Khan Resources Inc.
Management's Discussion and Analysis
For the three months ended December 31, 2010 and 2009

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This Management's Discussion and Analysis ("MD&A") provides a discussion and analysis of the financial condition and results of operations of Khan Resources Inc. (the "Company" or "Khan") for the three months ended December 31, 2010 and 2009, and is intended to be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three months ended December 31, 2010 and 2009 and the related notes thereto. References in this MD&A to "2010" mean the three month period ended December 31, 2010 whereas references in this MD&A to "2009" mean the three month period ended December 31, 2009, unless otherwise noted. The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise indicated, all amounts in this MD&A are expressed in United States dollars.

The date of this MD&A is February 9, 2011.

Auditor Involvement

The auditor of Khan has not performed a review of the unaudited interim consolidated financial statements for the three months ended December 31, 2010 and 2009.

Company Profile

Khan is a Canadian-based mineral exploration and development company engaged in the acquisition, exploration and development of uranium. The Company is currently engaged in the exploration and development of certain uranium properties that are located in the Dornod district of north eastern Mongolia, a district that contains a number of known uranium deposits. These uranium properties are known as the Dornod Uranium Project and currently consist of a 58% interest in the "Main Dornod Property" (defined below) and a 100% interest in the "Additional Dornod Property" (defined below). The Company expects its interests in the Main Dornod Property and the Additional Dornod Property to decrease as a result of the passage of the Nuclear Energy Law in July 2009. The Company has also been affected by other recent developments in Mongolia that may, in turn, impact its properties and assets and its interests therein. See "Significant Developments" below for further details.

On November 30, 2009, Khan acquired, by way of private placement, 10,000,000 common shares of Macusani Yellowcake Inc. ("Macusani") at a price of Cdn$0.20 per share. Macusani is a Canadian TSX Venture Exchange company which holds uranium properties in the Macusani Plateau district of Peru. On November 4, 2010, Khan acquired, by way of private placement, 2,540,000 Macusani units at a subscription price of Cdn$0.25 per unit, each unit consisting of one Macusani common share and one Macusani share purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn$0.35 per share for a period of 24 months after the acquisition. The Company currently holds 12, 540,000 Macusani common shares representing approximately 16.1% of the outstanding common shares of Macusani and 2,540,000 Macusani share purchase warrants. The closing price of a Macusani common share as of the date of this MD&A was Cdn$1.14. Further details concerning Khan's investment in Macusani are set out below under the section entitled "Significant Developments – Macusani Yellowcake Inc.".

The Main Dornod Property consists of an open pit mine ("Dornod Deposit No. 2") and approximately two-thirds of an underground deposit ("Dornod Deposit No. 7"). From 1988 to 1995, JSC Priargunsky Industrial Mining and Chemical Union ("Priargunsky"), a Russian state owned company, extracted approximately 590,000 tonnes of ore at an average grade of 0.118 per cent uranium oxide ("U_3O_8") from Dornod Deposit No. 2. At Dornod Deposit No. 7, two shafts have been sunk to depths of 510 and 500 metres and approximately 20,000 metres of development drifts, which extend onto the Additional Dornod Property, are in place. The mining license in respect of the Main Dornod Property is registered in the name of Central Asian Uranium Company LLC ("CAUC"), a Mongolian company, in which the Company currently holds a 58% interest through its subsidiary CAUC Holding Company Limited ("CAUC Holding"). The other shareholders of CAUC, who each currently hold a 21% interest are MonAtom LLC ("MonAtom"), a Mongolian state owned company and Priargunsky. Khan operates the Main Dornod Property through a joint venture with MonAtom and Priargunsky. In January 2010, CAUC received a formal notice from the State Property Committee of Mongolia ("SPC") requiring CAUC to propose to its shareholders a resolution to approve an increase of the Mongolian State ownership in CAUC to 51%, which resolution was subsequently authorized and approved by MonAtom and CAUC Holding, and submitted to the SPC (see "Significant Developments - Mineral Licenses - Nuclear Energy Law" below for further details).

The Additional Dornod Property is contiguous to the Main Dornod Property and consists of approximately one third of Deposit No. 7 and part of another underground deposit. The exploration license in respect of the Additional Dornod Property is registered in the name of Khan Resources LLC ("KRL"), a Mongolian company, in which the Company currently holds a 100% interest through subsidiaries. Although no formal notice has been received, the Company expects that the Additional Dornod Property will be subject to Mongolian State ownership of 51%.

Significant Developments

Highlights

- Mongolian courts reconfirm that the notices received from the Mongolian Nuclear Energy Agency (NEA) invalidating Khan's licenses were illegal and invalid (see "Mineral Licenses - Invalidation of Mining and Exploration Licenses" below)

- NEA continues to not follow required procedures and refuses to re-issue Khan's licenses (see "Mineral Licenses - Invalidation of Mining and Exploration Licenses" below)

- Khan commences an international arbitration action against the Government of Mongolia for its expropriatory and unlawful treatment of Khan in relation to the Dornod uranium deposit (see "Legal Actions" below)

- Macusani common share price increases to Cdn$1.14, resources increase and higher grade structures are intersected. (see "Macusani Yellowcake Inc." below)

- Uranium spot price increases over 2010 levels (see "Uranium Prices" below)

Mineral Licenses

Overview

During 2009, the Government of Mongolia enacted its Nuclear Energy Law. In April 2010, the Company announced that it had received notices from the Mongolian Nuclear Energy Agency (the "NEA") stating that the mining license for the Main Dornod Property and the exploration license for the Additional Dornod Property had been invalidated. Shortly thereafter, CAUC and KRL filed separate formal claims in the Capital City Administrative Court (the "Court") in Mongolia challenging the legal basis for the notices received from the NEA purporting to invalidate CAUC's mining license and KRL's exploration license. In July 2010, the Court ruled in favour of CAUC and declared that the previous decision by the NEA to invalidate CAUC's mining license was itself illegal and invalid. In August 2010, the Court also ruled in favour of KRL and declared that the previous purported decision by the NEA to invalidate KRL's exploration license was itself illegal and invalid. In November 2010, the Company announced that the NEA had published a notice in certain Mongolian newspapers that it did not intend to reinstate the mining license for the Main Dornod

Property and the exploration license for the Additional Dornod Property. These events are described in further detail below.

Nuclear Energy Law

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law that classifies all radioactive mineral deposits, regardless of size, as strategically important mineral deposits and regulates the nuclear energy industry in Mongolia, including the exploration, exploitation, development, mining and sale of uranium. The law became effective on August 15, 2009. In connection with the passing of the Nuclear Energy Law, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the Nuclear Energy Law becoming effective. Existing license holders were required to submit applications to the State Administrative Authority to renew and re-register their existing licenses by November 15, 2009. In order to have licenses re-registered, applicants were required to agree to abide by all of the conditions and requirements set out in the Nuclear Energy Law, including acceptance of the State's 51% or 34% share participation in the license holder, as applicable. Any licenses not re-registered under the Nuclear Energy Law, as required, were considered to automatically be suspended. On October 8, 2009, CAUC and KRL received notices (the "October 8 Notices") which stated that in connection with the implementation of the Nuclear Energy Law, the existing mining license and exploration license should be considered invalidated, and that CAUC and KRL should not undertake any activities under the licenses until they obtain new licenses from the NEA under the new law. Khan inquired as to the grounds and consequences of such invalidations, and was informed by the NEA that all licenses held by all uranium license holders in Mongolia had been temporarily suspended in October 2009, pending re-registration of such licenses under the Nuclear Energy Law. Accordingly, Khan interpreted the October 8 Notices as an administrative matter which meant only that its licenses, like those of all other license-holders in Mongolia, were suspended pending re-registration under the new law. Khan submitted the applications for the renewal and re-registration of the mining license and exploration license for the Dornod Uranium Project on November 10, 2009. The applications were in compliance with the requirements of the new legislation, including the requirement to state that the license holder accepted the ability of the Mongolian State to take an ownership interest in the license-holder.

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

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 mining license was itself 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 did not constitute an official decision which must include the legal reasons for making such a decision pursuant to Mongolian law. The Company continues to believe that there exists no legal basis for the NEA to refuse to reinstate and re-register its licenses and that it has always acted in conformance with Mongolian laws.

Legal Actions

International Arbitration

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

The arbitration, which is brought by Khan and several of its subsidiaries, will take place under the Arbitration Rules of the United Nations Commission on International Trade Law, and asserts claims under the Energy Charter Treaty, the Foreign Investment Law of Mongolia, and the Founding Agreement between Khan and the Mongolian Government. The claim was served on various officials of the Government of Mongolia on January 10, 2010.

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

An arbitration Tribunal of three will be appointed. Each side will appoint an arbitrator followed by the selection of president of the Tribunal by the two appointed arbitrators. The Company has appointed its arbitrator and the Government of Mongolia has to appoint its arbitrator by February 18, 2011.

The Government of Mongolia constituted a working group at the end of the third week of January to address the issue. The group is chaired by G. Bayasgalan, State Secretary for the Ministry of Justice and Internal Affairs. Hogan Lovells LLP ("Hogan") has been appointed counsel for Mongolia in this matter.

ARMZ

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

The statement of claim alleges, among other things, that the harmful conduct of ARMZ and it affiliates, namely in seeking to establish a joint venture with the Government of Mongolia over the Dornod uranium region without regard to Khan's rights and interests, impugning the legitimacy of Khan's interests in Mongolia, interfering with its economic relations with MonAtom (Khan's other joint venture partner in CAUC and the Mongolian state-owned entity with which Khan sought to pursue a strategic transaction), and interfering with the competing and superior take-over bid by CNNC, all with the goal of eliminating Khan's interests in Mongolia, has caused Khan, its subsidiaries and its shareholders substantial damage. Subsequent to filing the statement of claim against ARMZ, various reports have circulated concerning the advancement of a proposed Dornod uranium joint venture between the Russian and Mongolian Governments to develop the Dornod region to the exclusion of Khan and its subsidiaries These reports culminated in an announcement on December 14, 2010 that Russia and Mongolia signed an agreement on the principles of creating a joint venture to develop the Dornod resource. According to ARMZ's press release on their website, the agreement was signed on December 14, 2010 by Rosatom Corp. (Russia's nuclear power company), ARMZ and Mongolia's state owned MonAtom and the NEA and approves the terms and conditions of the Dornod Uranium Joint Venture.

The statement of claim against ARMZ and Priargunsky was filed with the Russian Department of Justice to be legally served. The Department of Justice has informed the Company that it has refused to serve ARMZ and Priagunsky 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. Khan intends to continue to vigorously defend its rights and interests, including pursuing all available rights and remedies in Canada, Mongolia and elsewhere.

Macusani Yellowcake Inc.

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

On November 4, 2010, Khan acquired, by way of private placement, 2,540,000 Macusani units at a price of Cdn$0.25 per unit, each unit consisting of one Macusani common share and one Macusani share purchase warrant entitling the holder to purchase one Macusani common share at an exercise price of Cdn$0.35 per share for a period of 24 months after the acquisition. The Company currently holds 12,540,000 Macusani common shares representing approximately 16.1% of the outstanding common shares of Macusani and 2,540,000 Macusani share purchase warrants.

At the closing price of Cdn$0.60 for Macusani common share on December 31, 2010, the market value of the Company's investment in Macusani was $8,203,000. The Company recorded an unrealized holding gain on the investment, net of income tax provision of $523,000, of $3,663,000 for the three months ended December 31, 2010. At September 30, 2010, the Company had Canadian non-capital losses of approximately $23,178,000 available for deduction against future realized taxable income.

At the closing price of Cdn$1.14 for Macusani common share on the date of this MD&A, the market value of the Company's investment in Macusani was $16,400,000.

The following disclosure on the Macusani properties has been obtained from Macusani news releases.

Macusani controls over 24,000 hectares (240 square kilometres) of mineral properties located on the Macusani Plateau in the Puno District of southern Peru which include several significant advanced stage exploration properties. In June 2009, Macusani acquired the Corapachi and Kihitian Concessions, two properties on the Plateau where higher grade U_3O_8 has been identified. Macusani has conducted an exploration program on these properties subsequent to their acquisition.

In March 2010, Macusani announced indicated resources of 2.1 million lbs of U_3O_8 at a grade of 0.44 lbs of U_3O_8 per short ton and inferred resources of 14.5 million lbs of U_3O_8 at a grade of 0.34 lbs per short ton on its Colibri 2 and 3 properties. On July 27, 2010, Macusani announced that infill drilling on the Colibri 2 and 3 properties intersected higher-grade uranium.

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

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

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

In August 2010, Macusani announced the results of a further updated NI 43-101 compliant resource estimate on Colibri 2 and 3 properties. The resource estimation was completed by The Mineral Corporation, South Africa. Compared with the previous resource estimate, the latest results show an increase of contained U_3O_8 at the 75 ppm cutoff grade in the Indicated category by 158% to 5.41 million lbs at a grade of 0.027% U_3O_8

(0.535 lbs U_3O_8 per ton) compared with 2.10 million lbs at a grade of 0.022% (0.443 lbs U_3O_8 per ton). In addition, the contained U_3O_8 in the Inferred category increased by 4.5% to 15.15 million lbs at a grade of 0.020% (0.389 U_3O_8 per ton) compared with 14.49 million lbs at a grade of 0.017% (0.335 per U_3O_8 per ton).

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

On September 28, 2010, Macusani announced the results of step-out-drilling on the Corachapi uranium property outside of the mineralized area covered by the NI 43-101 resource report described in the press release dated September 8, 2010. The results suggest a significant increase in the mineralized strike length contained within the Corachapi property. The best intersection from the new drilling returned 25 m (from surface) with a grade of 0.1098% U_3O_8 (82 feet grading 2.196 lbs/ton U_3O_8).

On September 30, 2010, Macusani announced the initial assay results from the first drill hole of the Company's 99.5% owned Kihitian uranium property on the Macusani Plateau, Peru. The hole intersects 12 m of mineralization grading 0.92% U_3O_8 (39 ft grading 18 lbs/ton U_3O_8). These results represent only the upper 100 metres of the first drill hole in the Chilcuno zone.

On November 26, 2010, Macusani announced the discovery of a second, deeper high-grade zone on the Chilcuno area on the Kihitian uranium property on the Macusani Plateau. Drill hole number PT-CH4-V intersected a 65m wide mineralized zone from 143m to 208m. Within this thick mineralized interval occurs a higher grade zone of 7m, from 150m to 157m that graded a weighted average of 1.80% U_3O_8 (23.0 feet grading 36.0 lbs/ton U_3O_8). The latest results confirmed that there may be multiple uranium rich zones at depth at Kihitian.

In December 2010 and January 2011, Macusani continued the ongoing exploration program on Chilcuno zone on the Kihitian uranium property. The most recent results of this exploration program, announced on January 20, 2011, continue to demonstrate the presence of very significant amounts of uranium.

Power Line

In September 2008, Khan entered into a contract for the construction of a power line and substation for the Dornod Uranium Project. The electric power line would be constructed from the Xin Xin Mine, a zinc mine owned by a Chinese company, to the Dornod Uranium Project, a distance of about 26 kilometres and an electrical substation will be constructed at the site. The Xin Xin Mine is connected to an electric power line from the Choibalsan generating plant, approximately 120 kilometres to the south. In conjunction with the contract for the power line, an agreement for the supply of up to 15 MW of electricity was entered into with the Choibalsan generating plant. The availability of electrical power from this plant would eliminate the use of diesel powered generators at the site and provide sufficient electricity for the future dewatering and rehabilitation of the underground mine workings. In April 2010, the contractor stopped work on the project. After several meetings with the contractor, it became apparent that the project would not be completed; therefore, a notice of default under the terms of the contract was sent to the contractor in November 2010.

Uranium Prices

In January 2011, the average month-end spot price was $73 per lb U_3O_8. During the year ended December 31, 2010, the highest average month-end spot price was $62.

Organizational Changes

Effective January 1, 2011, the Chief Financial Officer and Corporate Secretary position was changed from a full-time to a part-time basis. Mr. Paul Caldwell, the current CFO and Corporate Secretary, will continue on an interim basis until a successor is appointed.

Overall Performance

Financial

Total assets of the Company at December 31, 2010 were $33,726,000 compared with $30,096,000 at September 30, 2010. The net increase of $3,630,000 resulted from an increase in investments of $4,802,000 and mineral interests of $87,000 offset by the decreases in current assets of $1,195,000 and capital assets of $64,000. The decrease in current assets was due primarily to the cash used in operating and investing activities during the three months ended December 31, 2010. The increase in investments was due to the purchase of Macusani units consisting of common shares and warrants and the increase in market value of Macusani common shares. The increase in mineral interests was due to costs incurred on the Dornod Uranium Project.

During the three months ended December 31, 2010, the Company recorded net income of $34,000 or $0.00 per share compared with net loss of $826,000, or $0.02 per share in the comparable period of 2009. The net change of $860,000 was due primarily to the recovery of income taxes related to the unrealized gain on the available-for-sale investments. Other factors which contributed to the net change are increases in interest income of $13,000 and foreign exchange gain of $34,000 and the decrease in general corporate expense of $302,000.

During the three months ended December 31, 2010, the Company recorded comprehensive income of $3,697,000. An unrealized holding gain on available-for-sale securities of $4,186,000, less future tax expense of $523,000, increased the comprehensive income to $3,697,000 from $34,000. During the three months ended December 31, 2009, the Company incurred a comprehensive loss of $339,000. An unrealized holding gain on available-for-sale securities of $487,000 reduced the comprehensive loss to $339,000 from $826,000.

During the three months ended December 31, 2010, cash decreased by $1,113,000 compared with $2,588,000 in the comparable period of 2009.

The cash used in operating activities for the three month period was $707,000 in 2010 compared with $739,000 in 2009. The decrease of $32,000 was due to the increases in interest income of $13,000 and realized foreign exchange gain of $6,000 and the decrease in general corporate expense of $302,000 offset by the increase in Mongolian operation expenses of $7,000 and the cash required for changes in non-cash working capital related to operations of $282,000.

The cash used in investing activities for the three month period was $702,000 in 2010 compared with $2,096,000 in 2009, a decrease of $1,394,000. In 2009, purchase of capital assets used cash of $54,000. There was no comparable amount in 2010. Purchase of investments used cash of $615,000 compared with $1,891,000 in 2009. Mineral interests used cash of $87,000 compared with $151,000 in 2009. The decrease of $64,000 resulted from the lower level of activity at the Dornod Uranium Project in 2010.

The cash provided by financing activities for the three month period was $19,000 and there was no comparable amount in 2009. In 2010, the exercise of stock options provided cash of $19,000.

The foreign exchange gain on cash was $277,000 in 2010 compared with $247,000 in 2009. Cash balances are primarily held in Canadian dollars. The foreign exchange gain on cash was due to the increase in value of the Canadian dollar in terms of the United States dollar during the period.

Results of Operations

Khan is a development stage company and based on the current exploration and development plans for the Dornod Uranium Project, the Company expects to incur losses for the foreseeable future and will require additional funds to finance exploration and development activities. The net income for the three months ended December 31, 2010 resulted primarily from the foreign exchange gain and the recovery of income taxes being greater than the expenses for the period. The foreign exchange gain resulted from the increase in value of the Canadian dollar in terms of the United States dollar during the period and the recovery of income taxes was related to an unrealized holding gain on available-for-sale securities. These items result from factors beyond the Company's control and may not occur in future periods.

Revenue

Total revenue increased by $13,000 during the three months ended December 31, 2010 from the comparable period in 2009 due to higher interest rates.

Expenses

Total expenses decreased by $325,000 during the three months ended December 31, 2010 from the comparable period in 2009 due primarily to the decrease in general corporate expense of $302,000 and increase in foreign exchange gain of $34,000 offset by increase in Mongolian operations expense of $7,000, amortization expense of $1,000 and write-off of assets of $3,000.

General corporate expense decreased by $302,000 in 2010 compared with 2009. The following table illustrates the major items included in general corporate expense:

	Three months ended December 31, 2010 $000's	Three months ended December 31, 2009 $000's
Accounting and audit	49	58
Investor relations	-	39
Insurance	35	24
Legal	106	317
Management remuneration	238	197
Office and travel	127	222
	555	857

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

- Accounting and audit expense decreased due to lower audit fees;
- Investor relations expense decreased due to a lower level of activity;
- Insurance expense increased due to higher premiums for directors and officers insurance;
- Legal fees and expenses decreased due to a lower level of potential corporate transactions;
- Management remuneration expense increased due to salary increases and the implementation of retainer fees for directors; and

- Office and travel costs decreased due to a lower level of potential corporate transactions and fewer trips to Mongolia.

The increase in foreign exchange gain of $34,000 was primarily due to the fluctuation in value of the Canadian dollar in terms of the United States dollar and the amount of Canadian dollars on hand. In 2010, at the beginning of the fiscal period, the Canadian dollar was $0.9718 in terms of the United States dollar compared with $1.0054 at the end of the fiscal period. In 2009, at the beginning of the fiscal period, the Canadian dollar was $0.9340 in terms of the United States dollar compared with $0.9575 at the end of the fiscal period. The average amount of Canadian dollars on hand represented 95% of cash during 2010 compared with 88% during 2009.

Mineral interests

During the three months ended December 31, 2010, the deferred development costs, consisting mainly of camp operations and site maintenance, incurred on the Dornod Uranium Project, were $87,000. The following table sets out the change in deferred development costs:

	As at September 30, 2010 $000's	Costs incurred during the three months ended December 31, 2010 $000's	As at December 31, 2010 $000's
Deferred development costs			
Dornod Uranium Project, Mongolia	12,012	87	12,099

Summary of Quarterly Results

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

	Quarter ended December 31, 2010 $000's	Quarter ended September 30, 2010 $000's	Quarter ended June 30, 2010 $000's	Quarter ended March 31, 2010 $000's
Revenue	24	20	17	9
Expenses	(10)	624	1,604	1,280
Net income (loss)	34	(446)	(1,587)	(1,271)
Net income (loss) per share - basic and diluted	$ 0.00	$ (0.01)	$ (0.03)	$ (0.02)

	Quarter ended December 31, 2009 $000's	Quarter ended September 30, 2009 $000's	Quarter ended June 30, 2009 $000's	Quarter ended March 31, 2009 $000's
Revenue	11	20	30	38
Expenses	837	(304)	(310)	1,469
Net income (loss)	(826)	324	340	(1,431)
Net income (loss) per share - basic and diluted	$ (0.02)	$ 0.01	$ 0.01	$ (0.03)

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

Liquidity and Capital Resources

As at December 31, 2010, the Company had working capital of $9,372,000 (September 30, 2010 - $10,446,000) which comprised cash of $9,441,000 (September 30, 2009 - $10,554,000), accounts receivable in the amount of $56,000 (September 30, 2009 - $59,000), prepaid expenses and other assets in the amount of $111,000 (September 30, 2009 - $191,000), restricted cash in the amount of $52,000 (September 30, 2009 - $51,000) and current liabilities of $288,000 (September 30, 2009 - $409,000).

The Company earns no income from operations and any significant improvement in working capital results from the issuance of share capital. For the three months ended December 31, 2010, the operating activities of Khan used cash of $707,000 (2009 - $739,000), the investing activities, which consisted of the purchase of investments, capital assets and mineral interests used cash of $702,000 (2009 - $2,096,000), the financing activities provided cash of $19,000 (2009 – nil) and the foreign exchange gain on cash was $277,000 (2009 – $247,000). The Company's last primary financing activity was on March 1, 2007, when the Company completed a public offering of 8,150,000 Common Shares, which were issued pursuant to a prospectus dated February 21, 2007. The Common Shares were issued at a price of Cdn$3.70 each, for total proceeds of Cdn$30,155,000.

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

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

In addition**,** the ultimate development of the Dornod Uranium Project is a large, complex undertaking that will require substantial engineering, construction and operating expertise and execution. Potential cost overruns and completion delays are significant risks in projects of this size. In addition, Khan's operations are exposed to significant risks of legislative, political, social, regulatory and economic developments or changes in the jurisdictions in which it carries on business. Any such changes are beyond the Company's control and may adversely affect Khan's business, properties and assets.

The Company does not have any contractual obligations, including those in the nature of long-term debt, capital lease obligations, operating leases, purchase obligations or other long-term obligations other than a five-year lease for office space that commenced on March 1, 2006. The lease has been extended for one year under the same terms and conditions. The expected rent for the next year is $95,000.

Outstanding Share Data

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

Securities	Number of Common Shares
Issued and outstanding common shares	54,050,445
Shares issuable upon exercise of stock options	3,460,334
Total	57,510,779

Transactions with Related Parties

There were no transactions with related parties during the three months ended December 31, 2010 and 2009.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

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

Mineral interests

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

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

Asset retirement obligations

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

Contingencies

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

Stock-based compensation expense

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

Financial Instruments

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

Fair Value

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

Financial Risk Management

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

Credit Risk

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

Currency Risk

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

Interest Rate Risk

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

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

Liquidity Risk

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

International Financial Reporting Standards

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

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

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

Risks and Uncertainties

Khan's success depends upon a number of factors, many of which are beyond its control. Typical risk factors include, among others, political risk, financing risk, title risks, exploration and development risks, joint venture risks, commodity price, and currency exchange rate risks, operating and environmental hazards encountered in the mining business and changing laws and public policies. Risk factors are more fully described in the Company's Annual Information Form (the "AIF") filed on SEDAR on December 17, 2010.

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the three months ended December 31, 2010, an evaluation was carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2010 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

Management's Assessment of Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system is designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the consolidated financial statements. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Chief Executive Officer and Chief Financial Officer have reviewed the internal control procedures in existence as of December 31, 2010, and concluded that the Company's internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). During the most recent fiscal year, there have been no changes in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

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

Cautionary Note Regarding Forward-Looking Information

This management's discussion and analysis contains "forward-looking statements" and "forward-looking information" that are not historical facts and which include, but are not limited to, statements with respect to the future financial or operating performance of the Company, its subsidiaries and its projects, the future price of uranium, the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage, and the timing and possible outcome of pending and potential litigation and regulatory matters. Often, but not always, forward-looking statements and information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events, performance or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements and information have been prepared for internal planning purposes and may not be appropriate for other purposes. Forward-looking statements and information involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, events or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements and information. Such risks, uncertainties and factors include, among others: significant business, economic, competitive, political, regulatory and social uncertainties and contingencies; the impact of International, Mongolian and Canadian laws, trade agreements, treaties and regulatory requirements on Khan's business, licenses, operations and capital structure; Khan's ability to re-instate, re-register and maintain its licenses; regulatory uncertainty and obtaining governmental and regulatory approvals; legislative, political, social, regulatory and economic developments or changes in jurisdictions in which Khan and Macusani carry on business; the nature and outcome of pending and future litigation, arbitration and other legal or regulatory proceedings; the speculative nature of mineral exploration and development; changes in project parameters as plans continue to be refined; the actual results of exploration or reclamation activities; possible variations in ore grades or recovery rates; changes in market conditions; changes or disruptions in the securities markets and market fluctuations in prices for Khan's securities; the lack of any strategic or alternative transactions or the terms and conditions of any such transactions not being acceptable; the existence of third parties interested in purchasing some or all of the common shares or Khan's assets; the method of funding and availability of potential strategic transactions involving Khan, including those transactions that may produce strategic value to shareholders; changes in the worldwide price of certain commodities such as uranium, coal, fuel, electricity and fluctuations in resource prices; fluctuations in currency exchange rates and interest rates, including fluctuations in the value of United States and Canadian dollars relative to the Mongolian Togrog; inflationary pressures; the occurrence of natural disasters, hostilities, acts of war or terrorism; the need to obtain and maintain licenses and permits and comply with national and international laws, regulations, treaties or other similar requirements; risks involved in the exploration, development and mining business; operating or technical difficulties in connection with mining or development activities, including conducting such activities in remote locations with limited infrastructure; employee relations and shortages of skilled personnel and contractors; and uncertainty in the estimation of mineral reserves and resources that will be encountered if any property is developed; failure of plant, equipment or processes to operate as anticipated; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Mongolia, Bermuda, the British Virgin Islands or the Netherlands, as well as other risks associated with resource exploration and mine development described under the heading "Risk Factors" in the AIF. Although the Company believes that the assumptions inherent in the forward-looking statements and information are reasonable, undue reliance should not be placed on these statements and information. Forward-looking statements and information contained herein are made as of the date of this document and the Company disclaims any obligation to update any forward-looking statements or information, whether as a result of new information, future events or results or otherwise, except as required under applicable laws. There can be no assurance that forward-looking statements or information will prove to be accurate, as actual results, performance, achievements and events could differ materially from those anticipated in such statements and information. Accordingly, readers should not place undue reliance on forward-looking statements or information.

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