Khan Resources Inc.

Management Discussion and Analysis

September 30, 2012

KHAN RESOURCES INC.

RESULTS FOR THE THREE MONTHS AND YEAR ENDED SEPTEMBER 30, 2012

This Management Discussion and Analysis ("MD&A") has been approved in accordance with a resolution of the Board of Directors dated December 17, 2012. It should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 2012.

Highlights

- International arbitration action against the Government of Mongolia — Submissions on the merits and damages arising from the Mongolian Government's expropriatory and unlawful treatment of Khan were filed by the Company on December 7, 2012. Khan's claim has been revised upwards from $200 to $326 million. This submission was pursuant the Tribunal's ruling on July 26, 2012 which was entirely in Khan's favour on matters of jurisdiction. The Tribunal dismissed all of Mongolia's objections to the continuance of the suit.

- The decision of the Court of Appeal for Ontario remains pending regarding the $300 million lawsuit against Atomredmetzoloto JSC ("ARMZ"). The appeal was heard on September 11, 2012.

- The Company closed and began decommissioning the Dornod site on June 30, 2012 and consequently recognized non-cash impairment losses of $16.1 million related to the Dornod Project.

- On September 30, 2012, the Company recorded an impairment loss of $1,953,000 on its investment in shares of Macusani Yellowcake Inc. ("Macusani")

- On May 14, 2012 the Company's common shares commenced trading through the facilities of the Canadian National Stock Exchange ("CNSX") under the symbol "KRI".

- On April 19, 2012, the Company announced the closing of a non-brokered private placement financing resulting in the issuance of 13,600,000 common shares at a price of $0.17 per common share for gross proceeds of $2,312,000. The Company plans to use the proceeds of the offering to advance the international arbitration case against the Government of Mongolia, for the lawsuit against ARMZ and for general corporate purposes.

- The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS") and in Canadian dollars ("CAD"). Comparative statements, previously prepared in US dollars under Canadian Generally Accepted Accounting Principles ("GAAP"), have been adjusted for changes in the functional and reporting currencies of the Company and its subsidiaries and other IFRS adjustments.

- The following table summarizes financial results of the Company for the fourth quarter and the years ended September 30, 2012 and 2011.

In thousands of dollars

	2012	2011	Change %
Net loss			
Three months ended September 30	**(2,544)**	(939)	-170.9%
Twelve months ended September 30	**(21,623)**	(3,824)	-465.5%
Basic and diluted earnings per share (CA cents)			
Three months ended September 30	**(0.04)**	(0.02)	-116.0%
Twelve months ended September 30	**(0.36)**	(0.07)	-404.6%
Cash flow			
Year ended September 30	**(1,247)**	(4,933)	74.7%
Cash and cash equivalents			
As at September 30	**4,680**	5,927	-21.0%

Overall Performance

International Arbitration

The Company is advancing its $326 million international arbitration action against the Government of Mongolia and its state-owned uranium company, MonAtom LLC for the Government of Mongolia's failure to reissue the Company's mining and exploration licenses. A hearing took place in Paris in May 2012 to address jurisdictional matters governing the arbitration. On July 26, 2012 and two months prior than expected, the Tribunal hearing the action, consisting of three very senior and experienced international arbitrators, ruled entirely in Khan's favour on matters of jurisdiction. The Tribunal ruled that they had full jurisdiction over the action and dismissed all of Mongolia's objections to the continuance of the suit. The merits and damages phase of the action then commenced. A seven volume submission on the merits and damages of the case was filed by Khan (the "Claimants" in this action) on December 7, 2012. The Respondents will file their rejoinder to the Company's submission by April 5, 2013 followed by additional submissions by both the Claimants and Respondents in the summer and fall of 2013. The formal hearing by the Tribunal on the merits and damages for the case is scheduled for November 11 through November 15, 2013.

The Company continues to believe it has a very strong case against the Government of Mongolia and intends to continue to press its case to the maximum extent allowable.

The Notice of Arbitration is posted on the Company's website.

ARMZ

The Company filed a statement of claim in 2010 against ARMZ and its affiliate Priargunsky, with the Ontario Superior Court of Justice. The claim is for damages in the amount of $300 million arising from, among other things, their breach of fiduciary duties as one of Khan's joint venture partners and as a shareholder of Khan's Mongolian subsidiary, Central Asian Uranium Company LLC ("CAUC"). ARMZ avoided service of the statement of claim through the Russian Ministry of Justice invoking Section 13 of the Hague Convention which allowed Russia to refuse to serve ARMZ as a matter of Russian sovereignty or security. Khan appealed the decision and this initial appeal was favourable. The Superior Court of Justice validated service of the statement of claim on ARMZ in October 2011. ARMZ, however, appealed that decision and on March 9, 2012, the Ontario Superior Court decided in favour of ARMZ's appeal. On April 19, 2012 the Company filed a subsequent appeal of the March 9, 2012 order with the Court of Appeal of Ontario. In the appeal, Khan sought to, among other things, restore the prior order of the Superior Court of Justice that validated service of the Statement of Claim on ARMZ. The appeal was heard on September 11, 2012 and the Company is currently waiting for decision of the Appeal Court. In the event of the adverse ruling, the next and final stage of appeal by either party would be to the Supreme Court of Canada.

Khan also understands that major shareholders of the Company have initiated a suit in the Ontario Courts against ARMZ for inadequate disclosure of information during ARMZ's hostile take-over bid for Khan initiated in December 2009.

The original Statement of Claim against ARMZ and the Notice of Appeal to the Appeal Court are posted on the Company's website.

CNSX Listing

In March 2012, the Company was notified by the Toronto Stock Exchange that the TSX had decided that Khan no longer met the listing requirements of that exchange. The Company made application to the Canadian National Stock Exchange (CNSX) for a listing which application was approved in a timely manner. The CNSX assisted Khan in making a smooth transition to their exchange with no disruption to trading activity. Initial trading commenced on May 14 under the KRI symbol.

Mongolia

Parliamentary elections were held on June 28, 2012 in Mongolia. The distribution of the new members of Parliament by party is: Democratic Party (DP) – 31; Mongolian People's Party (MPP) – 27; Mongolian People's Revolutionary Party (MPRP) – 11; other – 5. A new coalition government consisting of the DP, the MPRP and certain independents has been formed and excludes former Prime Minister Batbold's MPP. Resource nationalism was a significant issue during the election with all parties campaigning for increased ownership of domestic resources. The impact of the new coalition government on the Company's international arbitration action and on western investment in general is unknown.

Dornod Project Camp

With recently strengthened laws in Mongolia restricting foreign investment and continuing Russian pressure for that country to develop the Dornod deposit, on June 30, 2012 the Company determined that it was highly unlikely that the mining and exploration licenses would be renewed and returned, and hence the Company resolved to close the Dornod mine camp. For that reason, the Company has recognized non-cash impairment losses that have reduced all of the Company's tangible assets to their estimated recoverable value at September 30, 2012 in light of the fact that the Company is highly unlikely to be able to continue the development program necessary to enable it to realize the carrying value of those assets (see Impairment losses on tangible assets below).

In conjunction with this decision, the Company initiated a process of disposal of the assets at site, removal of residual materials and remediation of disturbed areas. AATA International was engaged to consult on environmental issues associated with closure and decommissioning. During the year ended September 30, 2012, the Company recognized a gain of $33,000 on disposal of site assets.

Initially, the Company recognized a total provision for estimated environmental restoration costs for $100,000. Subsequently, as a result of actual work performed on the restoration activities to close the Dornod mine camp, the Company reassessed its initial estimate of the provision and adjusted the restoration provision to $72,000, recognizing the change in estimate of $28,000 in the income statement (including exchange differences of $8,000.) The remaining costs are expected to be incurred in fiscal 2013.

The decision to close the camp does not affect the office in Ulaanbaatar. The office will remain open to support the international arbitration proceedings and to wait on future developments.

Selected Annual Information

In thousands of dollars

	Sep. 30 2012	Sep 30 2011	Sep 30 2010 [1]
Revenue	94	350	57
Net loss	(21,623)	(3,824)	(4,130)
Total assets	7,001	24,996	30,760
Total non-current liabilities	-	-	-
Basic and diluted earnings per share (in Canadian dollars)	(0.36)	(0.07)	(0.08)

[1] in US dollars under Canadian GAAP except total assets which are under IFRS and in CAD

During the year ended September 30, 2012, the Company recorded non-cash impairment losses of $16.1 million related to Dornod Project and 2.0 million on its investment in shares of Macusani. It resulted in significant increase in net loss and a reduction in total assets compared to prior years.

Results of Operations

Revenue

In thousands of dollars

		Three months		Twelve months	
	Notes	**2012**	2011	**2012**	2011
Revenue					
Other income		**8**	264	**48**	277
Finance income		**11**	14	**46**	73
Total revenue		**19**	278	**94**	350

Other income in the most recent quarter and year-to-date consisted of rental income from subletting corporate office space. In 2011, in addition to rental income, the Company recorded $250,000 of proceeds resulting from the settlement with China National Nuclear Corporation in relation with the termination of the offer made by CNNC to acquire all of the outstanding common shares of Khan at $0.96 per share.

Finance income declined by $3,000 in the quarter and $27,000 year-to-date as a result of lower cash balances on hand compared to the prior year.

Legal Expenses

Legal expenses during the quarter related to the international arbitration and ARMZ litigation proceedings were $203,000 (2011 - $709,000) and for the year, $1,878,000 (2011 - $1,136,000). The quarterly expenses were less than the prior year due to less arbitration activity.

General Corporate Expenses

In thousands of dollars

	Three months		Twelve months	
	2012	2011	**2012**	2011
Accounting and audit	**-**	2	**108**	160
Investor relations	**-**	3	**39**	76
Insurance	**17**	32	**108**	138
Management remuneration	**117**	170	**581**	844
Office and travel	**58**	108	**340**	423
Total general corporate expenses	**192**	315	**1,176**	1,641

Expenses have been reduced through staff reductions and reduced operating activity.

Mongolian operations

Operating expenses in Mongolia during the quarter were $11,000 less than the comparable quarter in the prior year and $200,000 less year-to-date. As with the corporate office, expenses have been reduced through staff reductions and reduced operating activity.

Amortization

Annual amortization expense was reduced as assets became either fully amortized or impaired. No material assets are being added to plant and equipment at this time.

Share-based compensation

On February 16, 2012, the Company granted 1,400,000 options to its directors and employees with an exercise price of $0.20 while the share price was $0.16 on that day. Compared to prior year, the share-based compensation expense was $152,000 less. It is due to the lower valuation of options granted in the current fiscal year which is determined using the Black-Scholes valuation model.

Impairment loss on available-for-sale investments

The Company assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, the duration to which the fair value of an investment is less than its cost.

Based on these criteria, the Company identified an impairment of $1,953,000 on its investment in Macusani shares.

Impairment losses on tangible assets

The Company, in making its regular assessment of the Dornod Project for impairment, concluded that it was highly unlikely that the exploration and mining licenses would be returned by the Mongolian government. For that reason, during the year ended September 30, 2012, the Company recognized non-cash impairment losses of $16,083,000 (2011 – nil) that have reduced all of the Company's tangible assets to their estimated recoverable values of $5,000 at September 30, 2012. All tangible assets including those at the corporate office in Toronto have been impacted because, for accounting purposes, the Company is comprised of a single cash-generating unit based on the Dornod Project in Mongolia.

At June 30, 2012, the Company estimated a closure and restoration provision for the Dornod site in the amount of $100,000. Year-to-date charges against the provision related to the closure of the Dornod site were $22,000. Based on the current condition of the campsite, regulatory requirements and constructive obligations, the Company reassessed its initial estimate of the provision and adjusted the restoration provision to $72,000, recognizing the change in estimate of $28,000 in the income statement (including exchange differences of $8,000). The remaining costs are expected to be incurred in fiscal 2013. Under the original Minerals Development Agreement signed in 1995 to develop the Dornod deposit, neither the joint venture company to be formed to develop the deposit (Central Asian Uranium Company), nor WM Mining Co. (a predecessor company to Khan's interest in CAUC), were to be responsible for any environmental liabilities arising from the previous Russian operations at the site.

Income Tax

The Government of Mongolia withholds income tax related to intercompany interest expense. The change in income tax recovery (expense) was due to a reversal in 2011 of deferred taxes originating in other comprehensive income. There was no comparative amount in 2012.

At September 30, 2012, the Company had Canadian non-capital and capital tax losses of approximately $29,714,000 (2011 - $26,896,000) and $977,000 (2011 – nil), respectively, available for deduction against future taxable income. If unutilized, non-capital losses will expire from 2014 to 2032 whereas capital losses can be carried forward indefinitely. Mongolian tax losses of approximately $372,000 (2011 - $838,000) are available for deduction against future taxable income and these losses, if unutilized, will expire from 2013 to 2014; and Netherlands tax losses of approximately $290,000 (2011 - $204,000) are available for deduction against future taxable income and these losses, if unutilized, will expire from 2017 to 2021. None of the tax losses have been tax-benefited.

Summary of Quarterly Results

In thousands of dollars

	Sep. 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sep 30 2010 [1]
Revenue	19	32	19	24	278	18	30	24	20
Expenses	(2,563)	(16,920)	(1,278)	(956)	(2,216)	(1,381)	(1,252)	(324)	(466)
Net loss	(2,544)	(16,888)	(1,259)	(932)	(1,938)	(1,363)	(1,222)	(300)	(446)
Basic and diluted earnings per share (CA cents)	(0.04)	(0.26)	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)	(0.01)	(0.01)

[1] in US dollars under Canadian GAAP

Cash Flows

Net operating cash flow was negative at $3,535,000, an increase of $950,000 from the prior year. This was primarily attributable to on-going legal costs associated with the international arbitration proceedings and the proceedings against ARMZ.

Investing cash flow was negligible in 2012. In the prior year the Company spent $2,425,000 adding to its investment in Macusani and $155,000 adding to deferred development costs.

Financing cash flow was $2,312,000 in 2012. On April 19, 2012 the Company closed a private placement share issuance financing for proceeds of $2,312,000. In the prior year, $122,000 was raised from share option plan participants.

Liquidity and Capital Resources

With cash of $4,680,000 on hand as of September 30, 2012, the Company believes that it has sufficient liquidity to cover its obligations, including the cost of the International arbitration and other litigation over the next year.

The Company has positive working capital and 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 leases for office space in Toronto and Ulaanbaatar.

Additionally the Company holds an investment in Macusani with a fair market value of $2,173,000 as at September 30, 2012. This investment is available-for-sale but has been classified as a non-current asset on the balance sheet because the Company does not have an intention to sell within the next year.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

An officer of the Company is a partner in a firm that provides legal services to the Company. The Company paid $3,000 for these legal services for the three months ended September 30, 2012 (2011 - $6,000) and $125,000 for the twelve months ended September 30, 2012 (2011 - $6,000).

Financial Instruments and Financial Risks

The Company's primary financial instruments consist of cash and cash equivalents and its non-current financial assets, including its investments and intercompany receivables with its Mongolian subsidiaries.

Bank accounts are held with major banks in Canada and Mongolia. As a Canadian bank holds the majority of the Company's cash and the same Canadian bank also holds the guaranteed investment certificate, 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. Interest rate risk is minimal at this time.

The Company is exposed to equity price risk through its holdings of marketable equity securities that will fluctuate in value as a result of trading on Canadian financial markets. As the Company's investments are mainly in mining companies, the value will also fluctuate based on commodity prices.

The Company is also exposed to foreign exchange risk through its investment in its Mongolian subsidiaries and their on-going financing. The Company finances these subsidiaries through inter-company loans and receivables. All these transactions are denominated in the Mongolian tugrik ("MNT"). The recovery amount of these investments and financings will partially depend on the strengthening or weakening of the MNT against the Canadian dollar. This exposure is not hedged.

Proposed Transactions

The Company does not have any proposed asset or business acquisitions or dispositions that are awaiting the approval of the Board of Directors at the date of this MD&A.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

Estimates

i. Impairment of assets

At each reporting date, the Company assesses whether there is objective evidence that an asset is impaired. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. These estimates and assumptions are set out below in the Company's accounting policies for impairment of financial assets and impairment of non-financial assets.

With respect to mineral rights and properties, and plant and equipment, the Company has recognized a material impairment of the Dornod properties and related assets (see Judgments i below).

ii. Restoration provision

The provision at the balance sheet date represents management's best estimate of the removal of residual materials and remediation of disturbed areas. The cost estimates are updated at regular intervals to reflect known developments. Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and are measured at fair value.

iii. Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized on the balance sheet. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the

Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

iv. Fair value of financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Judgments

i. ***Recoverability of mineral rights and properties***

The recoverability of the amounts shown for mineral rights and properties is dependent upon the tenure of mineral licenses, the existence of economically recoverable reserves, and the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production and/or the proceeds from the disposition thereof. To date, the Company has not earned any revenues from its properties.

On July 16, 2009, the Mongolian Parliament passed a new Nuclear Energy Law (NEL) 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 NEL, the Mongolian Parliament also passed certain procedures relating to the re-registration of existing exploration and mining licenses held prior to the NEL becoming effective. Existing license holders were required to submit an application to the newly created Nuclear Energy Agency (NEA) and renew and re-register their existing licenses by November 15, 2009. Khan submitted the applications for the renewal and re-registration of its mining license and exploration license on November 10, 2009.

To date, the mining and exploration licenses have not been reissued to Khan and the Company has initiated an International Arbitration action against the Government of Mongolia for its failure to do so.

On June 30, 2012 the Company made a determination based on the judgment that it was now highly unlikely that the mining and exploration licenses would be renewed and returned, and hence the Company resolved to close the Dornod mine camp. For that reason, the Company has recognized in these consolidated financial statements, non-cash impairment losses of $16,083 that have reduced all of the Company’s tangible assets to their estimated recoverable value of $5,000 at September 30, 2012 in light of the fact that the Company is highly unlikely to be able to continue the development program necessary to enable it to realize the carrying value of those assets. All tangible assets have been impacted because, for accounting purposes, the Company consists of a single cash-generating unit.

ii. Functional currency

The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in both Canada and Mongolia, and sources of debt and equity financing.

International Financial Reporting Standards

The Accounting Standards Board (AcSB) adopted IFRS as Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. As such, the Company is reporting its first annual consolidated financial statements in accordance with IFRS for the year ended September 30, 2012, with comparative figures for the corresponding period of 2011. Due to requirement to present comparative financial information, the effective transition date was October 1, 2010.

IFRS Transition Plan

The Company had established a comprehensive IFRS transition plan and engaged third-party advisers to assist with the planning and implementation of its transition to IFRS. The following summarizes the critical transition components identified by the Company. All of these were completed by the first quarter ending December 31, 2011:

- Initial scoping and analysis of key areas for which accounting policies may be impacted by the transition to IFRS.
- Detailed evaluation of potential changes required to accounting policies, information systems and business processes, including the application of IFRS 1 First-time Adoption of International Financial Reporting Standards.
- Determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives.
- Resolution of the accounting policy change implications on information technology, business processes and contractual arrangements.
- Design and implement new processes to maintain effective Disclosure Control & Procedures ((DC&P) and internal control over financial reporting throughout the IFRS transition plan.
- Management and employee education and training.

Impact of Adopting IFRS on the Company's Business

As part of its analysis of potential changes to significant accounting policies, the Company assessed what changes would be required to its accounting systems and business processes. The Company determined that most changes identified, with the exception of the change in functional currencies, were minimal and the systems and processes can accommodate the necessary changes.

The change in functional currencies under IFRS had considerable impact on the accounting systems and procedures during the transition period. The Company was required to recreate the 2011 ledgers of the head-office and the holding companies in CAD, transaction by transaction. Consequently the consolidation for each reporting period in fiscal 2011 had to be re-compiled including the foreign currency translation of the Mongolian subsidiaries. In the case of the Mongolian subsidiaries, the translation method applied changed from the temporal method to the current method.

The Company has not identified any contractual arrangements that may be affected by potential changes to significant accounting policies.

The Company's staff involved in the preparation of the financial statements has been trained on the relevant aspects of IFRS and the changes to accounting policies

The Board of Directors and Audit Committee were regularly updated on the progress of the IFRS conversion plan, and made aware of the evaluation of the key aspects of IFRS affecting the Company.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of Company's opening IFRS statement of financial position as at the Transition Date are consistent with those made under Canadian GAAP. If necessary, estimates will be adjusted to reflect any difference in accounting policy.

Impact of Adopting IFRS on the Company's Financial Statements

The adoption of IFRS resulted 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. The following provides a summary of the Company's evaluation of changes to accounting policies in key areas based on the current standards and guidance within IFRS. This is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to highlight the areas the Company identified as having the most significant change.

Foreign Currency

IFRS requires that the functional currency of the Company and its subsidiaries be determined separately; the factors considered to determine functional currency are somewhat different than Canadian GAAP. The Company has determined the functional currency for its Mongolian subsidiaries to be Mongolian tugrik and the functional currency of the Canadian head office and all intermediate holding companies is CAD. The Company has determined the resulting impact of each functional currency on the October 1, 2010 opening balance sheet.

Share-based Payments

In certain circumstances, IFRS requires a different measurement of share-based compensation related to share options than Canadian GAAP. The Company has implemented the changes to its accounting policies relating to share-based payments and recorded resulting adjustments to its opening balance sheet as at October 1, 2010 and for the year ended September 31, 2011.

Asset Retirement Obligations (Restoration Provision)

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while Canadian GAAP only required the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions. The Company's accounting policies related to the restoration provision have been changed to reflect these differences; however, it has been determined that this change did not have an impact on the Company's balance sheets as at October 1, 2010 and for the year ended September 30, 2011.

Property Plant and Equipment

IFRS contains different guidance related to recognition and measurement of property and equipment than current Canadian GAAP. Under IFRS the Company has the option to value its property and equipment based on either a cost or a revaluation model. The Company chose to continue to value its Property and Equipment at cost.

Income Taxes

In certain circumstances, IFRS contains different requirements related to recognition and measurement of future (deferred) income taxes based on a "probable" versus a "more likely than not" criteria. The Company has determined that these will not result in any significant changes to its accounting policies related to income taxes and does not result in a significant change to line items within its financial statements.

Exploration and Evaluation Expenditures

IFRS currently allows an entity to elect to retain its existing accounting policies related to the exploration for and evaluation of mineral properties, subject to some restrictions. The Company retained its current policy of deferring exploration and evaluation expenditures until such time as the properties are either put into commercial production, sold, determined not to be economically viable, or abandoned. Adoption of IFRS did not result in any significant change to the related line items within its financial statements.

Impairment of (Non-financial) Assets

IFRS, like Canadian GAAP, requires an assessment at each reporting date as to whether there are indicators of impairment of deferred exploration and evaluation costs. The factors considered under IFRS are quite similar to Canadian GAAP, but there are some differences. IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value.

Value in use is determined using discounted estimated future cash flows. Canadian GAAP required a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value. The Company's accounting policies have been changed to reflect these differences; however it has been determined that these changes does not have impact on the carrying value of the Company's assets as at October 1, 2010 and for the year ended September 30, 2011. The Company has performed impairment assessments as at the Transition Date in accordance with IFRS.

IFRS and Internal Control over Financial Reporting and Disclosure Control and Procedures

The Company applied the existing control framework to the IFRS changeover process. The Company has made changes necessary to maintain the integrity of internal control over financial reporting and disclosure controls and procedures. The changes to internal control over financial reporting have been set out below.

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.

Outstanding Common Shares

The number of outstanding common shares as at the date of this MD&A is 68,125,445.

Additional Information

Additional information is available by accessing SEDAR at www.sedar.com or the Company's website at www.khanresources.com.

Forward-Looking Statements

Certain statements included or incorporated by reference in this MD&A, including information as to the future financial or operating performance of the Company, its subsidiaries and its projects, constitute forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "schedule" and similar expressions identify forward-looking statements. Forward-looking statements include, among other things, statements regarding targets, estimates and assumptions in respect of commodity prices, operating costs, results and capital expenditures, mineral reserves and mineral resources and anticipated grades and recovery rates. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. Such factors include, among others, risks relating to additional funding requirements, political and foreign risk, uninsurable risks, competition, environmental regulation and liability, government regulation, currency fluctuations, recent losses and write-downs and dependence on key employees. See "Risk Factors" section of this MD&A. Due to risks and uncertainties, including the risks and uncertainties identified above, actual events may differ materially from current expectations. Investors are cautioned that forward-looking statements are not guarantees of future performance and, accordingly, investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein. Forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update publicly such forward-looking statements, whether as a result of new information, future events or results or otherwise.