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10 January 2011

Delivered By Hand

The Honorable Tsakhia Elbegdorj
President of Mongolia
Government Building 12
Ulaanbataar, Mongolia

The Honorable Sukhbaatar Batbold
Prime Minister of Mongolia
Working Office of the Prime Minister, Government Secretariat
Government Building
Ulaanbataar, 14201 Mongolia

MonAtom Co., LTD
Custom's University Building, Room 201
Sukhbaatar District
Ulaanbataar, 14192 Mongolia

Nuclear Energy Agency
Regulatory Agency of the Government of Mongolia
Government Building 11
J. Sambuu Street 11
Chingeltei District
Ulaanbataar, 15140 Mongolia

Minerals Resources Authority of Mongolia
Government Building 12
Barilgachdyn Talbai 3
Chingeltei District
Ulaanbaatar, 15170 Mongolia

State Property Committee
Government Building 4
Chingeltei District
Ulaanbaatar-11 Mongolia

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The Honourable Tundedorj Zalaa-Uul
Ambassador of Mongolia to Canada
Embassy of Mongolia
151 Slater Street, Suite 503
Ottawa, Ontario K1P 5H3 Canada

**Re: Claims by Khan Resources Inc. and its Subsidiaries against
the Government of Mongolia**

Mr. President, Your Excellencies:

We represent Khan Resources Inc. and its subsidiaries, Khan Resources B.V., and CAUC Holding Company Ltd. (collectively, "Khan"). On behalf of our clients, we submit the enclosed Notice of Arbitration to initiate recourse to arbitration against the Government of Mongolia and MonAtom Co., Ltd., pursuant to the Energy Charter Treaty, the Mongolian Foreign Investment Law, the CAUC Founding Agreement, and the UNCITRAL Arbitration Rules.

In a letter dated 15 April 2010, Mr. Martin Quick of Khan provided notice to the Government of Mongolia that Khan intended to assert claims against the Government in international arbitration, unless the dispute arising from the Government's actions against Khan's investments in the Dornod Uranium Project could not be otherwise resolved.

As explained in that letter, Khan – after investing millions of dollars in Mongolia, in good faith and in full compliance with Mongolian law – now faces the loss of its entire investment as a result of the Government's actions, which, we respectfully submit, are in violation of both Mongolian and international law.

As also stated in the letter, Khan would greatly prefer to resolve this matter amicably, without the costs, disruption, and embarrassment that an arbitration of this nature could bring to the Government. The facts underlying Khan's claims will not reflect well on Mongolia's reputation as a place for international companies to invest and do business.

The 15 April 2010 letter also extended an invitation to the Government to engage in discussions to reach a mutually satisfactory resolution of the dispute, without resort to arbitration. Although more than eight months have passed and Khan has made numerous subsequent attempts to engage the Government in a constructive manner to resolve this dispute, Khan has received no response to its efforts.

Khan would still like to believe that this particular set of circumstances is aberrational, and that the Government of Mongolia will take prompt and effective steps to remedy these unlawful actions against its investment in the country. At the same time, as a publicly traded company, Khan has an obligation toward its shareholders to recover the losses caused by the Government's unlawful actions. Accordingly, Khan has retained this law firm to commence arbitration on its behalf against Mongolia.

Further to this filing of the Notice of Arbitration, and in accordance with Article 12.2 of the CAUC Founding Agreement and Article 9 of the UNCITRAL Arbitration Rules, Claimants observe that the Tribunal to be appointed in this case is to be comprised of three arbitrators, one arbitrator to be appointed by Claimants, one to be appointed by Respondents, and the President selected by the first two arbitrators (or by an appointing authority designated by the Secretary-General of the Permanent Court of Arbitration if, within thirty (30) days after the appointment of the second arbitrator, the two arbitrators have not agreed on the choice of the presiding arbitrator).

Pursuant to Articles 3(4)(c) and 9 of the UNCITRAL Arbitration Rules and Article 12.2 of the CAUC Founding Agreement, Claimants wish to inform the Government that they have appointed Mr. L. Yves Fortier, a national of Canada, to serve as arbitrator in this arbitration. Article 9(2) of the UNCITRAL Arbitration Rules further provides that, since Claimants have appointed the first arbitrator, the Respondents have thirty (30) days from the date of this letter to appoint the second arbitrator. If Respondent does not appoint its arbitrator within thirty (30) days, the Rules provide that Claimants may request the appointing authority to appoint the second arbitrator.

Full contact details for Mr. Fortier are as follows (his curriculum vitae is available at http://www.ogilvyrenault.com/en/people_LYvesFortier.htm):

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Mr. President, Your Excellencies, please accept the assurances of our highest consideration.

Respectfully,



Alexandre de Gramont
Ian A. Laird
Ashley Riveira
**Counsel to Khan Resources Inc.,
Khan Resources B.V., and
CAUC Holding Company Ltd.**

Encl.

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