

First Quarter 2023 Financial Statements and MD&A

16 May 2023

ASX Markets Announcement Office
Exchange Centre
20 Bridge Street
Sydney NSW 2000

First Quarter 2023 Financial Statements and Management's Discussion & Analysis

Please find attached for release to the market, Xanadu Mining Ltd's *First Quarter 2023 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

First Quarter 2023 Report

Condensed Interim Consolidated Financial Statements

**As at and for the three months ended
March 31, 2023**

Unaudited

(stated in Australian dollars, unless otherwise indicated)

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Unaudited Condensed Interim Consolidated Financial Statements

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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 ending Mar 31, 2023 A\$'000	3 months ending Mar 31, 2022 A\$'000
Revenue			
Other income	5	1	17
Expenses			
Other expenses	6	(1,251)	(861)
Depreciation and amortisation expense		(17)	(16)
Finance costs		(13)	(9)
Loss before income tax expense		(1,280)	(869)
Income tax expense		-	-
Loss after income tax expense for the period		(1,280)	(869)
Other comprehensive income profit/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(1,214)	(2,913)
Other comprehensive income profit/(loss) for the period, net of tax		(1,214)	(2,913)
Total comprehensive income profit/(loss) for the period		(2,494)	(3,782)
Profit/(loss) for the period is attributable to:			
Non-controlling interest		-	(282)
Owners of Xanadu Mines Ltd		(1,280)	(587)
		(1,280)	(869)
Total comprehensive income profit/(loss) for the period is attributable to:			
Non-controlling interest		-	(432)
Owners of Xanadu Mines Ltd		(2,494)	(3,350)
		(2,494)	(3,782)
		Cents	Cents
Basic earnings per share	13	(0.09)	(0.05)

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - stated in thousands of Australian dollars)

		Consolidated	
	Note	Mar 31, 2023 A\$'000	Dec 31, 2022 A\$'000
ASSETS			
Current Assets			
Cash and cash equivalents		6,177	61
Other receivables		-	52
		<u>6,177</u>	<u>113</u>
Assets of disposal groups classified as held for sale	7	-	42,803
Total current assets		<u>6,177</u>	<u>42,916</u>
Non-current Assets			
Property, plant and equipment		81	84
Right-of-use-assets		385	401
Deferred exploration and evaluation expenditure	8	6,713	6,975
Investment in Joint Venture	7	59,887	-
Total non-current assets		<u>67,066</u>	<u>7,460</u>
Total Assets		<u>73,243</u>	<u>50,376</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		62	95
Employee benefits		18	17
Lease liabilities		70	67
		<u>150</u>	<u>179</u>
Liabilities directly associated with assets of disposal groups classified as held for sale:	7	-	32
Total current liabilities		<u>150</u>	<u>211</u>
Non-current Liabilities			
Lease liabilities		230	256
Total non-current liabilities		<u>230</u>	<u>256</u>
Total Liabilities		<u>380</u>	<u>467</u>
Net Assets		<u>72,863</u>	<u>49,909</u>
EQUITY			
Issued capital	9	159,898	151,671
Reserves		1,947	(8,431)
Accumulated losses		(88,982)	(96,570)
Equity attributable to the owners of Xanadu Mines Ltd		<u>72,863</u>	<u>46,670</u>
Non-controlling interest		-	3,239
Total Equity		<u>72,863</u>	<u>49,909</u>

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - stated in thousands of Australian dollars)

Consolidated	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, 2022	145,659	(13,751)	10,708	(537)	(92,005)	4,064	54,138
Loss after income tax expense for the period	-	-	-	-	(587)	(282)	(869)
Other comprehensive income loss for the period, net of tax	-	(2,763)	-	-	-	(150)	(2,913)
Total comprehensive income loss for the period	-	(2,763)	-	-	(587)	(432)	(3,782)
<i>Transactions with owners in their capacity as owners:</i>							
Shares issued (note 7)	43	-	-	-	-	-	43
Transaction costs	-	-	-	-	-	-	-
Share-based payments expensed	-	-	-	-	-	-	-
Options exercised (note 7)	169	-	(169)	-	-	-	-
Balance at March 31, 2022	145,871	(16,514)	10,539	(537)	(92,592)	3,632	50,399

	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, 2023	151,671	(18,830)	10,936	(537)	(96,570)	3,239	49,909
Loss after income tax expense for the period	-	-	-	-	(1,280)	-	(1,280)
Other comprehensive income loss for the period, net of tax	-	(1,214)	-	-	-	-	(1,214)
Total comprehensive income loss for the period	-	(1,214)	-	-	(1,280)	-	(2,494)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	-	-	-	-	-	-
Shares issued during the year	8,227	-	-	-	-	-	8,227
Transaction costs	-	-	-	-	-	-	-
Share-based payments expensed	-	-	-	-	-	-	-
Options exercised	-	-	43	-	-	-	43
Derecognition of Equity balances following loss of control event	-	11,550	-	-	8,868	(3,239)	17,179
Balance at March 31, 2023	159,898	(8,494)	10,979	(537)	(88,982)	-	72,864

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - stated in thousands of Australian dollars)

		3 months ending Mar 31, 2023 A\$'000	3 months ending Mar 31, 2022 A\$'000
	Note		
Cash flows from operating activities			
Payments to suppliers and employees		(1,489)	(818)
Interest and other finance costs paid		(12)	(9)
Net cash used in operating activities		(1,501)	(827)
Cash flows from investing activities			
Proceeds from disposal of plant and equipment			17
Payment for exploration and evaluation expenditure	8	(97)	(1,044)
Cash flows from loans to other entities		(144)	-
Payments to acquire investments		(419)	-
Net cash used in investing activities		(660)	(1,027)
Cash flows from financing activities			
Proceeds from issue of shares		8,220	-
Repayment of lease liabilities		-	(27)
Net cash used in financing activities		8,220	(27)
Net increase/(decrease) in cash and cash equivalents		6,059	(1,881)
Cash and cash equivalents at the beginning of the financial period		118	3,321
Effects of exchange rate changes on cash and cash equivalents		-	(185)
Cash and cash equivalents at the end of the financial period		6,177	1,255

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 March 31, 2023. 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 March 31, 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, 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 *Australian Corporations Act 2001* (Cth) ('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 \$1,280,000 (March 31 2022: \$869,000) and net cash outflows from operations of \$1,501,000 (March 31, 2022: \$827,000) for the period ended March 31, 2023. At period end, cash and cash equivalents were \$6,177,000.

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.

Subsequent to year end, on 10 March 2023, Xanadu completed Phase 2 and Phase 3 of its strategic partnership with Zijin. Phase 2 was an equity placement in Xanadu Mines by Zijin, which resulted in the Group receiving \$7,164,645. Phase 3 is the sale of a 50% interest in the Kharmagtai Project resulting in the receipt of US\$35M for the 50% stake disposed.

In the Director's opinion, the going concern basis of preparation remains appropriate given the \$7,164,645 raised in March 2023 and the ability to partially recharge applicable Group costs to the Kharmagtai project. However should these funds be fully utilised, the Group will need to implement further potential actions to fund ongoing activity which includes, but is not limited to: ongoing corporate operating and administrative costs (that are not rechargeable to Kharmagtai), exploration at the Red Mountain project and new project acquisition. The Directors have a reasonable basis to believe this will be achievable through the following actions:

- raising equity funds in capital markets, noting that the Group has a history of successful equity raisings;
- entering into farm-out, sell down or joint venture agreements at Red Mountain in order to continue to advance the project through further exploration work including a pre-feasibility study based on strong copper prices and current market sentiment; and
- deferral of discretionary corporate operating and administrative costs and exploration expenditures

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 principal activity of the Company is exploration for copper and gold. Xanadu classifies each of its exploration tenements as an operating segment. For each 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 ending Mar 31, 2023 A\$'000	3 months ending Mar 31, 2022 A\$'000
Gain on disposal of fixed assets	-	17
Interest income	1	-
Other expenses	1	17

Note 6. Other expenses

	Consolidated	
	3 months ending Mar 31, 2023 A\$'000	3 months ending Mar 31, 2022 A\$'000
Administration expenses	675	339
Wages and management fees	432	380
Consulting fees	145	143
Net foreign currency (gains) / losses	(1)	(1)
Other expenses	1,251	861

Notes to the to the Condensed Interim Consolidated Financial Statements

Note 7. Assets Held for Sale and Investment in Joint Venture

	Consolidated	
	Mar 31, 2023 A\$'000	Dec 31, 2022 A\$'000
<i>Current assets</i>		
Net Assets classified as held for sale	-	(42,266)
	-	(42,266)
<i>Non-Current assets</i>		
Investment in Joint Venture	59,887	-
	59,887	-
<i>Current Liabilities</i>		
Liabilities directly associated with assets of disposal groups classified as held for sale:	-	(32)
	-	(32)

As part of Xanadu's strategic partnership with the Zijin Group to create a 50-50 Joint Venture (JV) between the two parties, the Kharmagtai operating entity had been reclassified as an asset held for sale as at 31 December 2022. This was due to the fact that the assets were to be jointly controlled upon completion of the transaction upon creation of the Joint Venture. As a result of the execution of the agreement with Zijin in December 2022, the transaction became highly probable and all assets and liabilities within the Kharmagtai entity were reclassified.

All regulatory approvals were received and on 10 March 2023, the transaction was completed. This resulted in the Xanadu group no longer recognizing the assets of the Kharmagtai entity as at 31 March 2023 and instead recognized the new Investment in the Joint Venture under equity accounting principles. The investment in the Joint Venture is valued at the cost of the equity subscribed in January 2023 for a 50% share in Khuiten Metals Pte Ltd (the incorporated JV entity, previously 100% wholly owned subsidiary).

Notes to the to the Condensed Interim Consolidated Financial Statements

Note 8. Deferred exploration and evaluation expenditure

	Consolidated	
	Mar 31, 2023 A\$'000	Dec 31, 2022 A\$'000
<i>Non-current assets</i>		
Deferred exploration and evaluation expenditure – Red Mountain	6,713	6,975
Deferred exploration and evaluation expenditure - Kharmagtai	-	42,266
Net Assets classified as held for sale (see note 7)	-	(42,266)
	6,713	6,975

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, 2023	6,975
Additions ⁽ⁱ⁾	97
Exchange differences	(359)
Balance at March 31, 2023	6,713
⁽ⁱ⁾ Additions made up of:	A\$'000
Additions funded by Xanadu:	
Cashflow payments for exploration and evaluation expenditure at Red Mountain	97
Cashflow payments for exploration and evaluation expenditure ^(see Statement of cash flows investing activities)	97
Total additions to exploration and evaluation asset	97

The Company held interest in two tenements during the period to March 31, 2023:

- (a) the Red Mountain copper-gold project; and
- (b) the Kharmagtai copper-gold project, which is held under a 50-50 Joint Venture with Zijin

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.

During the first quarter of 2023, Xanadu completed limited activity at Red Mountain including review of target generation program results in preparation for a future drilling program.

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 38.25% with equal partner Zijin at 38.25% and two minority partners.

Notes to the to the Condensed Interim Consolidated Financial Statements

Exploration activities during the March Quarter at Kharmagtai commenced in late March following completion of the JV transaction with Zijin. This included a mixture of resource and sterilisation drilling to support the Kharmagtai Pre-Feasibility Study, which will bring the Kharmagtai Resource pit shells to Indicated classification in 2023 and contribute to a Maiden Ore Reserve anticipated in 2024. No exploration drilling was undertaken at Kharmagtai during the March Quarter, however exploration drilling has commenced in parallel with resource drilling in the June Quarter.

Note 9. Issued capital

	Consolidated			
	Mar 31, 2023 Shares	Dec 31, 2022 Shares	Mar 31, 2023 A\$'000	Dec 31, 2022 A\$'000
Ordinary shares - fully paid (net of transaction costs)	1,633,264,191	1,412,260,215	159,898	151,671

Movements in ordinary share capital

Details	Date	Shares	A\$'000
Balance	January 1, 2023	1,412,260,215	151,671
Equity placement	January 24, 2023	41,887,844	1,131
Zijin Shareholding Placement (Phase 2)	March 10, 2023	179,116,132	7,165
Capital Raising Costs		-	(69)
Balance	March 31, 2023	<u>1,633,264,191</u>	<u>159,898</u>

Movements in options

Details	Date	Options
Balance	January 1, 2023	<u>46,950,000</u>
Balance	March 31, 2023	<u>121,860,000</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 10. Dividends

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

Note 11. Contingent liabilities

There are no material contingent liabilities relating to the Company.

Note 12. Events after the reporting period

No matter or circumstance has arisen since March 31, 2023 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 13. Earnings per share

	Consolidated	
	3 months ending Mar 31, 2023 A\$'000	3 months ending Mar 31, 2022 A\$'000
Loss after income tax	(1,280)	(869)
Non-controlling interest	-	282
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(1,280)	(587)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share income	1,485,586,468	1,263,801,325
	Cents	Cents
Basic earnings per share	(0.09)	(0.05)



XANADU MINES

Xanadu Mines Ltd
First Quarter 2023 Report
Management's Discussion & Analysis

March 31, 2023

(stated in Australian dollars, unless otherwise stated)

Management's Discussion and Analysis

This *Management's Discussion and Analysis (MD&A)* dated May 14, 2023, relates to the financial condition and results of the consolidated operations of Xanadu Mines Ltd (**Xanadu**, **Xanadu Mines**, or the **Company**) for the three months ended March 31, 2023. 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, 2022, and 2021 and notes thereto. The accompanying Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2023, 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 both the Australian Stock Exchange (**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 via a Joint Venture with the Zijin Mining Group and 100% of the Red Mountain copper-gold project.

HIGHLIGHTS DURING THE MARCH 2023 QUARTER

During the quarter ended March 31, 2023 (**March Quarter**), Xanadu Mines Ltd (**Xanadu** or the **Company**) progressed the Company's Kharmagtai and Red Mountain Copper-Gold Projects.

Operations

- Kharmagtai value uplift progressing on all fronts.
 - Pre-Feasibility Study (PFS) underway focused on data acquisition including infill drilling and metallurgical characterisation, water reserve exploration and scenario modelling.

Management's Discussion and Analysis

- Infill Drilling commenced with 4 diamond drill rigs including 30,000 metres of planned drilling and a comprehensive geometallurgical programme.¹
- Discovery exploration drilling underway with 1 diamond drill rig targeting significant exploration upside remaining on the tenement.³

Corporate

- Completed investment deal with Zijin Mining Group and cash received on 10 March 2023.
 - Receipt of approval from Xanadu Mines Shareholders at 7 February 2023 EGM.
 - Receipt of regulatory approvals from the People's Republic of China.
 - A\$7,164,645.28 million Phase 2 placement for 179,116,132 Xanadu shares at \$0.04 per share, a 33% premium to previous market close, increasing Zijin shareholding to 19.42% of Xanadu.²
 - US\$35 million Phase 3 investment directly into the Kharmagtai project, creating a 50/50 Joint Venture (JV) in Khuiten Metals, which controls Kharmagtai.
 - Appointment of Non-Executive Director from Zijin, Mr Shaoyang Shen.
- Completed bridging placement on 18 January 2023, issuing 41,887,844 fully paid ordinary shares at an issue price of \$0.027 each, raising \$1,130,971 (before costs).³
- Xanadu is well funded with \$6.2 million in funding at the corporate level and US\$34 million in the Khuiten Metals JV which controls the Kharmagtai project.
- Mr. William Hundy appointed Company Secretary upon retirement of Mr. Philip Mackey⁴

Executive Chairman & Managing Director, Colin Moorhead, said:

"The March Quarter marked a significant milestone in the history of Xanadu, where the company finalised a strategic partnership with Zijin Mining, a global gold and copper mining major with the balance sheet and capabilities required to build and operate a large scale open pit copper mine such as Kharmagtai. This marks the culmination of our 2020 Strategy, which had three horizons to a) Upgrade the Kharmagtai Resource, b) Deliver a Scoping Study that Demonstrates the Kharmagtai Value Proposition, and c) Bring in a Funding Partner to Develop Kharmagtai. The successful delivery of this strategy is good for Xanadu, for our Shareholders, for Zijin our partner, and for Mongolia."

With the final stage of our 2020 Strategy delivered, the Company has cash in the bank and is moving forward to generate real value at Kharmagtai, with the PFS, Infill Drilling and Discovery Exploration all underway. As the Operator of the Kharmagtai Joint Venture, we are working effectively with our partners at Zijin Mining and appreciate their technical contributions to deliver a high quality PFS and bring Kharmagtai to a Decision to Mine. We look forward to providing regular updates as the work program advances over the next 18 months."

Xanadu Mines Ltd (ASX:XAM | TSX:XAM) (**Xanadu** or the **Company**) is pleased to provide an update on exploration and associated activities undertaken during the September Quarter.

¹ ASX/TSX Announcement 13 April 2023 – Kharmagtai Pre-Feasibility Drilling Off to a Flying Start

² ASX/TSX Announcement 13 March 2023 – Zijin & Xanadu Transaction Completed

³ ASX/TSX Announcement 18 January 2023 – \$1.1 million placement

⁴ ASX/TSX Announcement 31 January 2023 – Change of Company Secretary

Management's Discussion and Analysis

REVIEW OF OPERATIONS

Kharmagtai Copper-Gold Project

During the March Quarter, the Company commenced its PFS, Infill Drilling and Discovery Exploration activities which are funded by US\$35 million from the JV with Zijin.

Pre-Feasibility Study – Building on a Successful Scoping Study

The 2022 Scoping Study^{5,6} confirmed Kharmagtai as a potential world class, low cost, long life mine with an estimated 20% IRR (range 16-25%), US\$630 million NPV at 8% (range US\$ 405-850 million) and 4-year payback (range 4-7 years) over 30 year mine life. This included first quartile all in sustaining costs and projected production ranges from 30-50ktpa copper and 50-110kozpa gold production during the first five years. It is based on a JORC compliant Mineral Resource of 1.1 billion tonnes containing 3 million tonnes of copper, 8 million tonnes of gold and 100 million tonnes of higher grade zones at > 0.8% copper equivalent grade.

The Scoping Study outlined a conventional, low technical complexity open pit and process plant with low 0.9:1 strip ratio for the first five years. However, it also identified growth-focussed upside opportunities which could materially upgrade the economics of the project, all of which will be investigated during the PFS. These included:

- **Oxide Processing:** Top 20-30 metres of partially oxidised mineralisation cannot be processed through flotation and is conservatively treated as waste in the Scoping Study. The PFS will evaluate the use of glycine-cyanide leach technology to convert this pre-strip waste into cash generating ore.
- **Mining Technology:** Use of electrified haulage and in-pit crush & convey technology could significantly reduce mining costs as well as Scope 1 emissions. This has the potential to deepen and extend current pit shells, incorporating additional, deep zones of high-grade ore, adding to the valuation and enhancing life of the mine.
- **Processing Technology:** PFS will evaluate coarse ore flotation and beneficiation technologies, targeted at reducing energy requirements and operating cost per tonne of ore processed.
- **Exploration Drilling:** Kharmagtai Mineral Resource remains open at depth and along strike. Deeper drilling at Stockwork Hill completed after the 2021 Mineral Resource has already confirmed continuation of the higher-grade bornite mineralisation at depth. There is also significant potential to grow White Hill Resource and new discoveries across the tenement. These will be investigated as a matter of priority and could prove transformational for Kharmagtai project economics.

Xanadu is operator of the joint venture during the PFS delivery period of 18 months, after which Zijin will become operator for final engineering, construction and operation stages of the project.

During the PFS, Xanadu and its partner Zijin will complete all major project trade-off decisions and refine capital and operating cost estimates to +/-15-25%, leading to selection of a single go-forward option for final engineering and construction. With the study and inclusion of upside opportunities above, Xanadu and Zijin are targeting a real and sustained uplift relative to the Scoping Study economics.

Pre-Feasibility Study – Infill Drilling

Kharmagtai currently has an Inferred and Indicated Resource of 1.1Bt containing 3Mt Cu and 8Moz Au.⁷

As part of the PFS, sufficient drilling will be completed to upgrade that part of the Kharmagtai Mineral Resource that is considered to be mineable via open pit to at least Indicated classification and, subject to the study outcomes, will enable reporting of a Maiden Ore Reserve. To achieve this, approximately 30,000 metres of infill drilling has been designed to upgrade and extend strike length of the shallow open pit resource areas and selected deeper high-grade zones (**Figure 2**).

An upgraded Mineral Resource Estimate (MRE 2023) is expected to be released in Q4 of CY23 once all assays have been received and resource modelling completed. MRE 2023 will enable Xanadu to start economic studies and will be supplemented by subsequent PFS level studies scheduled for completion during Q4 CY24. High-grade mineralisation at Kharmagtai outcrops at surface with potential to establish multiple open pits which could later lead into underground development in the future, with further exploration discovery drilling success.

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

⁶ The material assumptions underpinning the Scoping Study production target and the forecast financial information derived from the production target continue to apply and have not materially changed.

⁷ ASX/TSX Announcement 08 December 2021 - Kharmagtai resource grows to 1.1 billion tonnes, containing 3Mt Cu and 8Moz Au

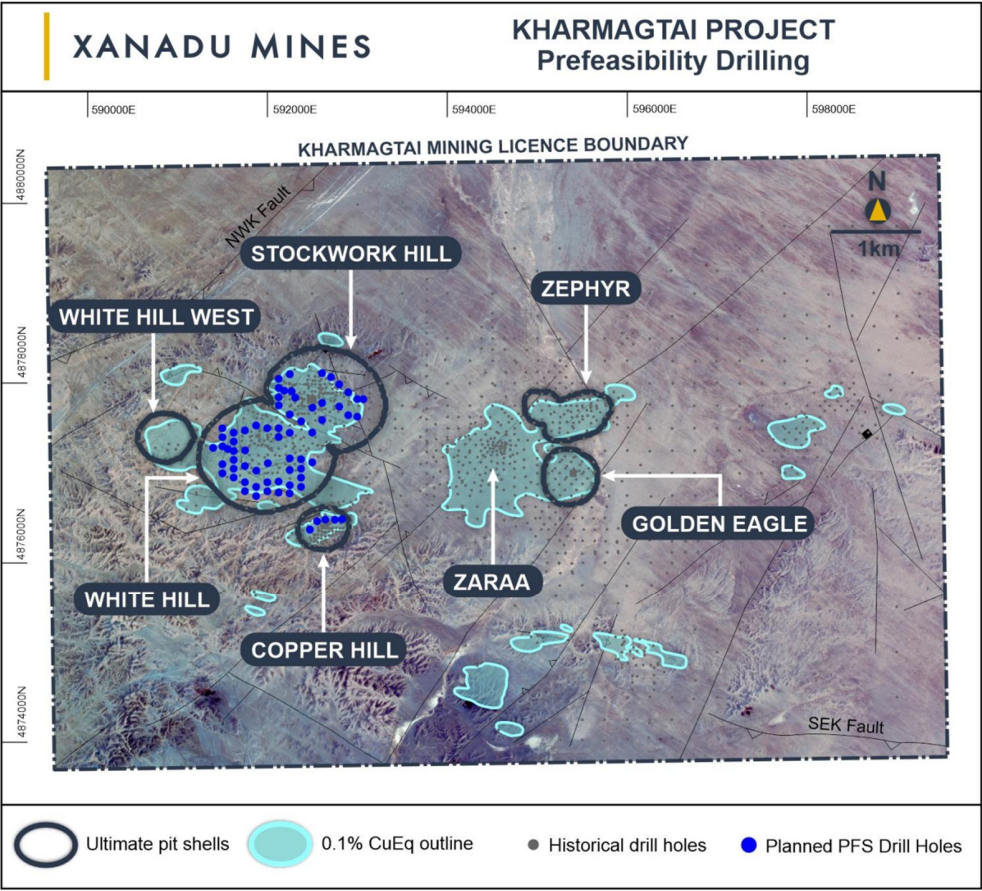


Figure 2 – Kharmagtai currently defined mineral deposits and planned resource infill drill holes.



Figure 3 – Three diamond drill rigs operating at Stockwork Hill.

Management's Discussion and Analysis

Pre-Feasibility Study – Comprehensive Geometallurgical Study

Detailed geo-metallurgical commenced after the reporting period. This work includes sulphide flotation for the bulk of the orebody, gravity recovery and flash flotation, ore comminution, gold deportment and oxide leaching test work. The key objective of this work is to explore opportunities to increase recoveries, optimise crushing and grinding, and deliver the most economic ore processing flowsheet.

The extensive program of sulphide floatation test work is based on high-resolution 3D geo-metallurgical models for the Kharmagtai deposits. These models define the key geological parameters effecting metallurgical processing such as sulphide mineralogy, grain sizes and distribution, obtained from cutting-edge machine learning algorithms specifically designed for the Kharmagtai mineral systems.

In conjunction with the sulphide flotation test work, an extensive comminution test program designed to characterise the crushing and grinding characteristics of the Kharmagtai mineralisation, including power consumption requirements and optimum crushing, and grinding technology.

The program of gold deportment studies is designed to understand the location and grain size of gold within each of the mineralisation styles at Kharmagtai, aimed at maximising gold and silver recovery.

Oxide leaching test work is also underway for near-surface mineralisation currently classified as pre-strip waste due to poor flotation recovery. The key objective of this work is to maximise copper and gold recoveries of the shallow oxidised material through leaching. This work compliments the successful glycine and cyanide leach test results reported to date.⁸

Discovery Exploration - Aggressive Growth Plan

Kharmagtai remains highly prospective for new discovery on the tenement, as well as higher grade extensions at depth and along strike. This has potential to further transform and uplift the value of Kharmagtai, and one diamond drill rig is in operation, dedicated to targeting:

- New sources of shallow high-grade open pit potential; and
- High priority, deeper, high-grade sulphide targets across the Kharmagtai mining lease.

Initial stages of this exploration program will focus on early testing of new shallow, higher-grade exploration targets, allowing any discoveries to expand the known resource during the PFS stage and as quickly as possible. This will be followed by deeper drilling testing an exploration model developed as an analogue to the Hugo Dummett deposit at Oyu Tolgoi.

Corporate

Zijin Strategic Partnership and Placement

The strategic partnership⁹ included three phases of investment. The first phase (**Phase 1 Placement**) was completed on 27 April 2022, raising A\$5.56 million via a subscription by Zijin to 139 million fully paid ordinary shares in Xanadu at A\$0.04 per share to provide Zijin with a 9.9% shareholding in the Company. The two subsequent phases were completed on 10 March 2023 and included a second placement of ordinary shares at A\$0.04 per share to increase Zijin's total shareholding in the Company to 19.42% (**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**), for a cash investment of US\$35 million. Following the 18 month PFS, Xanadu has the option to fund its share of construction, sell its 50% of the Phase 3 JV to Zijin for US\$50 million or sell half of its share of the Phase 3 JV (25%) to Zijin for US\$25 million plus a loan carry for Xanadu's remaining share of costs until commercial production.

⁸ ASX/TSX Announcement 1 August 2021 - Positive Metallurgical Test Results for Oxidised Material at Kharmagtai

⁹ ASX/TSX Announcement 10 March 2023 – Zijin and Xanadu Transaction Completed and Kharmagtai PFS Underway

Management's Discussion and Analysis

Bridging Equity Placement

Xanadu announced an A\$1.1 million equity placement on 18 January 2023 to provide working capital during final approvals stage for the Zijin Strategic Partnership. This was well supported by both domestic and international institutions. This included the issue of 41,887,844 fully paid ordinary shares in Xanadu (New Shares) at an issue price of \$0.027 each to raise \$1,130,971.79 (before costs). Bell Potter Securities Limited acted as the Lead Manager to the Placement.¹⁰

Appointment of Non-Executive Director

Mr Shaoyang Shen was appointed Non-Executive Director of Xanadu, effective 10 March 2023, having been nominated by Zijin in accordance with the Phase 2 Share Subscription Agreement. Mr Shaoyang Shen is the Deputy President for Corporate Development & Overseas Operations of Zijin Mining Group.¹¹

Appointment of Company Secretary

Mr. William Hundy was appointed Company Secretary upon the retirement of Mr. Philip Mackey, effective 31 January 2023.¹²

Extraordinary General Meeting

An Extraordinary General Meeting (EGM) was held on 7 January 2023 to approve Phase 2 of the Strategic Partnership with Zijin. Xanadu also sought approval to update the Employee Share Option Plan per the most recent legislation, issue options to Directors linking their award to effective delivery of the Kharmagtai PFS and refresh the Company's placement capacity under Listing Rule 7.1. All resolutions were approved by Shareholders.¹³

June 2023 Quarter Planned Activities

Key activities planned during the quarter ending 30 June 2023 (**June Quarter**) include:

- Data Acquisition for the Kharmagtai PFS including Infill Drilling, Metallurgy and Geotechnical focus areas.
- Commencement of Kharmagtai Water Reserve Study.
- Detailed Modelling of Scoping Study Uplift Scenarios.
- Commence construction of new core shed, site accommodation and power grid connections at Kharmagtai.
- Continued Shallow Discovery Exploration drilling program.
- Approval of Deep Discovery Exploration drilling program.
- Drill Assay Results
- Pre-Feasibility progress report
- 2022 Sustainability Report

¹⁰ ASX-TSX Announcement 18 January 2023 - \$1.1 million Placement

¹¹ ASX/TSX Announcement 10 March 2023 – Zijin and Xanadu Transaction Completed and Kharmagtai PFS Underway

¹² ASX/TSX Announcement 31 January 2023 – Change of Company Secretary

¹³ ASX/TSX Announcement 7 February 2023 – Results of Extraordinary General Meeting

Management's Discussion and Analysis

RESULTS OF OPERATIONS

SELECTED QUARTERLY INFORMATION

	Quarter Ending				
	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
	\$'000	\$'000	\$'000	\$'000	\$'000
JV: Gross Exploration Expenditure ^a					
Kharmagtai	1,850	402	749	1,140	802
Drill metres ^{b,c}	6,111	-	-	-	-
Gross Exploration Expenditure					
Red Mountain	29	261	343	117	242
Drill metres ^{b,c}	-	-	-	-	-
Exploration expenditures capitalised					
(Kharmagtai & Red Mountain)	29 ^d	663	1,092	1,257	1,044
Corporate general and administration	1,257	1,095	1,042	1,641	861

- As disclosed above, the Company issued new shares in its subsidiary Khuiten Metals Pte Ltd (Khuiten) on the 10th of March as part of the Zijin Strategic Partnership for consideration of US\$35M. This transaction reduces the Company's shareholding from 100% to 50.0% in Khuiten, and in effect loss of majority control. The March Qtr results presented above are presented on the basis of the treatment of the investment of Khuiten as a 50% JV under the equity accounting method (i.e., the Khuiten operational results are not included on consolidation). The prior period quarters have not been restated.
- Reflects invoiced metres paid during the quarter under drilling contract. Physical metres drilled during the quarter may vary due to invoice timing.
- Excludes horizontal trenching metres
- Excludes Kharmagtai JV Gross exploration expenditure no longer consolidated in the Company's results.

Management's Discussion and Analysis

ASX/TSX ANNOUNCEMENTS

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

- 18 January 2023 - \$1.1 million placement
- 31 January 2023 – Change of Company Secretary
- 7 February 2023 – Results of Extraordinary General Meeting
- 24 February 2023 – Final regulatory approvals received for Zijin Joint Venture
- 10 March 2023 – Zijin and Xanadu Transaction Completed and Kharmagtai PFS Underway
- 13 March 2023 – Zijin & Xanadu Transaction Completed6 April 2022 – Scoping Study – Kharmagtai Copper-Gold Project
- 13 April 2023 – Kharmagtai Pre-Feasibility Drilling Off to a Flying Start

FINANCE

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2022, the Company had cash and cash equivalents on hand of \$6.2 million (December 31, 2022: \$0.1 million).

The primary use of Xanadu funds in 2023, will be to execute the Company's strategy, including identification of new projects in Mongolia, funding non-Kharmagtai operations and to provide working capital.

On 31 March 2022, the Khuiten Metals JV (**Khuiten JV or JV**) had \$51.4 million of cash available (December 31, 2022: \$0.0 million). This followed the 10 March completion of the transaction with Zijin Mining Group (**Zijin**), in which new shares were issued in Khuiten Metals Pte Ltd, providing Zijin with 50% ownership. Khuiten Metals Pte Ltd was previously a 100% owned subsidiary of Xanadu. As the Company does not have greater than 50% share of the Joint Venture, the JV results are no longer consolidated into Xanadu Mines results. The JV is now recorded as an investment, under the equity accounting rules.

The primary use of Khuiten JV funds in 2023 will be to execute the Kharmagtai Pre-Feasibility Study (PFS) and to conduct additional Discovery Exploration on the Kharmagtai tenement.

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 March 31, 2023, the Company had an unlimited number of ordinary shares authorised, with 1,637,824,191 fully paid shares and 121,860,000 options over ordinary shares on issue (December 31, 2022: 1,412,260,215 shares and 46,950,000 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.

Management's Discussion and Analysis

Contractual commitments

The following summarises the Company's contractual obligations at March 31, 2023 (\$'000):

- Trade payables \$88 due in 30 days
- Ulaanbaatar office rent \$70 to the end of the calendar year
- Vehicle leases \$105 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.

- *Foreign currency risk:* The Company is exposed to foreign exchange fluctuations with respect to Australian Dollars (**A\$**), United States Dollars (**US\$**), Mongolian Tugrik (**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.

Management's Discussion and Analysis

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 \$6.2 million as at March 31, 2023 (December 31, 2022: \$0.1 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, 2022.

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 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.

Management's Discussion and Analysis

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 therefore depends upon the strength and enforceability of these contracts and the ability to enforce them against the relevant counterparties, under relevant laws.

Further, the 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:

	Three Months Ended March 31, 2023 \$'000	Three Months Ended March 31, 2022 \$'000
Salaries and fees	486	421
STI Bonus	-	-
Superannuation	14	12
Share based payments	-	-
	500	433

Management's Discussion and Analysis

The Company had the following Unvested Options on issue as at March 31, 2023, related to the Company's Employee Share and Option Plan. These were proposed by Shareholders in an Extraordinary General Meeting notice issued December 29, 2022¹⁴, and approved on February 7, 2023¹⁵. 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.¹⁶

Key Management Personnel	Unvested Options March 31, 2023
Colin Moorhead	17,600,000
Michele Muscillo	6,300,000
Tony Pearson	7,440,000
Andrew Stewart	25,520,000
Ganbayar Lkhagvasuren	23,670,000
Munkhsaikhan Dambiinyam	17,500,000
Spencer Cole	20,830,000

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are disclosed in Note 28 of the Company's audited annual financial statements for the period ended December 31, 2022. Additional transactions during the March Quarter are described below.

Payments made to related parties and their associates was \$391,061 in the three months ended March 31, 2023. The amounts relate to salary, superannuation and bonus payments to Directors; legal fees paid to HopgoodGanim Lawyers (a company associated with Xanadu Non-Executive Director Michele Muscillo) for legal services; rent paid to Xanadu Executive Director Ganbayar Lkhagvasuren in relation to Xanadu's Ulaanbaatar office; rent 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.

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 the Company's ASX/TSX announcements dated December 8, 2021 and 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 three months ended March 31, 2023.

¹⁴ ASX/TSX Announcements December 29, 2022 - Notice of Extraordinary General Meeting & Related Documents

¹⁵ ASX/TSX Announcements February 7, 2023 - Results of Extraordinary General Meetings

¹⁶ ASX/TSX Announcement November 20, 2020 - Notice of Extraordinary General Meeting & Related Documents

Management's Discussion and Analysis

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.