisted and the uranium industry remains undervalued. There is almost universal consensus that the uranium market will recover but the timing is unclear. At year-end, the stock price for Khan stood at $0.20 per share while Macusani closed the year at $0.14 per share.

The year 2011 was also one for reducing the Company's general and administrative expense levels. Offices in Toronto and in Mongolia went through significant downsizing exercises and all expenditures continue to be reviewed for necessity. Hence, we have abandoned initiatives such as an Annual Report, opting instead for this cost reduced communication.

During the year, a primary focus for Khan was to build and accelerate our International Arbitration action against the Government of Mongolia (the "Respondents") for US$200 million ($3.75 per share). The action was initiated in January, 2011, and a high profile and experienced tribunal (the "Tribunal") was constituted in May to preside over the action. That panel met with Company representatives and the Respondents twice during the year to settle administrative and scheduling matters. Our intent has been and will continue to be as open and transparent as possible with our shareholders on this matter. Therefore, at the risk of being long-winded, this shareholder communication presents an appropriate forum to set out the International Arbitration process and the schedule.

Following a hearing in September 2011, the parties agreed that all claims by all parties would be decided by the current Tribunal in a single arbitration process. The process is split into two phases; first a jurisdictional phase, and second, a merits and damages phase. The next hearing is scheduled for May 2012, which will hear arguments on whether the Tribunal has jurisdiction in this matter. The Respondents submitted their written opening case on December 2, 2011. Khan will submit its written case on February 3, 2012. The Respondents will then submit a rejoinder to Khan's submission on March 14, 2012, while we submit a rejoinder to their submissions on April 23, 2012. The hearing then takes place in May, 2012 followed by a decision on jurisdiction scheduled by the Tribunal for late summer of 2012.

Our claims against Mongolia are made by Khan Resources Inc. and certain of our subsidiaries; being Khan Resources B.V, our Netherlands subsidiary and CAUC Holding Company Ltd., our British Virgin Islands subsidiary. The claims are made under i) the original Founding Agreement amongst the joint venture partners, ii) the multilateral Energy Charter Treaty (the "ECT") signed between the Netherlands and Mongolia, and iii) the Mongolian Foreign Investment Law. For the jurisdictional phase, the Respondents argue that the clause in the Founding Agreement, whereby disputes between the parties are to be settled by International Arbitration, is not applicable as i) Khan does not have a valid dispute, and ii) the Government of Mongolia is not a proper party to any alleged dispute. The Respondents also argue that, under the Energy Charter Treaty, i) Khan Netherlands, by its nature of being a flow-through subsidiary, is not entitled to benefits under the multinational ECT, ii) Khan Netherlands made its investments illegally and in bad faith, iii) Khan Netherlands did not wait to make its claim for a required 90 days, and iv) the claims are the same as what was brought before the Mongolian Courts in 2010. Khan believes that none of the above arguments have any merit and is confident of a favourable ruling.

Assuming a favourable jurisdiction decision by the Tribunal, the merits and damages phase will then commence. As with the jurisdictional phase, there will be four submissions to the panel between December, 2012 and September, 2013 (two by Khan, two by the Respondents) and the hearing will be held November 11 – 16, 2013 followed by an award in 2014.

During the merits and damages phase, the Company will present its arguments that Khan has been damaged by the Respondent's actions and that a demand for a $200 million award is reasonable and justifiable. There is little need to explain these arguments to shareholders, the bearers of such damages. We remain very confident that the Company will prevail through this second stage also.

At this point, it is worthwhile to revisit our reasons for initiating the International Arbitration action. Shareholders will remember that we took the Mongolian Nuclear Energy Agency to court in Mongolia for their illegal suspension of our licenses and their failure to renew them under the 2009 Nuclear Energy Law. Following Court decisions in our favour, which confirmed that the suspensions did not follow the lawful process and were in themselves illegal, the Mongolian Nuclear Energy Agency continued not to re-issue our licenses. An International Arbitration proceeding at that point was the only available recourse to the Company against Mongolia. It is not uncommon for International Arbitrations to be settled before they run their full course and we must believe that the Mongolian Government will eventually consider such a course. Our most important objective, however, is to achieve an outcome (whether by way of settlement or arbitration award) that is fair to shareholders. We believe that our share price has not reflected the value of the assets for a number of years so that a settlement based on current share prices will not be acceptable to shareholders.

Shareholders will also remember that we initiated a lawsuit in the Ontario Superior Court of Justice in August 2010, against Atomredmetzoloto JSC (ARMZ), our Russian joint venture partner in Mongolia. ARMZ used several procedural delays to avoid being served with the claim during the first nine months of 2011. However, the Ontario Superior Court of Justice in October 2011 validated service upon ARMZ and ruled that the claim could proceed. ARMZ appealed this latest decision and their appeal will be heard on January 24, 2012. We understand that a group of Khan's major shareholders are also going through the process of trying to serve ARMZ with an additional claim for damages. The claim is based on inadequate disclosure by ARMZ in public documentation in respect of their hostile take-over attempt of Khan in early 2010. Meanwhile, throughout 2011, ARMZ continued with their attempts to implement the Mongolian-Russian Dornod uranium joint venture, an arrangement to develop the Dornod deposit without recognizing Khan's legitimate interests in the asset.

In closing, we wish to thank all shareholders for their continued and patient support. We remain committed to protecting the value of your Company and to pursuing new value-enhancing opportunities.

Sincerely,

Grant A. Edey
President and CEO
January 13, 2012