

Third Quarter 2021 Financial Statements and MD&A

15 November 2021

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

BY ELECTRONIC LODGEMENT

Third Quarter 2021 Financial Statements and Management's Discussion & Analysis

Please find attached for release to the market, Xanadu Mining Ltd's *Third Quarter 2021 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 Board of Directors.

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Xanadu Mines Ltd

Third Quarter 2021 Report

Condensed Interim Consolidated Financial Statements

As at and for the nine months ended

September 30, 2021

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, 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 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)

		3 months ended		9 months ended	
		Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
		A\$'000	A\$'000	A\$'000	A\$'000
	Note				
Revenue					
Other income	5	-	38	-	89
Expenses					
Other expenses	6	(929)	(937)	(2,723)	(2,391)
Depreciation and amortisation expense		(11)	(12)	(38)	(40)
Finance costs		(10)	(7)	(25)	(17)
Loss before income tax expense		(950)	(918)	(2,786)	(2,359)
Income tax expense		-	-	-	-
Loss after income tax expense for the period		(950)	(918)	(2,786)	(2,359)
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Foreign currency translation		2,240	(2,195)	3,215	(2,855)
Other comprehensive income for the period, net of tax		2,240	(2,195)	3,215	(2,855)
Total comprehensive income for the period		1,290	(3,113)	429	(5,214)
Profit/(loss) for the period is attributable to:					
Non-controlling interest		148	(276)	199	(358)
Owners of Xanadu Mines Ltd		(1,098)	(642)	(2,985)	(2,001)
		(950)	(918)	(2,786)	(2,359)
Total comprehensive income for the period is attributable to:					
Non-controlling interest		297	(436)	420	(560)
Owners of Xanadu Mines Ltd		993	(2,677)	9	(4,654)
		1,290	(3,113)	429	(5,214)
		Cents	Cents	Cents	Cents
Basic earnings per share	12	(0.09)	(0.08)	(0.25)	(0.24)

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - stated in thousands of Australian dollars)

		Sep 30, 2021 A\$'000	Dec 31, 2020 A\$'000
Note			
ASSETS			
Current Assets			
		7,048	7,687
		88	145
		184	201
		<u>7,320</u>	<u>8,033</u>
Non-current Assets			
		561	128
		320	238
	7	<u>53,163</u>	<u>43,317</u>
		<u>54,044</u>	<u>43,683</u>
Total Assets		<u>61,364</u>	<u>51,716</u>
LIABILITIES			
Current Liabilities			
		445	547
		-	306
		8	5
		45	64
		<u>498</u>	<u>922</u>
Non-current Liabilities			
		<u>200</u>	<u>88</u>
		<u>200</u>	<u>88</u>
Total Liabilities		<u>698</u>	<u>1,010</u>
Net Assets		<u>60,666</u>	<u>50,706</u>
EQUITY			
	8	145,536	136,005
		(3,780)	(6,774)
		<u>(85,182)</u>	<u>(82,197)</u>
		56,574	47,034
		<u>4,092</u>	<u>3,672</u>
Total Equity		<u>60,666</u>	<u>50,706</u>

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - stated in thousands of Australian dollars)

	Issued capital A\$'000	Share-based payments reserve A\$'000	Transactions with owners' reserve A\$'000	Foreign currency translation reserve A\$'000	Accumulated losses A\$'000	Non- controlling interest A\$'000	Total equity A\$'000
Balance at January 1, 2021	136,005	10,016	(537)	(16,253)	(82,197)	3,672	50,706
Profit/(loss) after income tax expense for the period	-	-	-	-	(2,985)	199	(2,786)
Other comprehensive income for the period, net of tax	-	-	-	2,994	-	221	3,215
Total comprehensive income for the period	-	-	-	2,994	(2,985)	420	429
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	-	-	-	-	-	-
Shares issued during the year	10,154	-	-	-	-	-	10,154
Transaction costs	(623)	-	-	-	-	-	(623)
Balance at September 30, 2021	145,536	10,016	(537)	(13,259)	(85,182)	4,092	60,666

	Issued capital A\$'000	Share-based payments reserve A\$'000	Transactions with owners' reserve A\$'000	Foreign currency translation reserve A\$'000	Accumulated losses A\$'000	Non- controlling interest A\$'000	Total equity A\$'000
Balance at January 1, 2020	120,909	10,016	(537)	(10,843)	(79,265)	4,554	44,834
Profit/(loss) after income tax expense for the period	-	-	-	-	(2,001)	(358)	(2,359)
Other comprehensive income for the period, net of tax	-	-	-	(2,653)	-	(202)	(2,855)
Total comprehensive income for the period	-	-	-	(2,653)	(2,001)	(560)	(5,214)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	-	-	-	-	-	-
Shares issued during the year	9,277	-	-	-	-	-	9,277
Transaction costs	(321)	-	-	-	-	-	(321)
Balance at September 30, 2020	129,865	10,016	(537)	(13,496)	(81,266)	3,994	48,576

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - stated in thousands of Australian dollars)

		3 months ended		9 months ended	
		Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
	Note	A\$'000	A\$'000	A\$'000	A\$'000
Cash flows from operating activities					
Payments to suppliers and employees		(810)	(749)	(2,666)	(2,160)
Interest received		-	-	-	1
Government incentives received		-	38	-	88
Interest and other finance costs paid		(10)	(7)	(25)	(17)
Net cash used in operating activities		(820)	(718)	(2,691)	(2,088)
Cash flows from investing activities					
Payments for property, plant and equipment		(241)	(32)	(401)	(32)
Payment for exploration and evaluation expenditure	7	(3,044)	(1,666)	(7,277)	(2,660)
Payment for exploration and evaluation on behalf of JOGMEC	7	(802)	(832)	(1,871)	(1,095)
Proceeds from JOGMEC Red Mountain option payments	7	-	-	162	-
Proceeds from JOGMEC Red Mountain exploration funding payments	7	815	467	1,477	1,260
Net cash used in investing activities		(3,272)	(2,063)	(7,910)	(2,527)
Cash flows from financing activities					
Proceeds from issue of shares	8	-	5,570	10,154	9,277
Transaction costs on issue of shares		-	(238)	(623)	(312)
Repayment of lease liabilities		(19)	(16)	(38)	(35)
Net cash from financing activities		(19)	5,316	9,493	8,930
Net increase/(decrease) in cash and cash equivalents		(4,111)	2,535	(1,108)	4,315
Cash and cash equivalents at the beginning of the financial period		10,803	2,896	7,687	1,209
Effects of exchange rate changes on cash and cash equivalents		356	61	469	(32)
Cash and cash equivalents at the end of the financial period		7,048	5,492	7,048	5,492

Notes to the Condensed Interim Consolidated Financial Statements

Note 1. Corporate information

Xanadu Mines Ltd ('Xanadu' or 'the Company') was incorporated on May 12, 2005 and is the ultimate holding company for the Xanadu group ('Group'). The unaudited financial report of the Company and its controlled entities are for the period ended September 30, 2021. The nature of the operations and principal activities of the Group are described in the review of operations.

Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period ended September 30, 2021 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, 2020 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.

Rounding of amounts

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

New 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 basis of accounting

The Group has incurred net losses after tax of \$2,786,000 (September 30, 2020: \$2,359,000) and net cash outflows from operations of \$2,691,000 (September 30, 2020: \$2,088,000) for the period ended September 30, 2021. At period end, cash and cash equivalents were \$7,048,000.

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.

During the period ended September 30, 2021, the Company raised \$10,154,000 through equity issuances to fund the ongoing exploration program at Kharmagtai. 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:

- scale back or deferral of exploration expenditure;
- deferral of discretionary operating and capital expenditures if required;
- raising equity funds in capital markets, based on a history of successful equity raisings;
- raising of debt funding if required; and
- enter into farm-out, sell down or joint venture agreements, such as the Red Mountain earn-in agreement with Japan Oil, Gas and Metals National Corporation ('JOGMEC') announced on March 24, 2020.

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.

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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

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.

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. Methods of assessment include recent transaction value, benchmarking of comparable transactions and value multiples, market capitalisation versus book value. 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.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Notes to the Condensed Interim Consolidated Financial Statements

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 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 7 '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.

Note 5. Other income

	Consolidated			
	3 months ended Sep 30, 2021	3 months ended Sep 30, 2020	9 months ended Sep 30, 2021	9 months ended Sep 30, 2020
	A\$'000	A\$'000	A\$'000	A\$'000
Interest income	-	-	-	1
COVID-19 government incentive*	-	38	-	88
	-	38	-	89

* Australian Government "Cash Flow Boost" program, delivered as a reduction to payroll tax obligations (not related to JobKeeper)

Note 6. Other expenses

	Consolidated			
	3 months ended Sep 30, 2021	3 months ended Sep 30, 2020	9 months ended Sep 30, 2021	9 months ended Sep 30, 2020
	A\$'000	A\$'000	A\$'000	A\$'000
Administration expenses	372	372	931	819
Wages and management fees	380	402	1,500	1,091
Consulting fees	178	164	292	482
Net foreign currency (gains)/losses	(1)	(1)	-	(1)
Share-based payments	-	-	-	-
	929	937	2,723	2,391

Note 7. Non-current assets - deferred exploration and evaluation expenditure

	Consolidated	
	Sep 30, 2021 A\$'000	Dec 31, 2020 A\$'000
Deferred exploration and evaluation expenditure	57,589	47,475
Less: Accumulated Impairment	(4,426)	(4,158)
	53,163	43,317

The impairment relates to the following deferred exploration expenditure assets (A\$'000): Yellow Mountain \$3,442 and Red Mountain \$983. Yellow Mountain was fully impaired as the licence expired in May 2020 without renewal. The Company is seeking compensation for this licence as exploration was restricted for forestry regulations. No amount has been recognised for any compensation. In relation to Red Mountain, the asset was written down to be consistent with implied value of the March 2020 Joint Exploration Agreement with JOGMEC.

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, 2021	43,317
Additions ⁽ⁱ⁾	7,189
Exchange differences	2,657
Balance at September 30, 2021	53,163
(i) Additions made up of:	A\$'000
cashflow payments for exploration and evaluation at Kharmagtai	6,693
cashflow payments for exploration and evaluation at Red Mountain	584
cashflow payments for exploration and evaluation expenditure ^(see Statement of cash flows investing activities)	7,277
proceeds from Red Mtn option payments ^(see Statement of cash flows investing activities)	(162)
foreign exchange movements	74
	7,189

The Company held interests in two tenements during the period to September 30, 2021:

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

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 that was issued in 2013, and Xanadu owns 76.5% with two minority partners.

Exploration during the third quarter of 2021 consisted of 11,146 metres drilling, with three rigs testing extensions of higher-grade zones, growing the resource, and testing new discovery targets.

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 that was issued in 2012.

During the quarter, Xanadu owned 90% with its minority partner, and the project was subject to a Joint Exploration Agreement with JOGMEC, dated March 2020, in which JOGMEC could earn 51% interest by sole funding US\$7.2 million of expenditure over four years. Subsequent to the quarter, Xanadu increased its ownership to 100% by purchasing the 10% minority share for US\$350,000, and JOGMEC terminated the Joint Exploration Agreement as at November 30, 2021, prior to meeting its earn-in conditions. As a result, Xanadu now holds an unencumbered 100% of Red Mountain.

Exploration during the third quarter of 2021 consisted of Moving Loop Electromagnetic ('MLEM') survey, 1,000 metres of trenching, and 2,950 metres of diamond drilling, targeting near surface, high grade, massive sulphide zones identified in the trenching program.

Between January 1, 2021 and September 30, 2021, JOGMEC contributed US\$2.033 million on behalf of Red Mountain exploration, including US\$0.162 million received as an option payment.

Notes to the to the Condensed Interim Consolidated Financial Statements

Note 8. Equity - issued capital

	Sep 30, 2021 Shares	Dec 31, 2020 Shares	Sep 30, 2021 A\$'000	Dec 31, 2020 A\$'000
Ordinary shares - fully paid (net of transaction costs)	1,255,617,750	1,091,841,522	145,536	136,005

Movements in ordinary share capital

Details	Date	Shares	A\$'000
Balance	January 1, 2021	1,091,841,522	136,005
Shares issued - placement	May 3, 2021	163,776,228	10,154
Transaction costs		-	(623)
Balance	September 30, 2021	1,255,617,750	145,536

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.

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. The capital risk management policy remains unchanged from the December 31, 2020 Annual Report.

Note 9. Equity - 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.

Notes to the to the Condensed Interim Consolidated Financial Statements

Note 11. Events after the reporting period

Xanadu increased its ownership to 100% of the Red Mountain district by acquiring a 10% minority interest from Enkh Tunkh Delkhii LLC, a private Mongolian company, for US\$350,000 cash. Registration of the change in share ownership was finalised on October 29, 2021 with the Mongolia regulator.

Also at Red Mountain, prior to meeting earn-in conditions, Japan Oil, Gas and Metals National Corporate ('JOGMEC') elected to terminate the Red Mountain Joint Exploration Agreement, effective November 30, 2021. The Joint Exploration Agreement dated March 24, 2020, allowed JOGMEC to earn 51% of the Red Mountain project by investing US\$7.2 million over a four-year period. Through September 30, 2021, US\$2.6m (A\$3.6m) was spent under the agreement, which funded geophysics and 11,295 metres of diamond drilling. By terminating the Joint Exploration Agreement prior to meeting these conditions, JOGMEC forfeited its rights to the Red Mountain district, and ownership has reverted to the previous structure.

No other matter or circumstance has arisen since September 30, 2021 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 Sep 30, 2021 A\$'000	3 months ended Sep 30, 2020 A\$'000	9 months ended Sep 30, 2021 A\$'000	9 months ended Sep 30, 2020 A\$'000
Loss after income tax	(950)	(918)	(2,786)	(2,359)
Non-controlling interest	(148)	276	(199)	358
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(1,098)	(642)	(2,985)	(2,001)
	Number	Number	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,255,617,750	821,254,980	1,182,428,373	821,254,980
	Cents	Cents	Cents	Cents
Basic earnings per share	(0.09)	(0.08)	(0.25)	(0.24)

**XANADU MINES**

Xanadu Mines Ltd

Third Quarter 2021 Report

Management's Discussion & Analysis

September 30, 2021

(stated in Australian dollars, unless otherwise stated)

Management's Discussion and Analysis

This *Management's Discussion and Analysis (MD&A)* dated September 11, 2021, 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 September 30, 2021. 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, 2020 and 2019 and notes thereto. The accompanying Condensed Interim Consolidated Financial Statements for the three months ended September 30, 2021, 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.

The information in this MD&A relating to the broader Kharmagtai copper-gold project is supported by the technical report titled *N/ 43-101 Technical Report on the Kharmagtai Copper-Gold Project Mineral Resource Update, Mongolia* prepared by Warren Potma, Dmitry Pertel and Andy Holloway of CSA Global Pty Ltd (**CSA**), with dated December 18, 2018 (**2018 Mineral Resource Upgrade**).

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, Quality Assurance / Quality Control (**QA/QC**) and geological interpretation and information. Dr Stewart, who is an employee of Xanadu and is a Member of the Australian Institute of Geoscientists, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the "Competent Person" as defined in the 2012 Edition of the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves* and the National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. Dr Stewart consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

BUSINESS OVERVIEW

Xanadu is an Australian 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 SEPTEMBER 2021 QUARTER

Exploration continued at Kharmagtai and Red Mountain districts in the South Gobi Region of Mongolia, with high health and safety standards maintained during the quarter. At Kharmagtai, drilling further extended the high-grade bornite zone at Stockwork Hill and identified a large extension to mineralisation at White Hill. At Red Mountain, drilling at the Stairway Prospect successfully intersected near surface, silver-rich, high-grade copper sulphide veins, confirming and extending mineralisation seen in previous drilling.

Subsequent to the quarter, ownership of Red Mountain was consolidated to 100% via purchase of a minority interest and termination of a Joint Exploration Agreement with the Japan Oil, Gas and Metals National Corporation (**JOGMEC**). During the December 2021 quarter, Xanadu will release an update of the Kharmagtai Mineral Resource Estimates and will publish its inaugural Sustainability Report.

Management's Discussion and Analysis

Kharmagtai District

- 11,146 metres of diamond drilling (13 holes) completed during the quarter using 3 rigs.
- Extended high grade bornite zone at Stockwork Hill by 80 metres (40m up dip and 40 m down dip), with **KHDDH573 returning 240m @ 1.36% CuEq from 474m.**¹
- Expanded White Hill mineralisation to south by 300 metres, with **KHDDH569 returning 697m @ 0.38% CuEq from 443m, including 172m @ 0.51% CuEq from 570m and 208m @ 0.52% CuEq from 754m.**^{2,3}
- Commenced update of the mineral resource estimates for all deposits at Kharmagtai including the newly discovered Zaraa deposit. This includes approximately 61,500 metres of drilling that was completed since the interim resource estimate was released in 2018 (**MRE 2018**). The Company expects MRE 2021 to be completed and released before the end of 2021.

Red Mountain District

- Completed Moving Loop Electromagnetic survey and identified numerous conductive anomalies.
- Significant results from 1,000 metres (horizontal) trenching program confirmed shallow, high-grade copper-silver mineralisation at Stairy and extended zones of mineralisation seen in historic trenches.
- Completed 2,950 metre diamond drilling program targeting near surface, high-grade bornite mineralisation at Stairy and large-scale targets, yielding silver rich high-grade copper zones in three holes.⁴
 - **OUDDH115 4m @ 7.34% Cu & 29.3g/t Ag from 60.0m, including 1m @ 28.9% Cu & 114g/t Ag from 61.5m**
 - **OUDDH119 8m @ 1.31% Cu & 7.00g/t Ag from 94.0m**
 - **OUDDH112 4m @ 1.98% Cu & 9.15g/t Ag from 40.0m**

Corporate

- Increased to 100% ownership and full control of Red Mountain exploration program⁵
 - Purchased 10% minority interest previously owned by Enkh Tunkh Delkhii LLC for US\$350,000 cash, with effective date of October 29, 2021.
 - Joint Exploration Agreement with JOGMEC terminated effective November 30, 2021, prior to meeting earn-in conditions, reverting ownership to previous structure.
- Closing Cash at September 30, 2021 of **\$7.0 million**.

¹ ASX/TSX Announcement August 16, 2021 - Vertical Extension of High Grade Bornite Zone at Stockwork Hill

² ASX/TSX Announcement July 13, 2021 - Large Scale Extension at White Hill

³ ASX/TSX Announcement July 29, 2021 - Quarterly Activities Report and Appendix 5B – 30 June 2021

⁴ ASX/TSX Announcement September 28, 2021 - New High-Grade Bornite Intersections at Red Mountain

⁵ ASX/TSX Announcement October 27, 2021 - Xanadu Consolidates 100% Ownership of Red Mountain

Management's Discussion and Analysis

Chief Executive Officer, Dr Andrew Stewart, said, *"During the September 2021 quarter, whilst safely managing the additional challenges of the COVID-19 pandemic, Xanadu made significant progress towards our project goals at both the Kharmagtai and Red Mountain Districts.*

At our flagship Kharmagtai project, we aim to position the project as a world class copper-gold asset. Drilling during the quarter successfully defined significant growth of the high-grade bornite zone at Stockwork Hill and extended known mineralisation at White Hill to the south. We have now completed approximately 61,500 metres of drilling since our interim Mineral Resource Estimate in 2018 and are working on an update for release before the end of 2021.

At our second project at Red Mountain, we completed an electromagnetic geophysical survey and a trenching program at Stairy, which expanded areas of known surface mineralisation. Follow-up drilling yielded shallow, high-grade, copper-silver sulphide vein mineralisation in three holes. The resulting exploration model highlights Stairy's potential for a smaller and lower capex project that could complement the larger scale porphyry targets elsewhere at Red Mountain and at Kharmagtai.

Commercially, with Xanadu now the sole owner and operator of Red Mountain, the value proposition is enhanced for our shareholders. We will share an updated exploration strategy for this highly prospective district in the coming quarter.

Mongolia's vaccination and booster programs are going well, and we are keenly observing progress in negotiations with Rio Tinto, our neighbours at Oyu Tolgoi. We see these developments as positive news for Mongolia as a destination for international investment.

Looking forward, we will share an updated Mineral Resource Estimate for Kharmagtai in the December 2021 Quarter, and I am confident this will show that Kharmagtai is a copper asset that has scale, well-defined blocks of higher-grade material, and strong gold credits. We have also proudly published our inaugural Sustainability Report, underpinning our goal to be a leader in sustainable exploration."

REVIEW OF OPERATIONS

Kharmagtai Copper-Gold Project

Kharmagtai exploration focused on drilling the high-grade bornite zone at Stockwork Hill. 11,146 metres of diamond drilling was completed during the quarter in 13 drill holes (**Figure 1** and **Table 2**). This includes 331 metres in three holes that were reported in the June 2021 Quarter Report.

Xanadu has set a medium-term goal targeting an increase of the combined Kharmagtai resource to >1 billion tonnes @ $\geq 0.5\%$ copper equivalent (**CuEq**) including >100 million tonnes @ $\geq 0.8\%$ CuEq, with the aim to provide both scale and a high-grade core to accelerate future development of the Kharmagtai.⁶

The Company is currently undertaking a 23,000 metre diamond drilling program at Kharmagtai with anticipated completion by Q4 of CY2021. The program includes three key components, structured to progress toward Company's high-grade and scale goals.

- High-Grade Definition Program - define scale and tenor of gold-rich, bornite zone underneath Stockwork Hill, White Hill and Copper Hill resources;
- Discovery Drilling Program - drill priority targets to identify new discoveries within the Kharmagtai District; and
- Resource Upgrade Program - target a resource upgrade beneath the current resource, including large-scale mineralisation at recently discovered Zараа.

⁶ ASX/TSX Announcement June 3, 2021 - Xanadu Accelerates 2021 Exploration Program

Management's Discussion and Analysis

STOCKWORK HILL DRILLING

Results were received from eight diamond drill holes at Stockwork Hill during the quarter, targeting high-grade extensions to known mineralisation and new discoveries (**Figure 1**). This includes seven new diamond drill holes and one hole (**KHDDH573**) which was drilled in the prior quarter.

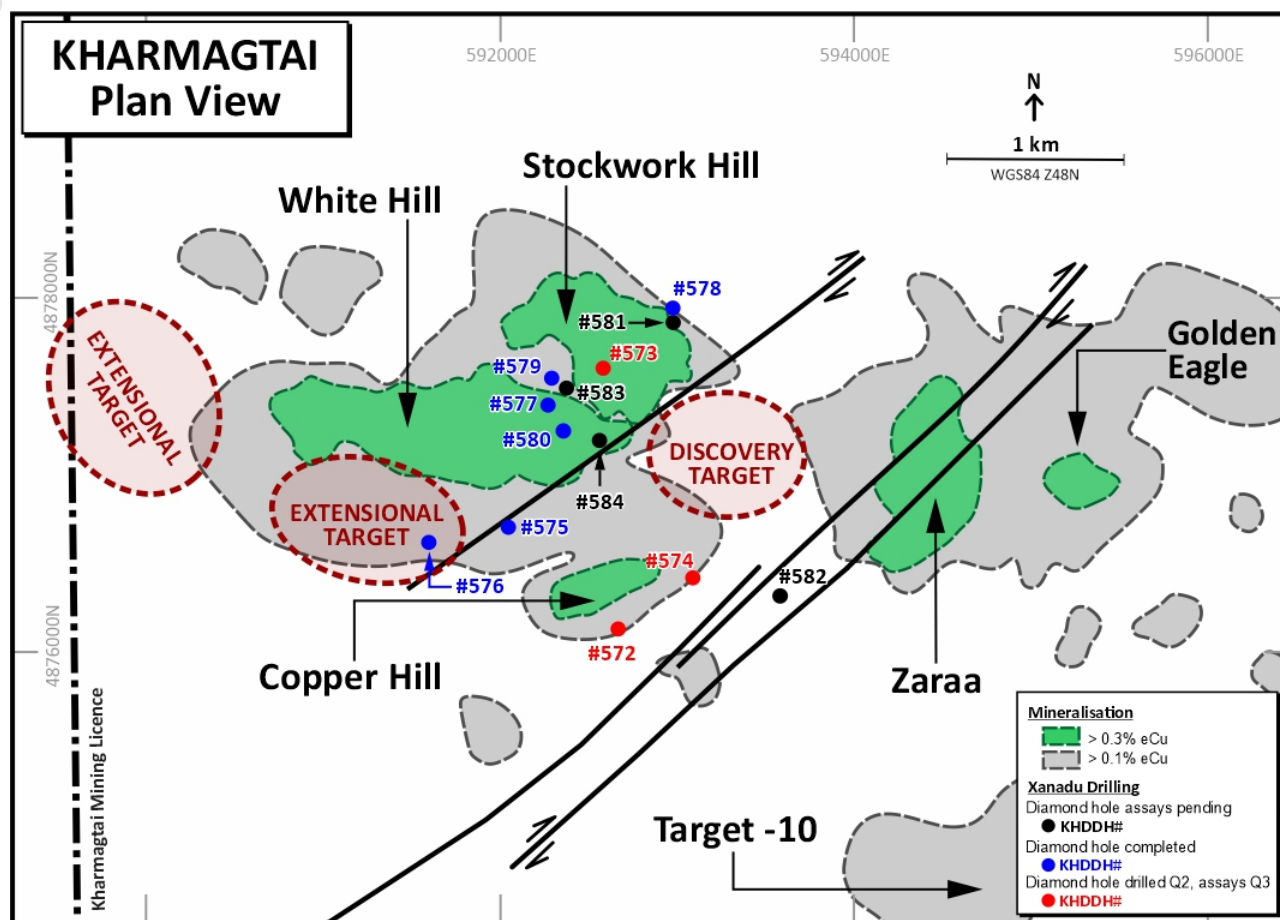


Figure 1. Kharmagtai Plan View showing location of drilling for Q3 2021.

ABOUT KHDDH573

Drill hole KHDDH573 was drilled in Q2 2021 but results were not received until Q3 2021. Drill hole KHDDH573 (**Figure 2 & 3**) was designed to target vertical extensions to the higher-grade core at the Stockwork Hill deposit, largely dominated by gold-rich bornite mineralisation. It intercepted wide zones of mineralisation, grading up to 0.91% copper (**Cu**) and 2.56g/t gold (**Au**) within a broader intercept of 240m grading 1.36% CuEq from 474m.⁷

Hole ID	Interval	Cu	Au	CuEq	From
KHDDH573	240m	0.72%	1.24g/t	1.36%	474m
including	130m	0.94%	1.58g/t	1.75%	534m
including	26m	0.91%	2.56g/t	2.22%	678m

⁷ ASX/TSX Announcement August 16, 2021 - Vertical Extension of High-Grade Bornite Zone at Stockwork Hill

Management’s Discussion and Analysis

Note that true widths will generally be narrower than those reported. See disclosure in JORC explanatory statement attached.

Drill hole KHDDH573 extended the higher-grade bornite zone (>1% CuEq) by 40 metres up-dip and 40 metres down-dip at Stockwork Hill, which represents an increase to the interpreted tonnage of higher-grade material at Stockwork Hill.

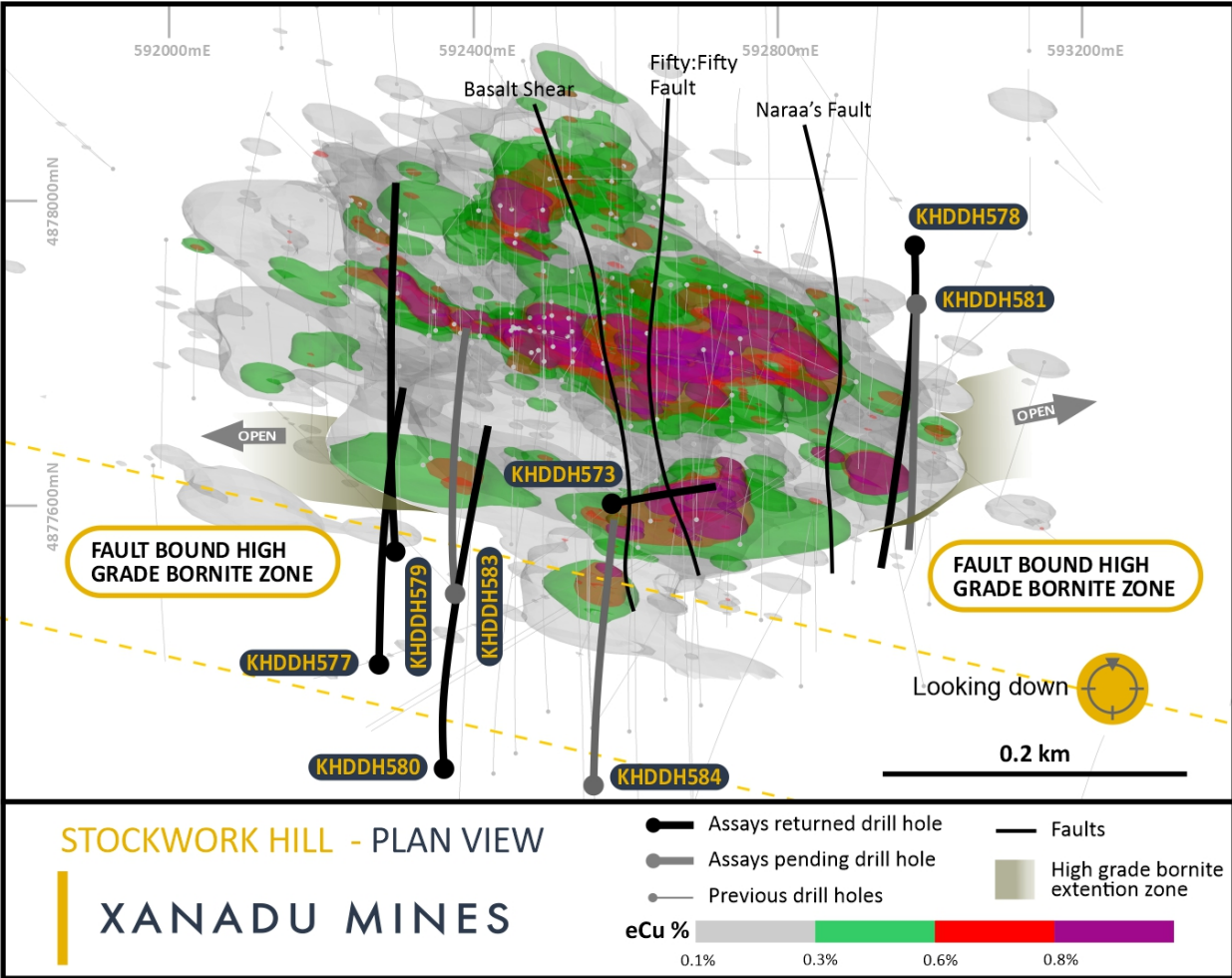


Figure 2. Stockwork Hill plan view, drill hole KHDDH573 and interpreted grade shells

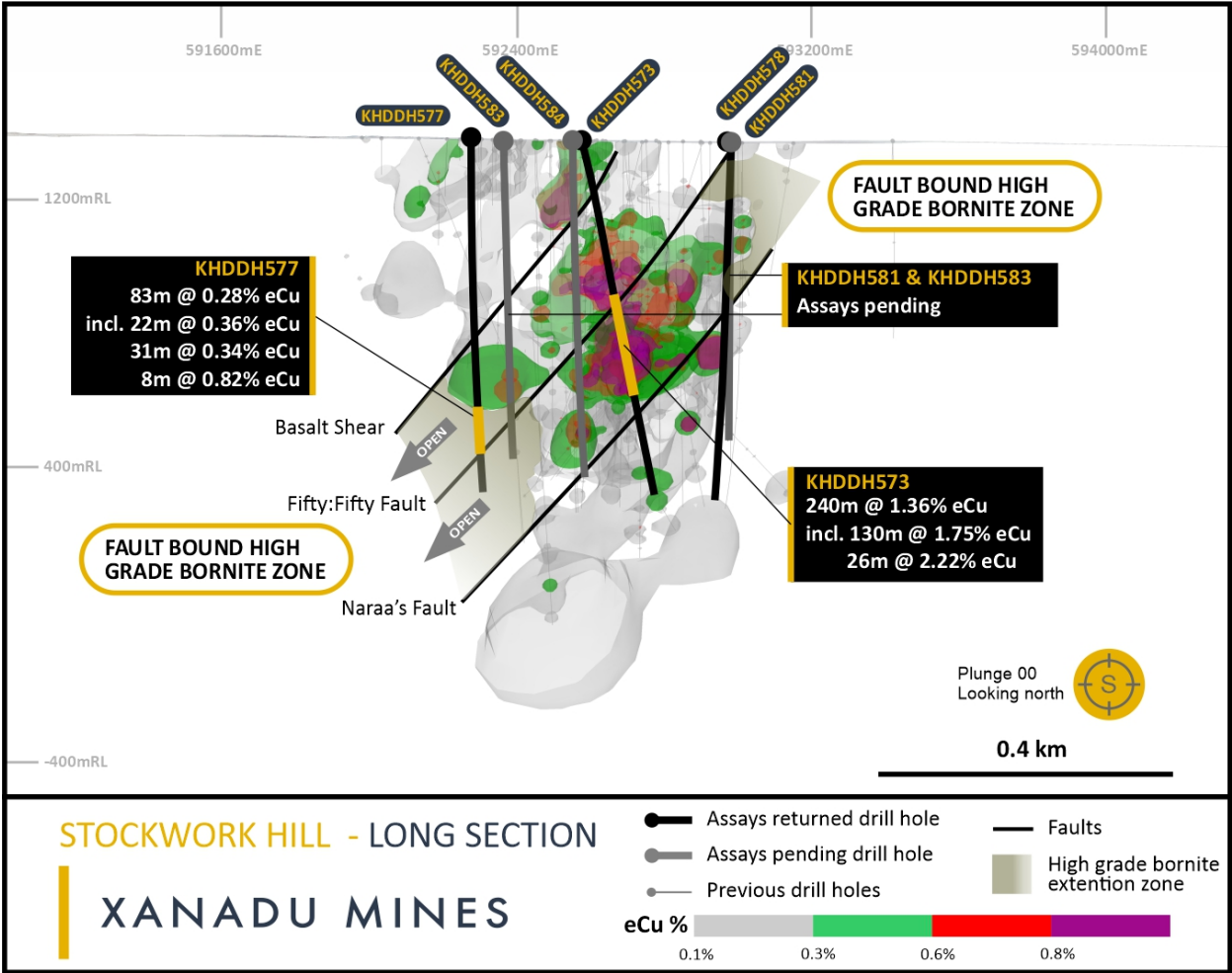


Figure 3. Stockwork Hill long section showing drill hole KHDDH573 ⁸ and interpreted grade shells

⁸ ASX/TSX Announcement August 16, 2021 - Vertical Extension of High-Grade Bornite Zone at Stockwork Hill

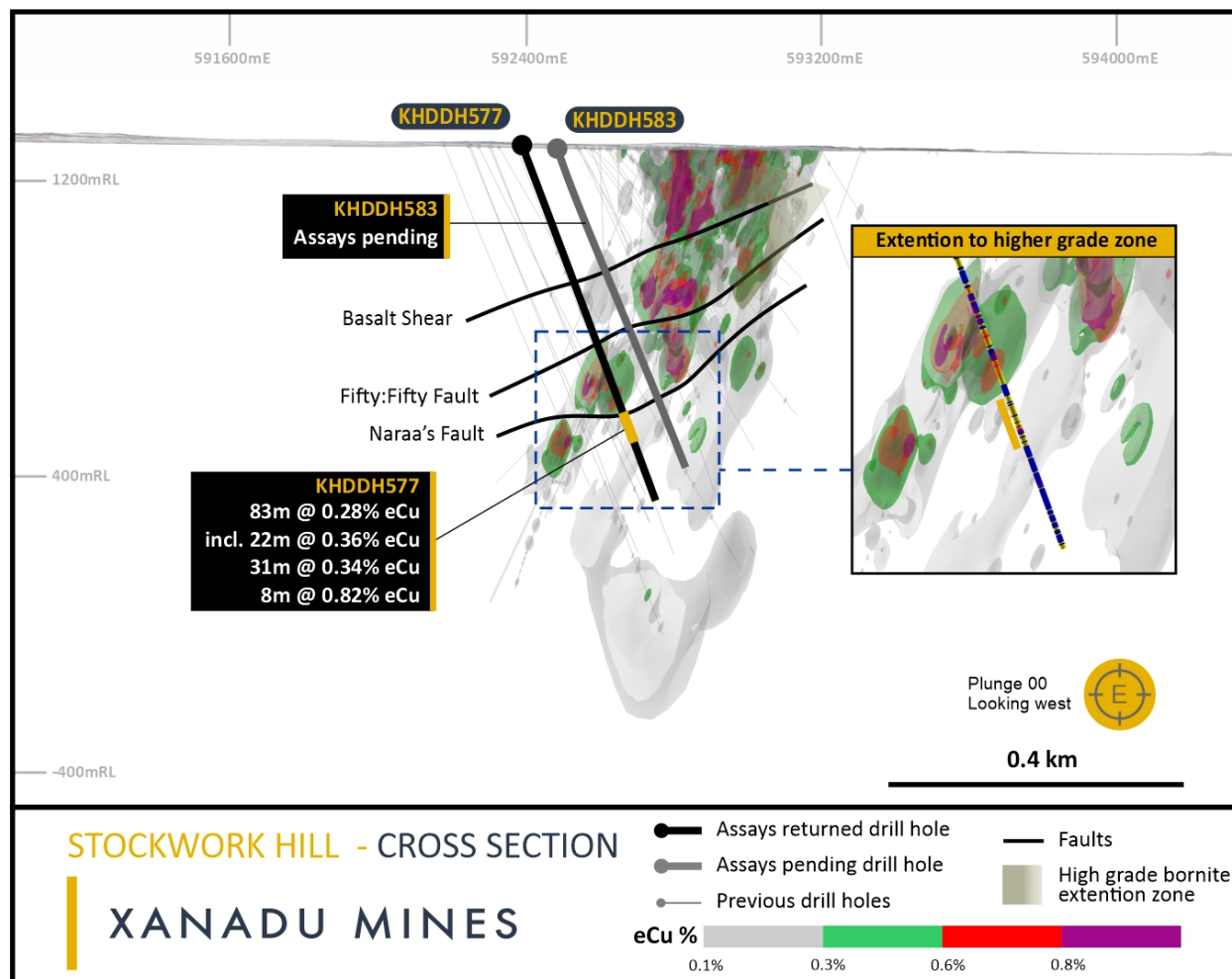


Figure 4. Stockwork Hill cross section showing drill hole KHDDH577 and interpreted grade shells

About KHDDH577, 579, 580 and 583 (Upper fault-block targets - bornite zone)

Drill holes KHDDH577, 579, 580 and 583 were designed to test the upper fault block above the high-grade bornite zone for additional bornite mineralisation (**Figures 1, 2, 3 and 4**). These holes encountered weak to moderate stockwork hosted chalcopyrite mineralisation associated with the same host lithology as the main high-grade bornite zone, suggesting a near miss to the high-grade bornite within this fault block. Modelling is underway to vector to higher grades within this fault block and near-term additional drilling will focus on the lower fault block, below the high-grade bornite zone. Full intercepts can be found in **Table 2**.

About KHDDH578 and 581 (Eastern extensions of Stockwork Hill)

Drill holes KHDDH578 and 581 were designed to test the faulted offsets to the eastern extension of Stockwork Hill where high-grade tourmaline mineralisation terminates against Naraa's Fault (**Figures 1, 2 and 3**). KHDDH578 returned patchy tourmaline breccia mineralisation suggesting a near miss. KHDDH581 was drilled as a 100m step over to the south of KHDDH578. Assays are pending for KHDDH581 and full intercepts for KHDDH578 can be found in **Table 2**.

Management's Discussion and Analysis

About KHDDH584 (Down-dip High-Grade Bornite Zone)

Drill hole KHDDH584 collared during the quarter and was designed to test the southern, down-dip extension to the high-grade bornite zone (**Figures 1, 2 and 3**). KHDDH584 encountered a 120m wide zone of mineralisation within the expected target zone. Assays are pending for KHDDH584 and will be returned in the coming months.

WHITE HILL DRILLING

Two diamond drill holes were drilled at White Hill during the quarter (KHDDH575 and KHDDH576) and final assay results were received for KHDDH569, which was completed during the previous quarter ⁹.

KHDDH569 was drilled targeting the southern extensions of the White Hill deposit. The hole encountered mineralisation over 300m outside the current mineral resource estimate boundary and has returned a significant 697m intercept (**Figure 1, 5 and 6**).

Hole ID	Interval	Cu	Au	CuEq	From
KHDDH569	697m	0.29%	0.18g/t	0.38%	443m
including	172m	0.31%	0.38g/t	0.51%	570m
and	208m	0.44%	0.18g/t	0.52%	754m
including	32m	0.62%	0.22g/t	0.73%	811m
and	42m	0.59%	0.21g/t	0.69%	904m
and	60m	0.35%	0.15g/t	0.43%	972m
and	22m	0.47%	0.24g/t	0.59%	990m

Note that true widths will generally be narrower than those reported. See disclosure in JORC explanatory statement attached.

About KHDDH575

Drill hole KHDDH575 was designed as a 300m step to the east of KHDDH569 aimed at expanding the southern margin of White Hill. KHDDH575 encountered three broad zones of mineralisation and has extended the global mineralisation envelope for White Hill 300m to the east and 300m to the south. Full Intercepts can be found in **Table 2**.

About KHDDH576

Drill hole KHDDH576 was designed as a 150m step to the west of KHDDH569 aimed at expanding the southern margin of White Hill. KHDDH576 has expanded the global mineralisation envelope for White Hill 150m to the west and 300m to the south. Full Intercepts can be found in **Table 2**.

⁹ ASX/TSX Announcement July 13, 2021 - Large Scale Extension at White Hill

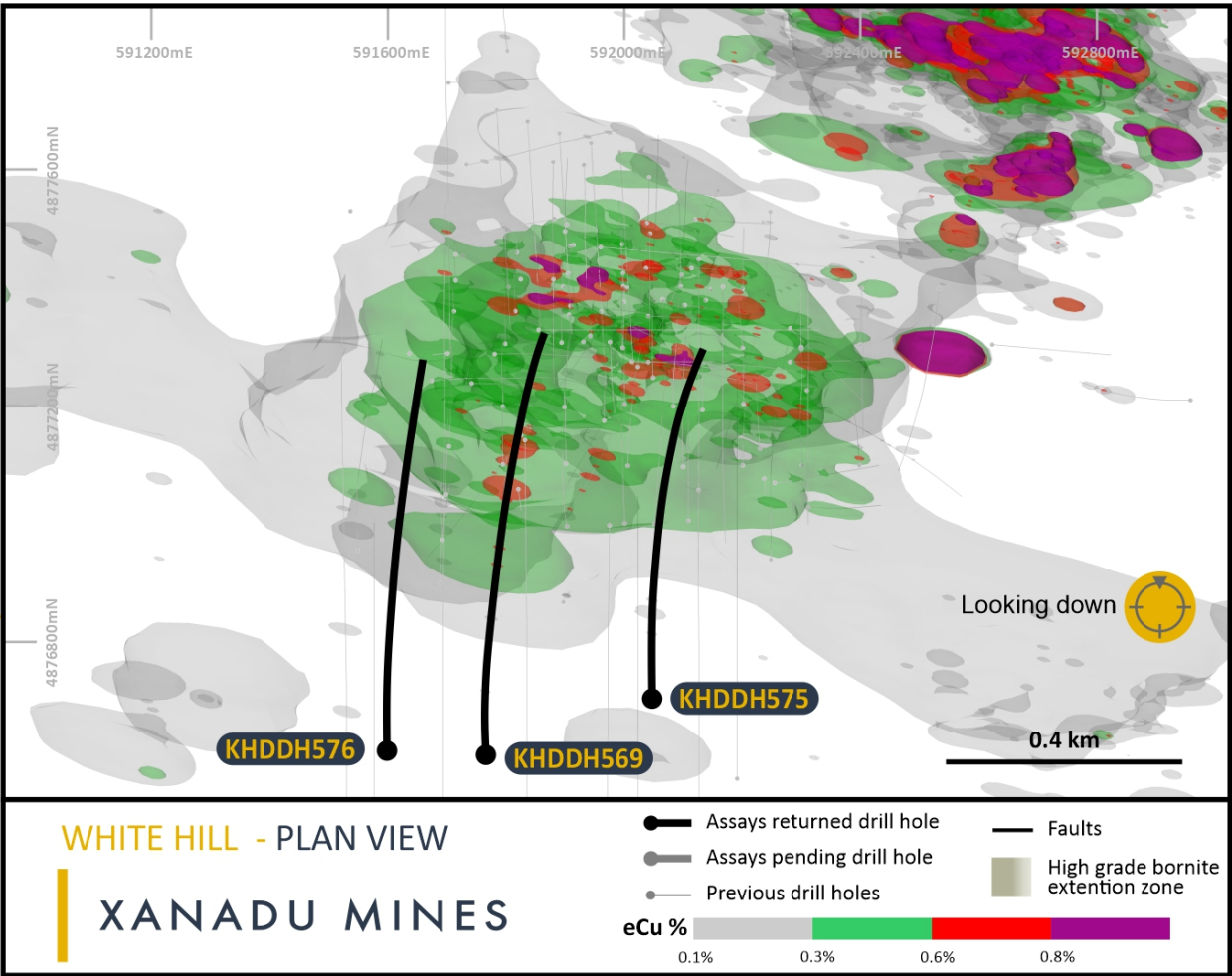


Figure 5. Plan View of the White Hill deposit showing KHDDH569, KHDDH575 and KHDDH576.

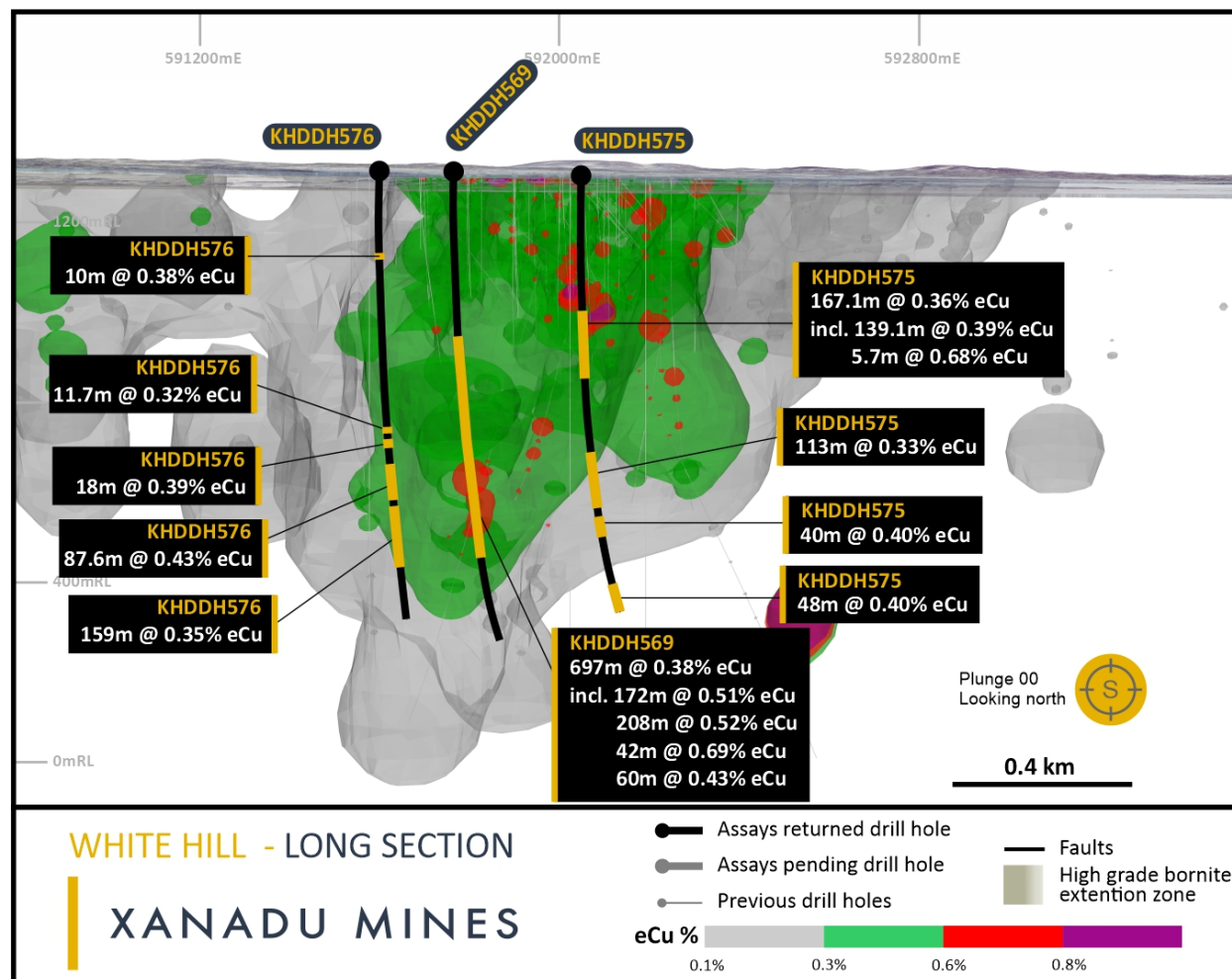


Figure 6. Long Section of the White Hill deposit showing KHDDH569, KHDDH575 and KHDDH576.¹⁰

DISCOVERY DRILLING

About KHDDH574 and KHDDH582

Drill holes KHDDH574 and KHDDH582 are designed to test the 2km undrilled zone between White Hill and Zarea (Figure 1). Large-scale geophysical and geochemical datasets suggest these systems are linked at depth and a discovery within this area would have a material impact on the Kharmagtai Project.

KHDDH574 was drilled 1km to the southeast of the eastern margin of White Hill and encountered two separate broad zones (320m and 360m wide) of porphyry veining and associated weak copper mineralisation indicative of a near miss to a very large porphyry system. Full intercepts for KHDDH574 can be found in Table 2.

KHDDH582 was collared 500m to the east of KHDDH574 and encountered a very broad zone (700m) of moderate intensity porphyry veining and associated copper mineralisation. Assays are pending for KHDDH582 and are expected in the coming months.

Data from these holes suggest that White Hill and Zarea systems are linked at depth and a third drill hole is being planned to vector into the higher-grade parts of this new, large porphyry system.

¹⁰ ASX/TSX Announcement July 13, 2021 - Large Scale Extension at White Hill

Management’s Discussion and Analysis

Red Mountain Copper-Gold Project

During the quarter, Xanadu and the Japan Oil, Gas and Metals National Corporation (**JOGMEC**) continued exploration activities at Red Mountain. During the quarter exploration activities at Red Mountain consisted of a Moving Loop Electromagnetic (**MLEM**) survey, 1,000m of surface trenching and 2,950m of diamond drilling (**Figure 7**).

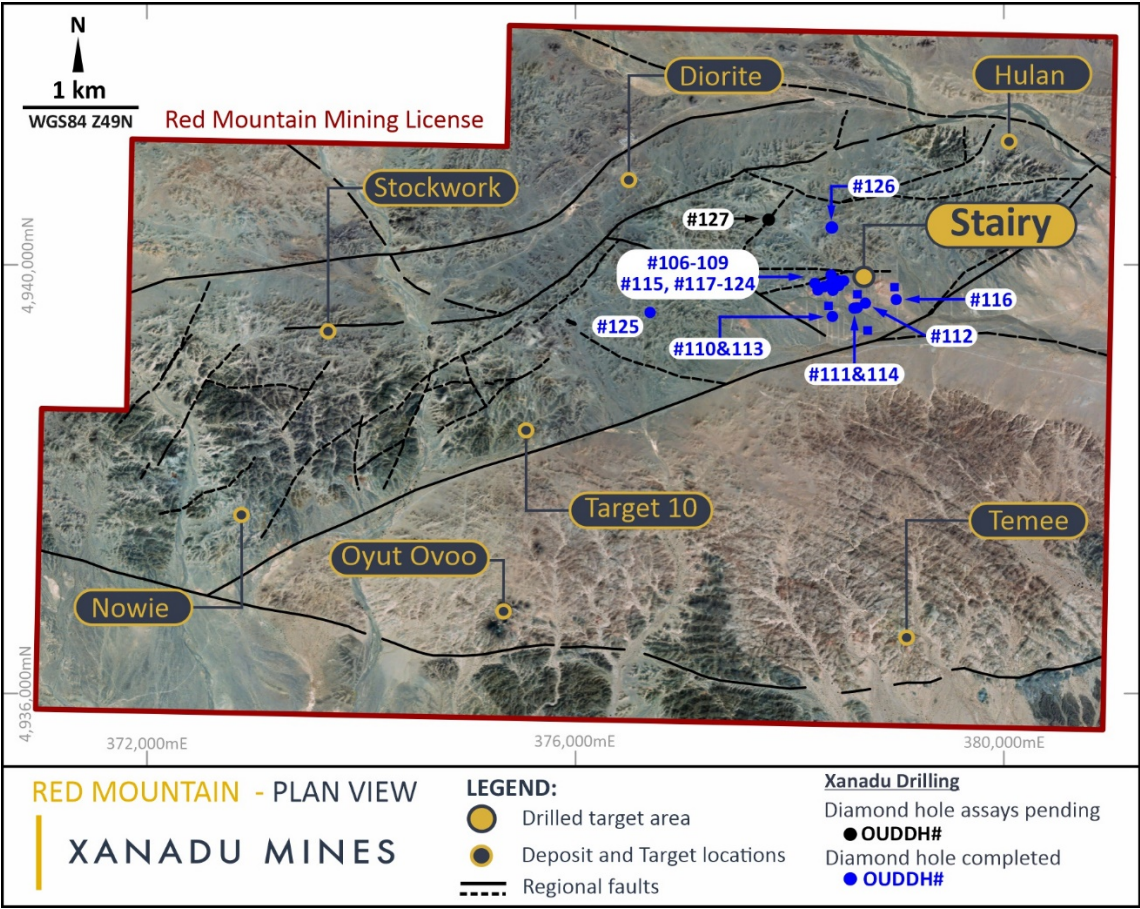


Figure 7. The Red Mountain Mining Lease showing drilling and trenching conducted during the quarter.

STAIRY PROSPECT EXPLORATION

The Stairy prospect contains massive sulphide lenses that coincide with high-grade copper, which may be identifiable using Moving Loop Electromagnetic (**MLEM**). A detailed MLEM survey was completed at Stairy, designed to map the structures that contain the most significant accumulations of massive sulphide. This data was used to assist targeting for 1,000m of trenching and 1,600m of drilling.

Management's Discussion and Analysis

Approximately 1,000m of surface trenching was conducted at Stairy (**Figure 8**) focused on understanding the orientation of known zones of high-grade copper mineralisation. The most significant results were returned from OUTR100 and OUTR104 ¹¹. Full intercepts can be found in **Table 2**.

Trench Hole ID	From ¹²	Interval	Au	Ag	Cu	CuEq
OUTR100	22m	6m	0.01g/t	6.17g/t	0.77%	0.78%
and	132m	12m	0.09g/t	12.63g/t	1.35%	1.39%
including	136m	8m	0.13g/t	18.33g/t	1.96%	2.03%
including	136m	6m	0.17g/t	23.60g/t	2.36%	2.45%
Trench Hole ID	From	Interval	Au	Ag	Cu	CuEq
OUTR104	0m	14m	0.03g/t	9.43g/t	1.32%	1.34%
including	4m	8m	0.04g/t	13.78g/t	1.92%	1.94%
and	38m	14m	0.02g/t	6.56g/t	0.95%	0.96%
including	40m	12m	0.02g/t	7.62g/t	1.08%	1.09%
including	46m	6m	0.03g/t	11.50g/t	1.46%	1.47%

This data was used to design approximately 1,600m of diamond drilling in 19 drill holes targeting shallow high-grade copper-silver mineralisation (**Figure 9**). Assay results from this drilling have been returned and high-grade copper silver intercepts were returned from OUDDH112, OUDDH115 and OUDDH119 ¹³.

Hole ID	From	Interval	Cu	Ag
OUDDH112	0	8m	0.15%	0.96g/t
and	30m	4m	0.16%	0.80g/t
and	40m	4m	1.98%	9.15g/t
and	48m	4m	0.19%	1.20g/t
Hole ID	From	Interval	Cu	Ag
OUDDH115	60m	4m	7.34%	29.29g/t
including	61.5m	1m	28.90%	114.0g/t
Hole ID	From	Interval	Cu	Ag
OUDDH119	42m	6m	0.27%	0.55g/t
including	42m	4m	0.36%	0.70g/t
and	94m	8m	1.31%	7.00g/t
including	94m	6m	1.72%	9.17g/t

¹¹ ASX/TSX Announcement August 5, 2021 - Significant Trench Results & Drilling Commences at Red Mountain

¹² Refers to horizontal distance long the trench

¹³ ASX/TSX Announcement September 28, 2021 - New High-Grade Bornite Intersections at Red Mountain

Management’s Discussion and Analysis

Note that true widths will generally be narrower than those reported. See disclosure in JORC explanatory statement attached.

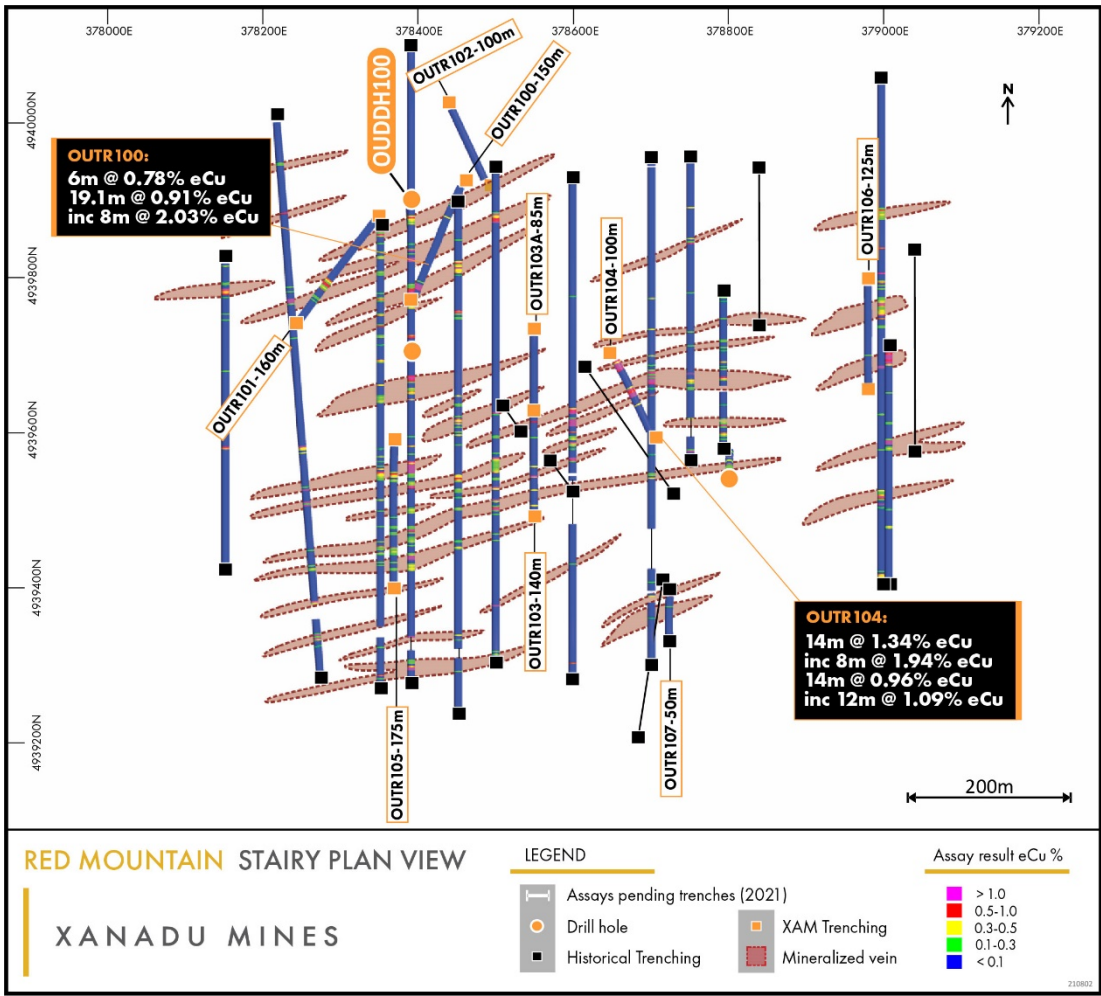


FIGURE 8: Trenching Results at Stairy, showing surface high-grade mineralisation.¹⁴

¹⁴ ASX/TSX Announcement August 5, 2021 - Significant Trench Results & Drilling Commences at Red Mountain

Management's Discussion and Analysis

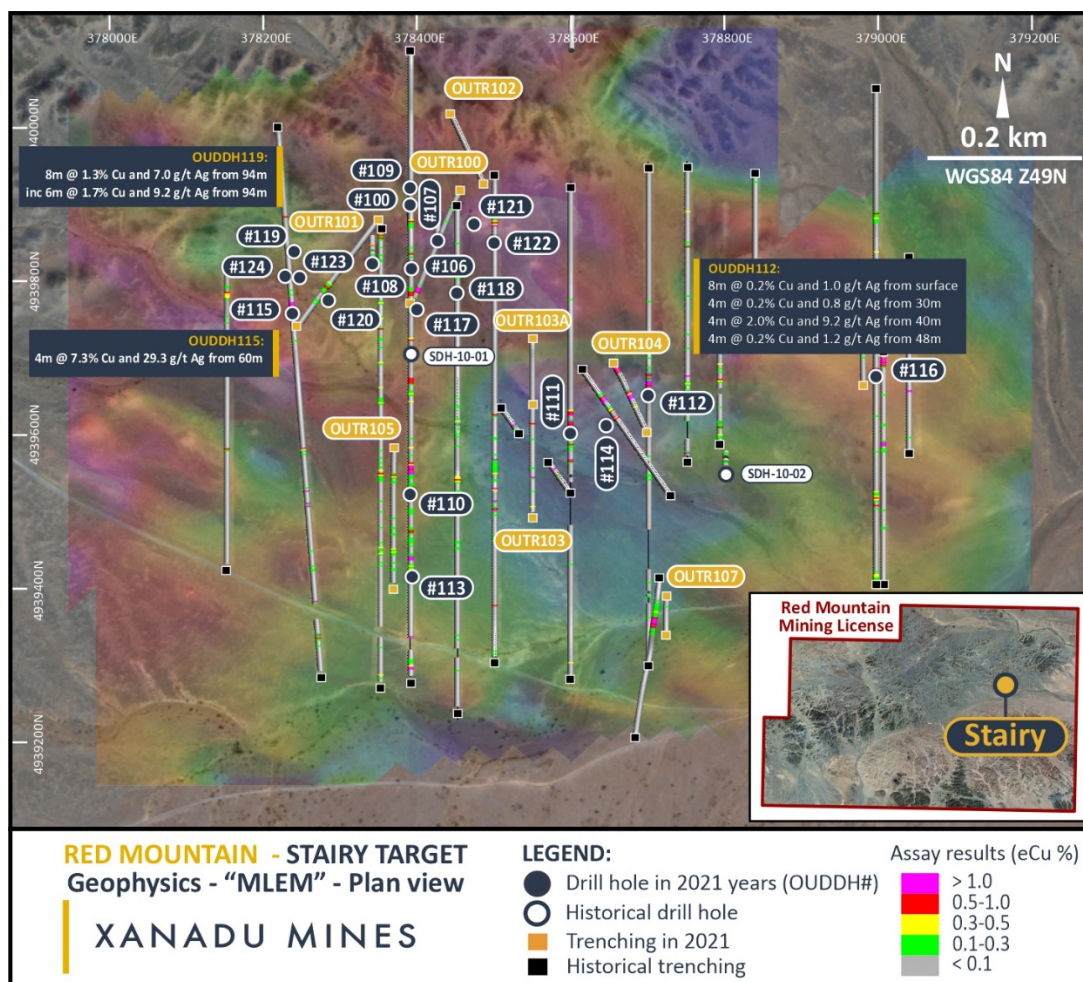


FIGURE 9: Plan view of Stairy showing MLEM conductors and OUDDH112 OUDDH115 and OUDDH119.^{15,16,17}

These results and planned drilling aim to develop the Red Mountain district as a standalone shallow high-grade copper project, complementing the large-scale Kharmagtai copper-gold district in Xanadu's portfolio.

An additional 1,350 meters of drilling was conducted at Red Mountain in three holes targeting large-scale porphyry IP chargeability anomalies. No significant results were returned from this drilling.

Intercept parameters have been changed for Stairy drilling and trenching to include 2m internal dilution to represent mining methods more closely for similar high-grade deposits. Previously reported intercepts may vary.

¹⁵ ASX/TSX Announcement June 16, 2021 - Multiple Strong MLEM Conductors Detected at Stairy

¹⁶ ASX/TSX Announcement August 5, 2021 - Significant Trenching Results & Drilling Commences at Red Mountain

¹⁷ ASX/TSX Announcement September 28, 2021 - New High-Grade Bornite intersections at Red Mountain

Management's Discussion and Analysis

DECEMBER QUARTER PLANNED EXPLORATION ACTIVITIES

In the Kharmagtai district at Stockwork Hill, two diamond drill holes KHDDH584 and KHDDH585 are currently underway.

KHDDH584 is targeting the down-dip extensions of the high-grade bornite zone. This hole is currently at 1,000m and has passed through 120m of strong (visual) mineralisation below the Fifty-Fifty fault.

Drilling has commenced on KHDDH585, which is targeting a large gap surrounded by high grade intercepts in the Tourmaline Breccia Zone and will also test the lower fault block of the high-grade bornite zone. This hole is currently at 250m and has encountered high-grade (visual) tourmaline breccias from 230m.

In the Red Mountain district, data from the recent drilling and trenching is being compiled to generate new models for exploration and targeting, with anticipated follow-up drilling in Q1 2022.

Xanadu will issue an updated JORC Compliant Mineral Resource Estimate for the Kharmagtai district in the December 2021 Quarter.

Corporate Activity

Xanadu increased its ownership to 100% of the Red Mountain district by acquiring a 10% minority interest from Enkh Tunkh Delkhii LLC, a private Mongolian company, for US\$350,000 cash. Registration of the change in share ownership was finalised with the Mongolia regulator on October 29, 2021. This acquisition forms part of a broader commercial strategy to consolidate and simplify ownership of the Company's projects.

Also at Red Mountain, prior to meeting earn-in conditions, Japan Oil, Gas and Metals National Corporate (**JOGMEC**) elected to terminate the Red Mountain Joint Exploration Agreement, effective November 30, 2021. The Joint Exploration Agreement dated March 24, 2020, allowed JOGMEC to earn 51% of the Red Mountain project by investing US\$7.2 million over a four-year period. Through September 30, 2021, US\$2.6m (A\$3.6m) was spent under the Joint Exploration Agreement, which funded geophysics and 11,295 metres of diamond drilling. By terminating the Joint Exploration Agreement prior to meeting these conditions, JOGMEC forfeited its rights to the Red Mountain district, and ownership has reverted to the previous structure.

On November 1, 2021, Xanadu issued its inaugural Sustainability Report, demonstrating our commitment to Environmental, Social and Governance and our goal to be a leader in sustainable exploration.

COVID19 in Mongolia

The economy of Mongolia has fared relatively well compared to others during the COVID-19 pandemic, largely due to the conservative approach taken by the Government of Mongolia at the start of the period. Mongolia has now vaccinated a large portion of its population and is one of the first countries making the transition to a post-vaccinated economy. This includes an ongoing program to roll out booster shots across the country.

Mining and exploration facilities, including Xanadu, have continued operations with limited interruption, as have assay labs in Ulaanbaatar.

Management's Discussion and Analysis

RESULTS OF OPERATIONS

Summary of results

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

Table 1. Selected Quarterly Information

	Quarter Ended				
	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Exploration Expenditure					
Kharmagtai	2,756	2,297	1,640	2,457	1,534
Red Mountain	1,090	480	885	242	832
Exploration expenditures capitalised *	3,092	2,457	1,640	2,345	1,545
Impairment of deferred exploration expenditure	-	-	-	-	-
Corporate general and administration	930	606	1,187	939	937
Share-based payments	-	-	-	-	-
Depreciation and amortisation	11	13	14	15	12
Loss after income tax attributable to owners of Xanadu	1,098	666	1,221	931	642
Basic loss per share	0.09	0.05	0.11	0.09	0.07
Diluted loss per share	0.09	0.05	0.11	0.09	0.07
Kharmagtai drill metres	11,146	8,760	7,984	14,380	7,209
Red Mountain drill metres	2,950	-	4,039	393	3,629

* Red Mountain exploration funded by JOGMEC under the Joint Exploration Agreement is not capitalised.

Liquidity and capital resources

On September 30, 2021, the Company had cash and cash equivalents on hand of \$7.0 million (December 31, 2020: \$7.7 million).

The primary use of funds in 2021 is continued exploration activities at the Company's Kharmagtai copper-gold project. The Company may need to raise additional capital for its exploration activities or seek joint venture partners. There is a risk that capital or joint venture partners may not be available or available on acceptable terms. Capital management is a priority of Management, and the Company retains the flexibility to reduce its cost base while preserving its exploration 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 September 30, 2021, the Company had an unlimited number of ordinary shares authorised, with 1,255,617,750 fully paid shares outstanding (Dec 31, 2020: 1,091,841,522).

Unlisted options

As at September 30, 2021, there were no unlisted options outstanding.

Off balance sheet arrangements

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

Management's Discussion and Analysis

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 September 30, 2021 (\$'000):

- Trade payables \$445 due in 30 days
- Ulaanbaatar office rent \$20 to the end of the year
- Vehicle leases \$200 due over 24 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, 2020 and December 31, 2019 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 Tughrig (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:** Even if commercial quantities of mineral deposits are discovered, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any minerals discovered. The prices of various metals have experienced significant movement over short periods of time and are

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affected by numerous factors beyond the control of the Company, including, among other things, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The Company is particularly exposed to the risk of movement in the price of copper and gold.

- **Equity Price Risk:** Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings.

Credit Risk

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

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$7.0 million at September 30, 2021 (December 31, 2020: \$7.7 million).

Liquidity Risk

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

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, 2020.

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

Management's Discussion and Analysis

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 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.

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KEY MANAGEMENT COMPENSATION

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

	Three Months Ended September 30, 2021 \$'000	Three Months Ended September 30, 2020 \$'000
Salaries and fees	429	410
STI Bonus	-	-
Superannuation	12	11
Share based payments	-	-
	441	421

The Company had the following performance rights on September 30, 2021, related to the Company's Employee Share and Option Plan.¹⁸ These were approved by Shareholders in a December 2020 Extraordinary General Meeting¹⁹, and new Independent Non-Executive Director Tony Pearson was added to the plan with Shareholder approval in the June 2021 Annual General Meeting²⁰. The vesting of the options for both Executive Directors and Key Management Personnel is subject to the Company achieving both share price targets and technical & development hurdles.²¹ These were granted as follows.

Key Management Personnel	Unvested Options Granted July 2021
Colin Moorhead	6,840,000
Michele Muscillo	3,420,000
Tony Pearson	3,420,000
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 27 of the Company's audited annual financial statements for the period ended December 31, 2020. Additional transactions during the first quarter of 2021 are described below.

Payments made to related parties and their associates was \$298k in the quarter ended September 30, 2021. 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 and consulting fees paid to Colin Moorhead & Associates (a company associated with Xanadu Chairman Colin Moorhead) in relation to Xanadu's Melbourne office, geology and sustainability consultants; and rent paid to Bastion Minerals Limited (a company in which Xanadu CEO and Executive Director 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.

¹⁸ ASX/TSX Announcements July 28, 2021 - Change of Director's Interest Notice

¹⁹ ASX/TSX Announcements December 23, 2020 - Results of Extraordinary General Meeting

²⁰ ASX/TSX Announcements June 17, 2021 - Results of Annual General Meeting

²¹ ASX/TSX Announcement November 20, 2020 - Notice of Extraordinary General Meeting & Related Documents

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EXPLORATION RESULTS TABLES

Table 2. Drill hole details from the quarter (KH prefix = Kharmagtai, OU prefix = Red Mountain).

Hole ID *	Prospect	East	North	RL	Azimuth (°)	Inc (°)	Depth (m)
KHDDH575	White Hill	592048	4876705	1309	0	-60	1147.6
KHDDH576	White Hill	591599	4876617	1314	0	-60	1198.9
KHDDH577	Stockwork Hill	592276	4877392	1297	0	-70	1026.7
KHDDH578	Stockwork Hill	592980	4877940	1280	180	-67	1054.5
KHDDH579	Stockwork Hill	592297	4877540	1293	0	-62	950.0
KHDDH580	Stockwork Hill	592361	4877253	1299	0	-70	1194.8
KHDDH581	Stockwork Hill	592982	4877864	1281	180	-67	870.4
KHDDH582	Zaraa	593586	4876318	1293	0	-60	1437.0
KHDDH583	Stockwork Hill	592376	4877485	1293	0	-70	935.5
KHDDH584	Stockwork Hill	592560	4877182	1298	0	-70	1000.0
OUDDH106	Stairy	378390	4939816	1055	0	-58	145.0
OUDDH107	Stairy	378426	4939852	1055	0	-58	95.0
OUDDH108	Stairy	378342	4939821	1055	0	-58	75.0
OUDDH109	Stairy	378388	4939917	1056	180	-60	125.0
OUDDH110	Stairy	378392	4939522	1051	0	-58	75.5
OUDDH111	Stairy	378598	4939602	1049	0	-58	75.5
OUDDH112	Stairy	378699	4939648	1050	0	-58	75.5
OUDDH113	Stairy	378393	4939413	1049	0	-58	75.0
OUDDH114	Stairy	378644	4939610	1049	0	-58	75.5
OUDDH115	Stairy	378237	4939758	1056	0	-60	80.5
OUDDH116	Stairy	378995	4939675	1044	0	-60	75.0
OUDDH117	Stairy	378396	4939764	1054	0	-58	85.0
OUDDH118	Stairy	378451	4939784	1054	0	-58	75.0
OUDDH119	Stairy	378239	4939837	1056	180	-60	120.0
OUDDH120	Stairy	378285	4939774	1055	0	-58	85.0
OUDDH121	Stairy	378473	4939874	1055	0	-58	75.0
OUDDH122	Stairy	378501	4939846	1054	0	-58	75.0
OUDDH123	Stairy	378246	4939803	1056	180	-55	55.0
OUDDH124	Stairy	378228	4939804	1056	180	-55	55.0
OUDDH125	Bavuu	376700	4939549	1081	0	-75	400.0
OUDDH126	Diorite	378398	4940329	1064	180	-75	400.0
OUDDH127	Diorite	377800	4940430	1071	0	-65	550.0
OUTR104	Stariy	378656	4939694	1051	152	0	100.0
OUTR105	Stariy	378370	4939582	1052	180	0	175.0
OUTR106	Stariy	378979	4939792	1047	180	0	125.0
OUTR107	Stariy	378725	4939389	1045	180	0	50.0

* This table excludes holes KHDDH572, KHDDH573 and KHDDH574 which were drilled early during the quarter but reported as part of the June Quarterly Report.

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Table 3. Significant drill results from the quarter (KH prefix = Kharmagtai, OU prefix = Red Mountain)

Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Ag (g/t)*	Cu (%)	CuEq (%)	AuEq (g/t)
KHDDH572	Copper Hill	85	93	8	0.41		0.07	0.28	0.55
and		108	112	4	0.24		0.04	0.17	0.33
and		155	173	18	0.17		0.03	0.11	0.22
and		262	276	14	0.07		0.08	0.12	0.23
and		294	318	24	0.06		0.07	0.10	0.20
and		530	562	32	0.25		0.03	0.15	0.30
including		530	544	14	0.46		0.03	0.26	0.51
KHDDH573	Stockwork Hill	452.2	459.5	7.3	0.17		0.14	0.22	0.43
and		474	714	240	1.24		0.72	1.36	2.65
including		474	712	238	1.25		0.73	1.37	2.67
including		490	498	8	0.49		0.23	0.48	0.94
including		508	512	4	0.25		0.53	0.65	1.28
including		522	706	184	1.54		0.87	1.65	3.23
including		534	664	130	1.58		0.94	1.75	3.42
including		678	704	26	2.56		0.91	2.22	4.34
and		750	812	62	0.06		0.14	0.18	0.35
including		796	808	12	0.08		0.30	0.34	0.66
and		850	963	113	0.06		0.16	0.19	0.37
including		906.1	933	26.9	0.09		0.30	0.35	0.68
including		943	957	14	0.12		0.26	0.32	0.63
and		973	983.1	10.1	0.13		0.29	0.35	0.69
including		975	983.1	8.1	0.15		0.33	0.40	0.79
KHDDH574	Stockwork Hill	15	19	4	0.19		0.04	0.14	0.27
and		33	47	14	0.14		0.05	0.12	0.23
and		117	124.6	7.6	0.11		0.04	0.10	0.20
and		525	529	4	0.04		0.11	0.13	0.26
and		539	545	6	0.06		0.12	0.15	0.29
and		557	563	6	0.06		0.14	0.17	0.34
and		573	577	4	0.07		0.13	0.16	0.31
and		613	643	30	0.03		0.07	0.09	0.18
and		677	723	46	0.03		0.09	0.11	0.21
and		802	832	30	0.02		0.08	0.09	0.17
and		858	882	24	0.02		0.09	0.10	0.19
and		993	1009	16	0.08		0.08	0.12	0.24
and		1058	1074	16	0.11		0.07	0.13	0.25
and		1104	1159	55	0.08		0.09	0.13	0.25
including		1151	1155	4	0.13		0.26	0.33	0.64
and		1171	1245.5	74.5	0.06		0.08	0.12	0.23
and		1255	1270	15	0.11		0.23	0.28	0.55
and		1290	1297	7	0.16		0.07	0.15	0.30

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Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Ag (g/t)*	Cu (%)	CuEq (%)	AuEq (g/t)
<i>and</i>		1319	1323	4	0.07		0.20	0.23	0.45
<i>and</i>		1335	1375	40	0.07		0.29	0.32	0.63
<i>including</i>		1343	1359	16	0.10		0.46	0.51	1.01
<i>including</i>		1345	1357	12	0.09		0.47	0.52	1.01
<i>and</i>		1443	1475	32	0.06		0.08	0.11	0.21
<i>and</i>		1487	1491	4	0.06		0.15	0.17	0.34
<i>and</i>		1540	1564	24	0.05		0.09	0.11	0.22
KHDDH575	White Hill	200	224	24	0.04		0.07	0.09	0.18
<i>and</i>		237	241.4	4.4	0.04		0.09	0.11	0.22
<i>and</i>		267	289.1	22.1	0.08		0.09	0.13	0.26
<i>and</i>		309	331	22	0.04		0.09	0.11	0.21
<i>and</i>		357	524.1	167.1	0.13		0.29	0.36	0.70
<i>including</i>		385	524.1	139.1	0.14		0.31	0.39	0.75
<i>including</i>		459.3	462.6	3.3	0.50		0.17	0.43	0.83
<i>including</i>		474.3	480	5.7	0.22		0.57	0.68	1.34
<i>and</i>		713.7	1014	300.3	0.07		0.24	0.27	0.54
<i>including</i>		713.7	723.4	9.7	0.10		0.46	0.51	0.99
<i>including</i>		739	852	113	0.08		0.29	0.33	0.64
<i>including</i>		868	876	8	0.10		0.28	0.33	0.65
<i>including</i>		890	930	40	0.10		0.34	0.40	0.77
<i>and</i>		1056	1147.6	91.6	0.10		0.24	0.29	0.56
<i>including</i>		1079	1127	48	0.15		0.33	0.40	0.79
<i>including</i>		1106	1112.6	6.6	0.28		0.53	0.68	1.33
KHDDH576	White Hill	186	224	38	0.12		0.21	0.27	0.53
<i>including</i>		192	200	8	0.16		0.37	0.45	0.88
<i>including</i>		210	220	10	0.20		0.28	0.38	0.75
<i>and</i>		252	323	71	0.03		0.11	0.12	0.24
<i>and</i>		377.6	392	14.4	0.04		0.13	0.15	0.29
<i>and</i>		402	451	49	0.04		0.11	0.13	0.26
<i>and</i>		461	572	111	0.03		0.11	0.12	0.23
<i>and</i>		582	1099	517	0.09		0.25	0.30	0.58
<i>including</i>		652	656	4	0.10		0.28	0.33	0.65
<i>including</i>		678.2	689.9	11.7	0.11		0.26	0.32	0.62
<i>including</i>		703	721	18	0.20		0.29	0.39	0.76
<i>including</i>		733	739	6	0.09		0.24	0.29	0.57
<i>including</i>		753	760	7	0.17		0.34	0.42	0.83
<i>including</i>		787.4	875	87.6	0.15		0.35	0.43	0.84
<i>including</i>		893	1052	159	0.09		0.30	0.35	0.68
<i>and</i>		1129	1139	10	0.03		0.12	0.14	0.28
KHDDH577	Stockwork Hill	3	333	330	0.09		0.16	0.20	0.40
<i>including</i>		3	23	20	0.22		0.31	0.42	0.82

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Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Ag (g/t)*	Cu (%)	CuEq (%)	AuEq (g/t)
<i>including</i>		41	55	14	0.19		0.26	0.36	0.70
<i>including</i>		102	115.5	13.5	0.29		0.19	0.34	0.67
<i>including</i>		125	153	28	0.09		0.20	0.25	0.48
<i>and</i>		347	355.4	8.4	0.03		0.08	0.10	0.19
<i>and</i>		370.5	375	4.5	0.04		0.09	0.11	0.21
<i>and</i>		385	395	10	0.04		0.11	0.13	0.26
<i>and</i>		427	444	17	0.03		0.09	0.11	0.21
<i>and</i>		464	480	16	0.04		0.11	0.13	0.25
<i>and</i>		524	532	8	0.04		0.07	0.10	0.19
<i>and</i>		544	570	26	0.04		0.09	0.11	0.21
<i>and</i>		590	608	18	0.07		0.08	0.11	0.22
<i>and</i>		639	699	60	0.07		0.16	0.20	0.39
<i>including</i>		669	685	16	0.12		0.30	0.36	0.71
<i>and</i>		717	757	40	0.13		0.20	0.27	0.52
<i>including</i>		721	727	6	0.28		0.43	0.57	1.11
<i>including</i>		739	747	8	0.21		0.23	0.33	0.65
<i>and</i>		775	858	83	0.28		0.13	0.28	0.54
<i>including</i>		793	815	22	0.20		0.26	0.36	0.70
<i>including</i>		825	856	31	0.51		0.08	0.34	0.66
<i>including</i>		825	833	8	1.25		0.18	0.82	1.61
<i>and</i>		922	928	6	0.15		0.21	0.29	0.57
<i>and</i>		962	972	10	0.08		0.10	0.14	0.28
<i>and</i>		982	1004	22	0.05		0.08	0.10	0.20
<i>and</i>		1016	1026.7	10.7	0.06		0.08	0.11	0.22
KHDDH578	Stockwork Hill	206	218	12	0.32		0.01	0.18	0.35
<i>and</i>		295	347	52	0.13		0.07	0.14	0.27
<i>including</i>		323	331	8	0.47		0.08	0.32	0.63
<i>and</i>		371	491	120	0.05		0.10	0.13	0.25
<i>including</i>		439	443	4	0.09		0.32	0.36	0.71
<i>and</i>		562	593	31	0.04		0.09	0.11	0.21
<i>and</i>		607	670	63	0.06		0.09	0.12	0.24
<i>and</i>		775	849	74	0.04		0.15	0.17	0.34
<i>including</i>		785	803	18	0.08		0.31	0.35	0.68
<i>and</i>		859	875	16	0.03		0.14	0.16	0.31
<i>and</i>		956	964	8	0.02		0.06	0.07	0.13
<i>and</i>		988	998	10	0.03		0.07	0.08	0.17
KHDDH579	Stockwork Hill	7	21	14	0.08		0.16	0.20	0.39
<i>including</i>		13	17	4	0.15		0.24	0.31	0.61
<i>and</i>		39	47	8	0.06		0.08	0.11	0.21
<i>and</i>		80	127	47	0.05		0.09	0.11	0.22
<i>and</i>		215	227	12	0.07		0.06	0.10	0.20

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Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Ag (g/t)*	Cu (%)	CuEq (%)	AuEq (g/t)
<i>and</i>		259	304	45	0.12		0.11	0.17	0.34
<i>including</i>		269	280	11	0.17		0.16	0.24	0.48
<i>and</i>		318	371	53	0.08		0.09	0.13	0.25
<i>and</i>		399	411	12	0.07		0.06	0.09	0.19
<i>and</i>		425	435	10	0.03		0.06	0.07	0.14
<i>and</i>		453	459	6	0.11		0.07	0.13	0.25
<i>and</i>		511	515	4	0.09		0.07	0.12	0.23
<i>and</i>		525	552	27	0.07		0.25	0.29	0.56
<i>and</i>		562	580	18	0.02		0.08	0.09	0.17
<i>and</i>		596	701	105	0.09		0.17	0.22	0.42
<i>including</i>		648	674	26	0.19		0.24	0.34	0.67
<i>including</i>		692	701	9	0.06		0.42	0.45	0.87
<i>and</i>		714.6	773.5	58.9	0.08		0.17	0.21	0.41
<i>including</i>		714.6	731	16.4	0.05		0.17	0.20	0.39
<i>including</i>		755	773.5	18.5	0.15		0.30	0.37	0.73
<i>and</i>		797	803	6	0.26		0.24	0.37	0.72
<i>including</i>		797	801	4	0.25		0.28	0.41	0.80
<i>and</i>		840	846	6	0.08		0.08	0.12	0.24
<i>and</i>		858	872	14	0.09		0.07	0.12	0.23
<i>and</i>		898	912	14	0.06		0.08	0.11	0.22
<i>and</i>		934	938	4	0.14		0.07	0.14	0.27
KHDDH580	Stockwork Hill	1	205	204	0.15		0.22	0.30	0.58
<i>including</i>		1	97	96	0.21		0.28	0.38	0.75
<i>including</i>		107	125	18	0.18		0.29	0.38	0.74
<i>including</i>		181	185	4	0.11		0.27	0.32	0.63
<i>and</i>		215	514.5	299.5	0.07		0.16	0.20	0.39
<i>including</i>		279	303	24	0.16		0.23	0.31	0.60
<i>including</i>		313	321	8	0.12		0.27	0.33	0.65
<i>and</i>		778	832	54	0.05		0.11	0.13	0.26
<i>and</i>		859	881	22	0.12		0.03	0.09	0.18
<i>and</i>		897	903	6	0.18		0.07	0.16	0.32
<i>and</i>		999	1004.6	5.6	0.08		0.07	0.11	0.22
<i>and</i>		1030.3	1037	6.7	0.03		0.11	0.13	0.25
<i>and</i>		1049	1079	30	0.04		0.07	0.09	0.18
<i>and</i>		1117	1143	26	0.05		0.12	0.14	0.28
KHDDH581	Stockwork Hill	Assays pending							
KHDDH582	Zaraa	Assays pending							
KHDDH583	Stockwork Hill	Assays pending							
KHDDH584	Stockwork Hill	Assays pending							
OUDDH106	Stairy	8	12	4	0.01	0.90	0.19	0.20	0.38
<i>and</i>		42	45.4	3.4	0.02	3.18	0.58	0.59	1.15

Management's Discussion and Analysis

Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Ag (g/t)*	Cu (%)	CuEq (%)	AuEq (g/t)
<i>and</i>		56	64	8	0.01	1.39	0.29	0.30	0.58
<i>including</i>		56	60	4	0.01	2.20	0.40	0.40	0.78
OUDDH107	Stairy	68	74	6	0.01	0.90	0.20	0.21	0.40
OUDDH108	Stairy	0	4	4	0.01	0.38	0.12	0.13	0.25
<i>and</i>		10	14	4	0.01	1.85	0.34	0.34	0.66
<i>and</i>		26	32	6	0.01	2.27	0.51	0.52	1.02
<i>and</i>		40	44	4	0.02	2.50	0.45	0.46	0.89
<i>and</i>		68	72	4	0.01	0.53	0.15	0.16	0.31
OUDDH109	Stairy	102	108	6	0.02	1.27	0.28	0.29	0.57
<i>and</i>		118	124	6	0.05	2.37	0.49	0.51	1.00
OUDDH110	Stairy	18	24	6	0.02	0.67	0.15	0.16	0.31
<i>and</i>		66	72	6	0.03	3.10	0.60	0.61	1.19
<i>including</i>		68	72	4	0.03	3.85	0.75	0.77	1.50
OUDDH112		0	8	8	0.01	0.96	0.15	0.15	0.30
<i>and</i>		30	34	4	0.01	0.80	0.16	0.17	0.32
<i>and</i>		40	44	4	0.03	9.15	1.98	1.99	3.90
<i>and</i>		48	52	4	0.02	1.20	0.20	0.20	0.40
OUDDH113	Stairy	16	26	10	0.01	1.26	0.24	0.24	0.47
<i>including</i>		32	54	22	0.01	1.03	0.21	0.21	0.42
OUDDH115	Stairy	60	64	4	0.03	29.29	7.34	7.36	14.38
<i>including</i>		61.5	62.5	1	0.10	114.00	28.90	28.95	56.61
OUDDH117	Stairy	70	74	4	0.01	0.55	0.14	0.15	0.28
OUDDH119	Stairy	42	48	6	0.01	0.55	0.27	0.28	0.55
<i>including</i>		42	46	4	0.01	0.70	0.36	0.37	0.72
<i>and</i>		94	102	8	0.01	7.00	1.31	1.32	2.58
<i>including</i>		94	100	6	0.01	9.17	1.72	1.72	3.37
OUDDH120	Stairy	72	76	4	0.01	1.13	0.30	0.30	0.59
OUDDH121	Stairy	42	48	6	0.01	0.40	0.39	0.39	0.76
OUDDH123	Stairy	16	28	12	0.02	2.44	0.35	0.36	0.70
<i>including</i>		18	26	8	0.03	3.23	0.45	0.46	0.90
OUDDH124	Stairy	32	36	4	0.03	1.55	0.27	0.29	0.56
OUDDH125	Bavuu	54	72	18	0.04	0.59	0.05	0.07	0.14
OUDDH127	Diorite	Assays pending							
OUTR100	Stairy	22	28	6	0.01	6.17	0.77	0.78	1.53
<i>and</i>		132	144	12	0.09	12.63	1.35	1.39	2.72
<i>including</i>		136	144	8	0.13	18.33	1.96	2.03	3.97
<i>including</i>		136	142	6	0.17	23.60	2.36	2.45	4.79
OUTR101	Stairy	96	113	17	0.01	2.32	0.32	0.33	0.64
<i>including</i>		102	106	4	0.02	3.35	0.56	0.57	1.11
<i>and</i>		123	131	8	0.01	0.43	0.09	0.09	0.18
OUTR103	Stairy	94	97.5	3.5	0.02	2.86	0.69	0.70	1.37

Management's Discussion and Analysis

Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Ag (g/t)*	Cu (%)	CuEq (%)	AuEq (g/t)
OUTR104	Stariy	0	14	14	0.03	9.43	1.32	1.34	2.62
including		4	12	8	0.04	13.78	1.92	1.94	3.80
and		38	52	14	0.02	6.56	0.95	0.96	1.88
including		40	52	12	0.02	7.62	1.08	1.09	2.12
including		46	52	6	0.03	11.50	1.46	1.47	2.88
OUTR105	Stariy	32	46	14	0.01	0.77	0.24	0.24	0.48
including		34	38	4	0.01	1.10	0.44	0.44	0.86
and		102	106	4	0.01	0.43	0.12	0.12	0.24
and		110	114	4	0.01	0.88	0.11	0.12	0.23
and		130	140	10	0.01	0.62	0.21	0.21	0.42
including		130	136	6	0.01	0.70	0.28	0.28	0.54
and		156	160	4	0.01	0.25	0.15	0.15	0.30

MINERAL RESOURCES AND ORE RESERVES REPORTING REQUIREMENTS

The 2012 Edition of the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves* (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 October 31, 2018. 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 quarter.

COMPETENT PERSON STATEMENT

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 National Instrument 43-101. Dr Stewart consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

Management's Discussion and Analysis

COPPER EQUIVALENT CALCULATIONS

The copper equivalent (**CuEq**) calculation represents the total metal value for each metal, multiplied by the conversion factor, summed and expressed in equivalent copper percentage with a metallurgical recovery factor applied. The copper equivalent calculation used is based off the CuEq calculation defined by CSA in the 2018 Mineral Resource Upgrade.

Copper equivalent (**CuEq**) grade values were calculated using the following formula:

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

Where Cu = copper grade (%); Au = gold grade (gold per tonne (**g/t**)); 0.62097 = conversion factor (gold to copper); and 0.8235 = relative recovery of gold to copper (82.35%).

The copper equivalent formula was based on the following parameters (prices are in USD): Copper price = 3.1 \$/lb (or 6,834 \$ per tonne (**\$/t**)); Gold price = 1,320 \$ per ounce (**\$/oz**); Copper recovery = 85%; Gold recovery = 70%; and Relative recovery of gold to copper = 70% / 85% = 82.35%.

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 Announcement 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.

Management's Discussion and Analysis

KHARMAGTAI TABLE 1 (JORC 2012)

Set out below is Section 1 and Section 2 of Table 1 under the JORC Code, 2012 Edition for the Kharmagtai project. Data provided by Xanadu. This Table 1 updates the JORC Table 1 disclosure dated August 16, 2021.

JORC TABLE 1 - SECTION 1 - SAMPLING TECHNIQUES AND DATA

Criteria	Commentary
Sampling techniques	Representative 2 metre samples were taken from ½ HQ diamond core. Only assay results from recognised, independent assay laboratories were used after QA/QC was verified.
Drilling Techniques	Diamond Drill Hole (DDH) drilling has been the primary drilling method. Some reverse circulation (RC) is conducted. RC holes are denoted by the KHRC prefix. Diamond Drill Holes are denoted by the KHDDH prefix.
Drill sample recovery	DDH core recoveries have been very good, averaging between 95% and 99% for all of the deposits. In localised areas of faulting and/or fracturing, the recoveries decrease, however, this is a very small percentage of the overall mineralised zones. Recovery measurements were collected during all DDH and RC programs. The methodology used for measuring recovery is standard industry practice. Analysis of recovery results vs. grade indicates no significant trends. Indicating bias of grades due to diminished recovery and / or wetness of samples.
Logging	Drill and trench samples are logged for lithology, mineralisation and alteration and geotechnical aspects using a standardised logging system, including the recording of visually estimated volume percentages of major minerals. Drill core was photographed after being logged by a geologist. The entire interval drilled and trenched has been logged by a geologist.
Sub-sampling techniques and sample preparation	DDH Core is cut in half with a diamond saw, following the line marked by the geologist. The rock saw is regularly flushed with fresh water. Sample intervals are generally a constant 2m interval down-hole in length unless subdivided at geological contacts. Routine sample preparation and analyses of DDH samples were carried out by ALS Mongolia LLC (ALS Mongolia), who operates an independent sample preparation and analytical laboratory in Ulaanbaatar. All samples were prepared to meet standard quality control procedures as follows: crushed to 90% passing 3.54 mm, split to 1kg, pulverised to 90% - 95% passing 200 mesh (75 microns) and split to 150g. Certified reference materials (CRMs), blanks and pulp duplicate were randomly inserted to manage the quality of data. Sample sizes are well in excess of standard industry requirements.
Quality of assay data and laboratory tests	All samples were routinely assayed by ALS Mongolia for gold. Au is determined using a 25g fire assay fusion, cupelled to obtain a bead, and digested with Aqua Regia, followed by an atomic absorption spectroscopy (AAS) finish, with a lower detection limit (LDL) of 0.01 ppm. All samples were submitted to ALS Mongolia for the package ME-ICP61 using a four acid digest. Where copper is over-range (>1% Cu), it is analysed by a second analytical technique (Cu-OG62), which has a higher upper detection limit (UDL) of 5% copper.

Management's Discussion and Analysis

Criteria	Commentary
	<p>Quality assurance was provided by introduction of known certified standards, blanks and duplicate samples on a routine basis.</p> <p>Assay results outside the optimal range for methods were re-analysed by appropriate methods.</p> <p>Ore Research Pty Ltd certified copper and gold standards have been implemented as a part of QA/QC procedures, as well as coarse and pulp blanks, and certified matrix matched copper-gold standards.</p> <p>QA/QC monitoring is an active and ongoing processes on batch by batch basis by which unacceptable results are re-assayed as soon as practicable.</p>
Verification of sampling and assaying	<p>All assay data QA/QC is checked prior to loading into the Geobank data base.</p> <p>The data is managed by Xanadu geologists.</p> <p>The database and geological interpretation are collectively managed by Xanadu.</p>
Location of data points	<p>Diamond drill holes have been surveyed with a differential global positioning system (DGPS) to within 10cm accuracy.</p> <p>All diamond drill holes have been down hole surveyed to collect the azimuth and inclination at specific depths. Two principal types of survey method have been used over the duration of the drilling programs including Eastman Kodak and Flexit.</p> <p>UTM WGS84 48N grid.</p> <p>The digital terrain model (DTM) is based on 1m contours with an accuracy of $\pm 0.01\text{m}$.</p>
Data spacing and distribution	<p>CSAMT receiver nodes were place at 200m spacings to allow a potential maximum depth penetration of 1,000m.</p> <p>Holes spacings range from 50m spacings within the core of mineralization to +500m spacings for exploration drilling. Hole spacings can be determined using the sections and drill plans provided</p> <p>Holes range from vertical to an inclination of -60 degrees depending on the attitude of the target and the drilling method.</p> <p>The data spacing and distribution is sufficient to establish anomalism and targeting for both porphyry, tourmaline breccia and epithermal target types.</p>
Orientation of data in relation to geological structure	<p>Drilling is conducted in a predominantly regular grid to allow unbiased interpretation and targeting.</p> <p>Sample lines for the CSAMT survey were conducted roughly perpendicular to the gross geological trend</p>
Sample security	<p>Samples are dispatched from site through via Company employees and secure Company vehicles to the Laboratories.</p> <p>Samples are signed for at the Laboratory with confirmation of receipt emailed through.</p> <p>Samples are then stored at the lab and returned to a locked storage site.</p>
Audits or reviews	<p>CSAMT data from the survey was reviewed and audited by Barry de Wet, an external consultant.</p> <p>Internal audits of sampling techniques and data management on a regular basis, to ensure industry best practice is employed at all times.</p>

JORC TABLE 1 - SECTION 2 - REPORTING OF EXPLORATION RESULTS

(Criteria in this section apply to all succeeding sections).

Management's Discussion and Analysis

Criteria	Commentary
Mineral tenement and land tenure status	<p>The Project comprises 2 Mining Licences (MV-17129A Oyut Ulaan and (MV-17387A Kharmagtai) Xanadu now owns 90% of Vantage LLC, the 100% owner of the Oyut Ulaan mining licence.</p> <p>The Kharmagtai mining license MV-17387A is 100% owned by Oyut Ulaan LLC. Xanadu has an 85% interest in Mongol Metals LLC, which has 90% interest in Oyut Ulaan LLC. The remaining 10% in Oyut Ulaan LLC is owned by Quincunx (BVI) Ltd (Quincunx).</p> <p>The Mongolian Minerals Law (2006) and Mongolian Land Law (2002) govern exploration, mining and land use rights for the project.</p>
Exploration done by other parties	<p>Previous exploration at Kharmagtai was conducted by Quincunx Ltd, Ivanhoe Mines Ltd and Turquoise Hill Resources Ltd including extensive drilling, surface geochemistry, geophysics, mapping.</p> <p>Previous exploration at Red Mountain (Oyut Ulaan) was conducted by Ivanhoe Mines.</p>
Geology	<p>The mineralisation is characterised as porphyry copper-gold type.</p> <p>Porphyry copper-gold deposits are formed from magmatic hydrothermal fluids typically associated with felsic intrusive stocks that have deposited metals as sulphides both within the intrusive and the intruded host rocks. Quartz stockwork veining is typically associated with sulphides occurring both within the quartz veinlets and disseminated throughout the wall rock. Porphyry deposits are typically large tonnage deposits ranging from low to high grade and are generally mined by large scale open pit or underground bulk mining methods. The deposits at Kharmagtai are atypical in that they are associated with intermediate intrusions of diorite to quartz diorite composition however, the deposits are in terms of contained gold significant, and similar gold-rich porphyry deposits.</p>
Drill hole Information	<p>Diamond drill holes are the principal source of geological and grade data for the Project.</p> <p>See figures in this MD&A.</p>
Data Aggregation methods	<p>A nominal cut-off of 0.1% CuEq is used in copper dominant systems for identification of potentially significant intercepts for reporting purposes. Higher grade cut-offs are 0.3%, 0.6% and 1% CuEq.</p> <p>A nominal cut-off of 0.1g/t eAu is used in gold dominant systems like Golden Eagle for identification of potentially significant intercepts for reporting purposes. Higher grade cut-offs are 0.3g/t, 0.6g/t and 1g/t eAu.</p> <p>Maximum contiguous dilution within each intercept is 9m for 0.1%, 0.3%, 0.6% and 1% CuEq.</p> <p>Most of the reported intercepts are shown in sufficient detail, including maxima and subintervals, to allow the reader to make an assessment of the balance of high and low grades in the intercept.</p> <p>Informing samples have been composited to two metre lengths honouring the geological domains and adjusted where necessary to ensure that no residual sample lengths have been excluded (best fit).</p> <p>THE COPPER EQUIVALENT (CUEQ) CALCULATION REPRESENTS THE TOTAL METAL VALUE FOR EACH METAL, MULTIPLIED BY THE CONVERSION FACTOR, SUMMED AND EXPRESSED IN EQUIVALENT COPPER PERCENTAGE WITH A METALLURGICAL RECOVERY FACTOR APPLIED. THE COPPER EQUIVALENT CALCULATION USED IS BASED OFF THE CUEQ CALCULATION DEFINED BY CSA IN THE 2018 MINERAL RESOURCE UPGRADE.</p> <p>Copper equivalent (CuEq or eCu) grade values were calculated using the following formula:</p> $eCu \text{ or } CuEq = Cu + Au * 0.62097 * 0.8235,$ <p>Gold Equivalent (eAu) grade values were calculated using the following formula:</p>

Management's Discussion and Analysis

Criteria	Commentary
	$eAu = Au + Cu / 0.62097 * 0.8235.$ <p>Where:</p> <p>Cu - copper grade (%)</p> <p>Au - gold grade (g/t)</p> <p>0.62097 - conversion factor (gold to copper)</p> <p>0.8235 - relative recovery of gold to copper (82.35%)</p> <p>The copper equivalent formula was based on the following parameters (prices are in USD):</p> <p>Copper price - 3.1 \$/lb (or 6834 \$/t)</p> <p>Gold price - 1320 \$/oz</p> <p>Copper recovery - 85%</p> <p>Gold recovery - 70%</p> <p>Relative recovery of gold to copper = 70% / 85% = 82.35%.</p>
Relationship between mineralisation on widths and intercept lengths	Mineralised structures are variable in orientation, and therefore drill orientations have been adjusted from place to place in order to allow intersection angles as close as possible to true widths. Exploration results have been reported as an interval with 'from' and 'to' stated in tables of significant economic intercepts. Tables clearly indicate that true widths will generally be narrower than those reported.
Diagrams	See figures in the body of the report.
Balanced reporting	Resources have been reported at a range of cut-off grades, above a minimum suitable for open pit mining, and above a minimum suitable for underground mining.
Other substantive exploration data	Extensive work in this area has been done and is reported separately.
Further Work	<p>The mineralisation is open at depth and along strike.</p> <p>Current estimates are restricted to those expected to be reasonable for open pit mining. Limited drilling below this depth (-300m RLI) shows widths and grades potentially suitable for underground extraction.</p> <p>Exploration on going.</p>

JORC TABLE 1 – SECTION 3 ESTIMATION AND REPORTING OF MINERAL RESOURCES

Section 3 is not included, as this MD&A contains no new Mineral Resources and no material changes to existing Mineral Resources.

JORC TABLE 1 - SECTION 4 ESTIMATION AND REPORTING OF ORE RESERVES

Section 4 is not included, as this MD&A contains no new Ore Reserves, and Xanadu has no existing Ore Reserves.