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April 15, 2010

Mr. Sukhbaatar Batbold
Prime Minister of Mongolia
Ulaan Bataar
Mongolia

Dear Prime Minister Batbold:

I am writing to you to formally protest the ongoing unlawful and unjust actions being taken by the Nuclear Energy Agency of Mongolia (the "NEA") against Khan Resources Inc. ("Khan") and its Mongolian subsidiaries Central Asian Uranium Company, LLC ("CAUC") and Khan Mongolia LLC ("Khan Mongolia"). Recently, the NEA issued notices which purport to invalidate the Dornod uranium property mining license 237A (the "Mining License") held by CAUC and the exploration license 9282X (the "Exploration License") held by Khan Mongolia (together, the "Licenses"). Khan believes that the invalidations are without legal foundation and are a clear violation of Khan's rights and interests under the laws of Mongolia, and are in breach of Mongolia's obligations under international law. Our lawyers are preparing to bring legal action against the NEA to challenge the invalidation notices and other actions. We would prefer not to do so. Litigation will be costly and, we believe, embarrassing to the Government of Mongolia. Accordingly we are writing this letter in the hope that you will exercise your authority to review and overturn the NEA's decision.

By way of background, Khan is a Canadian-based public company with its shares listed on the Toronto Stock Exchange (the "TSX") and a significant Canadian and international investor-base. A majority of Khan's operations and assets are located in the Republic of Mongolia, where we have been carrying on uranium development activities since 2004. CAUC is a joint venture company of which Khan indirectly owns 58%, MonAtom LLC ("MonAtom") owns 21%, and a subsidiary of Atomredmetzoloto JSC ("ARMZ") owns 21%. CAUC has held the Mining License since 1997, and Khan Mongolia has held the Exploration License since 2005.

As you know, the Dornod uranium property is one of the most significant undeveloped uranium properties in the world. Khan and its subsidiaries have made considerable capital investments in Mongolia (over US\$20 million) in developing the Dornod uranium property to date. Over the past several years, we have taken numerous steps to advance the development of the property by undertaking exploration and drilling work, establishing a power line, settling pond and permanent camp at the site, and completing an environment impact assessment, a pre-feasibility study and a definitive feasibility study. We employ over 18 Mongolian citizens and no expatriates in our Ulaan Baatar and Dornod offices. Our Executive Director and Country Manager is Mongolian. We have been very proud ambassadors for your country. In raising over Cdn\$40 million on the TSX from Canadian, U.S. and international investors during the past 5 years, we have spoken very positively about Mongolia at various investor conferences, with the North American financial press and individual investors. We completed a definitive feasibility study last year which established that the Dornod uranium project is highly valuable. Based on this we were confident that investors

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would recognize the value we had created in Khan, and we would be able to raise the large amounts of capital required to build the project. Khan's development plan for building and operating the project would involve an investment of over \$300 million in Mongolia, and would provide employment for hundreds of Mongolians, as well as significant royalty, tax and other benefits to the Mongolian Government.

Unfortunately, the regulatory uncertainty associated with our licences in Mongolia has significantly affected our stock price and our ability to raise financing over the past few years. The latest action by the NEA has caused many of our investors to sell their shares and has driven our stock price down by about 45%. Meanwhile, development of the Dornod uranium project continues to be delayed, not only to the detriment of Khan, but also to the detriment of Mongolia.

We thought it might be useful to set out some of the background and recent history relating to Khan and its Licenses, some of which you will already be aware of, in the hopes that this information will motivate you to closely examine and assist us in rectifying the NEA's unlawful actions.

In July 2009, CAUC was informed by the Mineral Resources Authority of Mongolia ("MRAM") that the Mining License (and only the Mining License) had been temporarily suspended due to CAUC's alleged violation of applicable laws cited by inspectors from the Mongolian State Specialized Inspection Agency (the "SSIA") based on their visit to the Dornod site in mid-April 2009. The principal violation cited was that CAUC had not registered its deposit reserves with the State Integrated Registry for approval by the Minerals Professional Council. In fact, CAUC had submitted the deposit reserve and resource calculation for registration initially in 2007 and again in 2008, but the Minerals Professional Council had never (and to this day has not) held the requisite meeting to consider the calculation and prepare the requisite report. Following receipt of such notice, CAUC met and communicated with SSIA representatives on several occasions and responded to each of the alleged violations cited by the SSIA and continued to work cooperatively with the Mongolian authorities to resolve any allegations surrounding the Mining License or CAUC's activities in Mongolia. In January 2010, CAUC reached a settlement with MRAM in which the temporary suspension was terminated. Khan views this settlement as having finally resolved the July 2009 suspension of the Mining License, despite subsequent reports circulated by the NEA that the settlement is not valid.

As you know, shortly after the July 2009 Mining License suspension, the Mongolian Parliament passed the Nuclear Energy Law, which, among other things, entitles the Government of Mongolia to take ownership, without compensation, of not less than 51% (if the resources were developed with State funds) or 34% (if the resources were developed without State funds) of the shares of a license holder. The new law also gave the Government the right to revoke outstanding licenses if the license holders did not agree to abide by these provisions and submit applications in the required form to re-register their existing licenses in accordance with the new law by November 15, 2009. On October 8, 2009, CAUC and Khan received notices (the "October 8 Notices") which stated that in connection with the implementation of the Nuclear Energy Law, the existing Licenses should be considered invalidated, and that CAUC and Khan Mongolia should not take any activities under the Licenses until they obtained 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 understood the October 8 Notices were an administrative matter that meant only that its Licenses, like those of all other Mongolian license-holders, were in limbo pending re-registration under the new law.

In November 2009, Khan submitted lengthy and detailed applications for re-registration of its Licenses before the prescribed deadline. The applications complied with the requirements of the new law, 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 without compensation. In particular, despite that this provision of the Nuclear Energy Law has been challenged by the Mongolian Mining Association and others, Khan and CAUC made a decision to accept it and to work cooperatively with the Mongolian State-owned uranium company MonAtom on a basis that would give MonAtom a 51% ownership interest in each of the entities that own the Licenses.

In January 2010, CAUC received a notice from the State Property Committee requiring CAUC to submit to its shareholders a resolution approving an increase in MonAtom's ownership of CAUC from 21% to 51%. The resolution was passed by a 79% majority. Khan and MonAtom voted in favour of the resolution. ARMZ, the owner of the other 21% of CAUC, refused to vote in favour of the resolution.

Further, in January 2010 Khan entered into a non-binding memorandum of understanding ("MOU") with MonAtom which would have resolved all of the regulatory and ownership issues surrounding the Dornod project to the mutual benefit of Khan and the Mongolian Government. The MOU was the result of extensive negotiations with senior members of MonAtom and was designed to comply with the Nuclear Energy Law. Khan understood that the MOU had the approval of senior members of the Mongolian Government. Among other things, the MOU contemplated giving the Government of Mongolia a 51% interest in the project, as required under the Nuclear Energy Law, and paved the way to a full blown investment agreement with the Government of Mongolia patterned off of the successful investment agreement recently entered into between the Mongolian Government and Ivanhoe Mines in respect of the Oyu Tolgoi gold and copper project, all with a view to further advancing the development of the Dornod project towards production.

A key condition to the MOU was that the Licences would be re-registered under the Nuclear Energy Law by no later than January 29, 2010. We understand, however, that the NEA opposed the MOU and that the Government was under tremendous political pressure from Russia not to re-register the Licenses. On or about January 29, 2010, the NEA publicly stated that the MOU was invalid and contrary to the laws of Mongolia. When it became apparent that the Government of Mongolia was not able or willing to honour the MOU, and in the face of the threat of a then-outstanding hostile take-over bid by ARMZ, Khan was left with no alternative but to negotiate a friendly transaction with CNNC Overseas Uranium Holding Ltd., a subsidiary of China National Nuclear Corporation ("CNNC"), whereby CNNC agreed to make a superior offer to acquire all of the outstanding shares of Khan.

In response to the CNNC offer, the NEA began circulating reports to the public that the Nuclear Energy Law requires that NEA approval be obtained for the CNNC offer, citing Articles 7.1 and 7.2 of the Nuclear Energy Law, and that Khan was in violation of this requirement. With greatest respect, these statements are not correct as a matter of Mongolian law. The Nuclear Energy Law applies only to transfers of shares of direct Mongolian license-holders. The CNNC offer is only for the shares of Khan (a Canadian company) and does not involve any sale or transfer of the shares of CAUC or Khan Mongolia. Accordingly, we respectfully submit that nothing under the CNNC offer requires approval of the NEA or any other Governmental or regulatory authority in Mongolia.

You may not be aware of this, but the NEA has also recently sent a highly inflammatory and inaccurate notice to the TSX (a copy of which is enclosed). The notice was clearly an attempt to embarrass Khan, and served no legitimate or legal purpose. We bring this to your attention not only to protest the NEA's action, but also to make you aware of the inappropriate behaviour exhibited by the NEA, an agency of the Government of Mongolia. I'm sure that you recognize that

this action by the NEA was highly inappropriate and actually harms the credibility of the Mongolian Government and political system.

Turning now to the recent NEA invalidation notices themselves, the NEA now alleges that the Licenses were in fact invalidated on October 8, 2009 because of failures to address violations of Mongolian law stemming from the July 2009 report issued by an inspection team appointed by the SSIA in respect of the Mining License. With greatest respect, the NEA's position is demonstrably false, and extremely troubling. Notwithstanding the assurances received from the NEA in October 2009 that the October 8 Notices were common to all license holders and the suspensions were temporary in nature pending re-registration of licenses under the new law, the NEA is now, several months later, alleging that the October 2009 invalidations of the Licenses were actually on the basis of violations cited in the July 2009 SSIA report. Even without those assurances, the language of the October 8, 2009 Notices themselves contradicts the NEA position. Moreover, the July SSIA report only pertained to the Mining License, not the Exploration License. It is therefore improper for the NEA to now also suggest that the Exploration License had been invalidated due to alleged failures by CAUC.

Finally, if it were true that the Licenses had been invalidated on October 8, 2009, none of the following subsequent actions by the NEA and other government agencies make any logical sense:

- In February, 2010, the SSIA was instructed to conduct inspections on the Licenses and to report the inspection results to the Government by April 1, 2010. As part of these inspections, representatives of CAUC met with the SSIA and provided all requested documentation.
- On March 29, 2010, CAUC was advised by SSIA Chairman Sodbaatar that further audit and inspection would be undertaken and a further report prepared. Chairman Sodbaatar said that no decision had yet been made about the Licenses and that a decision, if any, would only be made after completion of the report. Chairman Sodbaatar also indicated that the SSIA might not make any recommendation or decision at all, but instead might elevate the matter for discussion and consideration by higher-level Government authorities.
- The negotiation and signing of the MOU by MonAtom, with the full knowledge of the NEA, in January 2010.
- The report of the working group established by the Security and Foreign Policy Standing Committee of the State Great Khural in February, 2010 that recommended invalidation of uranium licenses held by numerous companies in the Dornod region.

I wish to emphasize that Khan and its Mongolian subsidiaries have always operated and continue to operate in compliance with all applicable Mongolian laws, including the Nuclear Energy Law, and in conformity with the highest international and ethical standards, and that there is no legal basis for the NEA License invalidations.

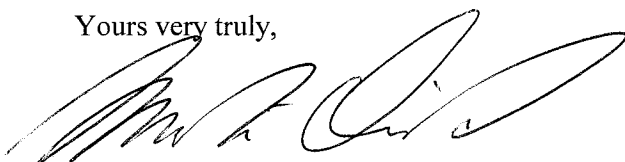
Mr. Prime Minister, our company fully recognizes and supports the power of the Government of Mongolia and other State authorities to conduct inspection and examine the activities of Khan and its subsidiaries operating in Mongolia and we have fully cooperated with them to enable them to make such inspection and responded to all of their requests. We also fully understand and support the power and interest the Government and Parliament of Mongolia have in ensuring that the people of Mongolia benefit from the exploitation of Mongolia's resources. However, we must protest the NEA's actions, which are clearly unlawful and, we believe, politically motivated. Khan

has respected the laws of Mongolia and we believed we had reached a mutually beneficial agreement in the MOU. Given the extreme damage we have suffered due to the NEA's actions, however, we now have no choice but to seek all available legal recourse, including in the Canadian and Mongolian courts and in international arbitration. We would also have no choice, as a Canadian public company with extensive disclosure obligations to our investors, but to continue to publicly disclose the nature and details of the NEA's unlawful actions and the legal proceedings that we intend to bring and the events leading up to them. We would expect that this matter will be closely observed by the numerous international mining companies operating and investing in Mongolia, and, unfortunately, is likely to adversely impact foreign investors' willingness to invest in the Republic of Mongolia and significantly delay or prevent any further development of the Dornod uranium property, pending resolution of all legal proceedings with respect to the NEA License invalidation. We believe that the NEA's behaviour will also have a significantly negative impact on the reputation of Mongolia as a place for foreign companies to carry on business, and on its reputation in the Canadian and international markets.

We appeal to you to exercise your constitutional authority to review and overturn the recent decision by the NEA to invalidate the Mining License and the Exploration License and put an end to the unlawful actions being taken by the NEA against Khan and its subsidiaries. We would appreciate an opportunity to speak directly with you and members of your staff concerning this serious matter at your earliest convenience.

Thanking you in advance for your assistance in this matter. I am available to speak at your convenience at (416) 360-3405 and would be happy to coordinate an in-person meeting with you in Mongolia.

Yours very truly,



Martin Quick
President and Chief Executive Officer
Khan Resources Inc.

cc Dr. Anna Biolik, Ph.D, Ambassador, *Embassy of Canada*
Ms. Sophie Bibeau, Senior Trade Commissioner, *Embassy of Canada*
Ms. Deborah Davis, *Lehman, Lee & Xu Mongolia*
Mr. Cameron Rusaw, *Davies Ward Phillips & Vineberg LLP*
Mr. Zandanshatar Gombojav, MP, Minister of Foreign Affairs and Trade
Mr. Bayartsogt Sangajav, MP, Minister of Finance
Mr. Zorigt Dashdorj, MP, Minister of Mineral Resources and Energy