

Second Quarter 2022 Financial Statements and MD&A

15 August 2022

ASX Markets Announcement Office
Australian Securities Exchange
Central Park, 152-158 St Georges Terrace
Perth WA 6000

BY ELECTRONIC LODGEMENT

Second Quarter 2022 Financial Statements and Management's Discussion & Analysis

Please find attached for release to the market, Xanadu Mining Ltd's *Second Quarter 2022 Financial Statements and Management's Discussion & Analysis*, prepared in accordance with National Instrument (NI) 51-102 *Continuous Disclosure Obligations* and NI 51-102F1 *Management's Discussion and Analysis*, issued by the Canadian Securities Administrators, for lodgement on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR).

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About Xanadu Mines Ltd:

Xanadu is an ASX and TSX listed Exploration company operating in Mongolia. We give investors exposure to globally significant, large-scale copper-gold discoveries and low-cost inventory growth. Xanadu maintains a portfolio of exploration projects and remains one of the few junior explorers on the ASX or TSX who control a globally significant copper-gold deposit in our flagship Kharmagtai project. For information on Xanadu visit: www.xanadumines.com

This Announcement was authorised for release by Xanadu's Executive Chairman and Managing Director.

XANADU MINES

Xanadu Mines Ltd **Second Quarter 2022 Report** **Condensed Interim Consolidated Financial Statements**

As at and for the six months ended
June 30, 2022

Unaudited

(stated in Australian dollars, unless otherwise indicated)

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Interim Financial Statements

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102 *Continuous Disclosure Obligations* issued by the Canadian Securities Administrators, 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 interim consolidated financial statements of Xanadu Mines Ltd ('Xanadu' or 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 interim consolidated 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

CONDENSED INTERIM CONSOLIDATED STATEMENTS PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Unaudited - stated in thousands of Australian dollars, except share and per share amounts)

	Note	Consolidated			
		3 months ended		6 months ended	
		Jun 30, 2022 A\$'000	Jun 30, 2021 A\$'000	Jun 30, 2022 A\$'000	Jun 30, 2021 A\$'000
Revenue					
Other income	5	(3)	-	14	-
Expenses					
Other expenses	6	(1,641)	(1,047)	(2,502)	(2,235)
Depreciation and amortisation expense		(17)	(13)	(33)	(27)
Share-based payments expense		(147)	-	(292)	-
Finance costs		(9)	(7)	(18)	(15)
Loss before income tax expense		(1,817)	(1,067)	(2,831)	(2,277)
Income tax expense		-	-	-	-
Loss after income tax expense for the period		(1,817)	(1,067)	(2,831)	(2,277)
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Foreign currency translation		1,070	456	(1,843)	975
Other comprehensive income for the period, net of tax		1,070	456	(1,843)	975
Total comprehensive income profit/(loss) for the period		(747)	(611)	(4,674)	(1,302)
Profit/(loss) for the period is attributable to:					
Non-controlling interest		100	40	(182)	51
Owners of Xanadu Mines Ltd		(1,917)	(1,107)	(2,649)	(2,328)
		(1,817)	(1,067)	(2,831)	(2,277)
Total comprehensive income profit/(loss) for the period is attributable to:					
Non-controlling interest		139	57	(293)	(123)
Owners of Xanadu Mines Ltd		(886)	(668)	(4,381)	(1,425)
		(747)	(611)	(4,674)	(1,302)
Basic earnings per share	12	Cents (0.14)	Cents (0.09)	Cents (0.20)	Cents (0.20)

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - stated in thousands of Australian dollars)

	Jun 30, 2022 A\$'000	Dec 31, 2021 A\$'000
Note		
ASSETS		
Current Assets		
Cash and cash equivalents	4,105	3,321
Other receivables	122	86
Prepayments and other assets	5	15
Total current assets	<u>4,232</u>	<u>3,422</u>
Non-current Assets		
Property, plant and equipment	508	559
Right-of-use-assets	463	323
Deferred exploration and evaluation expenditure	7 50,804	50,328
Total non-current assets	<u>51,775</u>	<u>51,210</u>
Total Assets	<u>56,007</u>	<u>54,632</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	78	253
Contract liabilities	-	-
Employee benefits	12	9
Lease liabilities	68	40
Total current liabilities	<u>158</u>	<u>302</u>
Non-current Liabilities		
Lease liabilities	250	192
Total non-current liabilities	<u>250</u>	<u>192</u>
Total Liabilities	<u>408</u>	<u>494</u>
Net Assets	<u>55,599</u>	<u>54,138</u>
EQUITY		
Issued capital	8 151,671	145,659
Reserves	(5,189)	(3,580)
Accumulated losses	(94,654)	(92,005)
Equity attributable to the owners of Xanadu Mines Ltd	51,828	50,074
Non-controlling interest	3,771	4,064
Total Equity	<u>55,599</u>	<u>54,138</u>

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - stated in thousands of Australian dollars)

	Issued capital A\$'000	Foreign currency translation reserve A\$'000	Share-based payments reserve A\$'000	Transactions with owners' reserve A\$'000	Accumulated losses A\$'000	Non- controlling interest A\$'000	Total equity A\$'000
Balance at January 1, 2021	136,005	(16,253)	10,016	(537)	(82,197)	3,672	50,706
Loss after income tax expense for the period	-	-	-	-	(2,328)	51	(2,277)
Other comprehensive income profit for the period, net of tax	-	903	-	-	-	72	975
Total comprehensive income profit/(loss) for the period	-	903	-	-	(2,328)	123	(1,302)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	-	-	-	-	-	-
Shares issued during the year	10,154	-	-	-	-	-	10,154
Transaction costs	(520)	-	-	-	-	-	(520)
Balance at June 30, 2021	145,639	(15,350)	10,016	(537)	(84,525)	3,795	59,038
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	-	-	-	-	-	-
Shares issued during the year	5,843	-	-	-	-	-	5,843
Transaction costs	-	-	-	-	-	-	-
Share-based payments expensed	-	-	292	-	-	-	292
Options exercised	169	-	(169)	-	-	-	-
Balance at June 30, 2022	151,671	(15,483)	(10,831)	(537)	(94,654)	3,771	55,599

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - stated in thousands of Australian dollars)

	Note	3 months ended		6 months ended	
		Jun 30, 2022 A\$'000	Jun 30, 2021 A\$'000	Jun 30, 2022 A\$'000	Jun 30, 2021 A\$'000
Cash flows from operating activities					
Payments to suppliers and employees		(1,892)	(985)	(2,710)	(2,420)
Interest received		-	-	-	-
Government incentives received		-	-	-	-
Interest and other finance costs paid		(9)	(7)	(18)	(15)
Net cash used in operating activities		(1,901)	(992)	(2,728)	(2,435)
Cash flows from investing activities					
Payments for property, plant and equipment		(9)	(160)	(9)	(160)
Proceeds from disposal of plant and equipment		11	-	28	-
Payment for exploration and evaluation expenditure	7	(974)	(1,827)	(2,018)	(3,874)
Payment for exploration and evaluation on behalf of JOGMEC		-	(437)	-	(1,276)
Proceeds from JOGMEC Red Mtn earn-in payments capitalised		-	185	-	1,069
Proceeds from JOGMEC Red Mtn option payments capitalised		-	162	-	162
Net cash used in investing activities		(972)	(2,077)	(1,999)	(4,079)
Cash flows from financing activities					
Proceeds from issue of shares	8	5,560	10,154	5,560	10,154
Transaction costs of issue of shares		-	(520)	-	(520)
Repayment of lease liabilities		(7)	(10)	(34)	(19)
Net cash from financing activities		5,553	9,624	5,526	9,615
Net increase/(decrease) in cash and cash equivalents		2,680	6,555	799	3,101
Cash and cash equivalents at the beginning of the financial period		1,255	4,226	3,321	7,687
Effects of exchange rate changes on cash and cash equivalents		170	22	(15)	15
Cash and cash equivalents at the end of the financial period		4,105	10,803	4,105	10,803

Notes to the Condensed Interim Consolidated 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 (the 'Group'). The unaudited financial statements of the Company and its controlled entities are for the period ended June 30, 2022. The principal activity of the Company (and its subsidiaries) is copper-gold exploration in Mongolia.

Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period ended June 30, 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Australian *Corporations Act 2001* (Cth) (**Corporations Act**), as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard 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, 2022, and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act.

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

The Group has incurred net losses after tax of \$2,831,000 (June 30, 2021: \$2,277,000) and net cash outflows from operations of \$2,728,000 (June 30, 2021 \$2,435,000) for the period ended June 30, 2022. At period end, cash and cash equivalents were \$4,105,000.

As the Group is in the exploration stage and does not generate operating cash inflows, the Group is dependent on further capital raises or external financing to maintain operations. While the Company has the ability to reduce costs, this would be at the expense of the exploration program, and as a result this is not the current intention of the Group.

The Directors have assessed that the Group is and will remain a going concern and believes that the going concern basis of preparation of the accounts is appropriate, however is subject to Group's ability to implement the following potential actions:

- raising equity funds in capital markets, based on a history of successful equity raisings and recent results from the ongoing Scoping Study at Kharmagtai;
- entering into farm-out, sell down or joint venture agreements at Kharmagtai in order to continue to advance the project through further exploration work including a pre-feasibility study;
- deferral of discretionary operating and capital expenditures; and
- raising of debt funding if required.

With Phase 2 Placement and Phase 3 JV funding under the Zijin Strategic Partnership subject to shareholder and regulatory approvals, Xanadu Directors will assess progress towards closing this deal and resulting cash flows closely over the next 12 months. If Phase 2 and Phase 3 funds are delayed, this may necessitate action to raise bridging funds via one of the methods noted above.

Notes to the Condensed Interim Consolidated Financial Statements

Should the Group not be successful in managing its cashflow through the above means, there may be uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

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.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses indicators of impairment for non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. Considerations include the results of exploration activities during the period, budgeted future expenditure, recent comparable transaction information (when available), resource multiples. These also consider fair value less costs of disposal or value-in-use calculations. If an indicator of impairment exists, the recoverable amount of the asset is determined.

Exploration and evaluation costs

Exploration and evaluation costs have been capitalised on the basis that the Group will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Note 4. Operating segments

Xanadu operates predominantly in the minerals exploration sector. The principle activity of the Company 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 note 10 'Deferred exploration and evaluation expenditure'. No segment revenues are disclosed, as all segment expenditure is capitalised, with the exception of expenditure written off. The non-current assets of Xanadu, attributable to the parent entity, are located in Mongolia.

Notes to the Condensed Interim Consolidated Financial Statements

Note 5. Other income

	Consolidated			
	3 months ended	3 months ended	6 months ended	6 months ended
	Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
	A\$'000	A\$'000	A\$'000	A\$'000
Other income/(loss)	(3)	-	14	-
	(3)	-	14	-

Note 6. Other expenses

	Consolidated			
	3 months ended	3 months ended	6 months ended	6 months ended
	Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
	A\$'000	A\$'000	A\$'000	A\$'000
Administration expenses	580	508	919	662
Wages and management fees	898	366	1,278	1,120
Consulting fees	169	173	312	452
Net foreign currency (gains)/losses	(6)	-	(7)	-
	1,641	1,047	2,502	2,235

Note 7. Deferred exploration and evaluation expenditure

	Consolidated	
	Jun 30, 2022	Dec 31, 2021
	A\$'000	A\$'000
<i>Non-current assets</i>		
Deferred exploration and evaluation expenditure	59,638	59,525
Less: Accumulated Impairment	(8,834)	(9,197)
	50,804	50,328

The accumulated impairment relates to deferred exploration expenditure assets: Yellow Mountain \$3,442,000 and Red Mountain \$5,207,000

Notes to the to the Condensed Interim Consolidated Financial Statements

Reconciliations

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

Consolidated	Exploration and evaluation A\$'000
Balance at January 1, 2022	50,328
Additions ⁽ⁱ⁾	2,301
Exchange differences	(1,825)
Balance at June 30, 2022	<u>50,804</u>
⁽ⁱ⁾ Additions made up of:	A\$'000
Additions funded by Xanadu:	
Cashflow payments for exploration and evaluation expenditure at Kharmagtai	1,659
Cashflow payments for exploration and evaluation expenditure at Red Mountain	359
Cashflow payments for exploration and evaluation expenditure (see Statement of cash flows investing activities)	<u>2,018</u>
Other additions:	
XAM shares issued to consultants for exploration and evaluation at Kharmagtai	<u>283</u>
Total additions to exploration and evaluation asset	<u><u>2,301</u></u>

The Company held interests in two tenements during the period to June 30, 2022:

- (a) the Kharmagtai copper-gold project;
- (b) the Red Mountain copper-gold project; and

Kharmagtai Copper-Gold Project

The Kharmagtai copper-gold Project is located within the South Gobi porphyry copper province of Mongolia, approximately 440 kilometres (km) south-southwest of the capital, Ulaanbaatar and 120km north of Turquoise Hill's Oyu Tolgoi copper-gold mine. Access from Ulaanbaatar to Kharmagtai is via sealed highway for 450km and then along a well-used gravel road for 70km. The project holds a 30-year mining license and Xanadu owns 76.5% with two minority partners.

Activities undertaken during the first half of 2022 included completion and publication of a Scoping Study and National Instrument 43-101 Technical Reports for the December Mineral Resource Upgrade and a Preliminary Economic Assessment (PEA). In parallel with this work, the Executive and Board were transitioned to align skills to the development of Kharmagtai, and key terms of a strategic partnership with announced with Zijin Mining Group Co., Ltd (Zijin). Xanadu did not complete any drilling at Kharmagtai during the first half of 2022.

Upon completion of the strategic partnership with Zijin Mining in the second half of 2022, a 50-50 JV will be formed that controls 76.5% of Kharmagtai, such that Zijin and Xanadu each have 38.25% effective ownership.

Red Mountain Copper-Gold Project

Xanadu's Red Mountain porphyry copper-gold Project is located within the Dornogovi Province of southern Mongolia, approximately 420km southeast of Ulaanbaatar, and 70km west from the provincial centre of Sainshand. The project holds a 30-year mining licence and is owned 100% by Xanadu.

A review of prior drilling was undertaken during the first half of 2022 to develop an exploration plan for the second half that follows up the successful 2021 drilling program, targeting high-grade, shallow discovery. This exploration plan will be implemented in the third quarter of 2022, following receipt of Phase 2 funding from the Zijin strategic partnership. Xanadu did not complete any drilling at Red Mountain during the first half of 2022.

Notes to the to the Condensed Interim Consolidated Financial Statements

Note 8. Issued capital

	Consolidated			
	Jun 30, 2022 Shares	Dec 31, 2021 Shares	Jun 30, 2022 A\$'000	Dec 31, 2021 A\$'000
Ordinary shares - fully paid (net of transaction costs)	1,412,260,215	1,259,037,750	151,671	145,659

Movements in ordinary share capital

Details	Date	Shares	A\$'000
Balance	January 1, 2022	1,259,037,750	145,659
Fair value of options vested and exercised	January 7, 2022	4,560,000	169
Shares issued as payment for E&E consulting services (note 7)	March 1, 2022	1,473,606	43
Shares issued as payment for E&E consulting services (note 7)	April 20, 2022	8,188,859	240
Shares issued - phase 1 placement to Zijin	April 27, 2022	139,000,000	5,560
		<hr/>	<hr/>
Balance	June 30, 2022	<u>1,412,260,215</u>	<u>151,671</u>

Movements in options

Details	Date	Options
Balance	January 1, 2022	51,510,000
Unlisted options exercised	January 7, 2022	<u>(4,560,000)</u>
		<hr/>
Balance	June 30, 2022	<u>46,950,000</u>

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 fully paid 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.

Notes to the to the Condensed Interim Consolidated Financial Statements

Capital risk management

Xanadu's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the Statement of Financial Position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Management effectively manages Xanadu's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues.

Note 9. Dividends

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

Note 10. Contingent liabilities

There are no material contingent liabilities relating to the Company.

Note 11. Events after the reporting period

No matter or circumstance has arisen since June 30, 2022 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 12. Earnings per share

	Consolidated			
	3 months ended Jun 30, 2022 A\$'000	3 months ended Jun 30, 2021 A\$'000	6 months ended Jun 30, 2022 A\$'000	6 months ended Jun 30, 2021 A\$'000
Loss after income tax	(1,817)	(918)	(2,831)	(2,277)
Non-controlling interest	(100)	276	182	(51)
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(1,917)	(642)	(2,649)	(2,328)
	Number	Number	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,370,836,168	821,254,980	1,298,810,623	1,145,227,143
	Cents	Cents	Cents	Cents
Basic earnings per share	(0.14)	(0.08)	(0.20)	(0.20)



XANADU MINES

Xanadu Mines Ltd **Second Quarter 2022 Report** **Management's Discussion & Analysis**

June 30, 2022

(stated in Australian dollars, unless otherwise stated)

Management's Discussion and Analysis

This *Management's Discussion and Analysis (MD&A)* dated August 12, 2022, relates to the financial condition and results of the consolidated operations of Xanadu Mines Ltd (**Xanadu**, **Xanadu Mines**, or the **Company**) for the six months ended June 30, 2022. This is Management's assessment of the operations and the financial results together with future prospects of Xanadu Mines and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2021, and 2020 and notes thereto. The accompanying Condensed Interim Consolidated Financial Statements for the six months ended June 30, 2022, have been prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting', and all dollar figures in this MD&A are expressed in Australian dollars (\$) unless stated otherwise.

Management is responsible for the preparation of the financial statements and this MD&A. 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 the Canadian *System for Electronic Document Analysis and Retrieval (SEDAR)* at www.sedar.com, on the Australian Securities Exchange (**ASX**) Announcements platform under the Company's code 'XAM' and on the Company's website at www.xanadumines.com/asx-announcements/

COMPETENT PERSON STATEMENT

The information in this MD&A that relates to Mineral Resources is based on information compiled by Mr Robert Spiers, who is responsible for the Mineral Resource estimate. Mr Spiers is a full time Principal Geologist employed by Spiers Geological Consultants (**SGC**) and is a Member of the Australian Institute of Geoscientists. He 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 Canadian Institute of Mining Metallurgy and Petroleum (**CIM**) Guidelines and National Instrument (**NI**) 43-101 and as a Competent Person under the *2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, 2012)*. Mr Spiers consents to the inclusion in this MD&A 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 Australasian 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 JORC Code, 2012 and the NI 43-101. Dr Stewart consents to the inclusion in this MD&A of the matters based on this information in the form and context in which it appears.

BUSINESS OVERVIEW

Xanadu is an Australian incorporated public company with its shares listed on the ASX and the Toronto Stock Exchange (**TSX**) under the code XAM. The principal activity of the Company (and its subsidiaries) is copper-gold exploration in Mongolia. The Company holds interests in two tenements: the Kharmagtai copper-gold project and the Red Mountain copper-gold project.

HIGHLIGHTS DURING THE JUNE 2022 QUARTER

During the quarter ended June 30, 2022 (**June Quarter**), Xanadu Mines focused on progressing the Company's flagship Kharmagtai Copper-Gold Project (**Kharmagtai**). This included the publication of a Scoping Study and a National Instrument 43-101 Preliminary Economic Assessment (**PEA**) Technical Report and establishing a strategic partnership with Zijin Mining Group Co., Ltd (**Zijin**). Xanadu also released its second Sustainability Report during the June Quarter, demonstrating its continued commitment to sustainable exploration and mining.

The Kharmagtai Scoping Study and PEA demonstrate a long-life, low-cost project that can be developed in the near term. Strong economics are driven by scale and gold by-product credits, low risk, proven technologies and favourable environmental, social and governance (**ESG**) parameters. The Scoping Study used a conservative approach and has identified significant upside optimisation opportunities which are now being evaluated.

Management's Discussion and Analysis

The Strategic Partnership with Zijin, a global top-10 copper producer and developer, validates the quality of Kharmagtai and accelerates the project towards construction. Subject to required approvals, this will fund Kharmagtai through Pre-Feasibility Study (PFS) to a final decision to construct, and it will also fund continued exploration at both Kharmagtai and Xanadu's Red Mountain Project.

KHARMAGTAI DISTRICT OPERATIONS

- Scoping Study completed, with 20% internal rate of return (IRR) (range 16-25%), US\$630 million net present value (NPV) @ 8% (range US\$ 405-850 million), first quartile all-in sustaining cost over initial 5 years, and 4-year payback (range 4-7 years) over 30-year mine life.¹
- Published a National Instrument 43-101 PEA Technical Report.²
- Completed exploration planning subject to funding under Zijin Kharmagtai Joint Venture (JV).
- Developed Study Execution Plan for PFS under the Zijin Strategic Partnership.

Corporate

- Announced strategic partnership with Zijin providing funding and technical expertise to progress the Kharmagtai through PFS to a decision to construct.³
- Progressed negotiations to finalise JV Shareholders Agreement with Zijin and submitted regulatory approval requests.
- Subject to approvals, the Zijin partnership includes a staged investment to inject approximately A\$11 million for a 19.99% stake in Xanadu and a further US\$35 million into the Kharmagtai project for a 50% stake in Khuiten Metals Pte Ltd., equivalent to a 38.25% stake in Kharmagtai.³
- Published 2021 Sustainability Report outlining the Company's commitment to sustainable exploration and mining.⁴

Executive Chairman & Managing Director, Colin Moorhead, said:

"Early in the June Quarter, Xanadu announced transformational changes with the Scoping Study and PEA at Kharmagtai and our strategic partnership with Zijin. This laid out the potential of Kharmagtai in a clear and quantitative way, and the investment by a global copper mining major validated Kharmagtai as a future, large scale, Mongolian copper and gold producer. As I've said before, this partnership is a very good outcome for our shareholders, for Mongolia and for a world with a looming copper supply gap.

Since those announcements, we have worked with Zijin to finalise the detailed JV agreement and approvals, so we can accelerate Kharmagtai toward production.

In parallel with the PFS, we will execute a reinvigorated exploration program. Kharmagtai remains highly prospective with significant potential for both new discovery and high-grade extensions at depth. At Red Mountain, we will follow up the successful 2021 drill program targeting high-grade, shallow discovery.

Finally, I'm proud to say that Xanadu published its second Sustainability Report during the June Quarter, underlining our commitment to our stakeholders, the environment, and effective governance. We maintain our goal to be a leader in sustainable exploration, and we are setting our ESG groundwork for the development of Kharmagtai."

Xanadu Mines is pleased to provide an update on exploration and associated activities undertaken during the June Quarter.

¹ ASX/TSX Announcement 6 April 2022 – Scoping Study – Kharmagtai Copper-Gold Project

² ASX/TSX Announcement 20 June 2022 – NI 43-101 Preliminary Economic Assessment Technical Report.

³ ASX/TSX Announcement 19 April 2022 – Strategic Partnership with Zijin Mining and Placement

⁴ ASX/TSX Announcement 9 June 2022 – Sustainability Report 2021

Management's Discussion and Analysis

REVIEW OF OPERATIONS

Kharmagtai Copper-Gold Project

KHARMAGTAI COPPER-GOLD PROJECT, SCOPING STUDY AND PEA

During the June Quarter, the Company released its Scoping Study⁵ and PEA⁶ for its flagship Kharmagtai Copper-Gold Project, based on an updated 2021 Mineral Resource Estimate⁷.

The summary of findings is presented below in 100% terms (Xanadu share 76.5%):

Large Scale, Low-Cost Copper and Gold Production, in an Established Mining Jurisdiction

- Total ore processed of 760Mt, producing 1.5Mt of copper and 3.3Moz of gold
- Average annual production of 50kt copper and 110koz gold over the Life of Mine (LOM)
- Average annual production of 37kt copper and 110koz of gold for first five years
- First quartile all-in sustaining (C1) cost of US\$1.02/lb Cu for the first five years

Strong Investment Returns

- Estimated initial capital expenditure of approximately US\$690 million for pit development, process plant and infrastructure
- IRR of 20%, after tax (range 16% to 25%)
- Payback of 4 years (range 4 to 7 years)
- 30-year mine life at an initial mill throughput of 15Mtpa, expanding to 30Mtpa
- NPV of US\$630 million (range US\$405 million to US\$850 million)

Low Technical Complexity

- Open pit mine, with low 0.9:1 strip ratio for first 5 years and 1.1:1 over LOM
- Limited (25-30Mt) pre-strip of oxidised material required
- Conventional gravity and flotation process plant
- Flat terrain enabling low risk tailings solution
- Grid power and rail links already in place near the tenement

Globally Competitive Time to Production

- Relatively low ESG risk due to sparse population and flat terrain permitting and approvals process established and achievable
- Established road, rail, power and water infrastructure
- Mining is an important part of the Mongolian economy, with well-educated population and access to required skills

Significant Upside Opportunities

- Processing oxide ore types using glycine leach technology has potential to reduce stripping and generate additional cash
- Application of new technologies such as in pit crush and convey, beneficiation, ore sorting, coarse particle separation and flotation, and electric mining equipment to increase size of pits and extend mine life
- Exploration Upside with mineralisation open in all directions, potential to grow the resource and extend higher-grade zones
- Potential for future mass underground mining to access deeper higher-grade zones

The Scoping Study underpins Xanadu Board's decision to gate the project to PFS. Parallel studies are underway to assess further upside at depth, considering high grade found in deeper drill holes outside the current Mineral Resource Estimate, and the potential for new discoveries across the district. Similar to other large porphyry copper districts, Xanadu expects there to be significant opportunity for future growth and value creation over the mine life.

⁵ ASX/TSX Announcement 6 April 2022 – Scoping Study – Kharmagtai Copper-Gold Project

⁶ ASX/TSX Announcement 20 June 2022 – NI 43-101 Preliminary Economic Assessment Technical Report.

⁷ ASX/TSX Announcement 28 February 2022 – Technical Report to Support Kharmagtai Mineral Resource Estimate

Management's Discussion and Analysis

The next major project milestone will be the Kharmagtai PFS, planned to commence in Q4 2022 and expected to complete in Q1 of 2024, subject to approvals for funding.

The full Scoping Study report is available on the Xanadu Mines website at: <https://www.xanadumines.com/asx-announcements/>

The NI 43-101 Preliminary Economic Assessment Technical Report, dated 20 June 2022, may be found under the Company's profile on SEDAR at <https://www.sedar.com> and on the Xanadu Mines website: <https://www.xanadumines.com/technical-reports/>

Red Mountain Copper-Gold Project

No activity was undertaken in the June Quarter.

SEPTEMBER QUARTER PLANNED EXPLORATION ACTIVITIES

Key activities to be undertaken during the quarter ending 30 September 2022 (**September Quarter**) include:

- Completing detailed JV negotiations and finalising the Company's strategic partnership with Zijin Mining for approval by regulators in Australia and China;
- Continued multi-spectral core scanning to enhance the understanding of the geometallurgical framework at Kharmagtai, maximise project value and minimize risk;
- Continued metallurgical sample selection and testwork for Kharmagtai PFS; and
- Potential commencement of limited, high impact exploration at Kharmagtai and Red Mountain until full funding is received from Zijin, at which point the full exploration program can commence.

RESULTS OF OPERATIONS

SELECTED QUARTERLY INFORMATION

	Quarter Ended				
	30 Jun 2022	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Exploration Expenditure					
Kharmagtai	1,140	802	2,028	2,756	2,297
Red Mountain	117	242	435	1,090	480
Exploration expenditures capitalised *	1,257	1,044	2,178	3,092	2,457
Impairment of deferred exploration expenditure	-	-	4,637	-	-
Corporate general and administration	1,641	861	854	929	606
Share-based payments	147	145	815	-	-
Depreciation and amortisation	17	16	17	11	13
Loss after income tax attributable to owners of XAM	1,917	732	6,320	1,098	666
Basic loss per share	0.14	0.06	0.50	0.09	0.06
Diluted loss per share	0.14	0.06	0.50	0.09	0.06
Kharmagtai drill metres [^]	-	-	5,716	11,146	8,670
Red Mountain drill metres	-	-	-	2,948	-

* Red Mountain exploration funded by Japan Oil, Gas and Metals National Corporation (**JOGMEC**) under the Joint Exploration Agreement in 2021 was not capitalised

[^] Reflects invoiced metres paid during the quarter under drilling contract. Physical metres drilled during the quarter may vary due to invoice timing

Management's Discussion and Analysis

CORPORATE

STRATEGIC PARTNERSHIP WITH ZIJIN MINING GROUP

On April 19, 2022, the Company announced it had agreed a strategic partnership (**Agreement**) with Zijin to progress the Company's flagship Kharmagtai Copper-Gold Project through its next phase of project evaluation and decision on future development.⁸

Under the Agreement, Zijin will invest at both the Xanadu corporate level and the Kharmagtai project level through a series of transactions commencing with the subscription of 139 million fully paid ordinary shares in Xanadu (**New Shares**) to provide Zijin with a 9.8% shareholding in the Company (**Phase 1 Placement**). The Phase 1 Placement was conducted at an issue price of A\$0.04 per share, representing approximately 38% premium to Xanadu's last traded price of A\$0.029 prior to the Announcement, and raised A\$5.56 million. The 139,000,000 shares were issued on April 27, 2022.

Two subsequent phases are then proposed (subject to formal documentation) including a second placement of ordinary shares at A\$0.04 per share to increase Zijin's total shareholding in the Company up to 19.99% (**Phase 2 Placement**) and the creation of a 50/50 Joint Venture in Khuiten Metals Pte. Ltd., the entity currently 100% owned by Xanadu that holds a 76.5% effective interest in Kharmagtai (Phase 3 JV)⁹, for a cash payment of US\$35 million.¹⁰

The proceeds of the Phase 1 Placement, together with the Company's existing cash resources, will be applied towards working capital during the exclusive negotiation period prior to commencement of the PFS at the Kharmagtai copper-gold project. Funds from the Phase 2 Placement, along with remaining funds from Phase 1, will be used to fund Red Mountain exploration and Xanadu corporate operating costs.

Proceeds from the Phase 3 JV will be used to fund the Kharmagtai PFS and continued discovery exploration at Kharmagtai.

SUSTAINABILITY

During the June Quarter, Xanadu issued its second Sustainability Report for 2021, demonstrating our commitment to ESG and our goal to be a leader in sustainable exploration.¹¹ This sets the stage for further evolution in Xanadu's sustainability framework, as we evolve from a pure explorer into the development of Kharmagtai.

ASX/TSX ANNOUNCEMENTS

This MD&A contains information reported in accordance with the JORC Code, 2012 in the following announcements released during the June Quarter:

ASX/TSX Announcement 6 Apr 2022 – Scoping Study – Kharmagtai Copper-Gold Project

ASX/TSX Announcement 19 Apr 2022 – Strategic partnership with Zijin Mining Group

ASX/TSX Announcement 9 Jun 2022 – Sustainability Report 2021

ASX/TSX Announcement 20 Jun 2022 – NI 43-101 Preliminary Economic Assessment Technical Report.

FINANCE

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2022, the Company had cash and cash equivalents on hand of \$4.1 million (December 31, 2021: \$3.3 million).

The primary use of funds in 2022, after completion of Zijin Phase 2 Placement and Phase 3 JV funding, is to progress the PFS at Kharmagtai, including resource definition drilling, plus continued exploration activities at the Company's Kharmagtai and Red Mountain copper-gold projects. There remains a risk that the second and third phases of the Zijin Mining transaction will not be

⁸ ASX/TSX Announcement 19 April 2022 - Strategic partnership with Zijin Mining Group

⁹ The Phase 1 Placement Agreement provides that the parties will negotiate in good faith formal documentation for the Phase 2 Placement and Phase 3 JV. These further transactions are subject to regulatory and shareholder approvals and the parties agreeing formal documentation.

¹⁰ Assuming AUD/YSD exchange rate of \$0.74

¹¹ ASX/TSX Announcement 9 June 2022 – Sustainability Report 2021

Management's Discussion and Analysis

completed. Capital management is a priority of Management, and the Company retains the flexibility to reduce its cost base while preserving its projects if required.

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

On June 30, 2022, the Company had an unlimited number of ordinary shares authorised, with 1,412,260,215 fully paid shares and 46,950,000 options over ordinary shares on issue (Dec 31, 2021: 1,259,037,750 shares and 51,510,000 options).

Off balance sheet arrangements

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

Operating segment

Xanadu operates in the minerals exploration sector. The Company's principal 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 to the condensed interim consolidated financial statements. 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 Company are located in Mongolia.

Contractual commitments

The following summarises the Company's contractual obligations at June 30, 2022 (\$'000):

- Trade payables \$78 due in 30 days
- Ulaanbaatar office rent \$40 to the end of the calendar year
- Vehicle leases \$68 due over 12 months

Critical accounting estimates

The preparation of the condensed interim consolidated financial statements in conformity with International Financial Reporting Standards (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 condensed interim consolidated financial statements and the reported amounts of income and expenses for the reporting period. Refer to the Company's audited annual financial statements for the years ended December 31, 2021, and December 31, 2020, 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.

Management's Discussion and Analysis

- **Foreign currency risk:** The Company is exposed to foreign exchange fluctuations with respect to Australian Dollars (**A\$**), United States Dollars (**US\$**), Mongolian Tughrik (**MNT**), and Canadian Dollars (**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:** 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 does not hold equity in listed entities and therefore considers this risk immaterial.

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 \$4.1 million as at June 30, 2022 (December 31, 2021: \$3.3 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 and its planned joint venture with Zijin. 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.

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 is highlighted below and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2021.

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 nationalisation of property and changes in government

Management's Discussion and Analysis

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, nationalisation 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 nationalisation, 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 favourable 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 mineralisation, 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 mineralisation and the ability to extract and process the mineralisation 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 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

Management's Discussion and Analysis

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:

	Six Months Ended June 30, 2022 \$'000	Six Months Ended June 30, 2021 \$'000
Salaries and fees	847	806
STI Bonus	476	469
Superannuation	27	28
Share based payments	292	-
	1,594	1,303

The Company had the following Unvested Options on issue as at June 30, 2022, related to the Company's Employee Share and Option Plan.¹² These were approved by Shareholders at a December 2020 Extraordinary General Meeting¹³, and new Independent Non-Executive Director Tony Pearson was added to the plan with Shareholder approval at the June 2021 Annual General Meeting¹⁴. The vesting of the options for Executive Directors and Key Management Personnel is subject to the Company achieving both share price targets and technical & development hurdles.¹⁵

Key Management Personnel	Unvested Options June 30, 2022
Colin Moorhead	2,280,000
Michele Muscillo	1,140,000
Tony Pearson	2,280,000
Andrew Stewart	12,750,000
Ganbayar Lkhagvasuren	8,500,000
Munkhsaikhan Dambiinyam	8,500,000
Spencer Cole	8,500,000

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are disclosed in Note 26 of the Company's audited annual financial statements for the period ended December 31, 2021. Additional transactions during the June Quarter are described below.

Payments made to related parties and their associates was \$908,944 in the six months ended June 30, 2022. The amounts relate to salary, superannuation and bonus payments to Directors; legal fees paid to HoppgoodGanim Lawyers (a company associated with Xanadu Non-Executive Director Michele Muscillo) for legal services; rent paid to Xanadu Executive Director Ganbayar Lkhagvasuren in

¹² ASX/TSX Announcements July 28, 2021 - Change of Director's Interest Notice

¹³ ASX/TSX Announcements December 23, 2020 - Results of Extraordinary General Meeting

¹⁴ ASX/TSX Announcements June 17, 2021 - Results of Annual General Meeting

¹⁵ ASX/TSX Announcement November 20, 2020 - Notice of Extraordinary General Meeting & Related Documents

Management's Discussion and Analysis

relation to Xanadu's Ulaanbaatar office; rent and consulting fees paid to Colin Moorhead & Associates (a company associated with Xanadu Executive Chairman and Managing Director Colin Moorhead) in relation to Xanadu's Melbourne office and geology consultants; and rent paid to Bastion Minerals Limited (a company in which Xanadu VP Exploration Dr Andrew Stewart is a Non-Executive Director) in relation to Xanadu's Sydney office.

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

MINERAL RESOURCES AND ORE RESERVES REPORTING REQUIREMENTS

The JORC Code, 2012 sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The Information contained in this MD&A has been presented in accordance with the JORC Code, 2012.

MINERAL RESOURCES AND ORE RESERVES

The previously reported resource estimates for Kharmagtai have not changed. For information regarding these resources, please see ASX/TSX announcement dated February 28, 2022. Xanadu is not aware of any new information or data that materially affects the information included in the ASX & TSX Announcements referenced in this MD&A, and all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

MINING ACTIVITIES

There were no mine production or development activities during the six months ended June 30, 2022.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A, including information as to the future financial or operating performance of Xanadu and its projects may also include statements which are 'forward-looking statements' 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.

Xanadu disclaims any intent or obligation to update publicly or release any revisions to any forward-looking statements, whether as a result of new information, future events, circumstances or results or otherwise after the date of this MD&A or to reflect the occurrence of unanticipated events, other than required by the Australian *Corporations Act 2001* (Cth) and the Listing Rules of the Australian Securities Exchange (**ASX**) and Toronto Stock Exchange (**TSX**). The words 'believe', 'expect', 'anticipate', 'indicate', 'contemplate', 'target', 'plan', 'intends', 'continue', 'budget', 'estimate', 'may', 'will', 'schedule' and similar expressions identify forward-looking statements.

All 'forward-looking statements' made in this MD&A are qualified by the foregoing cautionary statements. Investors are cautioned that 'forward-looking statements' are not guarantee of future performance and accordingly investors are cautioned not to put undue reliance on 'forward-looking statements' due to the inherent uncertainty therein.

For further information please visit the Xanadu Mines' web site www.xanadumines.com.