This document is important and requires your immediate attention. If you are in doubt as to how to respond to the offer described in this Directors' Circular, you should consult with your investment dealer, stockbroker, lawyer or other professional advisor. Inquiries concerning the information in this document should be directed to Georgeson Shareholder Communications Canada Inc., the Information Agent retained by Khan, North America Toll-Free at 1-866-374-9877, Banks and Brokers and Collect Calls outside North America at 1-212-806-6859 or via email at gsproxygroup@gscorp.com.

KHAN RESOURCES INC.

DIRECTORS' CIRCULAR

Recommending

REJECTION

of the Offer by
ATOMREDMETZOLOTO JSC
to purchase all of the outstanding Common Shares
(together with the associated SRP Rights issued under the Shareholder Rights Plan)
of

KHAN RESOURCES INC.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS REJECT THE ARMZ OFFER AND NOT TENDER THEIR COMMON SHARES TO THE ARMZ OFFER.

NOTICE TO SHAREHOLDERS IN THE UNITED STATES

This Directors' Circular has been prepared by Khan Resources Inc. in accordance with disclosure requirements under applicable Canadian law. Non-resident Shareholders should be aware that these requirements may be different from those of the United States or other jurisdictions. The enforcement by Shareholders of civil liabilities under United States federal securities laws may be affected adversely by the fact that Khan Resources Inc. is a corporation organized under the laws of the Province of Ontario, Canada, that a majority of its officers and directors are residents of Canada and that all or a substantial portion of the assets of Khan are located outside the United States. Shareholders in the United States may not be able to sue Khan or its officers or directors in a foreign court for violation of United States securities laws. It may be difficult to compel such parties to subject themselves to the jurisdiction of a court in the United States or to enforce judgment obtained from a court of the United States.

December 14, 2009

QUESTIONS AND ANSWERS ABOUT THE INADEQUATE OFFER FROM ARMZ

Should I accept or reject the ARMZ Offer?

The Board of Directors, on recommendation of the Special Committee, **UNANIMOUSLY** recommends that Shareholders **REJECT** the ARMZ Offer and **NOT TENDER** their Common Shares. Each of Khan's major Shareholders and each of the Directors and officers of Khan has indicated its current intention **NOT** to accept the ARMZ Offer.

How do I reject the ARMZ Offer?

You do not need to do anything. DO NOT tender your Common Shares.

Can I withdraw my Common Shares if I have already tendered?

YES. According to the ARMZ Offer and Circular, you can withdraw your Common Shares:

(a) at any time before your Common Shares have been accepted for payment by ARMZ;

(b) if your Common Shares have not been paid for by ARMZ within three business days after having been accepted for payment by ARMZ; and

(c) at any time up until the 10th day following the day that ARMZ either files a notice announcing that it has changed, extended or varied the ARMZ Offer unless, among other things, prior to filing such notice ARMZ has accepted your Common Shares for payment or the change in the ARMZ Offer consists solely of either:

  (i) an increase in the consideration offered and the ARMZ Offer is not extended for more than 10 days, or

  (ii) a waiver of one or more of the conditions of the ARMZ Offer.

How do I withdraw my Common Shares?

We recommend you contact your broker or dealer, or contact Georgeson, the Information Agent retained by Khan, at the number listed at the end of this Q&A for information on how to withdraw your Common Shares.

Why does the Khan Board believe that the ARMZ Offer should be rejected?

The Board of Directors, on the unanimous recommendation of the Special Committee, unanimously believes that the ARMZ Offer is inadequate, fails to recognize the full value of Khan and contains objectionable terms and conditions that are not in the best interests of Khan or its Shareholders. In addition, the Board of Directors unanimously believes that the ARMZ Offer is highly opportunistic and prejudicial and exposes Khan to serious risks. The Board of Directors identified a number of factors set out below as being the most relevant to its recommendation to Shareholders to **REJECT** the ARMZ Offer and **NOT TENDER** their Common Shares:

- The ARMZ Offer significantly undervalues Khan, the Dornod Uranium Property and Khan's uranium reserves and resources and represents a significant discount to the Dornod Uranium Property's net asset value.
- The consideration offered under the ARMZ Offer is inadequate from a financial point of view to Shareholders.
- The ARMZ Offer is highly prejudicial and exposes Khan to serious risks, including the risk that re-registration of the essential licenses for the Dornod Uranium Property under the new Nuclear Energy Law may be delayed or denied.
- The highly subjective and discretionary conditions of the ARMZ Offer include events or uncertainties known to ARMZ as of the day it launched its Offer and give ARMZ a pure option to acquire Common Shares. It is not a firm offer and the Board considers there to be a high risk that the ARMZ Offer will not be completed.
- The ARMZ offer is highly opportunistic and disadvantageous in light of its timing and the circumstances in which it was made and seeks to take advantage of Khan and its Shareholders at a particularly vulnerable time without paying fair value for the Common Shares.
- Alternative strategic transactions that take into account the laws and policies of the Government of Mongolia and other relevant stakeholders and the critical intangible value of maintaining positive working relationships with the Government of Mongolia may emerge providing greater strategic value to Shareholders than the ARMZ Offer.

- Major Shareholders and all of Khan's Directors and officers who together hold in excess of 30% of the outstanding Common Shares have indicated to Khan that, currently, they consider the ARMZ Offer to be inadequate and do NOT intend to tender their Common Shares.
- Khan has the management and technical capabilities and access to financial resources necessary to develop the Dornod Uranium Property within three years of obtaining an Investment Agreement and pursue its current objectives.

A more detailed discussion of all of the reasons for the unanimous recommendation of the Board of Directors is included on pages 3 to 8 of this Directors' Circular under the sections entitled "Reasons for Rejection" and "Conclusion and Recommendation". See also the sections of this Directors' Circular entitled "Background to the ARMZ Offer", "Response to the ARMZ Offer and Recent Developments" and "Khan Resources Inc." for additional information regarding Khan and its business, assets, licenses and prospects.

Do I have to decide now?

NO. You do not have to take any action at this time. The ARMZ Offer is scheduled to expire at 5:00 p.m. (Toronto time) on February 1, 2010, and is subject to a number of conditions that have yet to be satisfied. The Board of Directors recommends that you not take any action until closer to the Expiry Time of the ARMZ Offer to ensure that you are able to consider all of the options available to you and do not preclude the possibility of a superior strategic transaction emerging.

If you have already tendered your Common Shares to the ARMZ Offer and you decide to withdraw these Common Shares from the ARMZ Offer, you must allow sufficient time to complete the withdrawal process prior to the expiry of the ARMZ Offer. For more information on how to withdraw your Common Shares, you should contact your broker or dealer, or contact Georgeson, the Information Agent retained by Khan, at the number listed below.

Who do I ask if I have more questions?

The Board of Directors recommends that you carefully read the information contained in this Directors' Circular. ANY QUESTIONS OR REQUESTS FOR ASSISTANCE MAY BE DIRECTED TO THE INFORMATION AGENT RETAINED BY KHAN:

Georgeson

100 University Avenue
11th Floor, South Tower
Toronto, Ontario
M5J 2Y1

North American Toll-Free Number: 1-866-374-9877
Banks and Brokers and Collect Number: 1-212-806-6859
Email: gsproxygroup@gscorp.com

TABLE OF CONTENTS

FORWARD-LOOKING INFORMATION

This Directors' Circular contains statements and information that are not historical facts and constitute "forward-looking statements" and "forward-looking information" under Canadian and United States securities laws, including information concerning the ARMZ Offer, the business, operations, prospects and financial performance of Khan and estimated production, development plan, costs and mine life of Khan's mineral projects, which are subject to certain risks, uncertainties and assumptions. In addition, certain assumptions, limitations and qualifications that are material to the Inadequacy Opinion are set out in the Inadequacy Opinion attached at Appendix "A" to this Directors' Circular. Forward-looking statements and information are frequently characterized by words such as "will", "plan", "expect", "project", "intend", "believe", "anticipate", "forecast", "schedule", "estimate" and similar expressions, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements and information are based upon a number of estimates and assumptions and are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors, including, without limitation: the impact of Mongolian and Canadian laws and regulatory requirements on the ARMZ Offer and Khan's business, properties, licenses, operations and capital structure; Khan's ability to re-register its existing licenses; regulatory uncertainty and obtaining governmental approvals; legislative, political, social, regulatory and economic developments or changes in jurisdictions in which Khan and ARMZ carry on business; the speculative nature of mineral exploration and development; changes in market conditions; changes or disruptions in the securities markets and market fluctuations in prices for Khan's securities; the lack of any alternative transactions or the terms and conditions of any alternative transactions not being acceptable; the method of funding and availability of potential alternative strategic transactions involving Khan, including those transactions that may produce superior strategic value to Shareholders; changes in the worldwide price of certain commodities such as uranium, coal, fuel, electricity and fluctuations in resource prices; currency exchange rates and interest rates; 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 or other regulatory 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.

In addition, a number of other factors could cause actual results to differ materially from the results discussed in such statements and information, and there is no assurance that actual results will be consistent with them. For further details, reference is made to the risk factors discussed or referred to in Khan's annual and interim management's discussion and analyses and Annual Information Form on file with the Canadian securities regulatory authorities and available on SEDAR at www.sedar.com.

Although Khan has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements or information will prove to be accurate, as actual results and future actions or events could differ materially from those anticipated in such statements. Such forward-looking statements and information are made or given as at the date of this Directors' Circular and Khan disclaims any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required under applicable securities law. The reader is cautioned not to place undue reliance on forward-looking statements or information. Any forward-looking statements or information related to ARMZ are derived exclusively from information contained in the ARMZ Offer and Circular, provided to Khan by ARMZ, or that are otherwise publicly available.

GLOSSARY OF TERMS

Certain terms used in this Directors' Circular have the meanings set forth in Appendix "B" hereto, unless such terms are defined elsewhere in this Directors' Circular.

DIRECTORS' CIRCULAR

December 14, 2009

This Directors' Circular is issued by the Board of Directors of Khan in connection with the unsolicited Offer by ARMZ to purchase, at a price of $0.65 in cash per Common Share, all of the outstanding Common Shares, including Common Shares that may become issued and outstanding after November 30, 2009 upon the exercise, exchange or conversion of any Options granted under the Stock Option Plan, convertible securities or other rights (other than the SRP rights) that are exercisable or exchangeable for or convertible into Common Shares, upon the terms and subject to the conditions of such Offer set forth in the ARMZ Offer and Circular dated November 30, 2009. Certain information included herein in respect of Khan and its business, properties, licenses, operations and future prospects has been provided to the Board by the officers of Khan.

THE ARMZ OFFER

The consideration under the ARMZ Offer consists of $0.65 in cash for each outstanding Common Share. The ARMZ Offer is subject to the minimum tender condition that at least 66⅔% of the Common Shares, calculated on a fully-diluted basis, be tendered to the ARMZ Offer and that there has been validly deposited to the Offer and not withdrawn more than 50% of the Common Shares then outstanding held by Independent Shareholders. The ARMZ Offer also contains 13 other conditions, several of which include numerous sub-conditions and provide ARMZ with a broad discretion to determine whether or not the condition has been satisfied.

The ARMZ Offer is only for Common Shares (including the associated SRP Rights) and is not made for any Options, convertible securities or other rights (other than the SRP Rights) to acquire Common Shares.

The ARMZ Offer includes a proposal to combine the businesses of ARMZ and Khan by way of a compulsory acquisition, should the conditions for such acquisition be met. If a compulsory acquisition transaction is unavailable or ARMZ elects not to proceed in that manner, the ARMZ Offer contemplates a subsequent acquisition transaction or another transaction to permit ARMZ to acquire 100% of the Common Shares.

The Expiry Time of the ARMZ Offer is stated to be 5:00 p.m. (Toronto time) on February 1, 2010, unless the ARMZ Offer is withdrawn or extended. Reference is made to the ARMZ Offer and Circular for full details of the additional terms and conditions of the ARMZ Offer. **There is no need for Shareholders to take any action with respect to the ARMZ Offer at this time. Shareholders who, notwithstanding the Board of Directors' unanimous recommendation to REJECT the ARMZ Offer, decide to tender their Common Shares to the ARMZ Offer, should only do so immediately prior to the Expiry Time.**

UNANIMOUS RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors, on the unanimous recommendation of the Special Committee, unanimously believes that the ARMZ Offer is inadequate, fails to recognize the full value of Khan, contains objectionable terms and conditions that are not in the best interests of Khan or its Shareholders and is a prejudicial and opportunistic attempt by ARMZ to acquire Khan without offering fair value to Shareholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS REJECT THE ARMZ OFFER AND NOT TENDER THEIR COMMON SHARES TO THE ARMZ OFFER.

Each of the Directors and officers of Khan has indicated its current intention NOT to accept the ARMZ Offer.

REASONS FOR REJECTION

The Board of Directors unanimously believes that the ARMZ Offer is inadequate, fails to recognize the full value of Khan and contains objectionable terms and conditions that are not in the best interests of Khan or its Shareholders. In addition, the Board of Directors unanimously believes that the ARMZ Offer is highly opportunistic and prejudicial and exposes Khan to serious risks. In making its recommendation, the Board received the unanimous recommendation of the Special Committee established by the Board of Directors, comprised of Mr. Grant Edey (Chairman), Mr. David McAusland, Mr. James Doak and Mr. Jean-Pierre Chauvin, consulted with its legal and financial advisors and carefully reviewed, considered and deliberated all aspects of the ARMZ Offer. The Board of Directors identified a number of factors set out below as being most relevant to its recommendation to Shareholders to **REJECT** the ARMZ Offer and **NOT TENDER** their Common Shares.

TO REJECT THE ARMZ OFFER, YOU SHOULD DO NOTHING.

If you have already tendered Common Shares to the ARMZ Offer, you can withdraw your Common Shares by contacting your broker or dealer, or contact Georgeson, the Information Agent retained by Khan, North America Toll-Free at 1-866-374-9877, or Banks and Brokers and Collect Calls outside North America at 1-212-806-6859 or via email at gsproxygroup@gscorp.com. Additional information can also be obtained at www.khanresources.com.

1. The ARMZ Offer significantly undervalues Khan and the Dornod Uranium Property.

- The Board of Directors believes that the ARMZ Offer significantly undervalues Khan and its assets and, if completed, would prevent Shareholders from sharing in the potential upside anticipated as the Dornod Uranium Property continues to move closer to development and construction. Khan's Dornod Uranium Property ranks among the largest and most significant undeveloped uranium deposits of its kind in the World.
- Khan has completed a Definitive Feasibility Study in respect of the Dornod Uranium Property which shows proven and probable reserves of 52.9 million lbs of U_3O_8 and measured and indicated resources of 64.3 million lbs of U_3O_8. Currently, Khan's attributable interest in the Dornod Uranium Property measured and indicated resources is 44.1 million lbs of U_3O_8 or 68.6%. As described below in the section entitled "Khan Resources Inc.", the Mongolian Nuclear Energy Law enacted in July 2009 entitles the Government of Mongolia ("**GOM**") to acquire not less than a 51% interest in strategic uranium deposits. Upon application of the law, Khan's attributable interest in the Dornod Uranium Property measured and indicated resources could be reduced to 25.2 million lbs of U_3O_8 or 39.3%. The ARMZ Offer net of Khan's cash on hand of $17.8 million (or US$16.8 million) as at September 30, 2009, values Khan's attributable resources at only US$0.65 per pound of U_3O_8 based on an assumed 51% GOM ownership position (or US$0.37 per pound based on the current ownership position). Even at US$0.65 per pound of attributable U_3O_8, the ARMZ Offer is well below the average valuation of US$3.55 per pound for eleven advanced-stage exploration and development companies, which own projects similar to the Dornod Uranium Property, and is also well below the average value of US$1.80 per pound for relevant precedent transactions.
- The ARMZ Offer fails to recognize the economic robustness of Khan's Dornod Uranium Property. The Definitive Feasibility Study estimates an after-tax net present value (NPV) using a 10% discount rate of US$276.0 million, of which US$189.3 (or $3.71 (US$3.51) per Common Share) is attributable to Khan based on its current ownership position, and US$108.4 (or $2.13 (US$2.01) per Common Share) would be attributable to Khan assuming that the GOM was to acquire a 51% interest in the Dornod Uranium Property pursuant to the Nuclear Energy Law. Accordingly, after taking into account Khan's cash on hand of $0.33 per Common Share, the total after-tax net asset value (NAV) attributable to Khan would be $4.04 per Common Share (based on the current ownership structure) or $2.45 per Common Share (assuming the GOM was to acquire a 51% interest in the Dornod Uranium Property). The ARMZ Offer of $0.65 per Common Share represents only 16.1% of Khan's NAV (based on the current ownership structure) or 26.5% of Khan's NAV (assuming the GOM was to acquire a 51% interest in the Dornod Uranium Property). In either case, the ARMZ Offer substantially undervalues Khan.

- The Board of Directors also believes that the ARMZ Offer attributes little value to the substantial amount of work and investment that Khan has completed to date. Khan and its subsidiaries have invested over US$21 million in the Dornod Uranium Property. Most significantly, in March 2009, Khan completed the Definitive Feasibility Study and a detailed NI 43-101 compliant technical report on the results thereof. In September 2009, Khan announced its development plan for the Dornod Uranium Property, described in more detail below, and signalled its willingness and ability to quickly proceed to negotiating an Investment Agreement with the GOM. Through its work and investment, Khan has laid the groundwork for the next phases of development and has created significant value which is not recognized in the ARMZ Offer, particularly when one considers that Khan has no debt and has cash of approximately $17.8 million (US$16.8 million) as at September 30, 2009. Moreover, Khan has no immediate need to access the capital markets and does not expect significant capital raising requirements until such time as it has entered into an Investment Agreement with the GOM, at which time the Board of Directors expects Khan's Common Share price to be significantly higher as a result of greater certainty as to Khan's ownership and economic interest in the Dornod Uranium Property.
- The Dornod Uranium Property is strategic and marketable given the anticipated long-term demand for uranium worldwide, discussed further below under the section of this Directors' Circular entitled "Khan Resources Inc.". The Board of Directors believes that the ARMZ Offer fails to adequately compensate Shareholders for the significant strategic value of the Dornod Uranium Property.

For further details concerning the Dornod Uranium Property, including the results of its Definitive Feasibility Study and the economic analysis and financial model completed in connection therewith, please see the section of this Directors' Circular below entitled "Khan Resources Inc.".

THE ARMZ OFFER SIGNIFICANTLY UNDERVALUES KHAN AND THE DORNOD URANIUM PROPERTY.

2. Khan's Financial Advisor has delivered a written opinion stating that the consideration offered under the ARMZ Offer is inadequate from a financial point of view to Shareholders.

- Haywood, the Financial Advisor to the Special Committee, has delivered a written opinion that the consideration offered under the ARMZ Offer is inadequate from a financial point of view to Shareholders (other than ARMZ and its affiliates). A copy of the Inadequacy Opinion of Haywood is attached at Appendix "A" to this Directors' Circular. The Board of Directors recommends that you read the Inadequacy Opinion carefully and in its entirety in conjunction with your review of this Directors' Circular.

THE CONSIDERATION OFFERED UNDER THE ARMZ OFFER IS INADEQUATE FROM A FINANCIAL POINT OF VIEW TO SHAREHOLDERS.

3. The timing of the ARMZ Offer is highly prejudicial. It exposes Khan to serious risks that re-registration of the essential licenses for the Dornod Uranium Property may be delayed or denied.

- ARMZ, as the owner of JSC PIMCU, one of Khan's joint venture partners in CAUC, which in turn owns the Main Dornod Property and its related mining license 237A, is well aware of the circumstances surrounding the suspension of its mining license in respect of the Main Dornod Property and the passage of the new Nuclear Energy Law. ARMZ is also well aware that Khan submitted robust applications on behalf of itself and CAUC to re-register the essential mining and exploration licenses in respect of the Dornod Uranium Property and Khan is currently making great efforts to work co-operatively with the GOM to facilitate their re-registration in accordance with the new law. By timing the commencement of its Offer during a critical period when the license re-registration process is underway, ARMZ has placed Khan in a very awkward and potentially dangerous position and risks thwarting Khan's ongoing and consistent efforts to pave a path forward in Mongolia with the necessary and reasonable cooperation of the GOM.

- The Board of Directors and Khan management believe that any strategic transaction involving Khan must take the policies and laws of the Government of Mongolia into account and respect the legitimate desire of the GOM to substantially influence the ownership and exploitation of strategic resources in Mongolia. The GOM has made it clear, with the passage of the Nuclear Energy Law and various public pronouncements, that it considers uranium mining a matter of national strategic importance that is appropriately under the control of the GOM. The Nuclear Energy Law gives the GOM the right to take ownership without payment of not less than 34% (if the resources were developed without State funds) or 51% (if the resources were developed with State funds) of the shares of a license holder. In the application for re-registration of licenses under the Nuclear Energy Law, license holders such as Khan and CAUC were required, as a condition to the re-registration, to agree to abide by these provisions. In the view of the Board of Directors and Khan management, the ARMZ Offer was made without taking these policies and laws into account and has exposed Khan to significant risk that the license re-registrations may be delayed or denied as a result.
- By launching its unsolicited Offer, even if ARMZ does not complete the acquisition because one of the numerous discretionary conditions it has imposed is not fulfilled or waived by ARMZ, it has created a state of uncertainty surrounding Khan and its future operations and ownership structure during a critical period when the GOM has a renewed focus on ownership of strategic assets in Mongolia and Khan is making great efforts to work together with the GOM to effect the re-registration of the essential licenses. The ARMZ Offer could seriously jeopardize Khan's efforts to secure the license re-registrations, a risk ARMZ must be aware of.

THE ARMZ OFFER IS HIGHLY PREJUDICIAL AND EXPOSES KHAN AND ITS ASSETS TO SERIOUS RISKS.

4. The ARMZ Offer is highly conditional and is not a firm offer.

- The ARMZ Offer is not a firm offer. The highly conditional nature of the ARMZ Offer provides ARMZ with the right, in its sole discretion, not to proceed with the ARMZ Offer. The Board of Directors also believes that the numerous discretionary and objectionable conditions of the ARMZ Offer do not take into account the unique circumstances of Khan or the significant challenges and regulatory uncertainty in Mongolia, of which ARMZ is intimately aware. The Board has concluded that there is no reasonable basis upon which to believe that ARMZ is seriously prepared to proceed with the Offer, in light of the overly conditional and discretionary basis upon which ARMZ has offered to acquire the Common Shares. The Board of Directors considers there to be a high risk that the ARMZ Offer will not be completed.
- The ARMZ Offer contains at least 15 subjective conditions, most of which include several sub-conditions, which must be satisfied or waived before ARMZ is obligated to take up and pay for any securities deposited under the ARMZ Offer. Most of the conditions and sub-conditions provide ARMZ with a broad discretion to determine whether or not the condition has been satisfied and are not subject to any materiality thresholds or other objective criteria. Most of the conditions include language such as "the Offeror shall have determined in its sole discretion" and "unless the same is acceptable to the Offeror acting in its sole discretion", and similar phrases, without any requirement for reasonableness by ARMZ in its determinations.
- The extensive and broadly discretionary conditions are particularly objectionable in light of the circumstances in which the ARMZ Offer is made. As an owner of CAUC, which in turn owns the mining license for the Main Dornod Property, ARMZ is intimately familiar with the Dornod Uranium Property, the suspension of CAUC's mining license and the current challenges and uncertain regulatory environment surrounding the new Nuclear Energy Law and the re-registration of CAUC's and Khan's essential licenses, which are described in greater detail below under the sections entitled "Background to the ARMZ Offer" and "Khan Resources Inc.".
- Numerous conditions of the ARMZ Offer include events or uncertainties known to ARMZ that, as of the day ARMZ launched its Offer, would allow ARMZ to withdraw or terminate its Offer or not take up and pay for any Common Shares deposited to the Offer. For example, the following sampling of circumstances, events or uncertainties known to ARMZ would today, despite ARMZ's knowledge prior to launching the ARMZ Offer, allow it to withdraw or terminate its Offer or not take up and pay for any Common Shares:
  - The existence of the Nuclear Energy Law which became effective in August 2009, by virtue of entitling the Government of Mongolia to acquire certain specified interests in the shares of license holders in Mongolia, gives ARMZ the right to abandon the Offer today, in its sole discretion.

- ARMZ is aware that CAUC's existing mining license and Khan's existing exploration licenses were submitted for re-registration under the Nuclear Energy Law in mid-November and that the re-registration process is an involved process that could require a considerable amount of time. Notwithstanding this, if Khan's and CAUC's licenses have not been re-registered by the Expiry Time of the ARMZ Offer, ARMZ has the right to abandon the Offer, in its sole discretion.
- As previously announced by Khan, CAUC's mining license in respect of the Dornod Uranium Property was suspended at the end of July 2009. Under the conditions of the Offer, the fact of this suspension allows ARMZ, in its sole discretion, to abandon the Offer today.

- Based on the foregoing, tendering Common Shares to the ARMZ Offer would, in effect, constitute granting ARMZ a mere option to acquire Common Shares in its sole discretion at a price that is inadequate and does not reflect the value and potential of Khan's assets.

THE HIGHLY SUBJECTIVE AND DISCRETIONARY CONDITIONS OF THE ARMZ OFFER GIVE ARMZ A PURE OPTION. IT IS NOT A FIRM OFFER.

5. The timing of the ARMZ Offer is highly opportunistic and disadvantageous to Shareholders given Khan's disproportionately depressed share price and the license re-registration process underway. If successful, it will deprive you of the potential for enhancement of the value of your Common Shares as the Dornod Uranium Property proceeds towards construction and production.

- The Board of Directors believes that Khan's current Common Share price does not reflect Khan's full value and potential. In addition to more global factors such as the worldwide weakness in markets following the global financial crisis, Khan's share price has been negatively impacted by the unique regulatory challenges and uncertainty in Mongolia. While other uranium companies have been affected by the global market weakness and by a cyclical downturn in uranium prices, Khan's share price has been disproportionately affected. For example, the share price of the eleven uranium companies with advanced-stage exploration and development projects similar to the Dornod Uranium Property, that were used for the comparable market analysis conducted by Haywood in connection with this Directors' Circular, had an average maximum decline of 15% during the period from July 14, 2009 (the date prior to Khan learning of the suspension of the mining license for the Main Dornod Property) to the date of the ARMZ Offer (*Source: Thomson One*). In contrast, as a result of the license suspension and other unique regulatory challenges and uncertainty specific to Khan and its assets and licenses, the share price of Khan declined by up to 50% (*Source: Thomson One*). This 50% decrease marked the largest drop among the eleven company peer group.
- By timing the commencement of its Offer during a critical period when Khan is making great efforts to co-operate with the GOM to re-register the essential mining and exploration licenses in respect of the Dornod Uranium Property under the new Nuclear Energy Law, ARMZ is seeking to take advantage of Khan and its Shareholders at a particularly vulnerable time, and to capitalize on these regulatory challenges and uncertainty without paying fair value for the Common Shares.

For additional information concerning significant developments in the Republic of Mongolia relating to Khan, its Dornod Uranium Property and its licenses, reference is made to the sections of this Directors' Circular below entitled "Background to the ARMZ Offer" and "Khan Resources Inc.".

THE TIMING OF THE ARMZ OFFER IS HIGHLY OPPORTUNISTIC.

6. Alternative transactions are being pursued by Khan to generate greater value for Khan Shareholders.

- In fulfilment of its fiduciary duties to Khan, the Board of Directors is pursuing and evaluating alternative transactions in order to identify strategic alternatives that are in the best interests of Khan and its Shareholders. Further details concerning these efforts are set out below in the section of this Directors' Circular entitled "Background to the ARMZ Offer".

- The Special Committee and Khan management is focussed on identifying alternative strategic transactions that recognize the reality of the circumstances in Mongolia and the critical intangible value of maintaining positive working relationships with the GOM. In addition, any proposed transaction or any other strategic alternative that Khan pursues must be considered in light of the laws and policies of the Government of Mongolia and the interests of all relevant stakeholders, in addition to enhancing value for Shareholders. While it is impossible to predict whether any transactions will emerge from these efforts, the Board of Directors believes that Khan and its assets are potentially very attractive to other parties in addition to ARMZ.
- Shareholders should understand that the ARMZ Offer is open for acceptance until February 1, 2010. Tendering your Common Shares to the ARMZ Offer before the Special Committee and its advisors have had an opportunity to fully explore all available alternatives may preclude the possibility of a superior strategic transaction emerging.

SUPERIOR STRATEGIC ALTERNATIVES MAY EMERGE PROVIDING GREATER VALUE TO SHAREHOLDERS THAN THE ARMZ OFFER.

7. Major Shareholders say the ARMZ Offer is inadequate. The ARMZ Offer has been rejected by all of Khan's Directors and officers.

- Since the announcement of ARMZ's intention to make the ARMZ Offer, members of the Special Committee and Khan management or its financial advisors have sought the views of a number of Khan's major Shareholders with respect to the Offer. These Shareholders, along with all of Khan's Directors and officers, have indicated to Khan that, currently, they consider the ARMZ Offer to be inadequate and do not intend to tender their Common Shares. When the holdings of these major Shareholders are combined with those of the Directors and officers of Khan, this means that in excess of 30% of the outstanding Common Shares of Khan will NOT be tendered to the ARMZ Offer.
- Based on the foregoing, ARMZ's minimum tender condition requiring that holders of at least 66⅔% of the outstanding Common Shares (calculated on a fully-diluted basis) shall have been tendered to the ARMZ Offer would not be satisfied.

MAJOR SHAREHOLDERS AND KHAN DIRECTORS AND OFFICERS SAY THE ARMZ OFFER IS INADEQUATE AND DO NOT INTEND TO TENDER THEIR COMMON SHARES.

8. Khan has the management capabilities and access to the financial resources to develop its assets and pursue its current objectives.

- Khan has assembled an experienced Board of Directors and management and technical team, operating both in Toronto and on the ground in Mongolia who have, together, demonstrated their ability to grow Khan and advance the Dornod Uranium Property during all phases of its exploration and development, working towards construction and production. As a result of that expertise, the Board of Directors believes Khan is well positioned to further develop the project on schedule.
- In addition to completing a Definitive Feasibility Study, Khan has established and previously announced the details of its development plan for the Dornod Uranium Property to continue to advance its development towards production and construction, which the Board of Directors believes is achievable. The development plan contemplates developing the Dornod Uranium Property within approximately three years of negotiating and obtaining an Investment Agreement with the GOM. Khan is prepared to immediately commence negotiations with the GOM in this regard.

- Khan has completed a substantial amount of work at the Dornod Uranium Property to-date to ready the project for the construction phase. From definition drilling to prove-up the uranium resource and detailed metallurgical work, through to completion of a comprehensive environmental and social impact assessment and the Definitive Feasibility Study, Khan and its subsidiaries have invested over US$21 million to lay the ground-work for this next phase. On-site, a 70 person self-contained camp has been built, lined settling ponds have been constructed in preparation for mine de-watering, and work is being completed on a 27 km power line bringing main-line power into the project from the Choibalsan generating station.
- The Board of Directors believes that Khan has the management and technical expertise and access to financial resources necessary in order to continue to advance the Dornod Uranium Property and Khan's objectives either as an independent stand-alone entity or in combination with one or more third parties other than ARMZ through other forms of strategic, value-enhancing transactions.

KHAN HAS THE MANAGEMENT AND TECHNICAL CAPABILITIES AND ACCESS TO FINANCIAL RESOURCES NECESSARY TO DEVELOP ITS ASSETS AND PURSUE ITS OBJECTIVES.

CONCLUSION AND RECOMMENDATION

For the reasons outlined above, the Board of Directors believes that the ARMZ Offer is inadequate, fails to recognize the full value of Khan and contains objectionable terms and conditions that are not in the best interests of Khan or its Shareholders. In addition, the Board of Directors believes that the ARMZ Offer is highly opportunistic and prejudicial and exposes Khan to serious risks.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS REJECT THE ARMZ OFFER AND NOT TENDER THEIR COMMON SHARES.

The foregoing summary of the information and factors considered by the Special Committee and the Board of Directors is not intended to be exhaustive of the information and factors considered by them in reaching their conclusion and making a recommendation that Shareholders reject the ARMZ Offer, but includes the material information, factors and analysis considered by each of the Special Committee and the Board of Directors in reaching its conclusion and recommendation. The members of the Board of Directors evaluated various factors summarized above in light of their own knowledge of the business, properties, financial condition and prospects of Khan and the unique circumstances in which Khan operates, and based upon the advice of its financial and legal advisors and the unanimous recommendation of the Special Committee. In view of the numerous factors considered in connection with its evaluation of the ARMZ Offer, the Board of Directors did not find it practicable to, and did not quantify or otherwise attempt to assign relative weight to specific factors in reaching its conclusion and recommendation. In addition, individual members of the Board of Directors may have given different weight to different factors. The conclusion and unanimous recommendation of the Board of Directors was made after careful consideration, evaluation and deliberation of all of the information and factors involved.

HOW TO WITHDRAW TENDERED SHARES

To reject the ARMZ Offer, you should do nothing. Shareholders who have already tendered their Common Shares to the ARMZ Offer can withdraw them at any time before they have been taken up and accepted for payment by ARMZ. Shareholders holding their Common Shares through a brokerage firm or other nominee can contact their broker or dealer or other nominee to withdraw the Common Shares on their behalf. Shareholders who would like to withdraw their Common Shares may also contact Georgeson, the Information Agent retained by Khan, North America Toll-Free at 1-866-374-9877, Banks and Brokers and Collect Calls outside North America at 1-212-806-6859 or via email at gsproxygroup@gscorp.com. Additional information can also be obtained at www.khanresources.com.

BACKGROUND TO THE ARMZ OFFER

The Board of Directors believes that it is important for Shareholders to understand the context in which the ARMZ Offer was made in order to understand the rationale for the Board's reaction to it and its recommendations set out herein. The Dornod Uranium Property ranks among the largest and most significant undeveloped uranium deposits in the World. Khan believes that the economics of the project are strong. This belief is based on the economic analysis and financial model for the project that was prepared in connection with the Definitive Feasibility Study completed in March 2009. Khan also believes that it has laid the foundation to take the project to the next phases of development and, in September 2009, it announced its development plan to take the project to the construction phase. These factors, and Khan's efforts in bringing the project to this stage, are described in greater detail below under the section entitled "Khan Resources Inc.".

Unfortunately, numerous events and uncertainties outside of Khan's control have transpired over the past several months which have overshadowed the positive impact that these developments might otherwise have had. Most notably, the suspension of CAUC's mining license for the Main Dornod Property, and the passage of the new Nuclear Energy Law, both in July 2009, have generated significant uncertainty over Khan's interests in Mongolia, resulting in a depressed share price that does not reflect the value of Khan's assets or prospects. This uncertainty is likely to continue to exist so long as the applications to re-register the licenses under the new Nuclear Energy Law are pending and the ownership position of the GOM in the Dornod Uranium Property is unresolved. Khan is at a critical juncture, and the Board and management have focussed their efforts on trying to work constructively with the GOM to address these issues. These matters are described in greater detail below under the section entitled "Khan Resources Inc.".

It is in this context that ARMZ has initiated its highly prejudicial and opportunistic unsolicited Offer.

In early 2009, Khan received an expression of interest from a third party concerning the possibility of pursuing a strategic transaction. Following some preliminary discussions, and consistent with the Directors' fiduciary duties in response to any such expression of interest, the Board of Directors determined that it was critical that Khan adequately prepare itself in the event that an acquisition transaction involving all or a portion of Common Shares or some other form of strategic transaction were to emerge. Accordingly, the Board of Directors determined in May 2009 to form the Special Committee, which was initially comprised of Mr. Grant Edey (Chairman), Mr. David McAusland, Mr. James Doak and Mr. Martin Quick.

On May 7, 2009, the Board of Directors approved the mandate of the Special Committee which included, among other things, (i) considering and recommending to the Board all steps necessary or advisable and in the best interest of Khan and its Shareholders to prepare itself for any take-over bid or other offer or similar transaction and alternatives thereto, including proposals therefor (collectively, "**Potential Transactions**"), (ii) establishing, conducting and managing any process to evaluate Potential Transactions and expressions of interest or proposals received by Khan or any unsolicited offers for Khan, and (iii) conducting and supervising negotiations with third parties and preparation of documentation, and making recommendations to the Board, in respect of Potential Transactions. As part of that process, Khan engaged a financial advisor to assist it in reviewing strategic opportunities and entered into confidentiality and standstill agreements with certain third parties who had expressed an interest in considering a strategic transaction with Khan. Khan also established an electronic data room for the purpose of providing confidential information to third parties who had entered into confidentiality and standstill agreements with Khan. This process was discontinued in July 2009. At no time during this process did ARMZ contact Khan or express any interest in a possible transaction with Khan.

On October 19, 2009, Mr. Martin Quick, President and Chief Executive Officer and a Director, and Mr. Grant Edey, a Director and Chairman of the Special Committee, met with representatives of ARMZ in London, England to discuss the CAUC joint venture arrangements. At that meeting, joint venture arrangements were not discussed as ARMZ began the meeting by first expressing an interest in discussing a possible acquisition transaction involving Khan. Messrs. Quick and Edey indicated that the Board of Directors had a previously-formed Special Committee that would be in a position to consider and respond to any proposals concerning any such transaction should one emerge, consistent with its fiduciary duties.

On October 28, 2009, Mr. Oleg Fedyashin, Director, Corporate Development Department of ARMZ Uranium Holding Co. ("**ARMZ Holdco**"), forwarded a written non-binding proposal and draft term sheet from Mr. Tigran Khachaturov, Acting General Director of ARMZ Holdco (the "**ARMZ Proposal**") to Mr. Edey, outlining the terms and conditions upon which ARMZ would be prepared to proceed with an acquisition of Khan. The ARMZ Proposal urged Khan to move forward expeditiously and requested a prompt response. Under the ARMZ Proposal, ARMZ offered to acquire 100% of the outstanding Common Shares for cash consideration of $0.39 per Common Share, by take-over bid, plan of arrangement or otherwise. Assuming the acquisition of approximately 1,435,000 Options and all outstanding

Common Shares at that time, the aggregate consideration offered under the ARMZ Proposal was approximately $21.6 million.

The ARMZ Proposal was subject to a number of terms and conditions which were carefully considered and evaluated by the Special Committee, with the advice of its legal counsel, Davies Ward Phillips & Vineberg LLP, during several discussions held on October 28 and 29, 2009. In addition to the unacceptably low proposed price, the Special Committee had a number of concerns about the ARMZ Proposal, including a lengthy exclusivity period until December 30, 2009, during which Khan would be prohibited from engaging in any discussions with third parties and ARMZ intended to conduct a due diligence review of Khan, which seemed at odds with ARMZ's expressed desire to move expeditiously and the fact that ARMZ was intimately familiar with Khan, the Dornod Uranium Property and the regulatory environment in Mongolia. The ARMZ Proposal also contemplated a number of conditions, including obtaining all regulatory and internal ARMZ approvals, and did not contemplate the usual fiduciary-out or deal protection measures customary for such transactions. Accordingly, the Special Committee determined that the ARMZ Proposal was not in the best interests of Khan or its Shareholders and authorized Mr. Quick to share its comments and concerns with ARMZ at an upcoming meeting of the CAUC joint venture partners.

Subsequently, at the CAUC management committee meeting held in Ulaanbaatar, Mongolia on November 4, 2009, Mr. Quick spoke with representatives of ARMZ led by Mr. Fedyashin and indicated that while Khan was still prepared to consider discussions with ARMZ concerning a possible acquisition transaction, the Special Committee had a number of concerns with the ARMZ Proposal that would first need to be addressed, including the inadequacy of the proposed price per Common Share. ARMZ indicated that it was not prepared to engage in oral discussions with Khan and insisted that Khan provide any comments or concerns in writing.

Following numerous formal and informal discussions amongst members of the Special Committee and with Khan's senior management, on November 10, 2009 the Special Committee convened a meeting with certain members of management and its legal advisors to further discuss and approve its response to the ARMZ Proposal and to evaluate certain strategic alternatives to the ARMZ Proposal. In addition, and while not required, in order to avoid any perception of conflict or bias, Mr. Quick resigned as a member of the Special Committee at that meeting and, in his place, Mr. Jean-Pierre Chauvin, a Director of Khan, was appointed to the Special Committee.

With the assistance of its legal counsel, Davies Ward Phillips & Vineberg LLP, the Special Committee prepared a written response to the ARMZ Proposal (the "**Khan Response**"), which was sent by Mr. Edey to ARMZ on November 11, 2009. The thrust of the response was that, in light of the Board's duty to act in the best interests of Khan and its Shareholders, in order for the Board to seriously consider entering into discussions with ARMZ, the ARMZ Proposal would need to provide for a considerably higher offer price than the initial $0.39 per Common Share proposed, and would also need to contain fewer conditions, a shorter exclusivity period and greater deal protection. In light of ARMZ's expressed desire for the parties to move expeditiously, the Khan Response was stated to be open for discussion with ARMZ until close of business on November 18, 2009.

Following close of business on November 18, 2009, having not received any written or oral response from ARMZ, Mr. Edey sent a letter to Mr. Khachaturov and Mr. Fedyashin confirming that the Khan Response had expired in accordance with its terms.

Following expiry of the Khan Response, on November 20, 2009, Mr. Fedyashin responded in writing, indicating that ARMZ was continuing its review and consideration of the Khan Response and that, given its corporate structure and the need to consult with its board and the board of RosAtom, its internal discussions could take some time, but that ARMZ expected to be in a position to respond to the Khan Response shortly.

Khan did not receive any further communication from ARMZ until immediately prior to the opening of North American financial markets on Friday, November 27, 2009, Mr. Fedyashin informed Mr. Quick and Mr. Edey via e-mail that ARMZ had completed its review of the Khan Response and was unable to support an acquisition of Khan at the minimum price required to enter into discussions. The letter further indicated that ARMZ intended to appeal directly to Khan's Shareholders and commence an unsolicited take-over bid at a price of $0.65 per Common Share, which intention would be announced that morning.

Immediately thereafter, ARMZ issued a news release announcing its intention to make an unsolicited offer by way of take-over bid for all of the issued and outstanding Common Shares at a price in cash of $0.65 per share.

RESPONSE TO THE ARMZ OFFER AND RECENT DEVELOPMENTS

On November 27, 2009, Khan issued a press release acknowledging ARMZ's announced intention to make an offer and urging Shareholders to defer making any decision until ARMZ formally commenced its offer and the Board of Directors had an opportunity to review the terms and conditions of any such offer and formally communicate its position to Shareholders.

Also on November 27, 2009, Khan received a request from legal counsel for ARMZ for a copy of its Shareholders' list and a list of holders of Options and related materials. Following confirmation from Khan's legal counsel that the request was in proper form, Khan caused the required lists to be made available to ARMZ within the prescribed time period.

On November 27, 2009, members of the Board discussed ARMZ's intention to make an offer and considered the retention of financial advisors. After discussion, the Special Committee entered into negotiations to engage Haywood as its financial advisor to assist in responding to the ARMZ Offer and to identify and evaluate potential strategic alternatives that might be in the best interests of Khan and its Shareholders.

On November 30, 2009, ARMZ formally commenced the ARMZ Offer by way of advertisement and filed the ARMZ Offer and Circular on SEDAR.

Also on November 30th, the Special Committee authorized management to identify prospective information agents to assist the Special Committee in acting as a resource for Shareholders in connection with the ARMZ Offer.

On December 1, 2009, the terms of the Haywood engagement agreement were approved and Haywood was formally engaged. The terms of Haywood's engagement are discussed in further detail in this Directors' Circular under the section below entitled "Inadequacy Opinion of the Financial Advisor".

On December 2, 2009, Khan issued a press release advising Shareholders that the Special Committee had retained Haywood as its financial advisor and Georgeson as Information Agent, and that Davies Ward Phillips & Vineberg LLP was acting as legal counsel. The Board also confirmed that, consistent with its duties, the Special Committee was engaged in a process and would carefully review and evaluate the ARMZ Offer and its terms and conditions, along with any available strategic alternatives, and would recommend a course of action to the Board of Directors that was in the best interests of Khan and its Shareholders.

On December 3, 2009, the Special Committee met with certain members of the management team of Khan, and its financial and legal advisors to review and discuss the ARMZ Offer, including the terms and conditions set out in the ARMZ Offer and Circular, and to consider the circumstances and prospects of Khan in light of the ARMZ Offer. At that meeting, among other things, the Special Committee received advice from Davies Ward Phillips & Vineberg LLP and Haywood with respect to its duties and responsibilities in the context of the ARMZ Offer in light of the unique and challenging circumstances in which it was made, and discussed the strategic alternatives that were under consideration at that time.

During this time, Mr. Edey also travelled to Mongolia to discuss the ARMZ Offer with key representatives of its other CAUC joint venture partner, MonAtom LLC, and with representatives of the Government of Mongolia.

During the period from December 2, 2009 to December 11, 2009, the Special Committee met formally and informally on numerous occasions to continue to discuss and evaluate the ARMZ Offer and its adequacy, to review and provide comments on drafts of this Directors' Circular and to discuss various other matters relating to the ARMZ Offer and other strategic alternatives. The Special Committee also held various meetings and discussions with its financial advisors, legal advisors and senior management and received advice, financial analyses, valuations, presentations and other reports from its financial and legal advisors and senior management concerning the ARMZ Offer and related matters, the results of various discussions with major Shareholders and brokers, the outcome of meetings and discussions with interested third parties and regulatory authorities in Mongolia, and concerning Khan's property, assets and future prospects. During this period, the Special Committee actively considered and evaluated possible alternative strategic transactions that might be available and in the best interests of Khan and its Shareholders in the circumstances. The Special Committee's efforts with respect to such strategic alternatives are ongoing and, given the complexity of the situation, it is not yet possible to predict whether or when an alternative transaction that is in the best interests of Khan and its Shareholders will emerge.

On December 11, 2009, Haywood rendered its Inadequacy Opinion to the Special Committee, subsequently confirmed in writing (a copy of which is attached as Appendix "A"), that, as of December 11, 2009, the consideration offered pursuant to the ARMZ Offer is inadequate from a financial point of view to the Khan Shareholders. For further details, see the section of this Directors' Circular below entitled "Inadequacy Opinion of the Financial Advisor". At this meeting, the Special Committee further considered and approved its report and recommendation to the Board of Directors in respect of the ARMZ Offer and a draft of the Directors' Circular to be presented to the Board of Directors, among other things. Having received and considered the Inadequacy Opinion and carefully reviewed and evaluated the ARMZ Offer and its terms and conditions set out in the ARMZ Offer and Circular, and having received advice from legal counsel and its financial advisors in this regard, based on such advice, review and evaluation, and for the reasons, among others, set out in the section of this Directors' Circular above entitled "Reasons for Rejection", the Special Committee confirmed its earlier determination to recommend to the Board of Directors that it recommend that Shareholders reject the ARMZ Offer and not tender their Common Shares to the ARMZ Offer.

On December 11, 2009, after the meeting of the Special Committee, the Board of Directors met and received the report of the Special Committee, along with the draft Directors' Circular and related press release summarizing their recommendation and the reasons for the recommendation. Based on its own deliberations, its consideration and review of the ARMZ Offer and its terms and conditions, the Inadequacy Opinion, the recommendation of the Special Committee described above and the factors, among others, described above under "Reasons for Rejection", and, after consultation with Haywood and Davies Ward Phillips & Vineberg LLP, the Board of Directors unanimously concluded that the ARMZ Offer is inadequate and that acceptance of the ARMZ Offer is not in the best interests of Khan or its Shareholders and unanimously resolved to recommend that Shareholders **REJECT** the ARMZ Offer and **NOT TENDER** their Common Shares to the ARMZ Offer.

INADEQUACY OPINION OF THE FINANCIAL ADVISOR

The Special Committee retained Haywood Securities Inc. ("**Haywood**") to act as its financial advisor effective November 30, 2009. Pursuant to the engagement agreement between Khan and Haywood, Haywood agreed to provide various financial advisory services to the Board of Directors in connection with the ARMZ Offer, including: (i) reviewing, analyzing and providing advice in respect of the ARMZ Offer; (ii) identifying strategic alternatives that are in the best interests of Khan and the Shareholders; (iii) preparing detailed valuation models for Khan; (iv) rendering an opinion as to the adequacy, from a financial point of view, of the consideration payable in connection with the ARMZ Offer; and (v) providing assistance with shareholder communications (collectively, the "**Advisory Services**").

Haywood has delivered a written opinion (the "**Inadequacy Opinion**") that, as of the date of such opinion and subject to the assumptions, limitations and qualifications therein, the consideration offered pursuant to the ARMZ Offer is inadequate from a financial point of view to the Shareholders (other than ARMZ and its affiliates).

The full text of the Inadequacy Opinion, including the assumptions made and the review undertaken in connection with its preparation, is attached at Appendix "A" to this Directors' Circular. All summaries and references to the Inadequacy Opinion in this Directors' Circular are qualified in their entirety by reference to the full text of the Inadequacy Opinion. The Inadequacy Opinion was one of several factors taken into consideration by the Special Committee and the Board in unanimously determining that the ARMZ Offer is inadequate to the Shareholders, is not in the best interests of Khan and the Shareholders and to recommend that Shareholders reject the ARMZ Offer.

Pursuant to the terms of the engagement letter with Haywood, Khan has agreed to pay Haywood a monthly fee plus certain additional fees in consideration for the Advisory Services, a significant portion of which fees are contingent upon the consummation of the ARMZ Offer or other alternative transactions. Khan has also agreed to reimburse Haywood for reasonable out-of-pocket expenses and indemnify against certain liabilities incurred by Haywood in connection with the performance of the Advisory Services.

The Board of Directors recommends that Shareholders carefully read the Inadequacy Opinion in its entirety.

KHAN RESOURCES INC.

Khan is a Canadian-based mineral exploration and development company engaged in the acquisition, exploration and development of uranium in Mongolia. Khan's current uranium exploration and development projects, one of which was previously in production, are located in the Dornod district of northeastern Mongolia, a district that contains a number of known uranium deposits. Khan's assets consist of its interest in the Dornod Uranium Property, which is held through a 58% interest in the Main Dornod Property, consisting of approximately 261 hectares of land including an open pit mine and approximately two-thirds of an underground deposit and mining license 237A in respect of the Main Dornod Property, and a 100% interest in the Additional Dornod Property consisting of approximately 243 hectares contiguous with the Main Dornod Property and exploration license 9282X in respect of the Additional Dornod Property. For additional information, reference is made to Khan's Annual Information Form available on SEDAR at www.sedar.com.

Khan is a corporation existing under the *Business Corporations Act* (Ontario) and a reporting issuer or equivalent in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Khan's head and registered office is located at Suite 1007, 141 Adelaide Street West, Toronto, Ontario M5H 3L5. Khan's Mongolian headquarters is located at Ochir House Building, Room 403, Peace Avenue 15A/5, Ulaanbaatar 211213, Mongolia.

The authorized share capital of Khan consists of an unlimited number of Common Shares with no par value. As at December 11, 2009, there were 53,963,779 issued and outstanding Common Shares and outstanding Options to acquire an aggregate of 4,930,800 Common Shares. The Common Shares are listed and posted for trading on the TSX under the symbol "KRI". On December 11, 2009, the last trading day prior to the date of this Directors' Circular, the closing price of the Khan Common Shares on the TSX was $0.62.

Long-Term Prospects for Khan and Its Properties

Subsequent to Khan acquiring its interest in the Main Dornod Property and related mining license 237A in 2003, in which it holds a 58% interest through CAUC, and acquiring its indirect 100% interest in the Additional Dornod Property and related exploration license 9282X in 2005, Khan and its experienced management and technical team have continued to advance the exploration and development of the Dornod Uranium Property. Most significantly, Khan has expanded the reserve and resource base at the project, completed numerous NI 43-101 compliant technical reports, completed a pre-feasibility study in August 2007 and an internationally-recognized environmental and social impact assessment in July 2009 and, ultimately, completed the Definitive Feasibility Study and a related economic analysis and financial model in March 2009, thereby advancing the Dornod Uranium Property closer to construction and production.

Khan's Dornod Uranium Property ranks among the largest and most significant undeveloped uranium deposits of its kind in the World. The Definitive Feasibility Study was based on an NI 43-101 compliant measured and indicated mineral resource previously prepared for the project, of 25.3 million tonnes at an average grade of 0.116% uranium oxide ("**U_3O_8**") for 64.3 million lbs of U_3O_8 and an inferred mineral resource of 2.2 million tonnes at an average grade of 0.050% U_3O_8 for 2.4 million lbs of U_3O_8. Based on Khan's 58% interest in the No. 2 deposit plus a 58% interest in two-thirds of the No. 7 deposit plus a 100% interest in the remaining one-third of the No. 7 deposit, Khan has an overall ownership interest of 68.6% (based on the current ownership structure) or 39.3% (assuming the GOM was to acquire a 51% interest in the Dornod Uranium Property) of the measured and indicated uranium resources contained in the Dornod Uranium Property. The probable mineral reserve prepared for the No. 2 open pit and the No. 7 underground deposits is 18.0 million tonnes at an average grade of 0.133% U_3O_8 for 52.9 million lbs of U_3O_8 out of the 64.3 million lbs of indicated mineral resources.

An economic analysis and financial model for the Dornod Uranium Property underground and open-pit mine with an annual production rate of 1,225,000 tonnes of U_3O_8 was prepared in connection with the Definitive Feasibility Study. Key production and financial parameters are as follows:

Financial and Production Data

Annual Mine Throughput	1,225,000 tonnes
Mine Life	15 years
Average Grade	0.133% U_3O_8
Recovered U_3O_8	45,279,000 pounds
Forecast Average Price	US$65 per pound

Based on the above parameters and other factors set out in the Definitive Feasibility Study, the Board of Directors believes the Dornod Uranium Property represents significant long-term value and the potential to generate substantial profit and economic benefits to the Government and people of Mongolia and to Khan's Shareholders. The Definitive Feasibility Study is based on an expected mine life of 15 years and assumes a long-term uranium price of US$65 per pound of U_3O_8 and a through-put of 3,500 tonnes per day generating an average annual production rate of 3.0 million pounds of U_3O_8 at a cost of US$23.22 per pound U_3O_8 or US$58.26 per tonne of ore. Almost one-half of the total uranium production occurs during the first five years of the mine life generating a short payback period of only 2.3 years. The Definitive Feasibility Study estimates a project internal rate of return (IRR) after tax of 29.1% and a project net present value (NPV) at a 10% discount rate of US$276 million and total payments of approximately US$464 million for royalties and corporate income taxes to the Republic of Mongolia alone. The after-tax NPV at 10% using a uranium price of US$70 per pound of U_3O_8 is US$339 and the IRR after tax increases to 32.5%.

Based on the foregoing, the Definitive Feasibility Study confirms the robust economics of the Dornod Uranium Property and resulting income, which is anticipated to greatly exceed the US$333 million in estimated capital costs associated with the project (which costs Khan also anticipates it will be able to reduce). Further details concerning the results of the Definitive Feasibility Study, including the results of the economic analysis and financial model completed in respect of the Dornod Uranium Property, are contained in the NI 43-101 compliant Technical Report on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia, dated April 22, 2009, available on SEDAR at www.sedar.com.

In addition to completing the Definitive Feasibility Study, Khan has also prepared and previously announced the details of its development plan in respect of the Dornod Uranium Property. The development plan consists of three key steps, which contemplate developing the Dornod Uranium Property within approximately three years of obtaining an Investment Agreement in respect of the project with the GOM. The first phase of the plan consists of negotiating and obtaining the Investment Agreement, which negotiations Khan is prepared to commence immediately. The second phase involves obtaining financing for the development and construction at the Dornod Uranium Property, which the Board of Directors believes will be achievable, either by way of debt or equity financings or other strategic opportunities with third parties, based on the economic robustness of the project and Khan's strong balance sheet and absence of long-term debt. The final phase of the development plan involves construction at the project, ultimately leading to underground mining of the No. 7 deposit in years one to 15 with open-pit mining for the No. 2 deposit in years eight to 15, using the resin-in-pulp method, which management believes is the best recovery technology and has been successfully implemented elsewhere.

Khan currently believes that growing demand and rising uranium prices will further enhance the value of the Dornod Uranium Property in the long-term. The uranium spot price has steadily increased from US$7 per pound U_3O_8 in December 2000 to a peak of US$135 per pound U_3O_8 in June 2007. Since that time, the uranium spot price has ranged from US$40 to US$123 per pound U_3O_8. As of the date of this Directors' Circular, the uranium spot price was approximately US$45 per pound U_3O_8. A survey of forecasted contract uranium prices from various financial institutions was obtained by Khan for the period from 2008 to 2014. The average price ranged from a low of US$65.54 per pound U_3O_8 in 2009 to a high of US$82.50 per pound U_3O_8 in 2011. A long-term uranium price of US$65 per pound U_3O_8 was used in connection with the economic analysis prepared in conjunction with the Definitive Feasibility Study for the Dornod Uranium Property. The current long-term price for U_3O_8 is US$65 per pound.

In addition to rising prices, growing demand for nuclear energy further supports the robust economics of the Dornod Uranium Property. According to the World Nuclear Association, about 436 reactors with combined capacity of over 370 giga watts net require approximately 78,500 tonnes of uranium oxide concentrate containing 66,500 tonnes of uranium from mines (or the equivalent from stockpiles or secondary sources) each year. Capacity is growing and, at the same time, the reactors are being run more productively with higher capacity and reactor power levels. The demand on uranium fuel is much more predictable than with most if not all other mineral commodities, because of the cost structure of nuclear power generation, with high capital and low fuel costs. Once reactors are built, it is typically very cost effective to keep them running at high capacity and for utilities to make any adjustments to load trends by cutting back on fossil fuel use. Looking 10 years ahead, the market is expected to grow. Demand thereafter will depend on new plants being built and the rate at which older plants are retired. However, with electricity demand by 2030 expected (by the Organization for Economic Co-Operation and Development's (OECD) International Atomic Energy Agency) to double from demand levels in 2004, there is plenty of scope for growth in nuclear capacity in a greenhouse-conscious world. (*Source: World Nuclear Association*)

For example, in 2008, ARMZ itself stated that it intends to triple production to 10,000 tonnes of uranium per year by 2015, with some help from leading industry players and local investors. According to public sources, ARMZ plans to invest RUB203 billion (approximately US$6.1 billion) in the development of uranium mining in Russia alone from 2008 to 2015. It has also stated that it aims for 20,000 tonnes of uranium production per year by 2024. With the increasing use of fast reactors, this level of demand and production alone could support a major expansion in nuclear generation to the end of the century. Russia alone has approximately 31 operating reactors totalling 21,743 mega watts and several other reactors are currently under construction and planned. (*Source: World Nuclear Association, Nuclear Power in Russia, dated September 22, 2009*)

In addition to the Dornod Uranium Property and its significant prospects and potential long-term value, prior to ARMZ's unexpected announcement of its intention to make the ARMZ Offer, Khan had also entered into a binding agreement to acquire an approximate 17.9% interest in Macusani Yellowcake Inc., an exploration stage company with potentially significant near-surface advanced stage uranium exploration properties in the Puno District of southern Peru, at a price of $0.20 per share. The acquisition was completed on November 30, 2009, the day ARMZ launched the ARMZ Offer.

Significant Mongolian Developments

Despite the significance of the Dornod Uranium Property and various indicators of its economic robustness and long-term value, various regulatory and economic events outside of the control of Khan have resulted in challenges and uncertainty concerning Khan's assets and future prospects and its currently depressed share price.

Beginning in 2007, the Dornod Uranium Property was designated as a deposit of "strategic importance" under the then-existing Minerals Law, which permitted the GOM to acquire up to a 50% interest in the deposit if it were determined that the deposit had been defined by exploration activities funded by the State budget. This designation, followed by the subsequent election during the Fall of 2007 of Mr. Sanjgaagiin Bayar as Chairman of the Mongolian People's Revolutionary Party, and his subsequent election by Parliament as Prime Minister of Mongolia, created considerable uncertainty surrounding Khan's prospects and its interest in and control over its properties and licenses going forward, resulting in a significant decline of the trading price of the Common Shares on the TSX.

While Khan successfully secured the renewal of its exploration license 9282X covering the Additional Dornod Property for a further three-year period in February 2008, and continued to work towards completion of the Definitive Feasibility Study, ongoing regulatory uncertainty in the Republic of Mongolia, including as to what impact, if any, the designation of Khan's property as a deposit of "strategic importance" would have on the future rights and prospects of Khan, combined with the global financial crisis and significant decline of confidence in public markets worldwide beginning around mid-2008, continued to adversely impact Khan's share price and perceived overall value.

Subsequently, uncertainty was regenerated concerning Khan's future prospects when, in July 2009, Khan was informed by the Mineral Resources Authority of Mongolia that mining license 237A held through the CAUC joint venture had been temporarily suspended due to violations cited by inspectors from Mongolia's State Inspection Agency who alleged that CAUC was in violation of applicable laws for not having registered its deposit reserve and resource calculations with the State Integrated Registry for approval by the Minerals Professional Council. Khan believes that it and CAUC had and continue to comply with the terms of its licenses in all material respects, including by having submitted the deposit reserve and resource calculation for registration initially in 2007 and again in 2008. In addition, Khan has more recently taken additional steps in an effort to have the suspension lifted by resubmitting its reserve and resource calculations to the Mongolian Ministry of Mineral Resources and Energy. A formal report on the reserves and resources by the Ministry is expected in due course.

Shortly after the announcement of the mining license suspension in July 2009, the Mongolian Parliament passed the new Nuclear Energy Law effective August 15, 2009, furthering uncertainty and speculation about Khan's prospects and its future ownership interest in the Dornod Uranium Property. Among other things, the Nuclear Energy Law entitles the GOM the right to take ownership without payment of not less than 34% (if the resources were developed without State funds) or 51% (if the resources were developed with State funds) of the shares of a license holder, and the further 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 Nuclear Energy Law by November 15, 2009.

Khan is supportive of the GOM's efforts to develop a regulatory regime for the safe exploitation of radioactive minerals and nuclear energy that complies with international standards as well as the guidelines published by the International Atomic Energy Agency. Khan also understands and supports the interest of the Government and Parliament of Mongolia in ensuring the people of Mongolia benefit from the exploitation of Mongolia's resources. Accordingly, following adoption of the Nuclear Energy Law and prior to the prescribed November 15, 2009 deadline to submit applications for re-registration, Khan submitted detailed applications to re-register both mining license 237A and exploration license 9282X in respect of the Dornod Uranium Property. Since that time, Khan has focused its efforts on trying to work co-operatively with the GOM to obtain the re-registration of those licenses under the Nuclear Energy Law and to pave a path forward with the necessary and reasonable co-operation of the GOM. Any licenses that are not re-registered under the Nuclear Energy Law, as required, will be considered suspended.

For further information regarding Khan, reference is made to Khan's continuous disclosure filings with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com.

OWNERSHIP OF SECURITIES OF KHAN

The authorized share capital of Khan consists of an unlimited number of Common Shares with no par value. As at December 11, 2009, there were 53,963,779 issued and outstanding Common Shares and outstanding Options to acquire an aggregate of 4,930,800 Common Shares. The Common Shares are listed and posted for trading on the TSX under the symbol "KRI". On December 11, 2009, the last trading day prior to the date of this Directors' Circular, the closing price of the Khan Common Shares on the TSX was $0.62. To the knowledge of the Directors and officers of Khan after reasonable inquiry, no person beneficially owns, or exercises control or direction over, directly or indirectly, more than 10% of the outstanding Common Shares of Khan, except:

Name of Shareholder(1)	Number of Common Shares	Percentage of Common Shares
Laramide Resources Ltd.	7,000,000	12.97%
JSC Compass Asset Management	5,669,100	10.51%

Note:

(1) Based on insider reports publicly filed on the System for Electronic Disclosure by Insiders ("**SEDI**") as at December 11, 2009.

The names of the Directors and officers of Khan, the positions held by them with Khan and the number and percentage of Common Shares and Options beneficially owned or over which control or direction is exercised, as of the date hereof, by each of them and, where known after reasonable inquiry, by their respective associates or affiliates, are as follows:

Name	Position	Number of Common Shares(1)	Percentage of Outstanding Common Shares(2)	Number of Options(1)	Percentage of Outstanding Options(3)
James B.C. Doak	Director and Chairman of the Board	1,000,000	1.85%	725,000	14.70%
Jean-Pierre Chauvin	Director	66,000	0.12%	425,000	8.62%
Peter J.M. Hooper	Director	90,000	0.17%	325,000	6.59%
Grant A. Edey	Director	25,000	0.05%	425,000	8.62%
Hon. Robert P. Kaplan	Director	75,000	0.14%	425,000	8.62%
Stephen W. Harapiak	Director	—	—	300,000	6.08%
David L. McAusland	Director	—	—	300,000	6.08%
Martin Quick	President, Chief Executive Officer and Director	199,500	0.37%	900,000	18.25%
Paul D. Caldwell	Chief Financial Officer and Corporate Secretary	38,000	0.07%	382,000	7.75%
Enkhbayar Ochirbal	Vice President, Governmental Affairs	—	—	400,000	8.11%

Notes:

(1) The information concerning the Common Shares and Options beneficially owned, directly or indirectly, or over which control or direction is exercised, not being within the knowledge of Khan, has been furnished by the respective Directors and officers.

(2) Based on the number of issued and outstanding Common Shares as of December 11, 2009 calculated on a non-diluted basis.

(3) Based on the number of outstanding Options to acquire Common Shares as of December 11, 2009.

In total, the Directors and officers of Khan, and their respective associates or affiliates, beneficially own, or exercise control or direction over, directly or indirectly, 1,493,500 Common Shares representing approximately 2.77% of the issued and outstanding Common Shares and have the ability to exercise Options to acquire an aggregate of 4,607,000 Common Shares.

To the knowledge of the Directors and officers of Khan after reasonable inquiry, no associate or affiliate of Khan, no insider of Khan, nor any of such insider's associates or affiliates, nor any person or company acting jointly or in concert with Khan, beneficially owns, or exercises control or direction over, directly or indirectly, any Common Shares of Khan, except as otherwise disclosed in this Directors' Circular.

TRADING IN SECURITIES OF KHAN

During the six months preceding the date of this Directors' Circular and except as otherwise disclosed in this Directors' Circular, none of Khan, the Directors or officers of Khan or other insiders of Khan nor, to the knowledge of the Directors and officers of Khan after reasonable enquiry, any of their respective associates or affiliates, or any person or company acting jointly or in concert with Khan, has traded any Common Shares, except as follows:

Name and Position	Nature of Trade(1)	Date of Trade	Number of Common Shares	Price per Common Share ($)
Laramide Resources Ltd.	Acquisition in the public market	November 23, 2009	25,000	0.349
	Acquisition in the public market	November 23, 2009	25,000	0.350
	Acquisition in the public market	November 24, 2009	41,500	0.350
	Acquisition in the public market	November 24, 2009	70,000	0.358
	Acquisition in the public market	November 25, 2009	37,000	0.350
	Acquisition in the public market	November 25, 2009	70,000	0.372
	Acquisition in the public market	November 25, 2009	100,000	0.365
	Acquisition in the public market	November 26, 2009	50,000	0.449
	Acquisition in the public market	November 26, 2009	31,500	0.445

Note:

(1) Based on insider reports publicly filed on SEDI as at December 11, 2009.

ISSUANCES OF SECURITIES OF KHAN

Except as disclosed below, no Common Shares or other securities convertible into or exchangeable for Common Shares have been issued or granted to the Directors, officers or other insiders of Khan during the two years preceding the date of this Directors' Circular.

Name and Position[1]	Nature of Issue	Date of Issue	Number of Common Shares	Issue/Exercise Price per Common Share ($)
James B.C. Doak Director and Chairman of the Board	Grant of Options	December 17, 2008	150,000	0.20
Jean-Pierre Chauvin Director	Grant of Options	December 17, 2008	100,000	0.20
Peter J.M. Hooper Director	Grant of Options	December 17, 2008	100,000	0.20
Grant A. Edey Director	Grant of Options	December 17, 2008	100,000	0.20
Hon. Robert P. Kaplan Director	Grant of Options	December 17, 2008	100,000	0.20
Stephen W. Harapiak Director	Grant of Options Grant of Options	February 19, 2008 December 17, 2008	200,000 100,000	1.40 0.20
David L. McAusland Director	Grant of Options Grant of Options	May 14, 2008 December 17, 2008	200,000 100,000	0.89 0.20
Martin Quick President, Chief Executive Officer and Director	Grant of Options Exercise of Options	December 17, 2008 January 6, 2009	250,000 70,000	0.20 0.20
Paul D. Caldwell Chief Financial Officer and Corporate Secretary	Grant of Options	December 17, 2008	150,000	0.20
Enkhbayar Ochirbal Vice President, Governmental Affairs	Grant of Options	December 17, 2008	150,000	0.20

Note:

(1) The information concerning the Common Shares or other securities convertible into or exchangeable for Common Shares that have been issued or granted to the Directors, officers or other insiders of Khan during the two years preceding the date of this Directors' Circular, to the extent not within the knowledge of Khan, has been furnished by the respective Directors and officers or based on insider reports publicly filed on SEDI as at December 11, 2009.

INTENTION WITH RESPECT TO ARMZ OFFER

Each of the Directors and officers of Khan has indicated that he has not tendered and does not currently intend to tender any of his Common Shares to the ARMZ Offer. To the knowledge of the Directors and officers of Khan after reasonable enquiry, no associate or affiliate of Khan, no insider of Khan nor any of such insider's associates or affiliates, nor any person or company acting jointly or in concert with Khan, has indicated that it has tendered or currently intends to tender any of its Common Shares to the ARMZ Offer.

ARRANGEMENTS BETWEEN KHAN AND ITS DIRECTORS AND OFFICERS

Except as set forth below, there are no agreements, commitments or understandings made or proposed to be made between Khan and any of its Directors or officers, including any agreement, commitment or understanding pursuant to which payment or other benefit is proposed to be made or given by way of compensation for loss of office or as to any such person remaining in or retiring from office if the ARMZ Offer is successful. In the case of each agreement, commitment or understanding discussed below in which the term "change of control" applies, the consummation of the ARMZ Offer would constitute a change of control.

Following a review of the compensation payable to Directors and subject to further review by the Board from time to time as appropriate, the Board of Directors determined to award each of the members of the Special Committee a fixed fee of $15,000 as compensation for the performance of their additional duties and responsibilities. This amount is in addition to the normal fees payable to the Directors as compensation for their usual duties and responsibilities as members of the Board and any additional amounts the Directors may be entitled to receive pursuant to other arrangements, as discussed below.

In addition, if the Directors and officers of Khan were to tender any Common Shares they own to the ARMZ Offer, they would receive cash consideration on the same terms and conditions as the other Shareholders. As at December 11, 2009, the Directors and officers of Khan owned an aggregate of 1,493,500 Common Shares (excluding Common Shares underlying unexercised Options). If the Directors and officers of Khan were to tender all of their Common Shares to the ARMZ Offer (which they have indicated they will not, as of the date of the Directors' Circular) and those Common Shares were accepted for purchase and taken up and paid for by ARMZ (excluding Common Shares underlying unexercised Options), the Directors and officers would receive an aggregate of approximately $970,775. For a chart detailing the ownership of Common Shares and other securities of Khan held by the Directors and officers of Khan, see the section of this Directors' Circular above entitled "Ownership of Securities of Khan".

Khan had previously entered into employment agreements with certain of its officers that include change of control provisions, as described below. Khan also maintains the Stock Option Plan for its Directors, officers, employees and consultants. The subsections that follow generally describe the material effects under the employment agreements and the Stock Option Plan as they relate to payments and other benefits that would become due to the Directors and officers of Khan, as applicable, in the event the ARMZ Offer is successful. For the purposes of the following discussion, where a particular change of control provision of an employment agreement requires that the Director or officer of Khan cease to be engaged or employed by Khan for the purpose of receiving such payments and other benefits, Khan has assumed that such Director or officer has ceased to act in such capacity concurrently with the completion of the ARMZ Offer.

Pursuant to the employment agreements and the Stock Option Plan, if the ARMZ Offer is successful and based upon the assumptions set out above, the Directors and officers of Khan would be entitled to collectively receive cash consideration of approximately $2,884,275. This assumes that: (i) all of the outstanding in-the-money Options have vested and are exercisable and have been exercised to acquire Common Shares issuable thereunder; and (ii) each of the Directors and officers of Khan tenders to the ARMZ Offer those Common Shares presently owned by them, as described above, and those Common Shares received pursuant to the exercise of in-the-money Options granted under the Stock Option Plan, as described below.

Employment Agreements

Khan has entered into employment agreements with each of Martin Quick, Paul D. Caldwell and Enkhbayar Ochirbal, each of which contains a change of control provision that provides for the payment of an amount equal to 24-months' compensation, in the case of Messrs. Quick and Caldwell, and 18-months' compensation, in the case of Mr. Ochirbal, as well as the acceleration of Options upon the occurrence of a change of control of Khan.

Pursuant to each employment agreement, a "change of control" generally consists of (i) any change in the shares of Khan as a result of which a person or group of persons acting jointly or in concert becomes the beneficial owner, directly or indirectly, of shares or other voting securities which would entitle the owners to cast more than 50% of the votes attaching to all shares of Khan which may be cast to elect directors of Khan, (ii) a sale or other disposition of all or substantially all of the property or assets of Khan, other than to an affiliate of Khan if the affiliate offers to retain the employee on identical terms and conditions, or (iii) the incumbent directors who were directors of Khan as of the date of the preceding annual general meeting of Shareholders (or subsequently elected and approved by a majority of the Board) no longer constitute a majority of Khan's Board.

If within 12 months of the occurrence of a change of control of Khan, the employment agreement is terminated by Khan or the employee, or if the employee's employment is terminated by Khan other than for just cause (as defined in each applicable agreement) prior to the date on which a change of control occurs and it is reasonably demonstrated that such termination was either at the request of a third party who has taken steps reasonably calculated to effect a change of control or otherwise arose in connection with or in anticipation of a change of control, then the above change of control payments become payable to the employee, the Options then held by the employee remain exercisable for a term equal to the lesser of 180 days following the date of termination and the remaining term to expiry for such Options (subject to the terms of the Stock Option Plan in respect of accelerated vesting upon a change of control, discussed below), and such employee is also entitled to continued benefits until the earlier of three months after the termination date and the date the employee commences full-time employment with a new employer.

If the ARMZ Offer is successful, Mr. Quick would be entitled to receive aggregate cash compensation of approximately $538,000, Mr. Caldwell would be entitled to receive aggregate cash compensation of approximately $354,000 and Mr. Ochirbal would be entitled to receive aggregate cash compensation of approximately $222,000. These amounts are in addition to any other accrued but unpaid compensation payable to the employee in respect of the then-current fiscal year of Khan.

Stock Option Plan

Khan established the Stock Option Plan to advance the interests of Khan and its subsidiaries by encouraging the Directors, officers, employees and consultants of Khan and its subsidiaries to acquire Common Shares, thereby (i) increasing the proprietary interests of such persons in Khan, (ii) aligning the interests of such persons with the interests of Khan's Shareholders generally, (iii) encouraging such persons to remain associated with Khan, and (iv) furnishing such persons with an additional incentive in their efforts on behalf of Khan.

According to the provisions of the Stock Option Plan, the Board is authorized to provide for the granting, exercise and method of exercise of Options, all on such terms as it shall determine, including the delegation of the administration and operation of the Stock Option Plan, in whole or in part, to a committee of the Board of Directors.

Upon the occurrence of a change of control, the Stock Option Plan provides that any unvested Options held by directors and officers of Khan and its subsidiaries and other participants under the Stock Option Plan will immediately vest and become exercisable for the term of the Option or within 90 days after the date of termination of the employment of the participant with Khan or the cessation or termination of the participant as a director, officer, employee or consultant of Khan or any of its subsidiaries, whichever occurs first. For the purposes of the Stock Option Plan, a "change of control" includes: (i) the acceptance by Shareholders representing more than 35% of the issued and outstanding Common Shares of Khan of any offer, whether by way of take-over bid or otherwise, for all of the Common Shares of Khan; (ii) the acquisition, by whatever means, by a person or two or more persons acting jointly or in concert, directly or indirectly, of the beneficial ownership of such number of voting shares or rights to vote shares which, together with the voting shares or rights to vote shares then held by such person(s), represent more than 35% of the combined voting rights of Khan's then outstanding voting shares; (iii) the entering into of any agreement by Khan to merge, consolidate, amalgamate, initiate an arrangement or be absorbed by or into another company; (iv) the passing of a resolution by the Board or the Shareholders to substantially liquidate assets or wind-up Khan's business or significantly re-arrange its affairs (subject to certain exceptions); or (v) individuals who were members of the Board immediately prior to a meeting of Shareholders of Khan involving a contest for, or item of business relating to, the election of directors, cease to constitute a majority of the Board following such election.

As of December 11, 2009, the Directors and officers of Khan held, in aggregate, Options to acquire an aggregate of 4,607,000 Common Shares, 3,606,331 of which were vested and exercisable as of that date and 1,000,669 of which were unvested and not exercisable as of that date. The outstanding Options held by Directors and officers of Khan as of December 11, 2009 had exercise prices ranging from $0.20 to $3.53 and an aggregate weighted average exercise price of $1.81 per Common Share.

In the event that vesting is accelerated, Directors and officers of Khan would be entitled to collectively receive (assuming the exercise of all in-the-money Options and the purchase of the underlying Common Shares pursuant to the ARMZ Offer) cash compensation of approximately $553,500 (after deducting the exercise price payable upon exercise of such Options) if the ARMZ Offer is successfully completed.

OWNERSHIP OF SECURITIES OF ARMZ

None of Khan, the Directors or officers of Khan nor, to the knowledge of the Directors and officers of Khan after reasonable enquiry, any associate or affiliate of Khan, insider of Khan or any of such insider's associates or affiliates, nor any person or company acting jointly or in concert with Khan, beneficially owns, or exercises control or direction over, any securities of ARMZ.

ARRANGEMENTS WITH ARMZ

There are no agreements, commitments or understandings made or, to the knowledge of the Directors and officers of Khan, proposed to be made between ARMZ and any of the Directors or officers of Khan, including any agreement, commitment or understanding pursuant to which a payment or other benefit is proposed to be made or given by way of compensation for loss of office or as to any such person remaining in or retiring from office if the ARMZ Offer is successful. No Director or officer of Khan is a director or officer of ARMZ or of any subsidiary of ARMZ.

To the knowledge of the Directors and officers of Khan, there are no agreements, commitments or understandings made or proposed to be made between ARMZ and any Shareholders of Khan relating to the ARMZ Offer.

INTERESTS OF DIRECTORS AND OFFICERS IN MATERIAL TRANSACTIONS WITH ARMZ

No Director or officer of Khan or any associate thereof and, to the knowledge of the Directors and officers of Khan after reasonable enquiry, no person or company who owns more than 10% of the Common Shares of Khan for the time being outstanding, has any interest in any material transaction to which ARMZ is a party.

OTHER MATERIAL INFORMATION

Except as disclosed in this Directors' Circular, there is no other information that is known to the Directors and not already disclosed that would reasonably be expected to affect the decision of Shareholders to accept or reject the ARMZ Offer.

OTHER TRANSACTIONS

Except as disclosed in this Directors' Circular, Khan has not entered into any transaction or agreement in principle, or signed any contract or passed any Directors' resolution in response to the ARMZ Offer, nor are there any negotiations in response to the ARMZ Offer, which would relate to or would result in: (i) an extraordinary transaction such as a merger or reorganization involving Khan or any of its subsidiaries; (ii) the purchase, sale or transfer of a material portion of assets by Khan or any of its subsidiaries; (iii) a competing take-over bid; (iv) a bid by Khan for its own securities or for those of another issuer; or (v) any material change in the present capitalization of Khan.

Notwithstanding the foregoing, the Board of Directors and the Special Committee may engage in negotiations in response to the ARMZ Offer that could have one or more of the effects specified in the preceding paragraph. The Special Committee has determined that disclosure with respect to the parties to, and the possible terms of, any transactions or proposals of the type referred to in the preceding paragraph might jeopardize any discussions or negotiations that Khan may conduct. Accordingly, Khan does not intend to disclose the possible terms of any such transaction or proposal until an agreement relating thereto has been reached or as otherwise may be required by law.

MATERIAL CHANGES IN THE AFFAIRS OF KHAN

Except as publicly disclosed or otherwise described in this Directors' Circular, none of the Directors or officers of Khan is aware of any information that indicates any material change in the affairs or prospects of Khan since the date of its last published financial statements, being its audited consolidated annual financial statements and notes thereto as at September 30, 2009 and 2008 and for each of the fiscal years ended September 30, 2009 and 2008, and management's discussion and analysis relating thereto, each of which is available on SEDAR at www.sedar.com.

LEGAL MATTERS

Certain Canadian legal matters relating to this Directors' Circular have been reviewed by Davies Ward Phillips & Vineberg LLP, legal counsel to Khan Resources Inc.

STATUTORY RIGHTS

Securities legislation in the Provinces and Territories of Canada provides security holders of Khan with, in addition to any other rights they may have at law, one or more rights of rescission, price revision or to damages, if there is a misrepresentation in a circular or notice that is required to be delivered to those security holders. However, such rights must be exercised within prescribed time limits. Security holders should refer to the applicable provisions of the securities legislation of their Province or Territory for particulars of those rights or consult a lawyer.

ACCOUNTING PRINCIPLES AND FINANCIAL CALCULATIONS

Khan's financial statements are reported in United States dollars and are prepared in accordance with Canadian generally accepted accounting principles.

Calculations of percentage amounts or amounts per Common Share set forth in this Directors' Circular are based on 53,963,779 Common Shares outstanding as of December 11, 2009.

CURRENCY AND EXCHANGE RATES

Unless otherwise indicated, all dollar amounts in this Directors' Circular are in Canadian dollars and references to "Cdn$", "$" or "dollars" in this Directors' Circular refer to Canadian dollars. On September 30, 2009, the date of Khan's 2009 financial year-end, the noon rate of exchange as reported by the Bank of Canada was Cdn$1.00 = US$0.9327. On November 26, 2009, the last trading day before the announcement of the ARMZ Offer, the noon rate of exchange as reported by the Bank of Canada was Cdn$1.00 = US$0.9438. On December 11, 2009, the noon rate of exchange as reported by the Bank of Canada was Cdn$1.00 = US$0.9447.

NOTICE REGARDING INFORMATION

Khan is a reporting issuer or equivalent in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario and files its continuous disclosure documents and other documents with such provincial securities regulatory authorities. Certain information in this Directors' Circular has been taken from or is based on documents that are expressly referred to in this Directors' Circular. All summaries of, and references to, documents that are specified in this Directors' Circular as having been filed, or that are contained in documents specified as having been filed, on SEDAR are qualified in their entirety by reference to the complete text of those documents as filed, or as contained in documents filed, on SEDAR at www.sedar.com. Shareholders are urged to read carefully the full text of those documents, which may also be obtained on request without charge from Khan at Suite 1007, 141 Adelaide Street West, Toronto, Ontario M5H 3L5.

Information contained in this Directors' Circular concerning ARMZ is based solely upon, and the Board of Directors has relied, without independent verification, exclusively upon information contained in the ARMZ Offer and Circular, provided to Khan by ARMZ, or that is otherwise publicly available. Neither Khan nor any of its Directors or officers assumes any responsibility for the accuracy or completeness of such information or for any failure by ARMZ to disclose events or facts that may have occurred or may affect the significance or accuracy of any such information.

NOTE CONCERNING MINERAL RESOURCE CALCULATIONS

Information in this Directors' Circular, including certain information contained in documents referenced in this Directors' Circular and described in the section entitled "Khan Resources Inc." and disclosure documents of Khan that are filed with Canadian securities regulatory authorities concerning mineral properties have been prepared in accordance with the requirements of securities laws in effect in Canada, which differ from the requirements of United States securities laws.

Without limiting the foregoing, these documents use the terms "measured resources", "indicated resources" and "inferred resources". Shareholders in the United States are advised that, while such terms are recognized and required by Canadian securities laws, the United States Securities and Exchange Commission ("**SEC**") does not recognize them. Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Further, inferred resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the inferred resources will ever be upgraded to a higher resource category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically. Disclosure of contained ounces is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report resources as in place tonnage and grade without reference to unit measures. Accordingly, information concerning descriptions of mineralization and resources contained in these documents may not be comparable to information made public by United States companies subject to the reporting and disclosure requirements of the SEC.

National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* ("**NI 43-101**") is a rule developed by the Canadian Securities Administrators, which has established standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all resource estimates of Khan contained in this Directors' Circular, if any, including information contained in certain documents referenced in this Directors' Circular and described in the section entitled "Khan Recourses Inc.", have been prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum Classification System.

As previously disclosed by Khan, Hrayr Agnerian, P.Geo., Associate Consulting Geologist at Scott Wilson Roscoe Postle Associates Inc., E.J. (Gene) Puritch, P.Eng. and Malcolm Buck, P.Eng., P&E Mining Consultants Inc., and Les Heymann, P.Eng., Senior Process Consultant, Aker Solutions Canada Inc., are the qualified persons (as defined under NI 43-101) on the Dornod Uranium Property and supervised the preparation of the scientific and technical information contained in the prior news release issued by Khan on March 11, 2009 in respect of the results of the Definitive Feasibility Study, which forms the basis for the scientific and technical information reproduced in this Directors' Circular.

APPROVAL OF DIRECTORS' CIRCULAR

The contents of this Directors' Circular have been approved by the Board of Directors and the sending, communication and delivery of this Directors' Circular has been authorized by the Board of Directors.

CONSENT OF HAYWOOD SECURITIES INC.

To the Board of Directors of Khan Resources Inc. (the "**Company**")

We hereby consent to the references in the Directors' Circular of the Company dated December 14, 2009 (the "**Circular**") to our firm name and to our opinion dated December 11, 2009, and to the inclusion of the text of our opinion attached as Appendix "A" to the Circular. In providing our consent, we do not intend that any person other than the directors of the Company and the special committee of the board of directors of the Company shall rely upon our opinion.

DATED at Toronto, Ontario, Canada this 14th day of December, 2009.

(Signed) HAYWOOD SECURITIES INC.

HAYWOOD SECURITIES INC.

CONSENT OF DAVIES WARD PHILLIPS & VINEBERG LLP

To the Board of Directors of Khan Resources Inc. (the "**Company**")

We hereby consent to the references in the Directors' Circular of the Company dated December 14, 2009 to our firm name.

DATED at Toronto, Ontario, Canada this 14th day of December, 2009.

(Signed) Davies Ward Phillips & Vineberg llp

Davies Ward Phillips & Vineberg llp

CERTIFICATE

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

DATED: December 14, 2009

On behalf of the Board of Directors of Khan Resources Inc.

(Signed) GRANT A. EDEY	(Signed) JAMES B. C. DOAK
GRANT A. EDEY	JAMES B. C. DOAK
Director and Chairman of the Special Committee	Director and Chairman of the Board of Directors

APPENDIX "A"

INADEQUACY OPINION OF THE FINANCIAL ADVISOR

CAPITAL MARKETS
HAYWOOD
SECURITIES INC.

December 11, 2009

The Special Committee and the Board of Directors
Khan Resources Inc.
141 Adelaide Street West, Suite 1007
Toronto, Ontario
M5H 3L5

To the Special Committee and the Board of Directors of Khan Resources Inc.

Haywood Securities Inc. ("Haywood"), understands that Atomredmetzoloto JSC (hereinafter "ARMZ" or the "Offeror"), has made an offer (the "Offer") to purchase all of the issued and outstanding common shares of Khan Resources Inc. ("Khan" or the "Company") together with any associated rights (the "SRP Rights") issued and outstanding under the shareholder rights plan of the Company (together, the "Shares"), for C$0.65 in cash per Share. The terms and conditions of the Offer are more fully described in ARMZ's offer to holders of Shares (the "Shareholders") to purchase and take-over bid circular dated November 30, 2009 (the "Circular").

Haywood understands that a special committee (the "Special Committee") of the Board of Directors (the "Board") of the Company has been constituted to consider the Offer and make recommendations thereon to the Board, including identifying and considering any strategic alternatives that might be pursued by the Company as an alternative to the Offer ("Alternative Transactions"). The Company has retained Haywood to provide advice and assistance to the Special Committee and the Board in evaluating the Offer and any Alternative Transactions, including the preparation and delivery to the Special Committee and the Board of Haywood's opinion as to the adequacy of the consideration under the Offer from a financial point of view to the Shareholders other than the Offeror and its affiliates (the "Opinion"). Haywood has not prepared a valuation of the Company or any of its securities or assets and the Opinion should not be construed as such. Furthermore, the Opinion is not, and should not be construed as, advice as to the price at which securities of Khan may trade at any future date.

Haywood Securities Engagement and Background

Haywood was formally engaged by the Company through a letter agreement between the Company and Haywood dated November 30, 2009 (the "Engagement Agreement"). The terms of the Engagement Agreement provide that Haywood is to be paid a fee for its services as financial advisor, including fees that are contingent on a change of control of the Company or certain other events. In addition, Haywood is to be reimbursed for its reasonable out-of-pocket expenses and is to be indemnified by the Company in certain circumstances.

Neither Haywood nor any of its affiliates is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario) (the “Securities Act”)) of Khan, ARMZ, or any of their respective associates or affiliates (collectively, the “Interested Parties”). Neither Haywood nor any of its affiliates have been engaged to act as an advisor to an Interested Party in connection with the Offer, nor have they, or any of them, acted as lead or co-lead manager on any offering of securities of any Interested Party, or had a material financial interest in any transaction involving any Interested Party during the 24 months preceding the date on which Haywood was first contacted in respect of the Offer, other than the services provided under the Engagement Agreement and as described herein.

Haywood acts as a trader and dealer, both as principal and agent, in major financial markets and, as such, may have had and may in the future have positions in the securities of any Interested Party and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it received or may receive compensation. As an investment dealer, Haywood conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to the Company, the Offer or any other Interested Party.

No understandings or agreements exist between Haywood and any Interested Party with respect to future financial advisory or investment banking business. Haywood may in the future, in the ordinary course of its business, perform financial advisory or investment banking services for Khan or any other Interested Party.

Subject to the terms of the Engagement Agreement, Haywood consents to the inclusion of this Opinion in its entirety, together with a summary thereof in a form acceptable to Haywood, acting reasonably, in the directors’ circular to be sent to Shareholders (the “Directors’ Circular”) in connection with the Offer or to be filed with the securities commissions or similar regulatory authorities in each relevant province of Canada.

Credentials of Haywood

Haywood is one of Canada’s leading independent investment banking firms with business services in corporate finance, equity sales and trading, and investment research. Haywood is owned by its employees and its head office is located in Vancouver, Canada with additional Canadian offices in Toronto and Calgary, as well as a London office in the United Kingdom. Haywood provides services to companies in, among other sectors, the mining and exploration industry. Haywood has participated in a significant number of transactions involving mining and exploration companies and its investment banking professionals have extensive experience in merger, acquisition, divestiture and fairness opinion matters. Haywood is a member of, among other organizations, the Toronto Stock Exchange, the TSX Venture Exchange and the Investment Industry Regulatory Organization of Canada (the “IIROC”).

Scope of the Review

In connection with this Opinion, Haywood has reviewed and relied upon (without attempting to verify independently the completeness or accuracy of), or carried out, among other things, the following:

(a) the Circular;

(b) the most recent draft dated December 10, 2009 of the Directors’ Circular submitted to the Board for approval (the “Draft Directors’ Circular”);

(c) audited financial statements of the Company for each of the five years ended September 30, 2008;

(d) the draft audited financial statements of the Company for the fiscal year ended September 30, 2009;

(e) the unaudited interim reports of the Company for the quarters ended December 31, 2008, March 31, 2009, and June 30, 2009;

(f) annual reports of the Company for each of the two years ended September 30, 2008;

(g) the draft annual report of the Company for the fiscal year ended September 30, 2009;

(h) annual information forms of the Company for each of the two years ended September 30, 2008;

(i) the draft annual information form of the Company for the fiscal year ended September 30, 2009;

(j) the Technical Report (NI 43-101) on the Definitive Feasibility Study for the Dornod Uranium Project, Mongolia as prepared by Hrayr Agnerian et al and dated April 22, 2009;

(k) the management information circular of the Company dated January 9, 2009 relating to the annual meeting of shareholders held on February 11, 2009;

(l) the amended and restated shareholder rights' plan agreement between the Company and Equity Transfer & Trust Company dated as of November 14, 2006;

(m) unaudited financial projections for the Dornod Uranium Project prepared by Haywood;

(n) discussions with senior officers, advisors and directors of Khan;

(o) public information relating to the business, operations, financial performance and stock trading history of Khan and other selected public companies considered by Haywood to be relevant;

(p) press releases issued by Khan during the two year period ended December 9, 2009;

(q) public information with respect to other transactions of a comparable nature considered by us to be relevant;

(r) selected financial statistics and relevant financial information with respect to relevant precedent transactions;

(s) selected public market trading statistics and relevant business and financial information of Khan and other publicly-traded entities;

(t) public information regarding the global uranium mining industry;

(u) other public filings submitted by Khan to securities commissions or similar regulatory authorities in Canada during the two year period ended December 9, 2009;

(v) oral representations obtained from senior representatives of Khan as to matters of fact considered by Haywood to be relevant; and

(w) such other corporate, industry and financial market information, investigations and analyses as Haywood considered necessary or appropriate in the circumstances.

Haywood has not, to the best of its knowledge, been denied access by Khan to any information requested. Haywood did not meet with the auditors of Khan and has assumed the accuracy and fair presentation of the audited consolidated financial statements of Khan and the reports of the auditors thereon.

This Opinion has been prepared in accordance with the Disclosure Standards for Formal Valuations and Fairness Opinions of the IIROC but the IIROC has not been involved in the preparation or review of this Opinion.

Assumptions and Limitations

With the approval of the Company and as provided in the Engagement Agreement, Haywood has relied, without independent verification, upon all financial and other information that was obtained by us from public sources or that was provided to us by Khan and its respective affiliates, associates, advisors or otherwise. We have assumed that this information was complete and accurate as of the date thereof and did not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or that is necessary to be stated to make that statement not misleading in the light of the circumstances in which it was made. This Opinion is conditional upon such completeness and accuracy. In accordance with the terms of our engagement, but subject to the exercise of our professional judgment, we have not conducted any independent investigation to verify the completeness or accuracy of such information. Senior representatives of Khan have represented to us, orally as of the date hereof, among other things, that the information, opinions and other materials (the "Information") provided to us by or on behalf of Khan are complete and correct as of the date of the Information and that, since the date of the Information, except as publicly disclosed, there has been no material change, financial or otherwise, in the Dornod Uranium Project or the financial position of Khan, or in its assets, liabilities (contingent or otherwise), business or operations and there has been no change in any material fact which is of a nature as to render the Information untrue or misleading in any material respect except to the extent disclosed in subsequent Information. In addition, the Opinion does not address the relative merits of the Offer as compared to any other possible Alternative Transaction for the acquisition of the Company or involving the Company, its assets or securities.

This Opinion is based on the securities markets, economic, general business and financial conditions prevailing as of the date of this Opinion and the conditions and prospects, financial and otherwise, of Khan and its assets, including the Dornod Uranium Project, as they were reflected in the Information reviewed by us.

In its analysis and in preparing this Opinion, Haywood has made a number of assumptions with respect to industry performance, general business, markets and economic conditions, and other matters, many of which are beyond the control of Haywood, Khan, and any other party involved in connection with the Offer. In addition, Haywood has assumed that all of the conditions required to implement the Offer will be met and the Offer will be consummated in accordance with the terms described in ARMZ's Circular and that the disclosure provided or incorporated by reference in the Circular and Draft Directors' Circular with respect to the Company, its subsidiaries and affiliates and the Offer is accurate in all material respects.

This Opinion has been provided for the use of the Company, if required, and for inclusion in the Directors' Circular and other related documents (or a summary thereof in a form acceptable to Haywood) and may not be used by any other person or relied upon by any other person without the express consent of Haywood, except as explicitly provided by law. This Opinion is given as of the date hereof and Haywood disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting this Opinion which may come or be brought to Haywood's attention after the date hereof. This Opinion is limited to Haywood's understanding of the Offer as of the date hereof and Haywood assumes no obligation to update this Opinion to take into account any changes regarding the Offer after the date hereof. Without limiting the foregoing, Haywood reserves the right, in the event that there is any change in any fact or matter affecting the Opinion after the date hereof, to change, modify or withdraw the Opinion.

Haywood believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the Opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The Opinion is not to be construed as a recommendation to the Special Committee, the Board of Directors or any Shareholder as to whether Shareholders should tender their Shares to the Offer. Except as permitted by Haywood, this Opinion is not to be reproduced, disseminated or quoted from or referred to (in whole or in part) without the prior written consent of Haywood.

Conclusion

Based upon and subject to the foregoing, Haywood is of the opinion that, as of the date hereof, the consideration under the Offer is inadequate from a financial point of view to the Shareholders other than the Offeror and its affiliates.

Yours very truly,

HAYWOOD SECURITIES INC.

Haywood Securities Inc.

CAPITAL MARKETS
HAYWOOD
SECURITIES INC.

APPENDIX "B"

GLOSSARY OF TERMS

In this Directors' Circular, the following terms shall have the respective meanings set forth below and grammatical variations thereof will have the corresponding meanings, unless the subject matter or context is inconsistent therewith or such terms are otherwise defined in the Directors' Circular. Words importing the singular include the plural and vice versa and words importing any gender include all genders.

"**Additional Dornod Property**" means that certain uranium exploration property consisting of approximately 243 hectares of land located in the Dashbalbar Soum, Dornod Aimag of Mongolia and contiguous with the Main Dornod Property, in which Khan holds a 100% interest through its indirect wholly-owned subsidiary, Khan Resources XXK;

"**Advisory Services**" has the meaning ascribed to that term in the section of this Directors' Circular entitled "Inadequacy Opinion of the Financial Advisor";

"**affiliate**" has the meaning ascribed to that term in the *Securities Act* (Ontario), as amended, supplemented or replaced from time to time;

"**Annual Information Form**" means the annual information form of Khan for the fiscal year ended September 30, 2008 dated December 12, 2008 , filed with certain Canadian securities regulatory authorities, and any annual information form of Khan that may be filed in respect of Khan's fiscal year ended September 30, 2009 subsequent to the date hereof;

"**ARMZ**" or the "**Offeror**" means Atomredmetzoloto JSC, the offeror under the ARMZ Offer;

"**ARMZ Holdco**" means ARMZ Uranium Holding Co.;

"**ARMZ Offer**" or "**Offer**" means the offer to purchase all of the outstanding Common Shares (together with the associated SRP Rights issued under the Shareholder Rights Plan), including any Common Shares that may become issued and outstanding prior to the Expiry Time upon the exercise, exchange or conversion of any outstanding Options, convertible securities or other rights (other than the SRP Rights) that are exercisable or exchangeable for or convertible into Common Shares at a price per Common Share of $0.65 in cash, as the same may be amended from time to time;

"**ARMZ Offer and Circular**" means the Offer and accompanying take-over bid circular of ARMZ dated November 30, 2009;

"**ARMZ Proposal**" has the meaning ascribed to that term in the section of this Directors' Circular entitled "Background to the ARMZ Offer";

"**associate**" has the meaning ascribed to that term in the *Securities Act* (Ontario), as amended, supplemented or replaced from time to time;

"**Board**" or "**Board of Directors**" means the board of directors of Khan and "**Director**" means a director of Khan;

"**CAUC**" means Central Asian Uranium Company, Limited, a corporation existing under the laws of the Republic of Mongolia;

"**Common Shares**" means all of the issued and outstanding common shares in the capital of Khan, including all Common Shares that become issued and outstanding prior to the Expiry Time upon the exercise, exchange or conversion of any outstanding Options, convertible securities or other rights (other than the SRP Rights) that are exercisable or exchangeable for or convertible into Common Shares, together with the associated SRP Rights, and "**Common Share**" means any one common share of Khan and the associated SRP Right;

"**Definitive Feasibility Study**" means the definitive feasibility study prepared by Aker Metals, a division of Aker Solutions Canada Inc., and resource consultants Scott Wilson Roscoe Postle Associates Inc. in respect of the Dornod Uranium Property dated March 10, 2009;

"**Directors' Circular**" means this directors' circular of Khan dated December 14, 2009;

"**Dornod Uranium Property**" means, collectively, the Main Dornod Property and the Additional Dornod Property;

"**Expiry Time**" means 5:00 p.m. (Toronto time) on February 1, 2010, or any subsequent time and date set out in any notice of ARMZ as provided in section 5 of the ARMZ Offer and Circular, "Extension, Variation or Change in the Offer", provided that, if such day is not a business day, then the Expiry Time shall be the same time on the next business day, unless the Offer is terminated or withdrawn;

"**Financial Advisor**" or "**Haywood**" means Haywood Securities Inc., the financial advisor to the Special Committee;

"**GOM**" means the Government of Mongolia;

"**Inadequacy Opinion**" means the opinion of the Financial Advisor dated December 11, 2009 to the Special Committee that the consideration offered pursuant to the ARMZ Offer is inadequate from a financial point of view to the Khan Shareholders (other than ARMZ and its affiliates) and attached as Appendix "A" to this Directors' Circular;

"**Independent Shareholders**" has the meaning ascribed thereto under the Shareholder Rights Plan;

"**Information Agent**" or "**Georgeson**" means Georgeson Shareholder Communications Canada Inc., the information agent retained by Khan in connection with the ARMZ Offer;

"**JSC PIMCU**" means JSC Priargunsky Industrial Mining and Chemical Union, a corporation owned by ARMZ and the holder of ARMZ's indirect 21% interest in CAUC;

"**Khan**" means Khan Resources, Inc., a corporation existing under the laws of the Province of Ontario, Canada;

"**Khan Response**" has the meaning ascribed to that term in the section of this Directors' Circular entitled "Background to the ARMZ Offer";

"**Main Dornod Property**" means that certain uranium development property consisting of an open pit mine and approximately two-thirds of an underground deposit covering approximately 261 hectares of land in the Dashbalbar Soum of the Dornod Aimag of Mongolia, in which Khan owns a 58% interest through its partially-owned subsidiary, CAUC;

"**MI 62-104**" means Multilateral Instrument 62-104 — *Take-Over Bids and Issuer Bids,* as amended, supplemented or replaced from time to time;

"**NI 43-101**" means National Instrument 43-101 — *Standards of Disclosure for Mineral Projects,* as amended, supplemented or replaced from time to time;

"**Options**" means any options to acquire Common Shares granted pursuant to the Stock Option Plan;

"**Potential Transactions**" has the meaning ascribed to that term in the section of this Directors' Circular entitled "Background to the ARMZ Offer";

"**RosAtom**" means the Russian State Atomic Energy Corporation, the indirect owner of ARMZ;

"**SEC**" means the U.S. Securities and Exchange Commission;

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval maintained by the Canadian Securities Administrators;

"**SEDI**" means the System for Electronic Disclosure by Insiders;

"**Shareholder Rights Plan**" means the amended and restated shareholder rights plan agreement dated as of November 14, 2006, between Khan and Equity Transfer & Trust Company adopted by the Shareholders on February 15, 2007, as amended, supplemented or replaced from time to time;

"**Shareholders**" means, collectively, all of the holders of Common Shares and "**Shareholder**" means any one of them;

"**Special Committee**" means the special committee established by the Board of Directors, currently comprised of Messrs. Grant A. Edey (Chair), James B. C. Doak, Jean-Pierre Chauvin and David L. McAusland;

"**SRP Rights**" means the rights issued pursuant to the Shareholder Rights Plan;

"**Stock Option Plan**" means the amended and restated stock option plan of Khan approved by the Board of Directors on January 9, 2009 and by the Shareholders on February 11, 2009;

"**TSX**" means the Toronto Stock Exchange; and

"**U_3O_8**" means a concentrated uranium oxide obtained by milling a mixture of uranium oxide ore to produce "pulped" ore, which is then bathed in sulphuric acid to leach out the uranium.

ANY QUESTIONS OR REQUESTS FOR ASSISTANCE MAY BE DIRECTED TO THE INFORMATION AGENT:

Georgeson

100 University Avenue
11th Floor, South Tower
Toronto, Ontario
M5J 2Y1

North American Toll-Free Number: 1-866-374-9877

Banks and Brokers and Collect Number: 1-212-806-6859

Email: gsproxygroup@gscorp.com

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS REJECT THE ARMZ OFFER AND NOT TENDER THEIR COMMON SHARES TO THE ARMZ OFFER.