

**Khan Resources Inc.**  
**Management's Discussion & Analysis**

This management's discussion and analysis ("MD&A") relates to the three months ended December 31, 2007 updated to February 13, 2008 and should be read in conjunction with the unaudited interim consolidated financial statements of Khan Resources Inc. (the "Company" or "Khan") for the three months ended December 31, 2007 and December 31, 2006 and the related notes thereto. The 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 13, 2008.

**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, 2007, however, its auditors have reviewed the unaudited comparative statements for the three months ended December 31, 2006.

**Cautionary Note Regarding Forward Looking Information**

This management's discussion and analysis contains "forward-looking information" which may include, but is 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 litigation and regulatory matters. Often, but not always, forward-looking statements 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 or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward looking statements have been prepared for internal planning purposes and may not be appropriate for other purposes. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance 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. Such factors include, among others: general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; the impact of Mongolian minerals laws on the Company's licences, operations and capital structure; the Company's ability to renew its existing licences; fluctuations in the value of United States and Canadian dollars relative to the Mongolian Tugrik; changes in project parameters as plans continue to be refined; future prices of uranium; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability, insurrection or war and delays in obtaining governmental approvals or financing or in the completion of development or construction activities; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Mongolia, Bermuda, the British Virgin Islands or the Netherlands, as well as other risks associated with resource exploration and mine development described under the heading "Risk Factors" in the Company's Annual Information Form filed on SEDAR on December 20, 2007. Although the Company believes that the assumptions inherent in the forward-looking

information are reasonable, undue reliance should not be placed on these statements. Forward-looking statements contained herein are made as of the date of this document and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

## **Background**

Khan is a Canadian-based mineral exploration and development company engaged in the acquisition, exploration and development of uranium in Mongolia. The Company is currently engaged in the exploration and development of certain uranium properties, one of which is a former-producer, and all of which are located in the Dornod district of north eastern Mongolia, which contains a number of uranium deposits. Khan's assets consist of its interest in the Dornod Uranium Project which is held through a 58 per cent interest in the "Main Dornod Property" (defined below) and a 100 per cent interest in the "Additional Dornod Property" (defined below). The Main Dornod Property is comprised of an open pit mine ("Dornod Deposit No.2") from which 590,000 tonnes of material at an average grade of 0.118 per cent  $U_3O_8$  was extracted between 1988 and 1995. It also comprises an underground deposit ("Dornod Deposit No. 7"), which remains partially developed by two underground shafts and approximately 20,000 metres of drifts extending into the Additional Dornod Property. The Additional Dornod Property consists of an exploration licence contiguous to the Main Dornod Property and contains approximately one-third of Deposit No. 7 and part of another underground deposit. The Company disposed of its 100 per cent interest in the Big Bend Gold Property, which consisted of exploration licences in the Zaamar goldfield district of Mongolia, through the sale of its 100 per cent interest in Ikh Tokhoirol XXK, the holder of the gold exploration licences, in October 2007.

## **Overall Performance**

Total assets of the Company at December 31, 2007 were \$40,967,000 compared with \$42,983,000 at September 30, 2007. The decrease of \$2,016,000 resulted from the decrease in current assets of \$2,610,000 and capital assets of \$19,000 offset by an increase in mineral interests of \$613,000. The decrease in current assets was primarily due to the cash used in operating activities, purchase of capital assets and mineral interests during the period and the loss on the sale of the Big Bend Gold Property. The decrease in capital assets was due to amortization expense for the period offset by the purchase of new equipment. The increase in mineral interests was due to development costs incurred on the Dornod Uranium Project.

In August 2007, the Company entered into an agreement for the sale of the issued and outstanding common shares of Ikh Tokhoirol XXK, which holds the mining licences for the Big Bend Gold Property, to Berleg Mining XXK, a Mongolian company, for \$2,500,000 in cash. The sale closed on October 11, 2007, the Company received \$2,500,000 in cash and recorded a loss on sale of asset of \$822,000 and a related future tax recovery of \$822,000.

During the three months year ended December 31, 2007, the Company incurred a net loss of \$1,719,000 or \$0.03 per share compared with \$1,593,000 or \$0.04 per share in the comparable period of 2006. The increase of \$126,000 was primarily due to increases in general and corporate expense of \$507,000, Mongolian operations expense of \$206,000, amortization expense of \$18,000 and loss on sale of assets of \$822,000 offset by the increases in interest income of \$60,000, future tax recovery of \$822,000 and foreign exchange gain of \$133,000 and the decrease in stock-based compensation expense of \$412,000.

During the three months ended December 31, 2007, cash and cash equivalents increased by \$692,000 compared with a decrease of \$906,000 in the comparable period of 2006. The cash used in operating activities was \$1,277,000 in 2007 compared with \$627,000 in 2006. The net increase of \$650,000 was

due to the increase in general corporate expenses of \$507,000 and Mongolian operations expense of \$206,000 offset by the increase in interest income by \$60,000 and in realized foreign exchange gain of \$99,000 and the decrease in cash required for changes in non-cash working capital balances related to operations of \$96,000. The increase in interest income was due to increased cash balances in 2007 compared with 2006. The cash provided by investing activities was \$1,867,000 compared with \$627,000 used in investing activities in 2006. In 2007, proceeds from the sale of assets were \$2,500,000. There was no comparable amount in 2006. The cash provided by financing activities was \$68,000 in 2007 compared with \$355,000 in 2006. The decrease resulted from fewer stock options being exercised during the three months ended December 31, 2007 compared to the corresponding period of 2006.

During November 2007, a contract was awarded to Aker Kvaerner E&C of Toronto, Ontario to undertake a Definitive Feasibility Study for the Dornod Uranium Project. The mine design component of the Study was subcontracted to P&E Mining Consultants Inc. of Mississauga, Ontario. The resource consultants will continue to be Scott Wilson Roscoe Postle Associates Inc. of Toronto, Ontario. The Study is expected to require ten months to be completed.

In late November 2007, the Company learned that a Uranium Working Group ("UWG") has been constituted to assess the uranium industry in Mongolia, although no formal announcements have been made by the Mongolian government about the UWG. While it is reasonable to expect the government to propose and enact special legislation to regulate the uranium mining and processing industry in Mongolia, the mandate of the UWG has not been made public by Mongolian officials. Khan intends to provide input and submissions to the UWG on potential uranium policy and regulations and expects that other uranium exploration and development companies operating in Mongolia will do the same.

In early February, Khan announced that it has received a three year renewal for its 100% owned Exploration License No. 9282X (Additional Dornod Property) from the Mineral Resources and Petroleum Authority of Mongolia (MRPAM).

On February 12, 2008, the Company announced that it had reached a settlement of all outstanding litigation with Wallace M. Mays ("Mays"), WM Mining Company, LLC ("WM Mining") and Nueces Investments Ltd. (together, the "Mays Parties"). The Mays Parties' claim for damages was filed on September 18, 2006 against Khan and others in the Superior Court of Justice of Ontario. Khan and the other defendants will not make any payment of damages in connection with the resolution of the claim for damages brought by the Mays Parties. On November 13, 2006, Khan filed an action for damages against Mays and WM Mining in the Superior Court of Justice of Ontario. On December 10, 2007, Khan also brought a motion seeking a contempt order against Mays and WM Mining. The damages action and contempt proceedings have been settled and Khan has received payment in respect of certain of its costs incurred in connection with the litigation. In connection with the settlement, Mays and WM Mining have signed a letter addressed to the State Property Committee of Mongolia which retracts a previous claim to ownership of a 58% interest in Central Asian Uranium Company, Ltd. (the "Share Interest"), confirms that Mays and WM Mining are not asserting any ownership interest in, or claim to, the Share Interest and states that Mays and WM Mining: "undertake not to assert, directly or indirectly, in any communication with any representative of the Government of Mongolia, other governmental or regulatory authority or any other person that Khan does not lawfully own an indirect 58% interest in Central Asian Uranium Company, Ltd. or cause any such assertion to be made".

Khan plans to commence the negotiation of, and enter into, an Investment Agreement with the Government of Mongolia by the earliest practicable date. Khan commenced discussions with its joint venture partners in the Main Dornod Property late in 2007 and those discussions are continuing. Khan's goal is to negotiate an updated joint venture development agreement as soon as practicable. The successful negotiation of an updated joint venture development agreement and an Investment Agreement is considered by Khan to be a prerequisite to any major mine development work. There can be no certainty

as to the timing to complete negotiations with the Government of Mongolia and Khan's joint venture partners.

Subject to entering into an updated joint venture development agreement and an Investment Agreement with the Government of Mongolia and completion of the Definitive Feasibility Study, Khan intends to bring the Dornod Uranium Project into production and to construct on-site modern milling and processing facilities.

### **Results of Operations**

As a development stage company, Khan has no operating history and has incurred losses in the three months ended December 31, 2007 and December 31, 2006. Based on the current exploration and development plans for the Dornod Uranium Project, the Company expects to incur losses for the foreseeable future and will require additional funds to finance exploration and development activities. The Company's objective is to become a uranium producer by bringing the Dornod Uranium Project into commercial production.

### **Revenue**

Total revenue increased by \$60,000 during the three months ended December 31, 2007 from the comparable period in 2006 as a result of the increase in interest income due to higher cash balances on hand. The Company maintains cash balances principally in Canadian and US dollars.

### **Expenses**

Total expenses increased by \$1,008,000 during the three months ended December 31, 2007 from the comparable period in 2006 due to increases in general corporate expense of \$507,000, Mongolian operations expense of \$206,000, amortization expense of \$18,000 and loss on sale of asset of \$822,000 that were offset by the decrease in stock-based compensation of \$412,000 and the increase in foreign exchange gain of \$133,000.

General corporate expense increased in 2007 compared with 2006. The following table illustrates the major items included in general corporate expenses:

	Three months ended December 31, 2007 000's	Three months ended December 31, 2006 000's
Accounting and audit	\$ 21	\$ 47
Investor relations	124	120
Insurance	11	27
Legal	483	65
Management remuneration	340	424
Office and travel	315	104
	<u>\$ 1,294</u>	<u>\$ 787</u>

The factors responsible for the major year over year changes in general corporate expenses were as follows:

- Accounting and audit expense decreased by \$26,000 as accounting consultants were replaced by full time staff.
- The insurance expense decreased by \$16,000 due to a decrease in insurance rates.
- Legal fees increased by \$418,000 due to increased corporate activities and ongoing proceedings involving Wallace Mays, a former promoter and director of Khan.
- Management remuneration decreased by \$84,000 due to fewer corporate office staff and lower staff bonus.
- Office and travel expenses increased by \$211,000 due to corporate development activity and additional trips to Mongolia.

Mongolian operations expense increased in the first quarter of fiscal 2008 compared with the first quarter of fiscal 2007 due to a higher level of activity at the Dornod Uranium Project, opening of a new office in Ulaan Baatar, Mongolia and hiring of additional staff.

Stock-based compensation expense decreased as no stock options were granted in the first quarter of fiscal year 2008 versus 450,000 stock options granted in the first quarter of fiscal year 2007.

An increase in foreign exchange gain was due to the increase in value of the Canadian dollar in terms of the United States dollar during the quarter ended December 31, 2007 compared with the same period in 2006.

#### Sale of Asset

In August 2007, the Company entered into an agreement for the sale of the issued and outstanding common shares of Ikh Tokhoirol XXK, which holds the mining licenses for the Big Bend Gold Property, to Berleg Mining XXK, a Mongolian company, for \$2,500,000 in cash. The acquisition and deferred development costs that were in excess of the sale price were written off at September 30, 2007. The sale closed on October 11, 2007, the Company received \$2,500,000 in cash and recorded a loss on sale of asset of \$822,000 and a related future tax recovery of \$822,000.

#### Mineral interests

During the three months ended December 31, 2007, the deferred development costs, consisting mainly of the Feasibility Study and Environmental Impact Assessment, incurred on the Dornod Uranium Project, were \$613,000. The following table sets out the change in deferred development costs:

	September 30, 2007 000's	Costs incurred during the three months ended December 31, 2007 000's	December 31, 2007 000's
Deferred development costs Dornod Uranium Project	\$ 4,597	\$ 613	\$ 5,210

## Summary of Quarterly Results

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

	Quarter ended December 31, 2007	Quarter ended September 30, 2007	Quarter ended June 30, 2007	Quarter ended March 31, 2007
Revenue	\$ 154	\$ 391	\$ 385	\$ 174
Expenses	\$ 2,695	\$ 10,978	\$ 1,129	\$ 2,563
Net loss	\$ (1,719)	\$ (8,778)	\$ (744)	\$ (2,389)
Net loss per share	\$ (0.03)	\$ (0.18)	\$ (0.01)	\$ (0.05)

  

	Quarter ended December 31, 2006	Quarter ended September 30, 2006	Quarter ended June 30, 2006	Quarter ended March, 31 2006
Revenue	\$ 94	\$ 71	\$ 36	\$ 30
Expenses	\$ 1,687	\$ 1,510	\$ 448	\$ 900
Net loss	\$ (1,593)	\$ (676)	\$ (41)	\$ (870)
Net loss per share	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.02)

Over the past eight quarters, variations in the quarterly loss are caused by fluctuations in general and corporate expense and stock-based compensation expense. General and corporate expense has increased due to increases in legal fees and office and travel expenses. Stock-based compensation expense varies from quarter to quarter depending on the number of stock options granted in the quarter. During the three months ended December 31, 2007, the Company received \$2,500,000 in cash from the sale of the Big Bend Gold Property and recorded a loss on sale of \$822,000 and a related future tax recovery of \$822,000.

## Liquidity and Capital Resources

As at December 31, 2007, the Company had working capital of \$34,199,000 (September 30, 2007 - \$36,038,000) which comprised cash of \$34,551,000 (September 30, 2007 - \$33,859,000), accounts receivable in the amount of \$70,000 (September 30, 2007 - \$47,000), prepaid expenses and other assets in the amount of \$130,000 (September 30, 2007 - \$133,000) and current liabilities of \$552,000 (September 30, 2007 - \$1,323,000). The amount related to the Big Bend Gold Property held for sale of \$3,322,000 was part of the working capital as at September 30, 2007. There is no comparable amount as at December 31, 2007 as the asset was sold during the quarter.

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, 2007, the operating activities of Khan used cash of \$1,277,000 (2006 - \$627,000), the investing activities, which consisted of proceeds from sale of Big Bend Gold property, less development costs incurred on mineral interests and the purchase of capital assets, provided cash of \$1,867,000 (2006 - used cash of \$634,000), the financing activities provided cash of \$68,000 (2006 - \$355,000) and the foreign exchange gain on cash was \$34,000. The details of the Company's primary financing activities in the last two years are as follows:

### Public Offering

On March 1, 2007, 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.

### Initial Public Offering

On August 2, 2006, the Company completed an initial public offering of 3,067,000 units ("Units"), each Unit consisting of one Common Share and one-half of one share purchase warrant, which were issued pursuant to a prospectus dated July 14, 2006. The Units were issued at a price of Cdn\$1.50 each, for total proceeds of Cdn\$4,600,500. The Warrants are exercisable at a price of Cdn\$1.90 per Unit at any time on or before August 2, 2008.

### Private Placement

Contemporaneously with its initial public offering in August, 2006, Khan issued to Mega Uranium Ltd. a total of 1,667,000 Units for total proceeds to the Company of Cdn\$2,500,500. Mega Uranium Ltd. is a company whose shares are listed on the TSX Venture Exchange.

The Company believes that it has sufficient financial resources to pay its ongoing general corporate and Mongolian operations expenses and development costs and to meet its liabilities for the next year. This expectation is based on the forecasted costs associated with the current exploration and development plans for the Dornod Uranium Project. The subsequent development of the Dornod Uranium Project beyond December 31, 2008 will depend on the Company's ability to obtain additional financing. There is no assurance that additional financing will be available to allow the Company to develop the Dornod Uranium Project. The Company is dependent on raising funds by the issuance of shares in order to undertake the development of the Dornod Uranium Project and meet general corporate and Mongolian operations expenses in the immediate and long term. 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.

As well, Khan's operations are exposed to risks of changing political stability and government regulation in Mongolia. Any changes in regulations or shifts in political conditions are beyond the Company's control and may adversely affect Khan's business. The Company also considers the successful negotiation of an investment agreement with the Government of Mongolia and an updated joint venture agreement with its joint venture partners to be a prerequisite to any major mine development work.

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.

The Company does not have any contractual obligations, including those in the nature of long-term debt, capital lease obligations, operating leases, purchase obligations or other long-term obligations other than a five-year lease for office space that commenced on March 1, 2006, with an annual cost of approximately \$85,000 per year.

### Transactions with Related Parties

During the three months ended December 31, 2006, the Company incurred legal fees of \$40,000 provided by a director of the Company. The amount was expensed as legal expense incurred in the ordinary course of business and was measured at the exchange amount, which was the amount of the consideration established and agreed to by the related party. The director resigned on February 15, 2007.

### **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, 2007. 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 considers to be the more 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 and gold 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. Contingencies are described in note 12 to the consolidated financial statements.

#### **Stock-based compensation expense**

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

### **Changes in Accounting Policies Including Initial Adoption**

Effective October 1, 2007, the Company adopted the new CICA accounting sections: 1535 (Capital Disclosures), 3862 (Financial Instruments – Disclosure), 3863 (Financial Instruments - Presentation). These accounting policy changes have been adopted prospectively with no restatement of comparative interim consolidated financial statements.

### **Financial Instruments and Other Instruments**

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities are reviewed by management on a monthly basis for risk exposures. Likewise, since certain of the Company's monetary assets and liabilities are denominated in Canadian, United States and Mongolian currency, and are therefore subject to gains or losses due to fluctuations in those currencies, the trends of exchange rates are regularly monitored.

The Company only invests cash in bank deposits and/or instruments that are deemed to be very low risk and does not believe that there is any significant price, credit, or liquidity risk nor is there a risk to Khan's financial position, results, and cash flows.

### **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 Khan's Annual Information Form ("AIF") which is available by accessing the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

### **Additional Information**

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

### **Outstanding Share Data**

The following table sets forth particulars of the fully-diluted share capitalization of Khan as at February 13, 2008:

Securities	Number of Common Shares
Issued and outstanding common shares	54,058,529
Shares issuable upon exercise of Stock Options	4,125,550
Shares issuable upon exercise of Warrants	1,506,668
Shares issuable upon exercise of Agents' Options	<u>327,827</u>
Total	<u>60,018,574</u>