



15 November 2018

ASX Market Announcements
 ASX Limited
 Level 4, Exchange Centre
 20 Bridge Street
 Sydney NSW 2000

Dear Sir / Madam

**Xanadu Mines Ltd (ASX Code: XAM TSX Code: XAM)
 Interim Filings with Toronto Stock Exchange (“TSX”)**

Attached are the following Interim Filings that have been lodged today with the TSX as required under Ontario Securities Commission (**OSC**) National Instrument 52-102 *Continuous Disclosure Obligations*:

1. Condensed Interim Consolidated Financial Statements as at and for the three and nine months ended September 30, 2018;
2. Interim Management’s Discussion & Analysis for the three and nine month periods ended September 30, 2018 and 2017;
3. CEO Certification of Interim Filings as required under OSC National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings (NI 52-109)*; and
4. CFO Certification of Interim Filings as required under NI 52-109.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'P. Mackey', is written over a light blue circular stamp.

Phil Mackey
 Company Secretary



CONTACT

Andrew Stewart
 Managing Director and Chief
 Executive Officer
 T: +61 2 8280 7497
 M: +976 9999 9211
Andrew.stewart@xanadumines.com
www.xanadumines.com



AUSTRALIA

c/o Company Matters Pty Limited
 Level 12, 680 George Street
 Sydney NSW 2000
 T: +61 2 8280 7497



MONGOLIA

2nd Khoroo, Military Town
 AOS Street, Bayanzurkh District
 Ulaanbaatar, Mongolia
 T: +967 5011 0211



ASX
 XAM



Xanadu Mines Ltd

Condensed Interim Consolidated Financial Statements

**As at and for the three and nine months ended
September 30, 2018**

Interim Financial Statements

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

Interim Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Consolidated	
	September 30, 2018 \$'000	December 31, 2017 \$'000
Assets		
Current assets		
Cash and cash equivalents	7,827	9,065
Financial assets at fair value through profit or loss	220	100
Prepayment and other assets	3	5
Other receivables	472	498
Total current assets	<u>8,522</u>	<u>9,668</u>
Non-current assets		
Property, plant and equipment	381	388
Deferred exploration expenditure	5 45,326	37,157
Total non-current assets	<u>45,707</u>	<u>37,545</u>
Total assets	<u>54,229</u>	<u>47,213</u>
Current liabilities		
Trade and other payables	540	1,262
Total current liabilities	<u>540</u>	<u>1,262</u>
Non-current liabilities		
Other non-current liabilities	143	159
Total non-current liabilities	<u>143</u>	<u>159</u>
Total liabilities	<u>683</u>	<u>1,421</u>
Net assets	<u>53,546</u>	<u>45,792</u>
Equity		
Issued capital	6 117,886	108,452
Reserves	323	(2,513)
Accumulated losses	(65,579)	(65,164)
Equity attributable to the owners of Xanadu Mines Ltd	<u>48,630</u>	<u>40,775</u>
Non-controlling interest	4,916	5,017
	<u>53,546</u>	<u>45,792</u>

Interim Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated		Consolidated	
	3 months ending September 30, 2018	3 months ending September 30, 2017	9 months ending September 30, 2018	9 months ending September 30, 2017
Note	\$'000	\$'000	\$'000	\$'000
Other income	11	13	16	28
Expenses				
Depreciation and amortisation expense	(19)	(19)	(63)	(68)
Other expenses	4 (1,160)	(642)	(4,548)	(2,019)
Finance costs	(8)	(65)	(24)	(267)
Revaluation loss on financial assets at fair value through profit or loss	-	-	120	-
Loss before income tax expense	(1,176)	(713)	(4,499)	(2,326)
Income tax expense	-	-	-	-
Loss after income tax expense for the period	(1,176)	(713)	(4,499)	(2,326)
Other comprehensive income				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Foreign currency translation	(481)	(1,999)	(1,286)	(2,085)
Total comprehensive income for the period	(1,657)	(2,712)	(3,213)	(4,411)
Loss for the period is attributable to:				
Non-controlling interest	(45)	(51)	(84)	6
Owners of Xanadu Mines Ltd	(1,131)	(662)	(4,415)	(2,242)
	(1,176)	(713)	(4,499)	(2,326)
Total comprehensive income for the period is attributable to:				
Non-controlling interest	39	(294)	(101)	(82)
Owners of Xanadu Mines Ltd	(1,618)	(2,418)	(3,112)	(4,329)
	(1,657)	(2,712)	(3,213)	(4,411)
	Cents	Cents	Cents	Cents
Basic earnings per share	(0.16)	(0.13)	(0.72)	(0.46)
Diluted earnings per share	(0.16)	(0.13)	(0.72)	(0.46)

Interim Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Consolidated	
	9 Months ended September 30 2018 \$'000	9 Months ended September 30 2017 \$'000
Cash flows from operating activities		
Payments to suppliers and employees	(3,001)	(1,741)
Interest received	16	13
Interest and other finance costs paid	(24)	(267)
Net cash used in operating activities	(3,009)	(1,995)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	-	30
Payment for exploration and evaluation expenditure	(7,888)	(4,927)
Net cash used in investing activities	(7,888)	(4,897)
Cash flows from financing activities		
Proceeds from issue of shares	10,000	-
Transaction costs on issue of shares	(566)	-
Net cash from financing activities	9,434	-
Net increase/(decrease) in cash and cash equivalents	(1,463)	(6,892)
Cash and cash equivalents at the beginning of the financial period	9,065	8,277
Effects of exchange rate changes on cash and cash equivalents	225	(189)
Cash and cash equivalents at the end of the financial period	7,827	1,196

Interim Financial Statements

continued

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Consolidated	Issued capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at January 1, 2017	93,963	8,209	(8,727)	(61,322)	4,643	36,766
Profit/(loss) after income tax expense for the period	-	-	-	(2,332)	6	(2,326)
Other comprehensive income for the period, net of tax	-	-	(1,997)	-	(88)	(2,085)
Total comprehensive income for the period	-	-	(1,997)	(2,332)	(82)	(4,411)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	-	11	-	-	-	11
Balance at September 30, 2017	<u>93,963</u>	<u>8,220</u>	<u>(10,724)</u>	<u>(63,654)</u>	<u>4,561</u>	<u>32,366</u>

Consolidated	Issued capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at January 1, 2018	108,452	8,534	(11,047)	(65,164)	5,017	45,792
Loss after income tax expense for the period	-	-	-	(4,415)	(84)	(4,499)
Other comprehensive income for the period, net of tax	-	-	1,303	-	(17)	1,286
Total comprehensive income for the period	-	-	1,303	(4,415)	(101)	(3,213)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	9,434	-	-	-	-	9,434
Other	-	1,533	-	-	-	1,533
Balance at September 30, 2018	<u>117,886</u>	<u>10,067</u>	<u>(9,744)</u>	<u>(69,579)</u>	<u>4,916</u>	<u>53,546</u>

Notes to the Interim Financial Statements

Note 1. Corporate information

Xanadu Mines Ltd ("the Company") was incorporated on May 12, 2005 and is the ultimate holding company for the Xanadu group ("Group"). The unaudited financial report of the Company and its controlled entities are for the period ended September 30, 2018. The nature of the operations and principal activities of the group are described in the review of operations.

Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period ended September 30, 2018 have been prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended December 31, 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016-191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended AASB Standards that are mandatory for the applicable annual reporting periods. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

AASB 9 Financial Instruments

A finalised version of AASB 9 which contains accounting requirements for financial instruments, replacing AASB 139 Financial Instruments: Recognition and Measurement. The standard contains requirements in the areas of classification and measurement, impairment, hedge accounting and derecognition. This standard applies to annual reporting periods beginning on or after January 1, 2018. The Company has applied the new standard for the current unaudited interim financial statements for the three months ended March 31, 2018, and there has been no material impact.

AASB 15 Revenue from Contracts with Customers

AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. This standard applies to annual reporting periods beginning on or after January 1, 2018. The Company has no revenue and the application of the new standard for the current unaudited interim financial statements for the three months ended March 31, 2018, had no impact.

AASB 16 Leases

AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to measure right-of-use assets in a manner similar to how other non-financial assets, lease liabilities and other financial liabilities are measured. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees. The company is in the process of determining the potential impact of the new standard on the Company's financial report. This standard applies to annual reporting periods beginning on or after January 1, 2019.

Notes to the Interim Financial Statements

continued

Note 2. Significant accounting policies (continued)

AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions

This standard amends AASB 2 *Share-based Payments*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the:

- effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

This standard applies to annual reporting periods beginning on or after January 1, 2018. The Company has applied the new standard for the current unaudited interim financial statements for the nine months ended September 30, 2018, and there has been no material impact.

Note 3. Operating segments

The Group operates predominantly in the minerals exploration sector. The principle activity of the Group is exploration for copper and gold. The Group classifies these activities under a single operating segment; the Mongolian exploration projects. Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in deferred exploration expenditure note of the financial report. No segment revenues are disclosed as all segment expenditure is capitalised, with the exception of expenditure written off. The non-current assets of the Group, attributable to the parent entity, are located in Mongolia.

Note 4. Other expenses

	Consolidated			
	3 months ending 30 September 2018 \$'000	3 months ending 30 September 2017 \$'000	9 months ending 30 September 2018 \$'000	9 months ending 30 September 2017 \$'000
Other expenses				
Administration expenses	301	393	1,319	739
Wages and management fees	695	250	1,696	1,269
Share-based payments	164	(1)	1,533	11
	1,160	642	4,548	2,019

Note 5. Non-current assets - Deferred exploration expenditure

	Consolidated	
	September 30, 2018 \$'000	September 30, 2017 \$'000
Deferred exploration expenditure	45,326	37,157

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

Consolidated	Exploration & Evaluation \$'000
Balance at January 1, 2018	37,157
Expenditure during the period	7,164
Exchange differences	1,005
Balance at March 31, 2018	45,326

Notes to the Interim Financial Statements

continued

Note 6. Equity - issued capital

	Consolidated			
	September 30 2018 Shares	December 31 2017 Shares	September 30 2018 \$'000	December 31 2017 \$'000
Ordinary shares	648,044,131	588,687,267	117,886	108,452

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The ordinary shares have no par value and the Company does not have a limited amount of authorised capital. On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Note 7. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial period.

Note 8. Net fair values

Fair value estimation

The fair value of financial assets and financial liabilities are the equivalent of the net carrying amount as the financial assets and financial liabilities are short-term instruments. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values have been determined based on the following methodologies:

- Investments in listed shares with reference to the share price at the period end.
- Other receivables, trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.
- Trade and other payables exclude amounts provided for relating to annual leave which is not considered a financial instrument.

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability.

Consolidated – September 30, 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Ordinary shares - Aspire Mining Limited (ASX: AKM)	220	-	-	220
Total assets	220	-	-	220
Consolidated - December 31, 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Ordinary shares - Aspire Mining Limited (ASX: AKM)	100	-	-	100
Total assets	100	-	-	100

There were no transfers between levels during the financial period.

Notes to the Interim Financial Statements

continued

Note 9. Transactions with related parties

Transactions with related parties are disclosed in Note 25 to the most recent audited annual report dated December 31, 2017. The following updates are disclosed to the period ended September 30, 2018.

Transactions with related parties

On January 2, 2017, the Company relocated its Ulaanbaatar office and entered into a rental agreement with Ganbayar Lkhagvasuren, a Director of the Company. The transaction between related parties is on normal commercial terms and conditions no more favourable than those available to other parties that are arm's length. The company paid rent totalling \$66,321 for the period end September 30, 2018 (\$7,369 being one month rent).

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Note 10. Events after the reporting period

On October 18, 2018, the Company announced that its ordinary shares commenced trading on the Toronto Stock Exchange under the symbol "XAM" at the open of trade in Toronto on October 18, 2018.

No other matter or circumstance has arisen since September 30, 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 11. Key management compensation

Key management personnel include directors and officers of the entity and the compensation comprises:

	Quarter September 30, 2018 \$'000	Quarter September 30, 2017 \$'000	Nine months September 30, 2018 \$'000	Nine months September 30, 2017 \$'000
Salaries and fees	331	277	1,139	959
Superannuation	2	1	4	11
Share based payments	164	3	1,533	15
	497	280	2,676	985

The Company had 20,000,000 performance rights on September 30, 2018 and no new performance rights were granted during the reporting quarter.



Xanadu Mines Ltd

Management's Discussion & Analysis

For the three and nine month periods ended September 30, 2018 and 2017

Management Discussion and Analysis

This Management's discussion and analysis ("MD&A") is current to November 14, 2018 and is management's assessment of the operations and the financial results together with future prospects of Xanadu Mines Ltd ("Xanadu" or the "Company"). This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2018 and 2017 and notes thereto and the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016 and notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). Management is responsible for the preparation of the financial statements and this MD&A. All dollar figures in this MD&A are expressed in Australian dollars ("A\$") unless stated otherwise.

This MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in the "Risks and Uncertainties" and the "Cautionary Note Regarding Forward-Looking Information" sections at the end of this MD&A.

Additional information relating to the Company, including the Company's most recent financial reports, are available on SEDAR at www.sedar.com.

The information in this MD&A relating to the broader Kharmagtai Project is supported by the technical report titled "Independent Technical Report on the Kharmagtai Property, Mongolia" prepared by Andrew Vigar and Rod Graham of Mining Associates Limited and dated the 8th June 2018.

The information in this MD&A that relates to Mineral Resources is based on information compiled by Dmitry Pertel who is responsible for the Mineral Resource estimate. Mr Pertel is a full time employee of CSA Global and is a Member of the Australian Institute of Geoscientists, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the "Qualified Person" as defined in the CIM Guidelines and National Instrument 43-101. Mr Pertel consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

The information in this MD&A that relates to exploration results is based on information compiled by Dr Andrew Stewart who is responsible for the exploration data, comments on exploration target sizes, QA/QC and geological interpretation and information. Dr Stewart, who is an employee of Xanadu and is a Member of the Australian Institute of Geoscientists, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the "Competent Person" as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and the National Instrument 43-101. Dr Stewart consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

BUSINESS OVERVIEW

Xanadu is an Australian and Canadian listed public company with its shares traded on the Australian ("ASX") and Toronto Stock Exchange ("TSX") under the symbol "XAM". Xanadu controls one of the most promising porphyry copper and gold projects in Asia with the Kharmagtai project, and has a portfolio of advanced district-scale exploration projects including Red Mountain and Yellow Mountain located in Mongolia. The principal activity of Xanadu and its subsidiaries during the period was the continued exploration on its mineral exploration projects, Kharmagtai and Red Mountain in Mongolia.

HIGHLIGHTS DURING THE QUARTER

- Major increase in Kharmagtai Open-Cut Mineral Resource Estimate to 598Mt containing 1.9Mt copper and 4.3Moz gold (2.6Mt copper equivalent metal) within the open cut broken down as to 129.3Mt indicated containing 0.5Mt copper and 1.5Mt gold and 468.9Mt inferred containing 1.5Mt copper and 2.8Moz gold
 - Interim resource upgrade represents a 400% increase in contained copper and a 249% increase in contained gold within the open cut
 - Shallow resource to support the accelerated Scoping Study on shallow, higher grade 'starter project' (planned for Q4 2018)
 - Shallow higher-grade core has a current of 54Mt @ 0.86% CuEq at a 0.6% CuEq cut off, some 61% of which is in the Indicated category (by tonnage)
 - Strong potential for further growth from:
 - recently completed extension drilling at White Hill pit
 - conversion of current inferred mineral resources to indicated category
 - inclusion of additional mineralisation at newly discovered Zaraa porphyry (not factored into this resource upgrade); and
 - discovery of additional mineralisation in open areas at Zephyr and Sandstorm
- Xanadu achieved dual-listed status by listing on the TSX with its ordinary shares commencing trading under symbol "XAM" at the open of trade in Toronto on October 18, 2018
- Cash balance of \$7.8 million at September 30, 2018.

Management Discussion and Analysis

continued

REVIEW OF OPERATIONS

Xanadu continued its exploration plan and significant progress was undertaken on the Company's Mongolian copper and gold strategy over the quarter ended September 30, 2018. Xanadu controls one of the most promising porphyry copper and gold projects in Asia with the Kharmagtai project, and has a portfolio of advanced district-scale exploration projects including Red Mountain and Yellow Mountain (Figure 1).

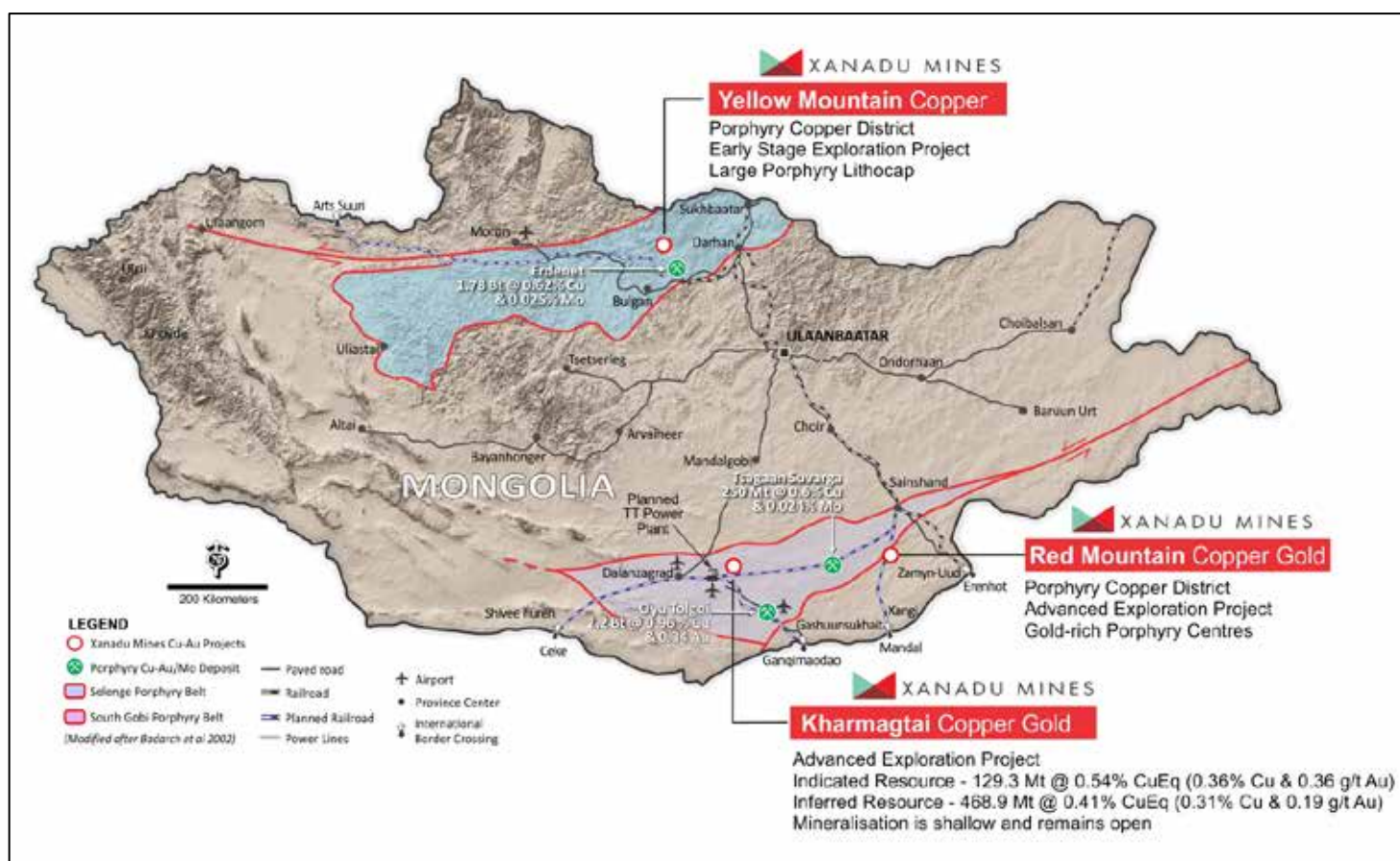


FIGURE 1: Location of Xanadu's copper-gold projects within Mongolia's highly mineralised and vastly underexplored mineral belts.

Kharmagtai Copper-Gold Project (Xanadu 76.5%)

The Kharmagtai copper-gold project is located within the South Gobi porphyry copper province of Mongolia, approximately 440km south-southwest of Ulaanbaatar and 120km north of Rio Tinto's Oyu Tolgoi copper-gold mine (Figure 1).

A dual strategy has been initiated:

- Deliver a significant resource upgrade, with an initial focus on a higher-grade open pit starter project to demonstrate project viability; and
- Continue to expand the scale of the project through exploration at the new Zaraa discovery and on other prioritised exploration targets within the broader Kharmagtai tenements.

Exploration activities during the September 2018 quarter focused on infill and resource definition drilling designed to significantly increase the JORC 2012-compliant Mineral Resource Estimate announced in March 2015 to support the development of an open-pit starter project at Kharmagtai (Figure 1).

A total of 10 diamond drill holes (2,946.2m) and 17 reverse circulation drill holes (5,288.8m) were completed on resource definition drilling during the quarter. A single diamond drill hole (537.7m) was drilled at Zaraa, targeting the shallow surface expression. All significant drill hole intersections from assay results received during the quarter are summarised in Tables 1 and 2.

Kharmagtai resource drilling

Xanadu's focus is to maximise the development potential of the Kharmagtai deposit in the shortest possible time frame.

Management Discussion and Analysis

continued

Selective infill drilling comprised RC holes (100 metre by 100 metre spacing) over an approximate 150,000 square metres defining the orebodies from surface to depths of approximately 300m.

This updated resource estimation is being generated to form the framework for the preliminary economic assessment “Scoping Study” on the high-grade starter project at Kharmagtai which is slated for finalisation during November.

The overarching goal is to demonstrate the project economics via a starter operation followed by a larger global resource update to underpin a larger-scale operation at Kharmagtai. This global resource estimate is expected to be completed in early 2019 and will add extensions to White Hill and a maiden resource estimate for Zaraa to the Kharmagtai resource base.

This strategy is being run in parallel with exploration for additional large-scale porphyry deposits within the Kharmagtai Lease.

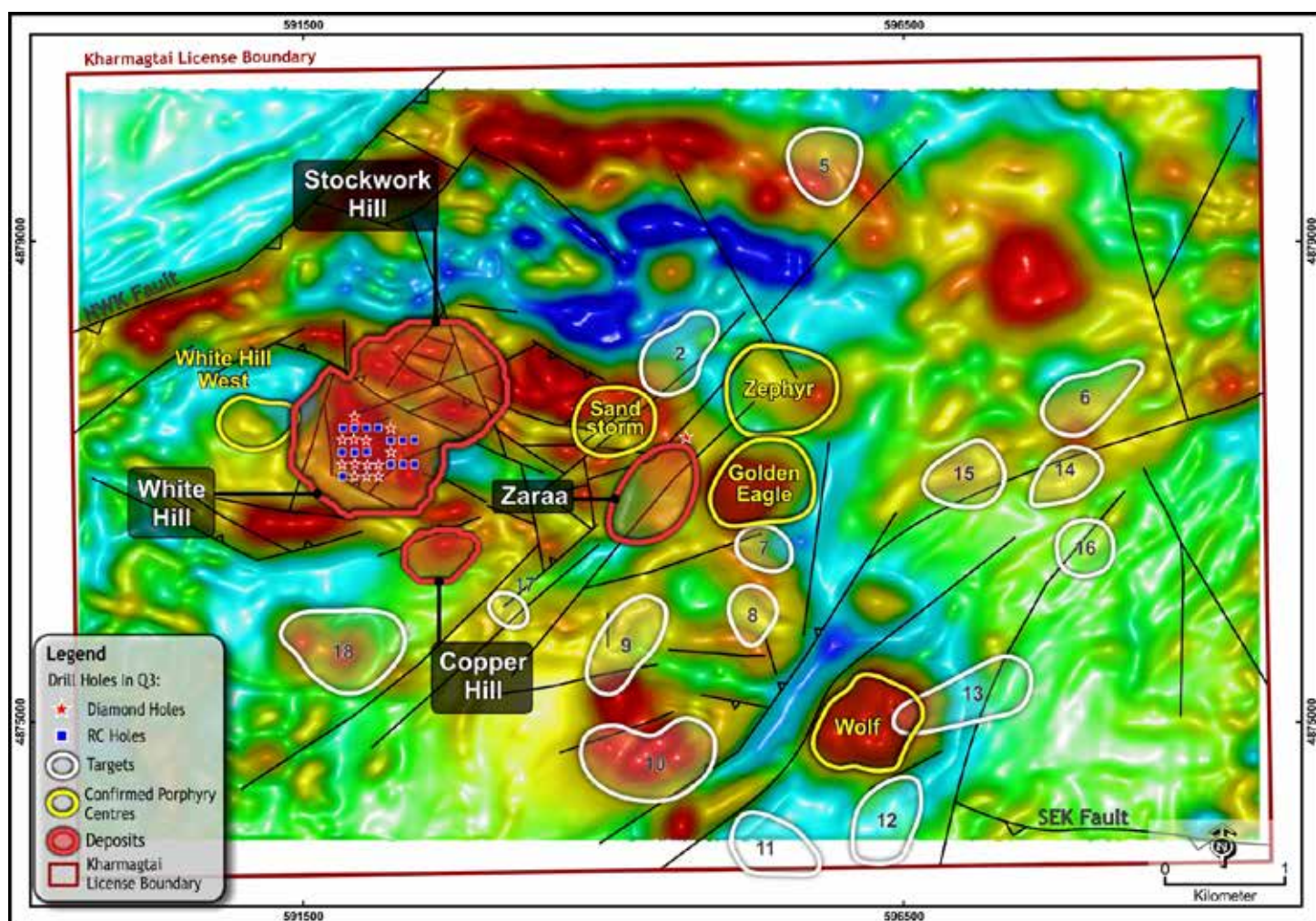


FIGURE 2: The Kharmagtai District showing ground magnetic data and location of the Kharmagtai Deposits (Stockwork Hill, White Hill, Copper Hill), porphyry centres, targets, location of drilling during Q3.

Expanding Zaraa

A single diamond drill hole (KHDDH478) was drilled at Zaraa for 537.7m aimed at identifying the shallow expression of the Zaraa deposit. This drill hole entered porphyry b-veining at a depth of 38m from surface. Although this mineralisation was only weak to moderate in grade, it has helped inform the developing geological model of Zaraa. Drill intercepts from KHDDH478 can be found in Table 1.

The forward plan for Zaraa now includes a maiden mineral resource estimation to be completed during early 2019. This will allow the Zaraa mineralisation to be added to the global resource base and allow options for mining Zaraa to be explored in conjunction with the existing resources at Kharmagtai.

Management Discussion and Analysis

continued

Approximately 4,500m of diamond drilling is planned for Zaraa in the December 2018 Quarter to provide sufficient sample spacing for this resource to be estimated (Figure 3).

To go from the discovery to a maiden mineral resource estimate in under nine months at Zaraa not only validates the exploration methodology being used by Xanadu but also highlights the speed at which projects can be advanced in Mongolia.

Additional shallow stockwork targets

Numerous additional shallow drill targets exist across the Kharmagtai lease. These targets will be advanced during the December 2018 Quarter with mapping and drilling. The aim of these activities is discovering additional porphyry centres to be added to the growing global resource base at Kharmagtai (Figure 4).

The primary exploration criteria for finding a copper-gold porphyry is identifying copper and gold indicators. Each of the known deposits at Kharmagtai has a large halo of 0.1% eCu surrounding it that can be used to vector towards the higher-grade core. This lower grade halo has been encountered in five to six locations across the covered portions of tenement, but insufficient drilling has been conducted to test these as yet (Figure 4, panel 1).

The secondary exploration criteria for porphyries at Kharmagtai is the host intrusive (P1-2), a distinctive diorite intrusive that is interpreted to be syn-mineral. This P1-2 unit has been encountered at all the above locations of 0.1% eCu halo (Figure 4, panel 2).

Another exploration criteria for porphyries at Kharmagtai is short-wave infrared mineralogy that defines specific clay minerals developed during porphyry formation. These minerals form in the cores and fluid outflow paths of porphyry deposits and have been encountered at all the above targets (Figure 4, panel 3).

Management Discussion and Analysis

continued

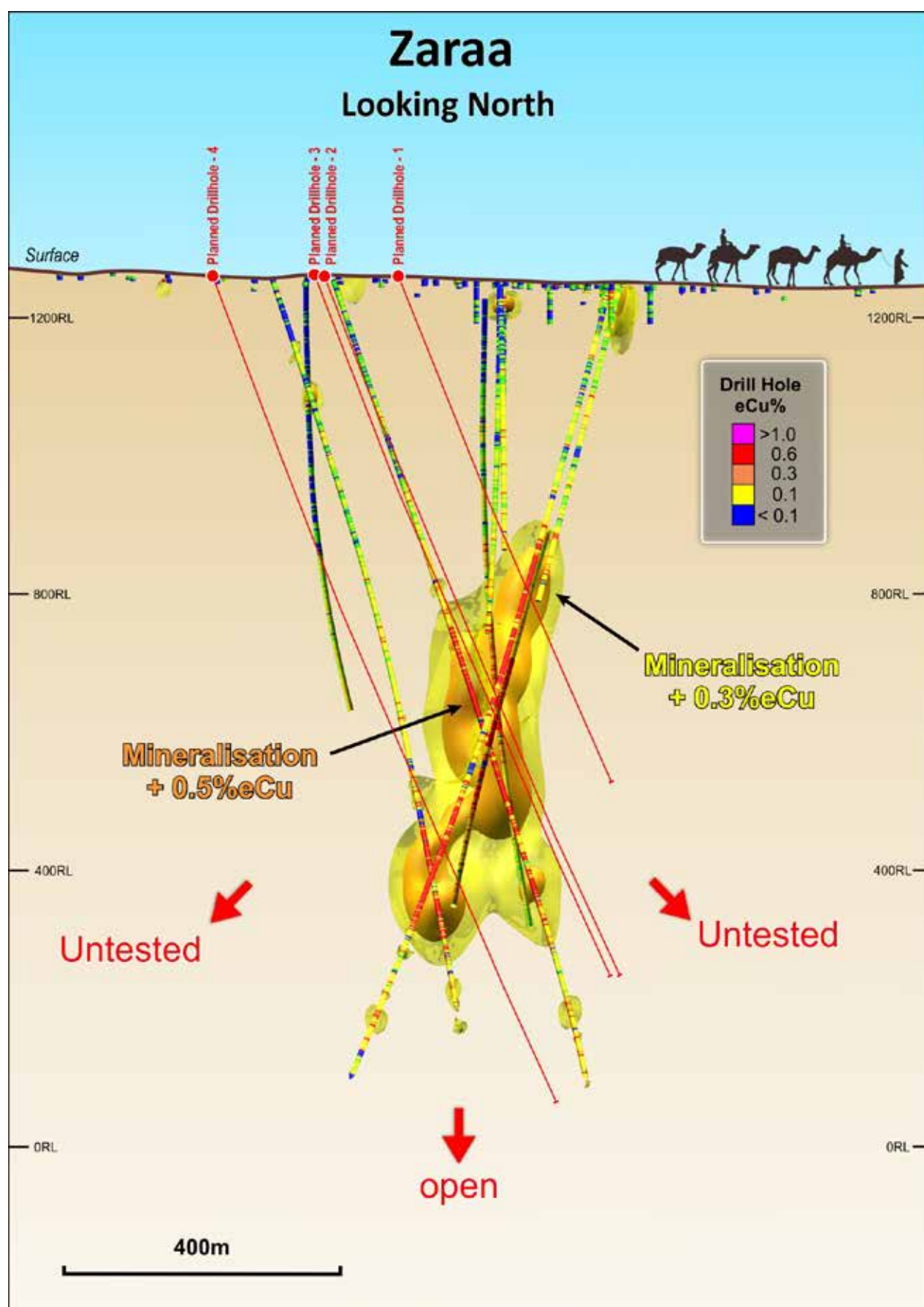


FIGURE 3: Schematic cross section through Zaraa showing planned drilling.

Management Discussion and Analysis

continued

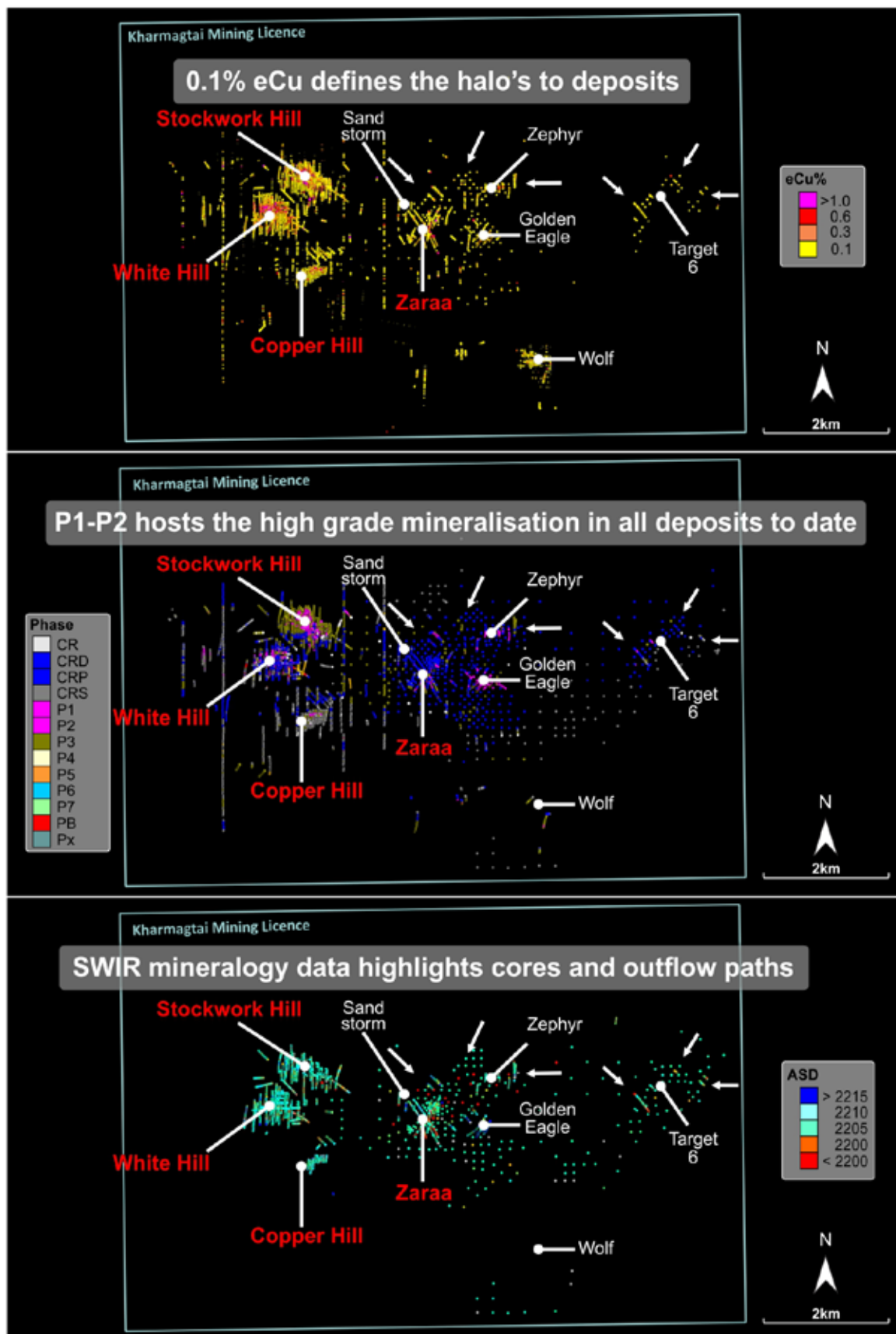


FIGURE 4: Exploration targeting criteria across the Kharmagtai lease points to numerous additional shallow porphyry's under shallow cover.

Management Discussion and Analysis

continued

Mineral resource estimate

This Mineral Resource Estimate is the first Resource estimate completed since the maiden Resource announced in March 2015 (ASX release date March 19, 2015). The upgraded interim Mineral Resource Estimate is summarised in Table 1. The Mineral Resources are quoted above 0.3% CuEq cut-off within a conceptual constraining open pit shell. The parameters used to generate an optimised ultimate open pit shell are provided in Table 2.

The resource models are well understood and there is massive upside potential to be realised by better understanding the economics of the deposit. As demonstrated in the images below, significant volumes of mineralisation have been modelled that fall outside of the constraining pit wireframe. These parts of the model will be targeted for further investigation through economic studies to assess if more of this material can be brought into the Mineral Resource.

Table 1: Interim Kharmagtai Mineral Resource Estimate

Deposit	Classification	Tonnes Mt	Grades			Contained Metal		
			CuEq, %	Cu, %	Au, g/t	CuEq, Kt	Cu, Kt	Au, Koz
White Hill	Indicated	45.2	0.42	0.30	0.23	189	135	340
Stockwork Hill		74.4	0.59	0.38	0.41	441	286	972
Copper Hill		9.7	0.76	0.48	0.54	73	47	167
Total Indicated		129.3	0.54	0.36	0.36	703	468	1,479
White Hill	Inferred	412.8	0.40	0.31	0.17	1,653	1,299	2,227
Stockwork Hill		55.4	0.47	0.30	0.34	263	167	601
Copper Hill		0.7	0.39	0.31	0.16	3	2	4
Total Inferred		468.9	0.41	0.31	0.19	1,919	1,468	2,832

- Mineral Resources are classified according to JORC 2012.
- Mineral Resources for open pit mining are estimated within the limits of an ultimate pit shell.
- A cut-off grade of 0.3% CuEq has been applied for open pit resources.
- Density values of 2.65 t/m³ for oxide zones; 2.76, 2.74, 2.73 and 2.71 t/m³ for country rocks, 2.78, 2.80, 2.77, 2.81 and 2.76 t/m³ for porphyries and 2.76 t/m³ for andesite dyke were used for the model cells.
- CuEq – copper equivalent was calculated using conversion factor 0.62097 for gold. Metal prices used were 3.1 \$/lb for copper and 1320 \$/oz for gold, recoveries – 70% for gold and 85% for copper (82.35% relative gold to copper recovery), copper equivalent formula applied: $CuEq = Cu + Au * 0.62097 * 0.8235$.
- Rows and columns may not add up exactly due to rounding.

This Mineral Resource update incorporates the results from all drill programs completed since 2015 including the latest infill drilling program which was completed in the September 2018 Quarter and totalled approximately 8,725m in 27 drill holes. The primary aim of the drilling program was to infill the deposit within the conceptual pit to focus on converting the Inferred Mineral Resource to the Indicated category.

The completed JORC (2012) Resource demonstrates that the mineralisation is robust and continuous with over 22% of the Resource classified in the Indicated Mineral Resource category. The substantial increase in the revised Resource combined with higher confidence from the recent Resource drilling is expected to positively impact the life of mine at Kharmagtai. Table 3 provides a summary of the Resource model at various cut off grades.

Xanadu is now focused on the completion of the Scoping Study which is expected in the December 2018 Quarter and will reflect the Company's strategy of delivering a significant Resource upgrade, with an initial focus on a higher-grade open pit starter project to demonstrate project economics. The optimal marginal cut-off for Resources is under review as part of the Scoping Study with consideration of a cut-off of approximately 0.6% CuEq.

Management Discussion and Analysis

continued

Table 2: Constraining Pit Parameters

Parameters	Units	Value
1. Mining		
Ore mining cost	\$/t	2.49
Waste mining cost	\$/t	2.49
Mining losses	%	0
Mining dilution	%	5
2. Processing		
Processing cost (including G&A costs)	g/t	4.2
Processing recovery:		
Gold	%	70
Copper	%	85
3. Pricing		
Elements price:		
Gold	\$/oz	1,320
Copper	\$/t	6,834
Selling cost for Au	\$/oz	4
Selling cost for Cu	\$/t	1,030
4. Other to optimization		
SG parameters	t/m ³	2.75
General pit slopes	°	50

Table 3: Grade-tonnage table summary

Cut-Off	Mining	Resource	Material	CuEq (%)	Cu (%)	Au (g/t)	Cu (kt)	Au (Koz)	CuEq (kt)
0.2	OC	Indicated	187.6	0.45	0.31	0.29	572.5	1737.0	848.8
0.2	OC	Inferred	854.5	0.34	0.26	0.15	2205.6	4228.6	2878.2
0.2	Total	Ind + Inf	1042.1	0.36	0.27	0.18	2778.1	5965.6	3727.0
0.3	OC	Indicated	129.3	0.54	0.36	0.36	468.0	1478.9	703.2
0.3	OC	Inferred	468.9	0.41	0.31	0.19	1468.2	2831.7	1918.6
0.3	Total	Ind + Inf	598.2	0.44	0.32	0.22	1936.2	4310.6	2621.8
0.4	OC	Indicated	80.0	0.67	0.43	0.46	346.0	1172.7	532.5
0.4	OC	Inferred	189.9	0.50	0.38	0.24	718.5	1479.1	953.7
0.4	UG	Indicated	2.3	0.59	0.40	0.37	9.1	27.1	13.4
0.4	UG	Inferred	28.4	0.51	0.38	0.26	106.6	232.9	143.7
0.4	Total	Ind + Inf	300.5	0.55	0.39	0.30	1180.2	2911.9	1643.4
0.5	OC	Indicated	49.4	0.80	0.51	0.57	251.1	912.2	396.2
0.5	OC	Inferred	68.2	0.60	0.44	0.33	297.3	723.4	412.4
0.5	UG	Indicated	1.5	0.67	0.45	0.44	6.6	20.6	9.9
0.5	UG	Inferred	8.3	0.63	0.44	0.37	36.7	98.4	52.4
0.5	Total	Ind + Inf	127.4	0.68	0.46	0.43	591.7	1754.6	870.8
0.6	OC	Indicated	33.0	0.93	0.57	0.69	189.6	736.1	306.7
0.6	OC	Inferred	20.7	0.75	0.50	0.49	103.8	323.9	155.3
0.6	UG	Indicated	0.9	0.75	0.49	0.50	4.5	14.9	6.9
0.6	UG	Inferred	3.9	0.74	0.49	0.49	19.1	60.8	28.7
0.6	Total	Ind + Inf	58.6	0.85	0.54	0.60	317.0	1135.7	497.6

Geology and geological interpretation

New geological understanding of intrusive units and structures controlling mineralisation at Kharmagtai has driven the formation of a high-quality 3D geological model. This 3D geological model was used to define hard boundaries around which the mineral resource estimate could be built, resulting in a more realistic and accurate estimation. The 3D model was based on a complete relogging of the +110km of diamond drilling conducted within the Mineral Resource volume over the past 30 years. This relogging has standardised the geology across the deposits and many phases of drilling/previous loggers, allowing a high-quality 3D model to be generated.

Management Discussion and Analysis

continued

This model not only forms a robust framework for the mineral resource update but allows predictions as to extensions to the deposits to be identified and drilled.

3D geological wireframes were developed for all major geological formations of the deposits, including country rock, all porphyry phases, andesite dykes and breccia pipes. The base of oxidation surface was developed based on geological logging and used to domain the deposits. In addition, three wireframe solid models were developed for the level of veining: <0.5%, 0.5 to 1.5% and >1.5% of veining for each deposit. All geological domains were sub-domained using the wireframes for veining and divided into oxidised and fresh material.

The additional drilling since the last Mineral Resource and other exploration and evaluation programs such as - re-logging of historic core, geophysical review and geochemistry studies have delivered superior understanding of the deposit geometry. This has led to greater confidence in the geological and grade continuity and has infilled several areas of the deposit. These programs have collectively allowed us to deliver a more robust and larger Mineral Resource.

Drilling techniques

The Mineral Resources have been estimated using all available analytical data. This has included diamond core drilling (NQ, PQ and HQ, reverse circulation percussion drilling and in some areas channel samples taken at surface. Additional data on drilling and sampling procedures is provided in Table 1.

Significant drilling has taken place since the last Resource in 2015, which has driven the increase in resources. The drilling pre-2015 and since the last resource is provided in the collar plan and Table 4.

Table 4. Drill hole summary

Timing	Reverse Circulation	Metres	Diamond Core	Metres	RC and Diamond	Metres	Trenches	Metres
Drilling <2015	155	24553	252	88511.1	0	0	106	39774
Drilling >2015+	68	13107	116	57876.7	22	5323.1	17	5618
Total	223	37660	368	146387.8	22	5323.1	123	45392

Estimation methodology

A block model was created to encompass the full extent of the Kharmagtai deposits (White Hill, Copper Hill and Stockwork Hill - other exploration areas were excluded). The block model used a parent cell size of 20 m(E) x 20 m(N) x 20 m(RL) with sub-celling to 4 m(E) x 4 m(N) x 4 m(RL) to maintain the resolution of the wireframed geological domains and rock types.

An empty block model was created within the closed wireframe models for the geological domains, rock types, barren dykes, level of veining (stockwork) and breccia. The model was also coded according to the oxide zones. Each modelled geological domain was assigned several unique codes in the model file (geology, veining and breccia). The block model was then restricted below the topography surface.

Copper and gold grade values were interpolated into the empty block models separately for each modelled geological domain of the deposits using the Ordinary Kriging method. The Ordinary Kriging process was performed at different search radii until all cells were interpolated. The search radii were determined for each domain based on the parameters of the modelled semi-variogram ranges averaged for each direction for copper and gold. The blocks were interpolated using only assay composites restricted by the corresponding domain for each deposit. When model cells were estimated using radii not exceeding the full semi-variogram ranges, a restriction of at least three samples from at least two drill holes or trenches was applied to increase the reliability of the estimates.

CRITERIA USED FOR CLASSIFICATION

The classification level was based upon an assessment of geological understanding, geological continuity, mineralization continuity, drillhole spacing, QC results, search and interpolation parameters and an analysis of available density information.

The following approach was adopted:

- Measured Resources: Not reported.
- Indicated Resources: Were classified where the drill density did not exceed 65 m x 65 m with at least two mineralisation intersections on a drilled cross section. Geological and structural continuity have been interpreted with moderate confidence levels and blocks were interpolated at least the second run.

Management Discussion and Analysis

continued

- Inferred Resources: Inferred Mineral Resources was assigned to all model blocks lying outside the Indicated wireframes, which still display reasonable strike continuity and down dip extension, based on the current drill hole and trench intersections.

Cut-off grades

The Mineral Resources have been reported above a cut-off of 0.3% CuEq for open pit mining and above 0.5% CuEq for potential underground mining areas and are current to 1 October 2018.

Copper equivalent grade values were calculated in the block model post estimation of copper and gold grades. The following formula was applied to each cell in the block model:

$$\text{CuEq} = \text{Cu} + \text{Au} * 0.62097 * 0.8235$$

Where:

Cu	-	copper grade (%)
Au	-	gold grade (g/t)
0.62097	-	conversion factor (gold to copper)
0.8235	-	relative recovery of gold to copper (82.35%)

The copper equivalent formula was based on the following parameters (prices are in USD):

Cu price	-	3.1 \$/lb (or 6834 \$/t)
Au price	-	1320 \$/oz
Cu recovery	-	85%
Au recovery	-	70%

Relative recovery of gold to copper = 70% / 85% = 82.35%.

Mining and metallurgical methods and parameters

The project has undergone several phases of preliminary metallurgical test work. The most recent flotation test work was completed by Resources Engineering & Management in 2016. The tested material was described as deeper, tourmaline breccia from drill hole KHDD371. A composite was produced from the drill core interval assay rejects provided, with a measured grade of 4.71% Cu and 2.10 g/t Au. The sample was then the subject of standard laboratory grinding and flotation tests carried out at nominal grind sizes of p80 125µm, 150µm and 180µm.

The sample produced from the material provided responded very well to simple flotation testing with low collector dosage. The reported copper recovery varied from 95.3 to 93.6% depending on the grind size, and between 93.4 to 95.5% for gold.

Earlier work completed in 2008 by the previous owners tested samples more closely aligned with the grades expected for the life of mine, and are likely more representative of the deposit overall. These samples achieved recoveries between 80% and 90 % for copper and 70% for gold. The following recoveries were used for the conceptual pit optimisation study and for the copper equivalent formula – 70% recovery for gold and 85% recovery for copper, which are well supported by the results of the metallurgical testwork.

The next phase of test work that has commenced will aim to optimise recoveries of copper and gold into concentrate as well as investigate more value can be added from other minerals such as silver, bismuth or molybdenum can be extracted.

Next steps

This interim resource update is specifically designed to support a small-scale high-grade open pit Scoping Study for the existing resources at Kharmagtai. The focus once this work is completed will be to add the new discoveries (Zaraa and White Hill West) to the global resource base and explore the many opportunities identified by the interim resource update.

Xanadu's near-term brownfields exploration strategy will focus on:

1. Zaraa Resource drilling
2. Golden Eagle - Oxide gold

At Zaraa the focus will be on developing a maiden Mineral Resource estimate to add to the global Kharmagtai Mineral Resource base. This maiden Resource estimate will provide the platform from which potential mining scenarios can be explored.

Management Discussion and Analysis

continued

At Golden Eagle the focus will be on defining a potential shallow oxide gold project where a cost-effective leach operation may have strong synergies with a starter project on the existing resources. Initial metallurgical work is being scoped, and planning is being conducted around closer spaced shallow drilling to define a potential maiden oxide gold Resource at Golden Eagle. This oxide gold opportunity at Golden Eagle may synergise well with the oxide gold caps on the three existing Resources to provide a moderate to large scale, low-cost oxide gold leach opportunity early in the development pipeline at Kharmagtai.

Zaraa – Cracking the code for additional exploration successes

Given the early drilling success at Zaraa, Xanadu is confident that it has cracked the geological code for additional exploration successes in the Kharmagtai area in 2019 and beyond.

This latest discovery at Zaraa validates our exploration model for the geological features controlling the high-grade copper-gold mineralization in the district. This model reflects the accumulation of in-depth, new geological insights gained by Xanadu's exploration team during nearly two decades of exploring in the region.

Furthermore, numerous high priority brownfield exploration targets close to existing resources have been identified from an extensive review of historical drill results and will be tested in the near future.

The exploration potential of Zaraa is being assessed simultaneously with the development plan for White Hill, Stockwork Hill and Copper Hill. For example, one option is to develop an underground drive from the bottom of the Kharmagtai open pit directly to the high-grade core at Zaraa containing > 2% CuEq material.

Xanadu's aggressive 2018 exploration drilling program, which was targeting the discovery of additional porphyry copper-gold centres under cover in the large underexplored Kharmagtai porphyry district, has proven to be highly successful with the discovery of the blind Zaraa porphyry copper-gold centre.

With five recent drill holes featuring close to 1km of continuous copper-gold mineralisation, the discovery of Zaraa supports the definition of a fourth large-scale porphyry deposit located only 2km east-southeast of the currently defined resources.

The objective now is to demonstrate that this large-scale porphyry has both open pit and underground potential.

The Company looks forward to providing further regular updates on its ongoing active development campaign.

Red Mountain Copper-Gold Project (Xanadu 90%)

The Red Mountain copper-gold project is located within the South Gobi porphyry copper province of Mongolia, approximately 420km south-southwest of Ulaanbaatar (Figure 1) and approximately 100km northeast of the Cu-Mo porphyry Tsagaan Survarga (1.3Mt of copper), in which the European Bank for Research and Development (EBRD) has already invested US\$745mil.

Red Mountain is geologically located in a large and underexplored porphyry district (covering approximately 40km²) and contains multiple mineralisation styles, including (Figure 5):

- Multiple co-genetic porphyry copper-gold centres
- Mineralised tourmaline breccia pipes
- Copper-gold + base metal magnetite skarns and
- Epithermal gold veins.

Red Mountain's immense potential to contain multiple metalliferous deposits of various styles has lead Xanadu to receive interest from global miners. Xanadu is currently evaluating Red Mountain and is considering next steps with respect to the project.

Management Discussion and Analysis

continued

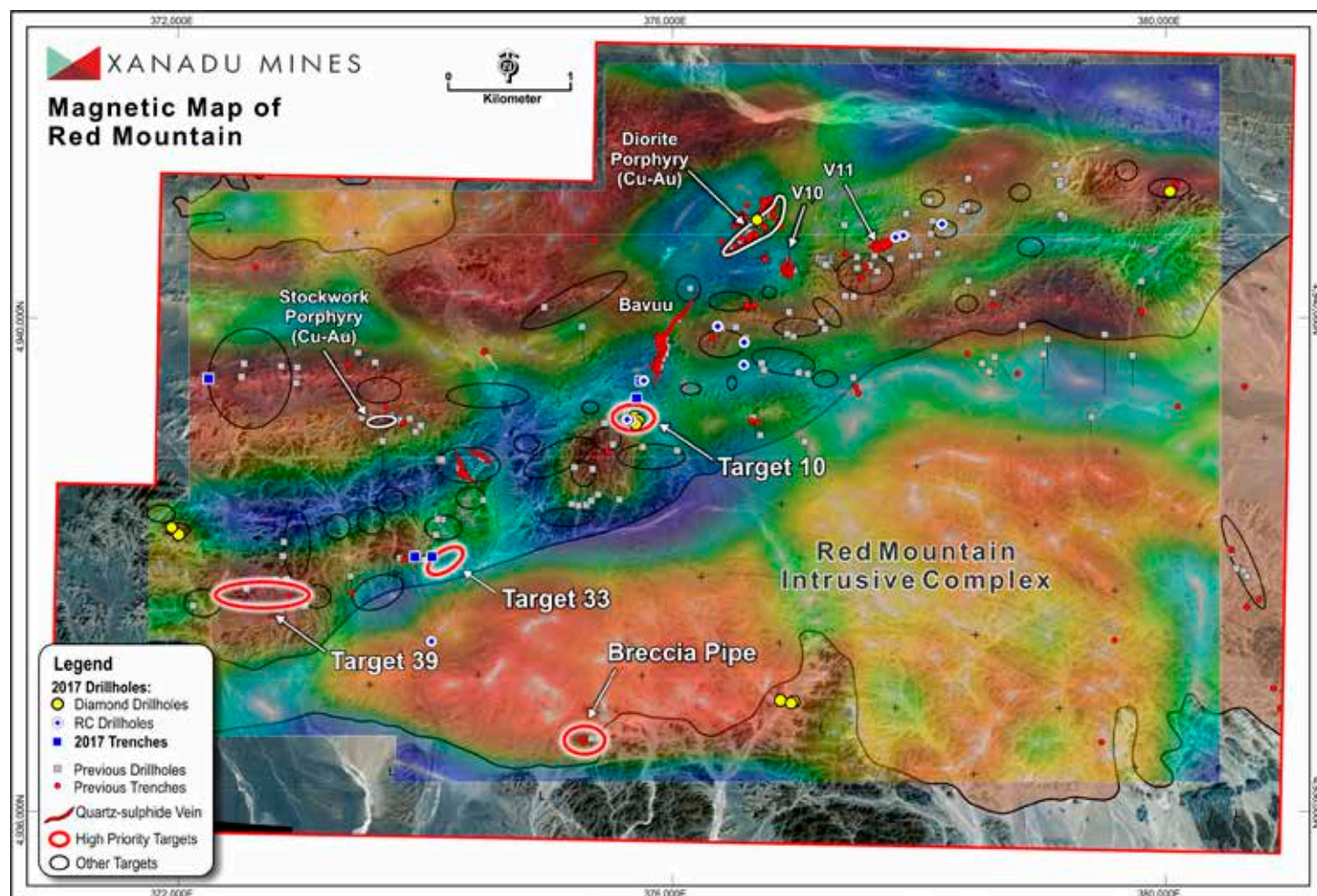


FIGURE 5: Red Mountain license showing location of previously drilled holes and location of known porphyry deposits and targets.

RESULTS OF OPERATIONS

Three months ended September 30, 2018 compared to the Three months ended September 30, 2017:

The Company reports a loss after income tax expense of \$1.2 million during the three month period ended September 30, 2018 as compared to a loss after income tax of \$0.7 million during the comparative three month period ended September 30, 2017. Overall, this represents a higher net loss of \$0.5 million.

The variances between the two periods were primarily due to the following items:

- Administrative expenses for the three month period ended September 30, 2018 increased by \$0.3 million
- Share-based payments expenses for the three month period ended September 30, 2018 increased by \$0.2 million.

Nine months ended September 30, 2018 compared to the Nine months ended September 30, 2017:

The Company reports a loss after income tax expense of \$4.5 million during the nine month period ended September 30, 2018 as compared to a loss after income tax expense of \$2.3 million during the comparative nine month period ended September 30, 2017. Overall, this represents a higher net loss of \$2.2 million.

The variances between the two periods were primarily due to the following items:

- Administrative and other expenses for the nine month period ended September 30, 2018 increased by \$0.7 million
- Share-based payments expenses for the nine month period ended September 30, 2018 increased by \$1.5 million.

Management Discussion and Analysis

continued

Summary of quarterly results

The following table sets out selected quarterly unaudited interim condensed consolidated financial information of the Company and is derived from unaudited interim condensed consolidated financial statements prepared by the Company's management.

	Quarter ended September 30, 2018 \$'000	Quarter ended June 30, 2018 \$'000	Quarter ended March 31, 2018 \$'000	Quarter ended December 31, 2017 \$'000
Corporate general & administration	\$ 996	\$ 965	\$ 1,054	\$ 1,201
Share-based expenses	164	684	684	178
Depreciation & amortisation	19	17	27	23
Loss after income taxes	1,176	1,522	1,801	1,505
Basic loss per share	0.16	0.25	0.30	0.22
Diluted loss per share	0.16	0.25	0.30	0.22

	Quarter ended September 30, 2017 \$'000	Quarter ended June 30, 2017 \$'000	Quarter ended March 31, 2017 \$'000	Quarter ended December 31, 2016 \$'000
Corporate general & administration	\$ 643	\$ 769	\$ 596	\$ 663
Share-based expenses	-	5	6	6
Depreciation & amortisation	19	31	18	28
Loss after income taxes	713	885	728	584
Basic loss per share	0.13	0.17	0.15	0.12
Diluted loss per share	0.13	0.17	0.15	0.12

	As at September 30, 2018 \$'000	As at June 30, 2018 \$'000	As at March 31, 2018 \$'000	As at December 31, 2017 \$'000
Cash & cash equivalents	\$ 7,827	\$ 10,851	\$ 5,103	\$ 9,065
Deferred exploration expenditures	45,326	44,134	40,311	37,157
Total assets	54,229	56,129	46,427	47,213
Total liabilities	683	1,090	564	1,421
Shareholders' equity	53,546	55,039	45,863	45,792

	As at September 30, 2017 \$'000	As at June 30, 2017 \$'000	As at March 31, 2017 \$'000	As at December 31, 2016 \$'000
Cash & cash equivalents	\$ 1,196	\$ 4,400	\$ 6,243	\$ 8,277
Deferred exploration expenditures	34,800	34,227	31,712	31,952
Total assets	36,763	39,360	38,374	41,051
Total liabilities	4,397	4,282	3,569	4,285
Shareholders' equity	32,366	35,078	34,805	36,766

Liquidity and capital resources

On September 30, 2018, the Company had cash and cash equivalents on hand of \$7.8 million (December 31, 2017 \$9.1 million) and working capital of \$7.9 million (December 31, 2017 \$8.4 million).

Current working capital is expected to fund the Company's expenditures for twelve months. The Company will rely on future equity financings as well as cash flows from potential future production to fund operations. It is not possible to predict whether any financing efforts will be successful. The Company has no assurance that additional funding will be available for further development, exploration and evaluation, and operation of its projects. Any additional funding will be dependent upon the Company's ability to obtain financing through joint ventures, equity or debt financing or other means. Although the Company has been successful in the past in obtaining financing through the sale of equity securities and other means, there can be no assurance that the Company will be able to obtain

Management Discussion and Analysis

continued

adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further business advancements.

The consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. These conditions raise material uncertainty that may cast significant doubt as to the ability of the Company to continue operating as a going concern.

Other than as discussed herein, the Company is not aware of any trends, demands, commitments, events or uncertainties that may result in the Company's liquidity or capital resources materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the Company's liquidity and capital resources will be substantially determined by the results of the Company's exploration programs and its ability to obtain sufficient equity financing.

Outstanding Share Capital

The Company has an unlimited number of ordinary shares authorized, with 648,044,131 fully paid shares outstanding on September 30, 2018 and as of the date of this MD&A. In addition, the Company had 20,000,000 performance rights, 29,411,759 unlisted options and 35,000,000 options issued pursuant to the Red Mountain acquisition terms on September 30, 2018 and as of the date of this MD&A.

Unlisted options

June 2018 Private Placement Options, 29,411,759, are exercisable until June 26, 2020 at an exercise price of A\$0.25.

Red Mountain acquisition options

(a) 15,000,000 Series A Options exercisable for no additional consideration upon the Company defining a JORC resource of 300,000 tonnes expiring January 14, 2019; (b) 20,000,000 Series B Options exercisable for no additional consideration upon the Company defining a JORC resource of 900,000 tonnes expiring January 14, 2019.

Performance rights

A total of 20,000,000 share rights are outstanding as follows:

<u>Grant Date</u>	<u>No. of Share Rights Granted</u>	<u>Vesting Date</u>	<u>Description</u>
November 16, 2017	5,000,000	May 29, 2019	Volume weighted average price ("VWAP") of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A\$0.40 per Ordinary Share for 45 consecutive days during the period.
July 26, 2017	2,000,000	July 26, 2018	VWAP of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A\$0.40 per Ordinary Share for 45 consecutive days during the period.
November 16, 2017	2,000,000	July 26, 2018	VWAP of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A\$0.40 per Ordinary Share for 45 consecutive days during the period.
November 16, 2017	1,000,000	October 11, 2018	VWAP of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A\$0.40 per Ordinary Share for 45 consecutive days during the period.
November 16, 2017	5,000,000	May 29, 2019	VWAP of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A\$0.60 per Ordinary Share for 45 consecutive days during the period.
July 26, 2017	2,000,000	July 26, 2019	VWAP of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A\$0.60 per Ordinary Share for 45 consecutive days during the period.
November 16, 2017	2,000,000	July 26, 2019	VWAP of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A\$0.60 per Ordinary Share for 45 consecutive days during the period.

Management Discussion and Analysis

continued

November 16, 2017 1,000,000 October 11, 2019 VWAP of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A\$0.60 per Ordinary Share for 45 consecutive days during the period.

Off balance sheet arrangements

The Company has not entered into any off-balance sheet transactions.

Operating segment

Xanadu operates predominantly in the minerals exploration sector. The Company's principle activity is exploration for copper and gold. Xanadu classifies these activities under a single operating segment; the Mongolian exploration projects. Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in deferred exploration expenditure note of the financial report. No segment revenues are disclosed as all segment expenditures are capitalised, with the exception of expenditures that have been written off. The non-current assets of the Group, attributable to the parent entity, are located in Mongolia.

Fair value estimation

The fair value of financial assets and financial liabilities are the equivalent of the net carrying amount as the financial assets and financial liabilities are short-term instruments. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values have been determined based on the following methodologies:

- Investments in listed shares with reference to the share price at the period end.
- Other receivables, trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.
- Trade and other payables exclude amounts provided for relating to annual leave which is not considered a financial instrument.

Fair value hierarchy of the financial assets

The following tables detail Xanadu's assets, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices in active markets for identical assets that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3: Unobservable inputs for the asset.

Consolidated – September 30, 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Ordinary shares - Aspire Mining Limited (ASX: AKM)	220	-	-	220
Total assets	220	-	-	220
Consolidated - December 31, 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Ordinary shares - Aspire Mining Limited (ASX: AKM)	100	-	-	100
Total assets	100	-	-	100

There were no transfers between levels during the financial period.

Contractual commitments

The following summarizes the Company's contractual obligations at September 30, 2018 (\$'000):

- Trade payables \$540 due in 30 days
- Ulaanbaatar office rent \$22 to the end of the year
- Vehicle leases \$143 due in two years.

Management Discussion and Analysis

continued

Critical accounting estimates

The preparation of the interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses for the reporting period. Refer to the Corporation's annual report for the year ended December 31, 2017 and the notes thereto for information on the Company's significant judgements in applying accounting policies as well as significant accounting estimates and assumptions.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board of Directors is responsible for the determination of the Company's risk management objectives and policies. The Board has delegated to the Company's management the authority for designing and operating processes that ensure the effective implementation of the objectives and policies.

The overall objective of the Board is to set policies that seek to reduce risk as much as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

- *Foreign currency risk:* The Company is exposed to foreign exchange fluctuations with respect to A\$, US\$, MNT, and C\$. The Company's financial results are reported in A\$. Salaries for certain local employees in Mongolia may be paid in MNT. The Company's operations are in Mongolia and some of its payment commitments and exploration expenditures under the various agreements governing its rights are denominated in MNT and US\$. As a result, the Company's financial position and results are impacted by the exchange rate fluctuations among A\$, US\$, MNT and C\$. Such fluctuations may materially affect the Company's financial position and results.
- *Interest Rate Risk:* Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings at variable rates. Interest rate risk is limited to potential decreases on the interest rate offers on cash and cash equivalents held with chartered financial institutions. The Company considers this risk to be immaterial.
- *Commodity Price Risk:* Even if commercial quantities of mineral deposits are discovered, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any minerals discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including, among other things, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The Company is particularly exposed to the risk of movement in the price of copper and gold.
- *Equity Price Risk:* Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and amounts receivable. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$7.8 million (December 31, 2017 \$9.1 million) and amounts receivable of \$0.5 million (December 31, 2017 \$0.5 million).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The primary source of funds available to the Company is from equity financing. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis, to support its exploration plans, and to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions.

Management Discussion and Analysis

continued

The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfill its obligations under any applicable agreements.

Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of the Company's properties.

Other business risks

A summary of the business risks are highlighted below and should be read in conjunction with the Company's audited annual report for the year ended December 31, 2017.

Political and Legal Risks

The Company's mineral projects are located in Mongolia, where mineral exploration and mining activities may be affected in varying degrees by political instability, economic conditions, expropriation or nationalization of property and changes in government regulations such as foreign investment laws, tax laws, business laws, environmental laws and mining laws, affecting the Company's business in that country. Government policy may change to discourage foreign investment, nationalization of the mining industry may occur and other government limitations, restrictions or requirements may be implemented. There can be no assurance that the Company's assets will not be subject to nationalization, requisition, expropriation or confiscation, whether legitimate or not, by any authority or body.

The regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. There can be no assurance that Mongolian laws protecting foreign investments will not be amended or abolished or that existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above.

License Risks

The Company's most significant licenses are the license covering the Kharmagtai Project and the license covering the Red Mountain Project. The Government of Mongolia could revoke either of these licenses if the Company fails to satisfy its obligations, including payment of royalties and taxes to the Government of Mongolia and the satisfaction of certain mining, environmental, health and safety requirements. A termination of the Company's mining licenses covering the Kharmagtai Project or the Red Mountain Project by the Government of Mongolia could materially and adversely affect the Company's reputation, business, prospects, financial conditions and results of operations. In addition, the Company would require additional licenses or permits to conduct the Company's mining or exploration operations in Mongolia. There can be no assurance that the Company will be able to obtain and maintain such licenses or permits on terms favorable to it, or at all, for the Company's future intended mining or exploration targets in Mongolia, or that such terms would not be subject to various changes.

Mineral Resource Assumptions Risk

The Company's mineral resource and mineral reserve estimates for the Kharmagtai Project are based on a number of assumptions. There are numerous uncertainties inherent in estimating quantities of mineral reserves and grades of mineralization, including many factors beyond the control of the Company. There can be no assurance that the mineral resources and mineral reserve estimates will be recovered in the quantities, qualities or yields presented in this prospectus or set out in the Kharmagtai Technical Report.

Copper and gold mineral resource and mineral reserve estimates are inherently prone to variability. They involve expressions of judgment with regard to the presence and quality of mineralization and the ability to extract and process the mineralization economically. These judgments are based on a variety of factors, such as knowledge, experience and industry practice.

Environmental Risk

Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted and which may well be beyond the capacity of the Company to fund. Failure to comply with applicable environmental laws and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Operational Risk

The Company's activities are subject to a number of operational risks and hazards, some of which are beyond its control. These risks and hazards include unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions, natural disasters such as earthquakes, industrial accidents, power, water or fuel supply interruptions or the increase in the

Management Discussion and Analysis

continued

price of such supplies, critical equipment failure, malfunction and breakdowns of information management systems, fires, and unusual or unexpected variations in mineralization, geological or mining conditions.

Contractual Risk

Xanadu's key project (the Kharmagtai project) is held pursuant to a joint venture arrangement. Additionally, the Company may wish to develop its projects or future projects through further joint venture arrangements.

As in any contractual relationship, the ability for Xanadu to ultimately receive benefits from these contracts is dependent upon the relevant third party complying with its contractual obligations. Specifically, Xanadu's ability to further its flagship Kharmagtai project therefore depends upon the strength and enforceability of these contracts and the ability to enforce them against the relevant counterparties, under relevant laws.

Further, under the terms of the Company's original acquisition of the Kharmagtai project, the Company agreed to assume certain royalty obligations, the precise terms of which are unclear or not in existence. There is therefore some doubt as to the precise nature of the Company's obligations to the extent they exist.

In respect of these agreements and obligations, it may be necessary for Xanadu to enforce its rights under any of the contracts or pursue legal action to clarify their terms. Such legal action may be costly and no guarantee can be given by Xanadu that a legal remedy will ultimately be granted on appropriate terms.

KEY MANAGEMENT COMPENSATION

Key management personnel include directors and officers of the entity and the compensation comprises:

	Quarter September 30, 2018 \$'000	Quarter September 30, 2017 \$'000	Nine months September 30, 2018 \$'000	Nine months September 30, 2017 \$'000
Salaries and fees	331	277	1,139	959
Superannuation	2	1	4	11
Share based payments	164	3	1,533	15
	497	280	2,676	985

The Company had 20,000,000 performance rights on September 30, 2018 and no new performance rights were granted during the reporting quarter.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are disclosed in Note 25 to the most recent audited annual report dated December 31, 2017. The following updates are disclosed to the period ended September 30, 2018.

On January 2, 2017, the Company relocated its Ulaanbaatar office and entered into a rental agreement with Ganbayar Lkhagvasuren, a Director of the Company. The transaction between related parties is on normal commercial terms and conditions no more favourable than those available to other parties that are arm's length. The Company paid rent totalling \$66,321 for the period end September 30, 2018 (\$7,369 being one month rent).

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Management Discussion and Analysis

continued

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, which are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. The forward-looking statements in this MD&A are subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations that may include, amongst other things, statements regarding targets, estimates and assumptions in respect of mineral reserves and mineral resources and anticipated grades and recovery rates, production and prices, recovery costs and results, capital expenditures and are or may be based on assumptions and estimates related to future technical, economic, market, political, social and other conditions. These 'forward-looking statements' are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Xanadu, are inherently subject to significant technical, business, economic, competitive, political and social uncertainties and contingencies and involve known and unknown risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in such forward-looking statements. The words 'believe', 'expect', 'anticipate', 'indicate', 'contemplate', 'target', 'plan', 'intends', 'continue', 'budget', 'estimate', 'may', 'will', 'schedule' and similar expressions identify forward-looking statements. The forward-looking statements included in this MD&A are made as of the date of this MD&A and other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Corporate Directory

Directors

Kevin Tomlinson	Independent Non-Executive Chairman
Andrew Stewart	Managing Director & Chief Executive Officer
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Marcus Engelbrecht	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Michele Muscillo	Independent Non-Executive Director

Officers

Andrew Stewart	Managing Director & Chief Executive Officer
Munkhsaikhan Dambiinyam	Chief Financial Officer
Phil Mackey	Company Secretary

Registered Office – Australia

c/o Company Matters Pty Limited
 Level 12, 680 George Street
 Sydney NSW 2000
 Tel: +61 2 8280 7497
 Fax: +61 2 9287 0350

Registered Office – Mongolia

Suite 23, Building 9B
 Olympic Street, Khoroo 1, Sukhbaatar District
 Ulaanbaatar 14240
 Tel: +976 11 7012 0211

Share Registry

Computershare Investor Services Pty Limited
 Level 3, 60 Carrington Street
 Sydney, NSW 2000
 Tel: +61 1300 855 080

Auditor

Ernst & Young
 200 George Street
 Sydney, NSW 2000

Stock Exchange Listing



Xanadu Mines Ltd shares are listed on the Australian Securities Exchange and the Toronto Stock Exchange and trade under the symbol XAM on both exchanges.

ABN 92 114 249 026

www.xanadumines.com

**FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS
FULL CERTIFICATE**

I, **Andrew Stewart, the Chief Executive Officer of Xanadu Mines Ltd**, certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of Xanadu Mines Ltd (the "issuer") for the interim period ended September 30, 2018.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.
- 5.1 **Control framework:** The control framework the issuer's other certifying officer and I used to design the issuer's ICFR is the Internal Control – Integrated Framework – published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5.2 **ICFR – material weakness relating to design:** N/A
- 5.3 **Limitation on scope of design:** N/A
6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on January 1, 2018 and ended on September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: November 14, 2018



Andrew Stewart
Chief Executive Officer

**FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS
FULL CERTIFICATE**

I, **Munkhsaikhan Dambiinyam, the Chief Financial Officer of Xanadu Mines Ltd**, certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of Xanadu Mines Ltd (the "issuer") for the interim period ended September 30, 2018.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.
- 5.1 **Control framework:** The control framework the issuer's other certifying officer and I used to design the issuer's ICFR is the Internal Control – Integrated Framework – published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5.2 **ICFR – material weakness relating to design:** N/A
- 5.3 **Limitation on scope of design:** N/A
6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on January 1, 2018 and ended on September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: November 14, 2018



Munkhsaikhan Dambiinyam
Chief Financial Officer