

Second Quarter 2021 Financial Statements and MD&A

17 August 2021

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

BY ELECTRONIC LODGEMENT

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

Please find attached for release to the market, Xanadu Mining Ltd's *Second 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

Xanadu Mines Ltd

Second Quarter 2021 Report

Condensed Interim Consolidated Financial Statements

As at and for the six months ended

June 30, 2021

Unaudited

(stated in Australian dollars, unless otherwise indicated)

INDEX

Unaudited Condensed Interim Consolidated Financial Statements

- Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income
- Condensed Interim Consolidated Statements of Financial Position
- Condensed Interim Consolidated Statements of Changes in Equity
- Condensed Interim Consolidated Statements of Cash Flows
- Notes to the Condensed Interim Consolidated Financial Statements

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)

	Note	3 months ending		6 months ending	
		Jun 30, 2021 A\$'000	June 30, 2020 A\$'000	Jun 30, 2021 A\$'000	Jun 30, 2020 A\$'000
Revenue					
Other income	5	-	50	-	51
Expenses					
Other expenses	6	(1,047)	(766)	(2,235)	(1,454)
Depreciation and amortisation expense		(13)	(14)	(27)	(28)
Finance costs		(7)	(5)	(15)	(10)
Loss before income tax expense		(1,067)	(785)	(2,277)	(1,441)
Income tax expense		-	-	-	-
Loss after income tax expense for the period		(1,067)	(735)	(2,277)	(1,441)
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Foreign currency translation		456	(5,975)	975	(660)
Other comprehensive income for the period, net of tax		456	(5,975)	975	(660)
Total comprehensive income profit/(loss) for the period		(611)	(6,710)	(1,302)	(2,101)
Profit/(loss) for the period is attributable to:					
Non-controlling interest		40	(82)	51	(82)
Owners of Xanadu Mines Ltd		(1,107)	(653)	(2,328)	(1,359)
		(1,067)	(735)	(2,277)	(1,441)
Total comprehensive income profit/(loss) for the period is attributable to:					
Non-controlling interest		57	(124)	123	(124)
Owners of Xanadu Mines Ltd		(668)	(6,586)	(1,425)	(1,977)
		(611)	(6,710)	(1,302)	(2,101)
Basic earnings per share	12	Cents (0.09)	Cents (0.11)	Cents (0.20)	Cents (0.17)

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - stated in thousands of Australian dollars)

	Jun 30, 2021 A\$'000	Dec 31, 2020 A\$'000
Note		
ASSETS		
Current Assets		
Cash and cash equivalents	10,803	7,687
Other receivables	139	145
Prepayments and other assets	288	201
Total current assets	11,230	8,033
Non-current Assets		
Property, plant and equipment	325	128
Right-of-use-assets	196	238
Deferred exploration and evaluation expenditure	47,895	43,317
Total non-current assets	48,416	43,683
Total Assets	59,646	51,716
LIABILITIES		
Current Liabilities		
Trade and other payables	467	547
Contract liabilities	-	306
Employee benefits	8	5
Lease liabilities	54	64
Total current liabilities	529	922
Non-current Liabilities		
Lease liabilities	79	88
Total non-current liabilities	79	88
Total Liabilities	608	1,010
Net Assets	59,038	50,706
EQUITY		
Issued capital	145,639	136,005
Reserves	(5,871)	(6,774)
Accumulated losses	(84,525)	(82,197)
Equity attributable to the owners of Xanadu Mines Ltd	55,243	47,034
Non-controlling interest	3,795	3,672
Total Equity	59,038	50,706

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, 2020	120,909	10,016	(537)	(10,843)	(79,265)	4,554	44,834
Loss after income tax expense for the period	-	-	-	-	(1,359)	(82)	(1,441)
Other comprehensive income profit for the period, net of tax	-	-	-	(618)	-	(42)	(660)
Total comprehensive income profit/(loss) for the period	-	-	-	(618)	(1,359)	(124)	(2,101)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	-	-	-	-	-	-
Shares issued during the year	3,707	-	-	-	-	-	3,707
Transaction costs	(69)	-	-	-	-	-	(69)
Balance at June 30, 2020	124,547	10,016	(537)	(11,461)	(80,624)	4,430	46,371
Balance at January 1, 2021	136,005	10,016	(537)	(16,253)	(82,197)	3,672	50,706
Loss after income tax expense for the period	-	-	-	-	(2,328)	51	(2,277)
Other comprehensive income loss for the period, net of tax	-	-	-	903	-	72	975
Total comprehensive income loss for the period	-	-	-	903	(2,328)	123	(1,302)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	-	-	-	-	-	-
Shares issued during the year	10,154	-	-	-	-	-	10,154
Transaction costs	(520)	-	-	-	-	-	(520)
Balance at June 30, 2021	145,639	10,016	(537)	(15,350)	(84,525)	3,795	59,038

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - stated in thousands of Australian dollars)

	Note	3 months ending		6 months ending	
		Jun 30, 2021 A\$'000	Jun 30, 2020 A\$'000	Jun 30, 2021 A\$'000	Jun 30, 2020 A\$'000
Cash flows from operating activities					
Payments to suppliers and employees		(985)	(1,030)	(2,420)	(1,411)
Interest received		-	1	-	1
Government incentives received		-	-	-	50
Interest and other finance costs paid		(7)	-	(15)	(10)
Net cash used in operating activities		(992)	(1,029)	(2,435)	(1,370)
Cash flows from investing activities					
Payments for property, plant and equipment		(160)	-	(160)	-
Payment for exploration and evaluation expenditure	7	(1,827)	-	(3,874)	(1,257)
Payment for exploration and evaluation on behalf of JOGMEC	7	(437)	-	(1,276)	-
Proceeds from JOGMEC Red Mtn earn-in payments capitalised	7	185	-	1,069	793
Proceeds from JOGMEC Red Mtn option payments capitalised	7	162	-	162	-
Net cash used in investing activities		(2,077)	(465)	(4,079)	(464)
Cash flows from financing activities					
Proceeds from issue of shares	8	10,154	3,370	10,154	3,707
Transaction costs of issue of shares		(520)	(311)	(520)	(74)
Repayment of lease liabilities		(10)	-	(19)	(19)
Net cash from financing activities		9,624	3,052	9,615	3,614
Net increase/(decrease) in cash and cash equivalents		6,555	1,558	3,101	1,780
Cash and cash equivalents at the beginning of the financial period		4,226	1,099	7,687	1,209
Effects of exchange rate changes on cash and cash equivalents		22	(50)	15	(93)
Cash and cash equivalents at the end of the financial period		10,803	2,607	10,803	2,896

Notes to the Condensed Interim Consolidated Financial Statements

Note 1. Corporate information

Xanadu Mines Ltd (the **Company**) was incorporated on May 12, 2005 and is the ultimate holding company for the Xanadu group (**Group**). The unaudited financial statements of the Company and its controlled entities are for the period ended June 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 June 30, 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended December 31, 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 2001.

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

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.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission (ASIC), 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.

Going concern basis of accounting

The Group has incurred net losses after tax of \$2,277,000 (30 June 2020: \$1,441,000) and net cash outflows from operations of \$2,435,000 (30 June 2020 \$1,370,000) for the period ended 30 June 2021. At period end, cash and cash equivalents were \$10,803,000.

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 30 June 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 24 March 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.

Carrying value of exploration assets

The group applies judgements in determining the carrying value of exploration assets in particular in determining which exploration costs should be capitalised or expensed. The group assesses impairment of such assets at each reporting date by evaluating conditions specific to the group.

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 deferred exploration expenditure note of the financial report. No segment revenues are disclosed, as all segment expenditure is capitalised, except for expenditure written off. The non-current assets of Xanadu, attributable to the parent entity, are in Mongolia.

Note 5. Other income

	Consolidated			
	3 months ending Jun 30, 2021	3 months ending Jun 30, 2020	6 months ending Jun 30, 2021	6 months ending Jun 30, 2020
	A\$'000	A\$'000	A\$'000	A\$'000
Interest income	-	-	-	1
COVID-19 government incentive	-	50	-	50
	-	50	-	51

Note 6. Other expenses

	Consolidated			
	3 months ending Jun 30, 2021	3 months ending Jun 30, 2020	6 months ending Jun 30, 2021	6 months ending Jun 30, 2020
	A\$'000	A\$'000	A\$'000	A\$'000
Administration expenses	508	185	662	447
Wages and management fees	366	333	1,120	689
Consulting fees	173	248	452	318
Net foreign currency (gains)/losses	-	-	-	-
Share-based payments	-	-	-	-
	1,047	766	2,235	1,454

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

	Consolidated	
	Jun 30, 2021 A\$'000	Dec 31, 2020 A\$'000
Deferred exploration and evaluation expenditure	52,136	47,475
Less: Accumulated Impairment	(4,241)	(4,158)
	47,895	43,317

The impairment relates to the following deferred exploration expenditure assets ('000): Yellow Mountain \$3,442 and Red Mountain \$983. Yellow Mountain was fully impaired, and the licence expired in May 2020 without renewal. The company is seeking compensation for this licence as exploration was restricted due to 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⁾	3,644
Exchange differences	934
Balance at June 30, 2021	<u>47,895</u>
⁽ⁱ⁾ Additions made up of:	A\$'000
cashflow payments for exploration and evaluation expenditure ^(see Statement of cash flows investing activities)	3,874
cashflow payments for exploration and evaluation expenditure ⁽ⁱⁱ⁾	(92)
cashflow payments for exploration and evaluation expenditure ⁽ⁱⁱⁱ⁾	(306)
cashflow payments for exploration and evaluation on behalf of JOGMEC ^(see Statement of cash flows investing activities)	1,276
proceeds from JOGMEC Red Mtn earn-in payments ^(see Statement of cash flows investing activities)	(1,069)
proceeds from JOGMEC Red Mtn option payments ^(see Statement of cash flows investing activities)	(162)
amounts in trade payable relating to exploration and evaluation expenditure	123
	<u>3,644</u>

⁽ⁱⁱ⁾ At 31 December, 2020, the balance of \$306 thousand represented a prepayment by JOGMEC for Red Mountain exploration which was not yet completed. This was fully utilised by 30 June 2021.

⁽ⁱⁱⁱ⁾ During the first half of 2021, Xanadu completed an additional \$92 thousand of Red Mountain exploration, for which JOGMEC has not yet provided funding.

The Company held interests in two tenements during the period to 30 June 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 and Xanadu owns 76.5% with two minority partners.

Exploration during the first half of 2021 consisted of 16,654 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 and Xanadu owns 90% with its minority partner. The project is subject to a Joint Exploration Agreement with JOGMEC, dated March 2020, in which JOGMEC may earn 51% interest by sole funding US\$7.2 million of expenditure over four years.

Exploration during the first half of 2021 consisted of Moving Loop Electromagnetic (MLEM) and 4,039 metres drilling, targeting near surface, high grade zones first identified in historical trenching. Between 1 January 2021 and 30 June 2021, JOGMEC contributed \$1,231 million on behalf of Red Mountain exploration, including \$162 thousand received as an option payment.

Notes to the to the Condensed Interim Consolidated Financial Statements

Note 8. Equity - issued capital

	Jun 30, 2021 Shares	Dec 31, 2020 Shares	Jun 30, 2021 A\$'000	Dec 31, 2020 A\$'000
Ordinary shares - fully paid	1,255,617,750	1,091,841,522	145,639	136,005

Movements in ordinary share capital

Details	Date	Shares	A\$'000
Balance	1 January 2021	1,091,841,522	136,005
Shares issued - placement	3 May 2021	163,776,228	10,154
Transaction costs		-	(520)
Balance	30 June 2021	<u>948,951,083</u>	<u>129,865</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll, each share shall have one vote.

Share buy-back

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

Capital risk management

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

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

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

Note 9. 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

Subsequent to the quarter, on 28 July 2021, unvested Options were granted to Directors and Key Management Personnel under the Company's *Employee Share and Option Plan*. These were approved by shareholders in December 2020 for all Directors and Key Management Personnel, with the exception of Tony Pearson, for whom options were approved by shareholders in the June 2021 AGM. 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

No other matter or circumstance has arisen since June 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 ending Jun 30, 2021 A\$'000	3 months ending Jun 30, 2020 A\$'000	6 months ending Jun 30, 2021 A\$'000	6 months ending Jun 30, 2020 A\$'000
Loss after income tax	(918)	(750)	(2,277)	(1,441)
Non-controlling interest	276	11	(51)	82
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(642)	(739)	(2,328)	(1,359)
	Number	Number	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	821,254,980	662,625,288	1,145,227,143	790,640,674
	Cents	Cents	Cents	Cents
Basic earnings per share	(0.08)	(0.11)	(0.20)	(0.17)

XANADU MINES

Xanadu Mines Ltd

Second Quarter 2021 Report

Management's Discussion & Analysis

As at and for the six months ended

June 30, 2021

(stated in Australian dollars, unless otherwise stated)

Unaudited

(stated in Australian dollars, unless otherwise indicated)

For personal use only

Management's Discussion and Analysis

This *Management's Discussion and Analysis (MD&A)* dated August 16, 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 June 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 June 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 *NI 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 three tenements: the Kharmagtai copper-gold project; the Red Mountain copper-gold project; and the Yellow Mountain copper project.

Management's Discussion and Analysis

HIGHLIGHTS DURING THE JUNE 2021 QUARTER

Exploration continued at Kharmagtai and Red Mountain districts in the South Gobi Region of Mongolia, with significant additions to mineralisation at White Hill, Kharmagtai District, and multiple strong electromagnetic conductor anomalies identified at Stairy, Red Hill District. COVID-19 restrictions impacted operations; however, robust management plans enabled the Company to maintain exploration activity with high safety standards. A successful capital raise of \$10.2 million ensured Xanadu is well funded to execute its strategy.

Kharmagtai District

- Completed 7 holes for approximately 8,670 metres using 3 diamond drill rigs. This includes 7,250 metres of the current 23,000 metre program, to be completed by Q4 of CY2021.
- Significant drilling intercepts from the Stockwork Hill deposit included:
 - KHDDH565: **499m @ 0.31% Cu** and **0.39 g/t Au (0.51% eCu)** from 656m. ¹
 - KHDDH567: **86.7m @ 0.61% eCu** from 660.3m ²
 - KHDDH568: **46.4m @ 0.60% eCu** from 693.7m ²
- KHDDH565 expanded the higher-grade zone of chalcopyrite and bornite mineralisation south of the Stockwork Hill resource both in width and significantly along strike.
- KHDDH567 and KHDDH568, scissor holes following up KHDDH565, confirmed the location of the broader zone of high-grade mineralisation but is interpreted to have missed the very high grade, gold-rich bornite zone due to displacement along the Fifty-Fifty fault.
- Subsequent drilling resulted in a large-scale extension at White Hill (KHDDH569) and potential new discovery between Zaraa and Stockwork Hill (KHDDH574). ³

Red Mountain District

- Ground Moving Loop Electromagnetic (MLEM) survey completed at the Stairy prospect at Red Mountain, which identified several strong conductor anomalies. ⁴

Corporate

- Mr. Tony Pearson appointed to the Xanadu Board, Tony brings significant company director, industry executive, banking, and direct Mongolia experience to the Board. ⁵
- Completion of an equity placement (**Placement**) of **\$10.2 million** AUD provides the Company in strong financial position to deliver Kharmagtai exploration strategy. ⁶
- Hybrid AGM held on 17 June 2021 in Sydney and online with all resolutions passed.
- Closing Cash at 30 June 2021 of **\$10.8 million**.

¹ ASX/TSX Announcement 20 Apr 2021 – New Drilling Intercepts Significant Copper Sulphides & ASX Announcement 28 May 2021 - Exploration Update

² ASX/TSX Announcement 17 June 2021 – Exploration Update Kharmagtai

³ ASX/TSX Announcement 13 July 2021 – Large Scale Extension at White Hill

⁴ ASX/TSX Announcement 16 June 2021 - Multiple Strong MLEM Conductors Detected at Stairy

⁵ ASX/TSX Announcement 9 Apr 2021 - Board Addition at Xanadu

⁶ ASX/TSX Announcement 23 April 2021 - \$10.2 million Placement for Kharmagtai High Grade Exploration

Management's Discussion and Analysis

Chief Executive Officer, Dr Andrew Stewart, said, "At Kharmagtai our three pronged exploration strategy of discovery, high grade definition and resource expansion continues to drive us towards our objectives of >1 billion tonnes @ >0.5% eCu, including >100 million tonnes @ >0.8% eCu. Drilling over the period focused primarily on defining the higher grade blocks within the larger zone of >0.6% eCu mineralisation at Stockwork Hill.

Results demonstrate the structural complexity of the high-grade Bornite Zone at Stockwork Hill, with the zone pinching and swelling along its interpreted strike length. Late structures have moved parts of the high-grade bornite zone, which is not uncommon in older systems such as Kharmagta but every bit of drilling is growing our understanding of the deposit to allow us to effectively plan our next steps to target the high-grade zone.

With more results already received post quarter end there is already additional cause for optimism with a maiden Mineral Resource Estimate due at Zaraa in Q4 of this calendar year, extensions to known mineralisation at White Hill and a potential new discovery.

We're also extremely excited to continue our work at the Red Mountain JV with JOGMEC, with an MLEM survey conducted during the period providing numerous new drill targets identified. Having already had early exploration success at the Stairy prospect in March of this year and with a detailed database which includes some impressive historical trenching results, we look forward to our next Red Mountain drilling program.

Xanadu Mines Ltd (ASX:XAM | TSX:XAM) (**Xanadu** or the **Company**) is pleased to provide an update on exploration and associated activities undertaken during the quarter ended 30 June 2021.

Exploration Update

Kharmagtai Copper-Gold Project

Exploration at Kharmagtai focused on drilling the high-grade bornite zone at Stockwork Hill. A total of 8,670 metres of diamond drilling was completed during the quarter in 7 drill holes (**Figure 1** and **Table 2**).

Xanadu has set a 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 high grade and enable future development of the Kharmagtai District.

During the period the Company mobilised a third rig to site in order to commence a 23,000 metre diamond drilling program with anticipated completion by Q4 of CY2021. The program will encapsulate three key components which will drive the Company towards its scale and high grade goals at Kharmagtai:⁷

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

STOCKWORK HILL DRILLING

Results were received from seven diamond drill holes at Stockwork Hill during the quarter targeted high-grade extensions to known mineralisation (**Figures 1 and 2**).

⁷ ASX/TSX Announcement 3 Jun 2021 – Xanadu Accelerates 2021 Exploration Program

Management's Discussion and Analysis

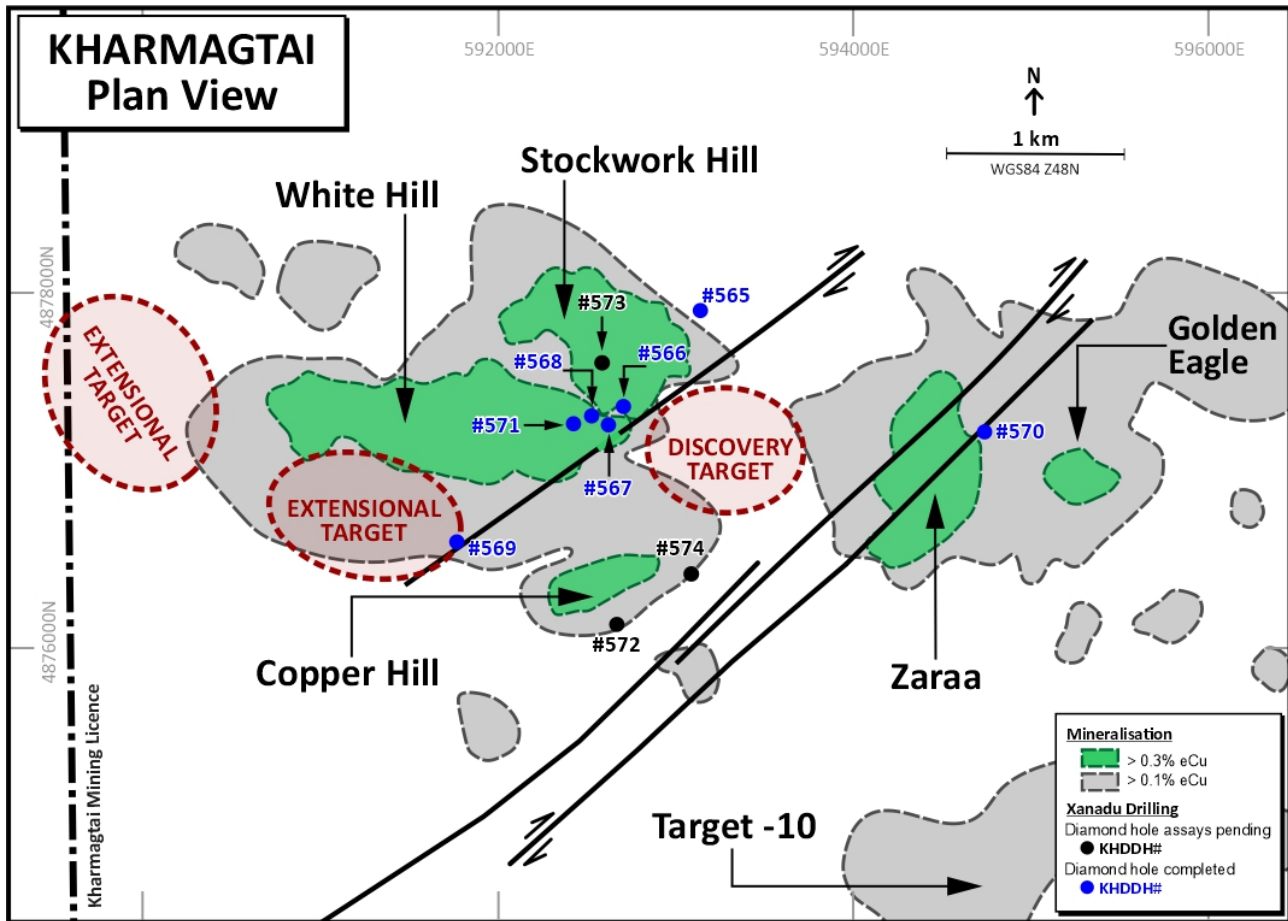


Figure 1: Kharmagtai plan view showing location of drilling for Q2, 2021.

About KHDDH564

Drill hole KHDDH564 was drilled in Q1, 2021 and designed as a large-scale step out (400m to the south), targeting a repeat of the high-grade bornite zone at Stockwork Hill. The final 98m of assays for KHDDH574 were returned early in the quarter with no significant additional results⁸.

About KHDDH565

Drill hole KHDDH565 was completed during the quarter with final assays received in May.⁹ The hole was designed to identify the structure bounding the high-grade bornite zone to the east and to test the western extensions of the high-grade bornite zone.

A small offsetting fault was located on the eastern margin of the mineralised zone and this structure is being modelled in 3D to determine the location of the eastern extensions to mineralisation. Mineralisation in the bornite zone was extended some 200m to the west and follow up drilling is planned to test these extensions. Minor structures oblique to the drill hole orientation pushed KHDDH565 slightly offline, and the hole passed through the outside halo of mineralisation rather than directly through the highest-grade zone. These zones of higher-grade gold illustrate potential to extend the bornite zone to the west. (Figures 1 and 2).

⁸ ASX/TSX Announcement 30 Apr 2021 – Quarterly Activities Report and Appendix 5B – 31 March 2021

⁹ ASX/TSX Announcement 20 Apr 2021 – New Drilling Intercepts Significant Copper Sulphides & ASX Announcement 28 May 2021 - Exploration Update

Management's Discussion and Analysis

Hole ID	From	Interval	Cu	Au	eCu
KHDDH565	656m	499m	0.31%	0.39g/t	0.51%
including	686m	235m	0.36%	0.48g/t	0.60%
including	728m	101m	0.45%	0.52g/t	0.72%
including	783m	10m	0.57%	0.92g/t	1.04%
including	878m	15m	0.41%	1.10g/t	0.98%
including	1,024m	23m	0.80%	1.23g/t	1.43%
and	1,345.5m	17.5m	0.19%	1.09g/t	0.74%
Including	1,348m	4m	0.26%	2.59g/t	1.59%
and	1,427m	12m	0.18%	1.08g/t	0.73%

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

About KHDDH566

Final assays from hole KHDDH566 were also received in May with the drilling designed as a scissor hole to cross the bornite zone.¹⁰ Results from this hole indicated that the hole passed through a narrower part of the bornite zone and anticipated follow up drilling will test the shape further.

Hole ID	From	Interval	Cu	Au	eCu
KHDDH566	592.1m	217.9m	0.32%	0.47g/t	0.56%
including	594.2m	72.8m	0.32%	0.51g/t	0.58%
including	684m	74m	0.47%	0.77g/t	0.86%
including	684m	24m	0.80%	1.71g/t	1.67%

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

About KHDDH567 and KHDDH568¹¹

KHDDH567 was drilled targeting the extensions of the high-grade bornite zone approximately 80m west. Assays for the 780m have been returned during the quarter.

Hole ID	From	Interval	Cu	Au	eCu
KHDDH567	660.3m	86.7m	0.36%	0.49g/t	0.61%
including	667m	54m	0.42%	0.66g/t	0.75%
including	669m	6m	0.56%	0.98g/t	1.06%

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

KHDDH568 was drilled targeting the extensions of the high-grade bornite zone 80m. Complete assays have been returned KHDDH568

¹⁰ ASX/TSX Announcement 20 Apr 2021 – New Drilling Intercepts Significant Copper Sulphides & ASX Announcement 28 May 2021 - Exploration Update

¹¹ ASX/TSX Announcement 17 June 2021 – Exploration Update Kharmagtai

Management’s Discussion and Analysis

Hole ID	From	Interval	Cu	Au	eCu
KHDDH568	693.7m	46.4m	0.32%	0.55g/t	0.60%

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

These holes show that the bornite zone appears to form in two compartments split by a fault (Fifty-Fifty fault) Both drill holes intersected the bornite zone adjacent to the Fifty-Fifty fault and show that the bornite zone thins next to the fault.

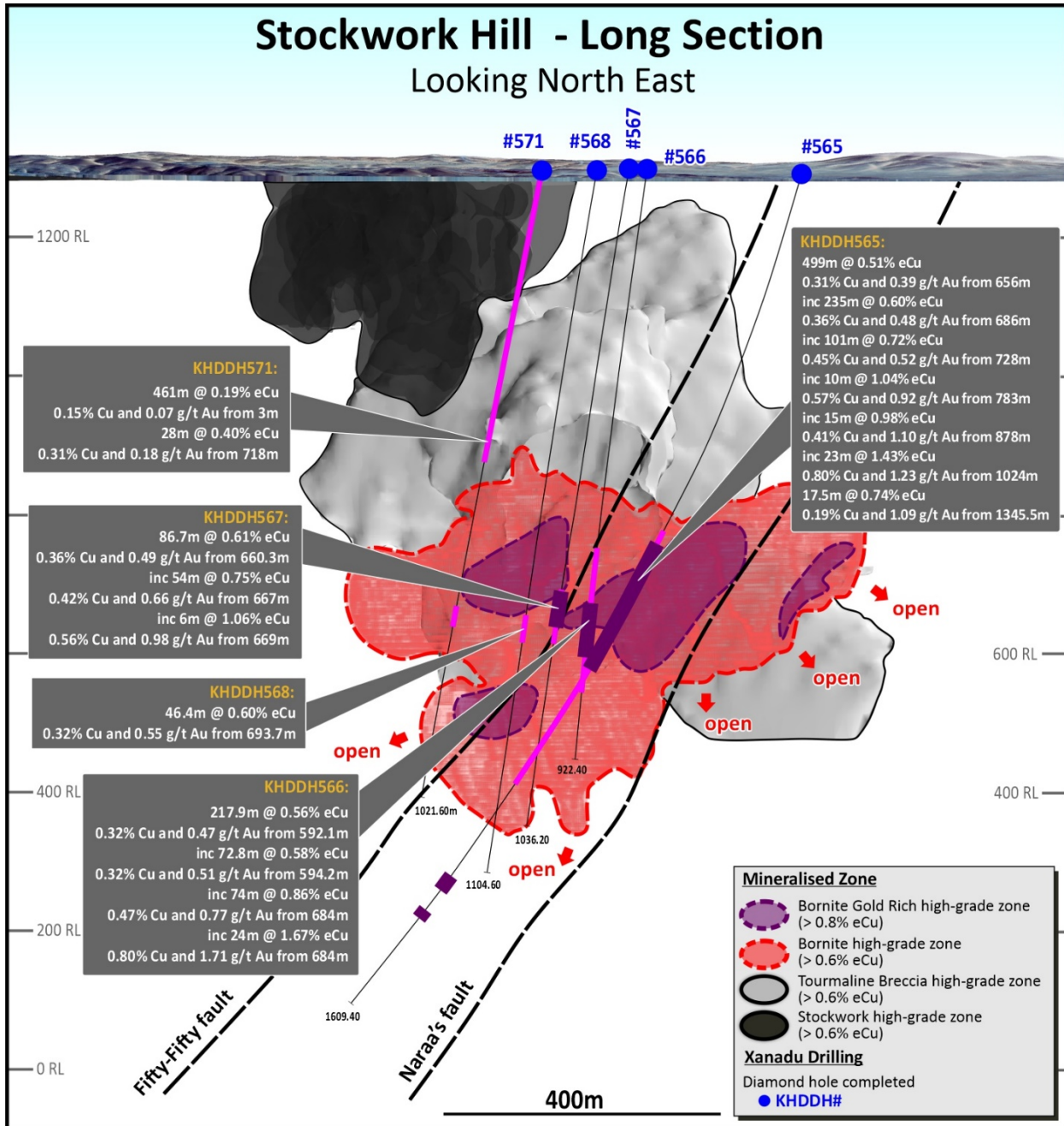


Figure 2: Stockwork Hill long section showing drill holes KHDDH565 to KHDDH568 & KHDDH571

Management's Discussion and Analysis

About KHDDH571

Drill hole KHDDH571 was completed post quarter end¹² and was designed to target the western compartment of the bornite zone where previous drill holes suggest the bornite zone thickens again (**Figure 2**). In plan view, the bornite zone appears to be offset by the Fifty-Fifty fault and the western compartment steps to the north (**Figure 3**). The bornite zone appears to form in two compartments split by a fault (Fifty-Fifty fault).

KHDDH571 encountered a broad shallow zone of low-grade mineralisation, similar to that associated with White Hill, and only 28m of moderate grade mineralisation associated with the bornite zone. This suggests that the offset to the bornite zone on the west of the Fifty-Fifty fault is larger than anticipated. Modelling is underway to understand this relationship.

Hole ID	Interval	Cu	Au	eCu	From
KHDDH571	461m	0.15%	0.07g/t	0.19%	3m
and	28m	0.31%	0.18g/t	0.40%	718m

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

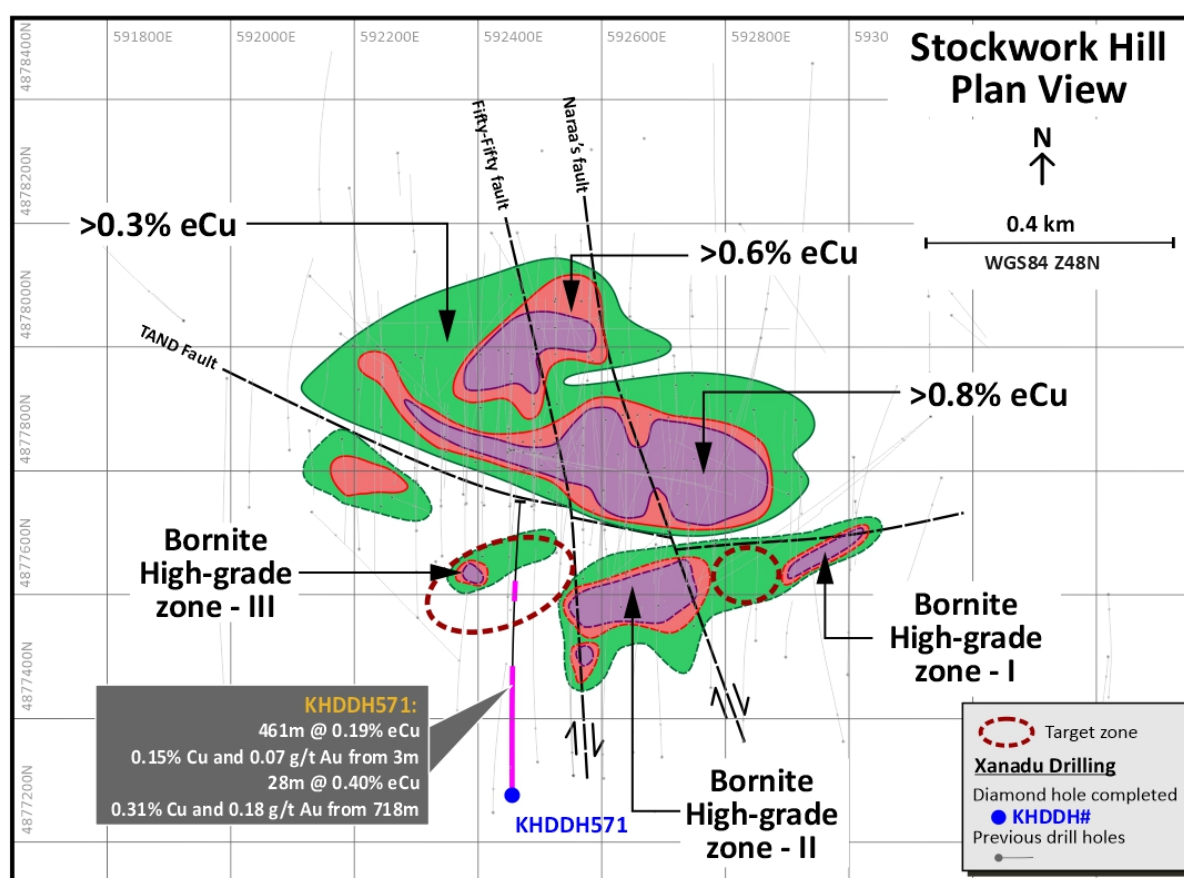


Figure 3: Stockwork Hill plan view showing drill hole KHDDH571.

¹² ASX/TSX announcement – Large Scale Extension at White Hill

Management's Discussion and Analysis

WHITE HILL DRILLING

Post end of the quarter a large-scale extension to the known mineralisation at White Hill was confirmed, with results received from drill hole KHDDH569.

About KHDDH569

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 4**).¹³

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

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

¹³ ASX/TSX announcement – Large Scale Extension at White Hill

Management's Discussion and Analysis

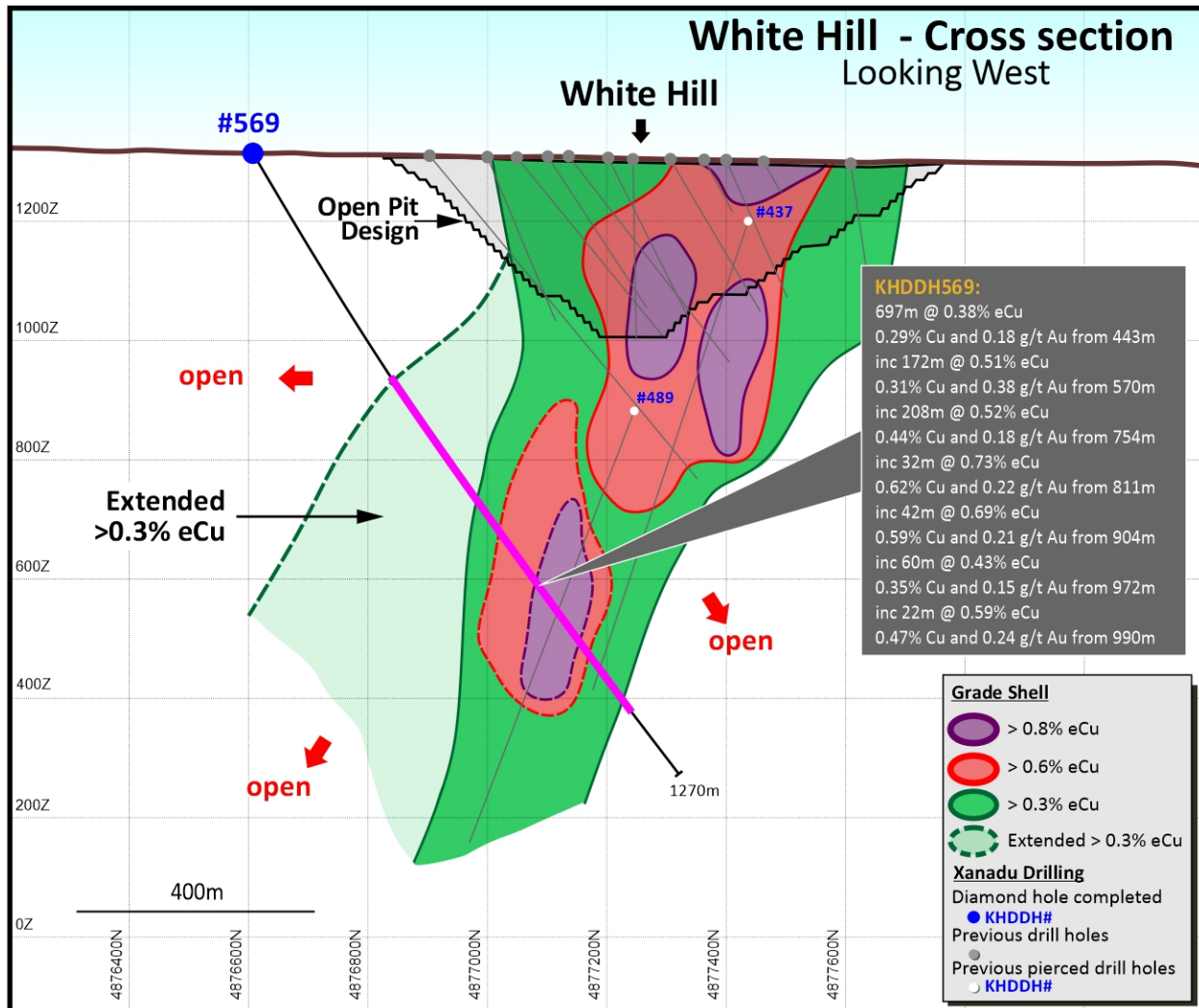


Figure 4: White Hill cross section showing additional mineralisation resulting from drill hole KHDDH569

ZARAA DRILLING

At the Zараа deposit resource drilling was completed post the end of the reporting period, with work commencing on a maiden mineral resource estimate for Q4 of 2021.

About KHDDH570

Drill hole KHDDH570 was drilled on the eastern margin of the Zараа deposit to complete the data acquisition for the maiden mineral resource estimate for Zараа. KHDDH570 encountered over 700m of mineralisation and returned the following intercept (**Figure 5**)¹⁴

Hole ID	Interval	Cu	Au	eCu	From
KHDDH570	703.5m	0.19%	0.17g/t	0.28%	318.5m
Including	196.1m	0.25%	0.25g/t	0.38%	557m
Including	103m	0.23%	0.30g/t	0.39%	763m

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

¹⁴ ASX/TSX announcement – Large Scale Extension at White Hill

Management's Discussion and Analysis

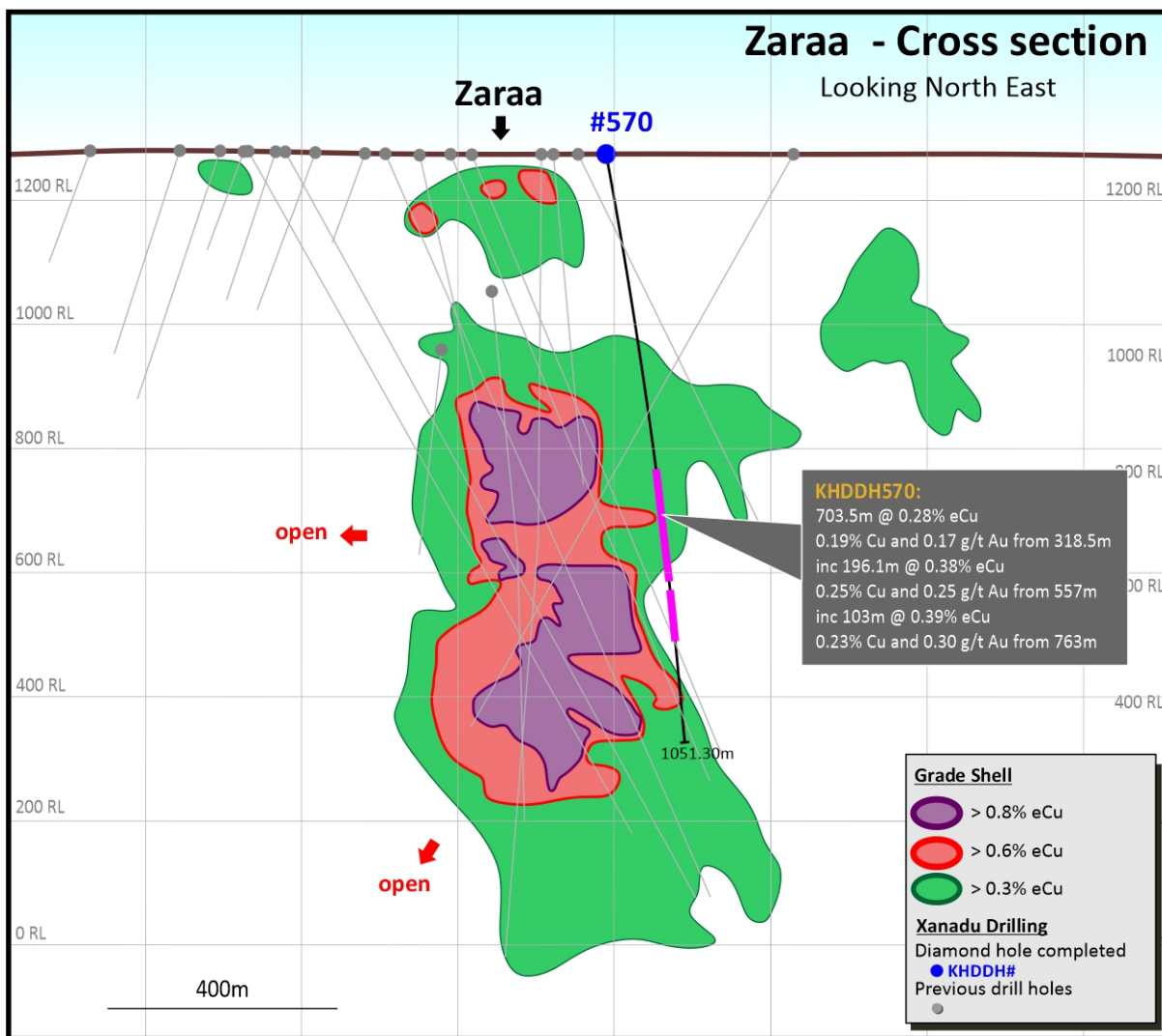


Figure 5: Zaraa cross section showing KHDDH570.

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 with a first pass ground Moving Loop Electromagnetic (MLEM) survey completed at the Stairy prospect.

STAIRY PROSPECT EXPLORATION

The Stairy prospect contains massive sulphide lenses that coincide with high-grade copper, which may be identifiable using 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 will be used to focus the drilling program, scheduled to start in two weeks' time.

The survey is split into two areas, a northern area and a southern area. Data from both grids have been received and results can be seen in **Figure 6**. These results show moderate to strong Electromagnetic (EM) responses in the late time channels for known lenses

Management's Discussion and Analysis

of massive sulphide, but more importantly show numerous stronger responses in along strike from known lenses in areas untested by trenching or drilling.

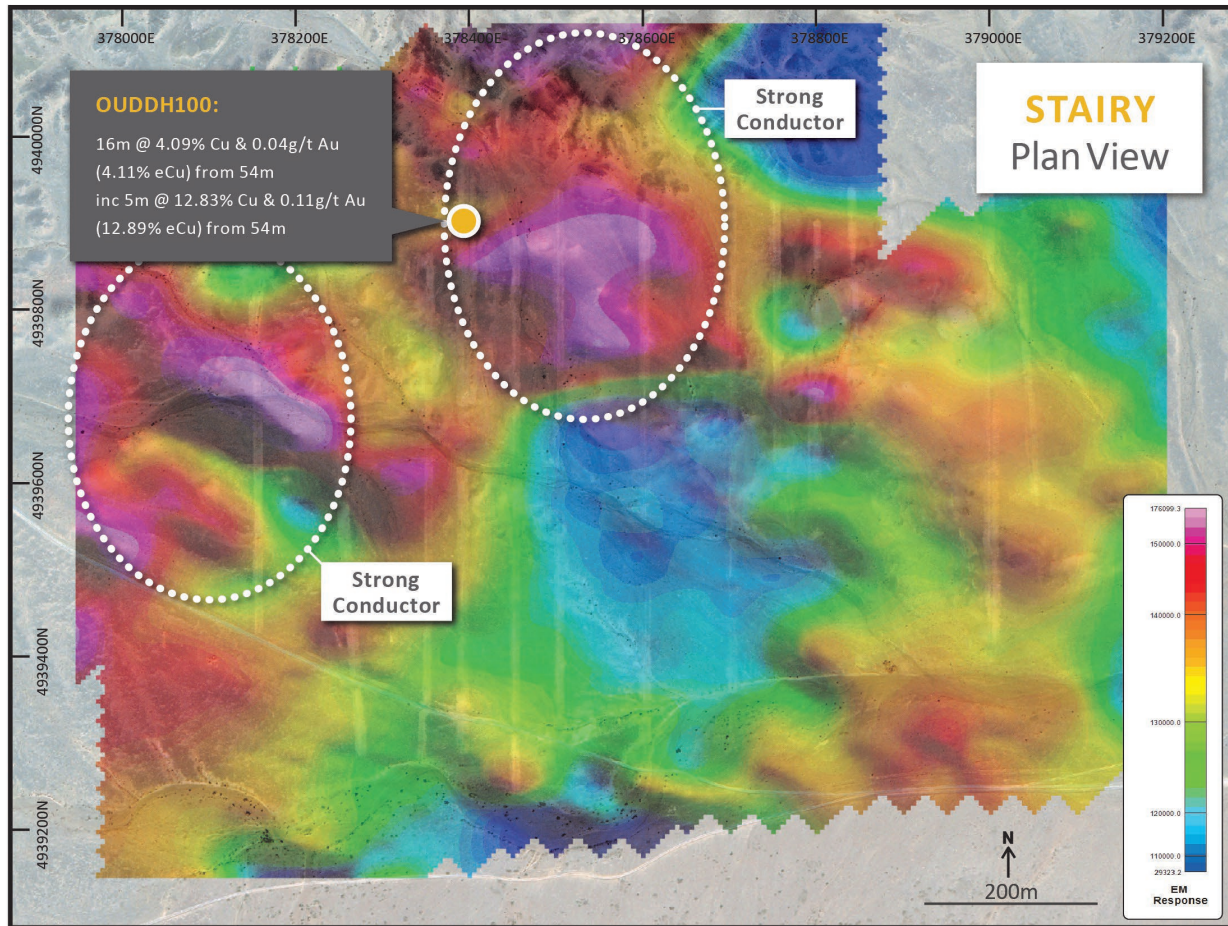


Figure 6. The Stairy Prospect MLEM plan map (combined 28 Channels) showing conductive anomalies.

In parallel with the MLEM survey, approximately 1,000 metres of trenching was completed at Stairy (**Figure 7**), designed to obtain geological (structural) data relating to the zones of mineralisation associated with previous company trenches. Assay results for the trenching is expected in the first week of August.

Management's Discussion and Analysis

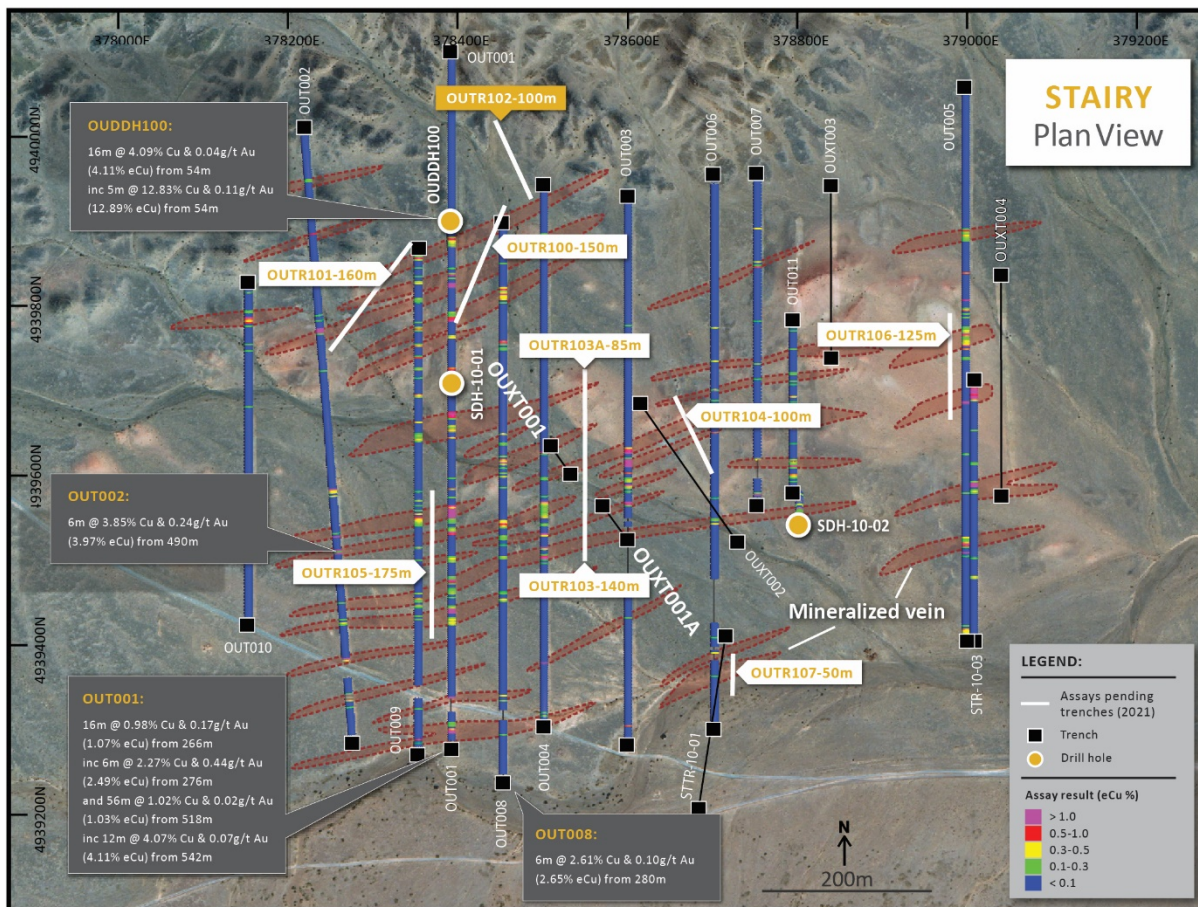


Figure 7: The Stairy Prospect historic trench results and location of recent XAM Trenching.¹⁵

MLEM and trenching results will inform a planned 2,450 metre drilling program in the Red Mountain district, to be completed in August and September 2021. The program will focus primarily on the massive sulphide mineralisation at Stairy, with an objective to delineate a near surface, low tonnage, high grade copper deposit.

This will build on recent drilling at Stairy which returned significant shallow high-grade copper in drill hole OUDDH100 with 16m @ 4.09% Cu from 54m, including 4m @ 15.85% Cu from 55m.¹⁶

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.

¹⁵ ASX/TSX Announcement 16 June 2021 - Multiple strong MLEM conductors detected at Stairy

¹⁶ ASX/TSX Announcement 23 March 2021 - Shallow Bornite Mineralisation at Red Mountain

Management's Discussion and Analysis

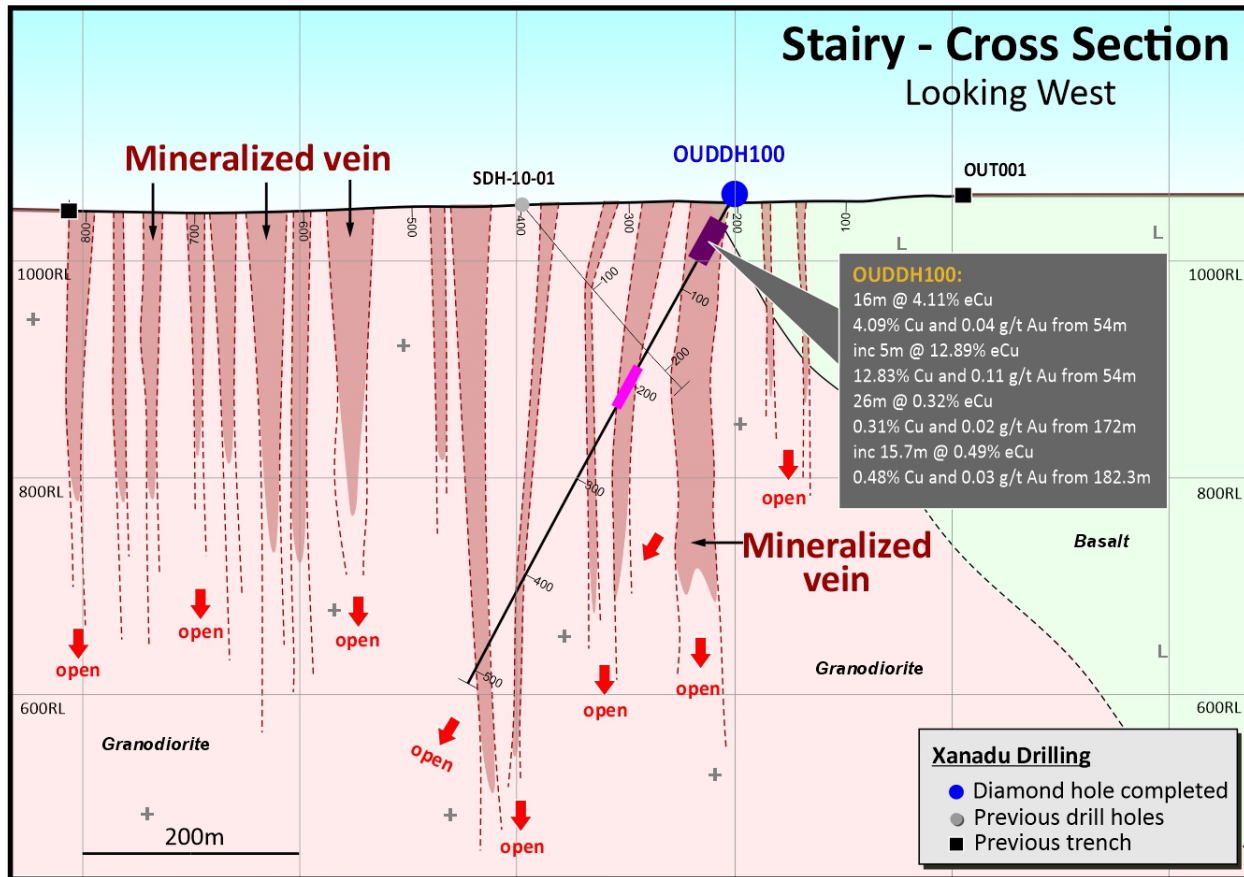


Figure 8: Stairy cross section with drill hole OUDDH100 and historic trench results

September Quarter Planned Activities

Three diamond drill holes are currently underway in KHDDH573, KHDDK574 and KHDDH575 at Kharmagtai, as Xanadu continues to progress its 23,000 metre drilling program.

KHDDH573 at Stockwork Hill is currently targeting the up and down-dip extensions of the high-grade bornite zone. This hole is currently at 750m and has passed through 230m of strong (visual) mineralisation below the Fifty-Fifty fault.

Drilling has commenced on KHDDH574, a discovery drill hole targeting mineralisation between White Hill and Zaraa. KHDDH574 is currently at 850m and entered porphyry mineralisation at 550m. Mineralisation consists of porphyry B-veins and disseminated chalcopyrite. This is a significant advance for the Kharmagtai project and may represent a new discovery.

At White Hill a second drill hole (KHDDH575) has been collared to extend the mineralisation there to the south. This hole is currently at 200m and mineralisation is anticipated from 390m.

With resource drilling completed at Zaraa, work will commence during the September quarter to develop a Maiden Mineral Resource Estimate.

In the Red Hill district, a 2,450 metre drill program will commence in August with two diamond drill rigs and focused primarily on the Stairy prospect. This program follows MLEM survey and trenching completed in July.

Management's Discussion and Analysis

RESULTS OF OPERATIONS

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

The Company reported a loss after income tax expense of \$1.1 million during the three-month period ended June 30, 2021 as compared to a loss after income tax of \$0.7 million during the comparative three-month period ended June 30, 2020. This was primarily driven by increased corporate, legal and regulatory costs related to the April 2021 equity placement.

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

	30 Jun 2021	31 Mar 2021	Quarter Ended 31 Dec 2020	30 Sep 2020	30 June 2020
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Exploration Expenditure					
Kharmagtai	1,959	1,626	2,457	1,534	538
Red Mountain *	437	832	242	832	233
Exploration expenditures capitalised	2,049	1,626	2,345	1,545	540
Impairment of deferred exploration expenditure	-	-	-	-	-
Corporate general and administration	1,047	1,187	939	937	766
Share-based payments	-	-	-	-	-
Depreciation and amortisation	13	14	15	12	14
Loss after income tax attributable to owners of XAM	1,107	1,221	931	642	653
Basic loss per share	0.09	0.11	0.09	0.07	0.08
Diluted loss per share	0.09	0.11	0.09	0.07	0.08
Kharmagtai drill metres	8,670	7,984	14,380	7,209	2,598
Red Mountain drill metres	-	4,039	393	3,629	301

* Red Mountain exploration was funded by JOGMEC Joint Venture and not capitalised

Liquidity and capital resources

On June 30, 2021, the Company had cash and cash equivalents on hand of \$10.8 million (June 30, 2020: \$2.9 million).

The primary use of funds for the year will be the continuation of exploration activities at the Company's Kharmagtai copper-gold project and for working capital purposes. 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 April 23, 2021, Xanadu announced a \$10.2 million Placement to fund drilling at Kharmagtai via issue of 163,776,228 fully-paid ordinary shares at A\$0.062 each (Placement). Argonaut Securities Pty Limited (Argonaut) and CLSA Australia Pty Ltd (CLSA) acted as Joint Lead Managers and bookrunners to the Placement. The Placement settled on April 30, 2021 and new shares were allotted and commenced trading on May 3, 2021.

Management's Discussion and Analysis

On June 30, 2021, the Company had an unlimited number of ordinary shares authorized, with 1,255,617,750 fully paid shares outstanding.

Unlisted options

As at June 30, 2020, there were no unlisted options outstanding.

Off balance sheet arrangements

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

Operating segment

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

Contractual commitments

The following summarizes the Company's contractual obligations at June 30, 2021 (\$'000):

- Trade payables \$467 due in 30 days
- Ulaanbaatar office rent \$38 to the end of the year
- Vehicle leases \$58 due over 12 months

Critical accounting estimates

The preparation of the condensed interim consolidated financial statements in conformity with International Financial Reporting Standards (**IFRS**) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of income and expenses for the reporting period. Refer to the Company's audited annual financial statements for the years ended December 31, 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 Tughrik (**MNT**), and Canadian Dollars (**C\$**). The Company's financial results are reported in A\$. Salaries for certain local employees in Mongolia may be paid in MNT. The Company's operations are in Mongolia and some of its payment commitments and exploration expenditures under the various agreements governing its rights are denominated in MNT and US\$. As a result, the Company's financial position and results are impacted by the exchange rate fluctuations among A\$, US\$, MNT and C\$. Such fluctuations may materially affect the Company's financial position and results.

Management's Discussion and Analysis

- **Interest Rate Risk:** Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings at variable rates. Interest rate risk is limited to potential decreases on the interest rate offers on cash and cash equivalents held with chartered financial institutions. The Company considers this risk to be immaterial.
- **Commodity Price Risk:** Even if commercial quantities of mineral deposits are discovered, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any minerals discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including, among other things, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The Company is particularly exposed to the risk of movement in the price of copper and gold.
- **Equity Price Risk:** Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings.

Credit Risk

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

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$10.8 million at June 30, 2021 (March 31, 2021: \$4.2 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 nationalization of property and changes in government regulations such as foreign investment laws, tax laws, business laws, environmental laws and mining laws, affecting the Company's business in that country. Government policy may change to discourage foreign investment, nationalization of the mining industry may occur and other government limitations, restrictions or requirements may be implemented. There can be no assurance that the Company's assets will not be subject to nationalization, requisition, expropriation or confiscation, whether legitimate or not, by any authority or body.

The regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. There can be no assurance that Mongolian laws protecting foreign investments will not be amended or

Management's Discussion and Analysis

abolished or that existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above.

License Risks

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

Mineral Resource Assumptions Risk

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

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

Environmental Risk

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

Operational Risk

The Company's activities are subject to a number of operational risks and hazards, some of which are beyond its control. These risks and hazards include unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions, natural disasters such as earthquakes, industrial accidents, power, water or fuel supply interruptions or the increase in the price of such supplies, critical equipment failure, malfunction and breakdowns of information management systems, fires, and unusual or unexpected variations in mineralization, geological or mining conditions.

Contractual Risk

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

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

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

Management's Discussion and Analysis

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.

COVID-19

The Government of Mongolia has taken a conservative approach to managing COVID-19, and as a result the economy of Mongolia has fared better than many others. Mining and exploration facilities have been able to continue operations, and assay lab capacity in Ulaanbaatar has largely operated at normal levels. 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.

During the quarter, exploration activities continued in the Kharmagtai district, with three diamond drill rigs operating as per its plan. The Red Mountain district was locked down at the beginning of the quarter, however Xanadu was able to conduct a drill targeting MLEM survey and trenching program, for which results were received in July.

BOARD CHANGES

On 9 April 2021, Xanadu announced the appointment of Tony Pearson as a new Non-Executive Director, commencing 3 May 2021. Tony brings significant company director, industry executive, banking and Mongolia experience to the Board, and following this appointment, the Xanadu Board is made up of a majority Independent, Non-Executive Directors.¹⁷

KEY MANAGEMENT COMPENSATION

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

	Three Months Ended June 30, 2021 \$'000	Three Months Ended March 31, 2021 \$'000
Salaries and fees	396	387
STI Bonus	-	467
Superannuation	11	13
Share based payments	-	-
	407	868

The Company had no performance rights on June 30, 2021, and no new performance rights were granted during the reporting quarter. Shareholders in December 2020 approved the grant of Options to Directors and Key Management Personnel under the Company's *Employee Share and Option Plan* as follows. Options for Mr Tony Pearson were approved during the June 2021 AGM. All options for Directors and Key Management Personnel were granted subsequent to the quarter on July 28, 2021.

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

¹⁷ ASX/TSX Announcement 9 Apr 2021 - Board Addition at Xanadu

Management's Discussion and Analysis

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 quarter ended June 30, 2021 are described below.

Payments made to related parties and their associates was \$334k in the quarter ended March 31, 2021. The amounts relate to salary, superannuation and bonus payments to Directors \$225k; legal fees paid to HopgoodGanim Lawyers \$44k (a company associated with Xanadu Non-Executive Director Michele Muscillo) for legal services; rent \$19k paid to Xanadu Executive Director Ganbayar Lkhagvasuren in relation to Xanadu's Ulaanbaatar office; rent and consulting fees \$42k 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 \$5k paid to Bastion Minerals (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.

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)
KHDDH565	Stockwork Hill	593133	4877888	1280	233	-55	780.4
KHDDH566	Stockwork Hill	592652	4877346	1295	0	-70	922.4
KHDDH567	Stockwork Hill	592605	4877304	1296	0	-70	1036.2
KHDDH568	Stockwork Hill	592556	4877308	1295	0	-70	1104.6
KHDDH569	White Hill	591766	4876609	1314	0	-60	1270.0
KHDDH570	Zaraa	594727	4877204	1271	197	-65	1051.3
KHDDH571	Stockwork Hill	592455	4877275	1295	0	-65	1021.6
KHDDH572	Copper Hill	592667	4876130	1313	0	-55	649.0
KHDDH573	Stockwork Hill	592584	4877603	1289	80	-80	547.0
KHDDH574	Stockwork Hill	593090	4876414	1308	0	-60	292.3
OUTR100	Stariy	378456	4939918	1056	203	0	151.1
OUTR101	Stariy	378346	4939874	1056	217	0	160.0
OUTR102	Stariy	378444	4940018	1058	155	0	100.0
OUTR103	Stariy	378550	4939640	1050	180	0	140.0
OUTR103A	Stariy	378550	4939725	1053	180	0	85.0

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

Management's Discussion and Analysis

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)	Cu (%)	CuEq (%)	AuEq (g/t)
KHDDH565	Stockwork Hill	69	79	10	0.12	0.05	0.12	0.23
<i>and</i>		183	215	32	0.19	0.12	0.22	0.43
<i>including</i>		197	211	14	0.32	0.17	0.33	0.65
<i>and</i>		247	263	16	0.05	0.07	0.10	0.19
<i>and</i>		323	482	159	0.21	0.31	0.41	0.81
<i>including</i>		361	427	66	0.37	0.52	0.70	1.38
<i>including</i>		369	395	26	0.56	0.77	1.06	2.07
<i>including</i>		369	377	8	0.64	1.18	1.51	2.94
<i>including</i>		389	395	6	0.83	0.83	1.26	2.46
<i>including</i>		409	425	16	0.40	0.48	0.68	1.33
<i>including</i>		445	453	8	0.37	0.83	1.02	2.00
<i>including</i>		445	451	6	0.40	0.97	1.17	2.30
<i>and</i>		511.5	538	26.5	0.22	0.17	0.29	0.56
<i>including</i>		526	538	12	0.41	0.29	0.50	0.99
<i>and</i>		558	640	82	0.03	0.16	0.18	0.34
<i>including</i>		614	632	18	0.03	0.35	0.36	0.71
<i>and</i>		656	1155	499	0.39	0.31	0.51	1.00
<i>including</i>		686	921	235	0.48	0.36	0.60	1.18
<i>including</i>		728	829	101	0.52	0.45	0.72	1.41
<i>including</i>		783	793	10	0.92	0.57	1.04	2.03
<i>including</i>		839	843	4	0.46	0.37	0.61	1.19
<i>including</i>		853	893	40	0.92	0.40	0.87	1.70
<i>including</i>		855	862	7	0.83	0.57	0.99	1.94
<i>including</i>		878	893	15	1.10	0.41	0.98	1.91
<i>including</i>		935	979	44	0.15	0.20	0.28	0.55
<i>including</i>		1000	1147	147	0.46	0.37	0.60	1.17
<i>including</i>		1024	1047	23	1.23	0.80	1.43	2.80
<i>including</i>		1028	1047	19	1.32	0.88	1.56	3.04
<i>including</i>		1059	1097	38	0.52	0.42	0.68	1.33
<i>including</i>		1139	1147	8	0.32	0.27	0.43	0.85
<i>and</i>		1167	1201	34	0.08	0.08	0.12	0.24
<i>and</i>		1221	1245	24	0.08	0.08	0.12	0.24
<i>and</i>		1343	1371	28	0.72	0.14	0.51	1.00
<i>including</i>		1345.5	1363	17.5	1.09	0.19	0.74	1.45
<i>including</i>		1348	1352	4	2.59	0.26	1.59	3.11
<i>and</i>		1415	1441	26	0.56	0.14	0.43	0.84
<i>including</i>		1427	1439	12	1.08	0.18	0.73	1.43
<i>and</i>		1463	1485	22	0.11	0.10	0.15	0.30
<i>and</i>		1495	1505	10	0.07	0.09	0.13	0.25
<i>and</i>		1562	1585.4	23.4	0.06	0.11	0.14	0.27

Management's Discussion and Analysis

Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Cu (%)	CuEq (%)	AuEq (g/t)
KHDDH566	Stockwork Hill	1	15	14	0.13	0.07	0.14	0.27
	<i>and</i>	125.5	134	8.5	0.03	0.14	0.15	0.30
	<i>and</i>	190.5	264	73.5	0.04	0.11	0.13	0.25
	<i>and</i>	324	334	10	0.10	0.04	0.10	0.19
	<i>and</i>	592.1	810	217.9	0.47	0.32	0.56	1.10
	<i>including</i>	594.2	667	72.8	0.51	0.32	0.58	1.13
	<i>including</i>	603.1	667	63.9	0.58	0.34	0.64	1.25
	<i>including</i>	684	758	74	0.77	0.47	0.86	1.69
	<i>including</i>	684	708	24	1.71	0.80	1.67	3.27
	<i>including</i>	684	703.7	19.7	1.91	0.87	1.85	3.62
	<i>including</i>	744	756	12	0.52	0.38	0.64	1.26
	<i>including</i>	780	804	24	0.21	0.33	0.44	0.86
	<i>including</i>	786	792	6	0.35	0.48	0.66	1.29
	<i>and</i>	846	922.4	76.4	0.08	0.16	0.21	0.40
	<i>including</i>	846	852	6	0.06	0.26	0.29	0.57
KHDDH567	Stockwork Hill	263	322	59	0.07	0.14	0.17	0.34
	<i>and</i>	386	390	4	0.11	0.18	0.24	0.47
	<i>and</i>	436	440	4	0.07	0.18	0.21	0.42
	<i>and</i>	660.3	747	86.7	0.49	0.36	0.61	1.19
	<i>including</i>	660.3	743	82.7	0.51	0.37	0.63	1.23
	<i>including</i>	667	721	54	0.66	0.42	0.75	1.47
	<i>including</i>	669	675	6	0.98	0.56	1.06	2.07
	<i>and</i>	762	790	28	0.07	0.11	0.15	0.29
	<i>and</i>	828	834	6	0.12	0.08	0.14	0.28
	<i>and</i>	844	854	10	0.14	0.14	0.21	0.41
	<i>including</i>	844	852	8	0.17	0.15	0.24	0.46
	<i>and</i>	892	974	82	0.06	0.09	0.12	0.24
KHDDH568	Stockwork Hill	0	34	34	0.05	0.13	0.15	0.30
	<i>and</i>	286	441	155	0.06	0.15	0.18	0.35
	<i>and</i>	693.7	740.1	46.4	0.55	0.32	0.60	1.17
	<i>including</i>	696.2	740.1	43.9	0.56	0.33	0.61	1.20
	<i>and</i>	765.6	786	20.4	0.08	0.14	0.18	0.36
	<i>and</i>	798	834	36	0.10	0.11	0.16	0.32
	<i>and</i>	927	933	6	0.14	0.07	0.14	0.26
	<i>and</i>	955	963	8	0.18	0.01	0.10	0.20
	<i>and</i>	985	1007	22	0.07	0.12	0.15	0.30
	<i>including</i>	1001	1005	4	0.06	0.37	0.40	0.79
	<i>and</i>	1031	1062	31	0.06	0.16	0.19	0.38
	<i>including</i>	1055.7	1060	4.3	0.16	0.53	0.61	1.20
KHDDH569	White Hill	200	220	20	0.08	0.07	0.11	0.21
	<i>and</i>	298.3	304	5.7	0.05	0.09	0.12	0.23

Management's Discussion and Analysis

Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Cu (%)	CuEq (%)	AuEq (g/t)
<i>and</i>		314	326	12	0.03	0.06	0.08	0.15
<i>and</i>		340	366	26	0.05	0.06	0.09	0.17
<i>and</i>		443	1140	697	0.18	0.29	0.38	0.74
<i>including</i>		503	508	5	0.12	0.31	0.37	0.73
<i>including</i>		570	742	172	0.38	0.31	0.51	1.00
<i>including</i>		653	664.5	11.5	0.33	0.63	0.80	1.56
<i>including</i>		754	962	208	0.17	0.44	0.52	1.02
<i>including</i>		794	800.3	6.3	0.18	0.56	0.65	1.28
<i>including</i>		811	843	32	0.22	0.62	0.73	1.42
<i>including</i>		815	819	4	0.27	0.89	1.03	2.01
<i>including</i>		904	946	42	0.21	0.59	0.69	1.35
<i>including</i>		972	1032	60	0.15	0.35	0.43	0.84
<i>including</i>		990	1012	22	0.24	0.47	0.59	1.15
<i>and</i>		1152	1188	36	0.05	0.13	0.16	0.31
<i>and</i>		1218	1228	10	0.05	0.19	0.21	0.42
<i>and</i>		1238	1248	10	0.03	0.08	0.10	0.19
<i>and</i>		1258	1267.7	9.7	0.03	0.08	0.09	0.18
KHDDH570	Zaraa	203	209	6	0.07	0.06	0.10	0.20
<i>and</i>		227	302	75	0.08	0.08	0.12	0.24
<i>and</i>		318.5	1022	703.5	0.17	0.19	0.28	0.54
<i>including</i>		455	461	6	0.21	0.27	0.38	0.73
<i>including</i>		489	497	8	0.19	0.24	0.34	0.66
<i>including</i>		507	517	10	0.20	0.20	0.31	0.60
<i>including</i>		539	547	8	0.16	0.21	0.29	0.56
<i>including</i>		557	753.1	196.1	0.25	0.25	0.38	0.74
<i>including</i>		736	740	4	0.63	0.47	0.80	1.56
<i>including</i>		763	866	103	0.30	0.23	0.39	0.75
<i>including</i>		779.8	792	12.2	0.65	0.22	0.56	1.09
<i>including</i>		828	836	8	0.48	0.51	0.75	1.46
<i>including</i>		885	895	10	0.28	0.31	0.45	0.88
<i>including</i>		909	951	42	0.13	0.24	0.31	0.60
<i>and</i>		1035	1051.3	16.3	0.03	0.13	0.15	0.28
KHDDH571	Stockwork Hill	3	464	461	0.07	0.15	0.19	0.37
<i>including</i>		3	15	12	0.22	0.28	0.40	0.78
<i>including</i>		25	41	16	0.12	0.22	0.28	0.55
<i>including</i>		51	65	14	0.14	0.23	0.30	0.59
<i>including</i>		177	183	6	0.10	0.25	0.31	0.60
<i>including</i>		246	258	12	0.11	0.16	0.22	0.42
<i>and</i>		682.3	752	69.7	0.13	0.22	0.28	0.55
<i>including</i>		718	746	28	0.18	0.31	0.40	0.79
<i>and</i>		818	846	28	0.13	0.06	0.13	0.25

Management's Discussion and Analysis

Hole ID	Prospect	From (m)	To (m)	Interval (m)	Au (g/t)	Cu (%)	CuEq (%)	AuEq (g/t)
<i>including</i>		836	844	8	0.21	0.16	0.27	0.53
<i>and</i>		862	866	4	0.12	0.12	0.17	0.34
<i>and</i>		896	906	10	0.05	0.05	0.07	0.15
KHDDH572	Copper Hill				<i>Assays pending</i>			
KHDDH573	Stockwork Hill				<i>Assays pending</i>			
KHDDH574	Stockwork Hill				<i>Assays pending</i>			
OUTR100	Stairy				<i>Assays pending</i>			
OUTR101	Stairy				<i>Assays pending</i>			
OUTR102	Stairy				<i>Assays pending</i>			
OUTR103	Stairy				<i>Assays pending</i>			
OUTR103A	Stairy				<i>Assays pending</i>			

Note that true widths will generally be narrow than those reported. See disclosure in JORC Table 1, Section 2.

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 Announcement 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.

COPPER EQUIVALENT CALCULATIONS

The copper equivalent (**eCu**) 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 eCu calculation defined by CSA in the 2018 Mineral Resource Upgrade.

Management's Discussion and Analysis

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

$$eCu = Cu + Au * 0.62097 * 0.8235,$$

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 Announcement 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

LIST OF TENEMENTS

Xanadu held licenses for the following tenements during the quarter. The early stage Yellow Mountain project is no longer listed, as the license expired in May 2020. Following a Mongolia Appellate Court decision during the December quarter of 2020 and due to overlap with environmentally protected areas, Xanadu no longer expects the Yellow Mountain license to be renewed. No new farm-in or farm-out agreements were entered into during the quarter.

Table 4. Licenses and Projects Held by Xanadu

Project Name	Tenement Name	Beneficial Ownership Start of Quarter	Beneficial Ownership End of Quarter	Location
Red Mountain *	Red Mountain	90%	90%	Mongolia, Dornogobi province, Saikhandulaan soum
Kharmagtai	Kharmagtai	76.5%	76.5%	Mongolia, Umnugobi province, Tsogttsetsii soum

* Red Mountain is subject to a Joint Exploration Agreement with Japan Oil and Gas Exploration Company (JOGMEC), under which JOGMEC may earn a 51% interest in the project by sole funding USD 7.2 million of exploration over four years. Xanadu is the operator during the earn-in period.

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 April 11, 2019.

JORC TABLE 1 - SECTION 1 –SAMPLING TECHNIQUES AND DATA

Criteria	Commentary
Sampling techniques	<ul style="list-style-type: none"> • Representative 2 metre samples were taken from ½ HQ diamond core. • Only assay results from recognised, independent assay laboratories were used after QAQC was verified.
Drilling Techniques	<ul style="list-style-type: none"> • Diamond Drill Hole (DDH) drilling has been the primary drilling method. Some RC (reverse circulation) is conducted. RC holes are denoted by the KHRC prefix. Diamond Drill Holes are denoted by the KHDDH prefix.
Drill sample recovery	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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.

Management's Discussion and Analysis

Criteria	Commentary
	<ul style="list-style-type: none"> 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. Quality assurance was provided by introduction of known certified standards, blanks and duplicate samples on a routine basis. Assay results outside the optimal range for methods were re-analysed by appropriate methods. 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. QAQC monitoring is an active and ongoing processes on batch by batch basis by which unacceptable results are re-assayed as soon as practicable.
Verification of sampling and assaying	<ul style="list-style-type: none"> All assay data QA/QC is checked prior to loading into the Geobank data base. The data is managed by Xanadu geologists. The database and geological interpretation is collectively managed by Xanadu.
Location of data points	<ul style="list-style-type: none"> Diamond drill holes have been surveyed with a differential global positioning system (DGPS) to within 10cm accuracy. 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. UTM WGS84 48N grid. The digital terrain model (DTM) is based on 1m contours with an accuracy of $\pm 0.01\text{m}$.
Data spacing and distribution	<ul style="list-style-type: none"> CSAMT receiver nodes were place at 200m spacings to allow a potential maximum depth penetration of 1000m. 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 Holes range from vertical to an inclination of -60 degrees depending on the attitude of the target and the drilling method. The data spacing and distribution is sufficient to establish anomalism and targeting for both porphyry, tourmaline breccia and epithermal target types.
Orientation of data in relation to geological structure	<ul style="list-style-type: none"> Drilling is conducted in a predominantly regular grid to allow unbiased interpretation and targeting. Sample lines for the CSAMT survey were conducted roughly perpendicular to the gross geological trend
Sample security	<ul style="list-style-type: none"> Samples are dispatched from site through via company employees and secure company vehicles to the Laboratories. Samples are signed for at the Laboratory with confirmation of receipt emailed through. Samples are then stored at the lab and returned to a locked storage site.

Management's Discussion and Analysis

Criteria	Commentary
Audits or reviews	<ul style="list-style-type: none"> CSAMT data from the survey was reviewed and audited by Barry de Wet, an external consultant. Internal audits of sampling techniques and data management on a regular basis, to ensure industry best practice is employed at all times.

JORC TABLE 1 - SECTION 2 - REPORTING OF EXPLORATION RESULTS

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

Criteria	Commentary
Mineral tenement and land tenure status	<ul style="list-style-type: none"> The Project comprises 2 Mining Licences (MV-17129A Oyut Ulaan and (MV-17387A Kharmagtai) <ul style="list-style-type: none"> Xanadu now owns 90% of Vantage LLC, the 100% owner of the Oyut Ulaan mining licence. 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"). The Mongolian Minerals Law (2006) and Mongolian Land Law (2002) govern exploration, mining and land use rights for the project.
Exploration done by other parties	<ul style="list-style-type: none"> Previous exploration at Kharmagtai was conducted by Quincunx Ltd, Ivanhoe Mines Ltd and Turquoise Hill Resources Ltd including extensive drilling, surface geochemistry, geophysics, mapping. Previous exploration at Red Mountain (Oyut Ulaan) was conducted by Ivanhoe Mines.
Geology	<ul style="list-style-type: none"> The mineralisation is characterised as porphyry copper-gold type. 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.
Drill hole Information	<ul style="list-style-type: none"> Diamond drill holes are the principal source of geological and grade data for the Project. See figures in this ASX/TSX Announcement.
Data Aggregation methods	<ul style="list-style-type: none"> A nominal cut-off of 0.1% eCu 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% eCu. 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.

Management's Discussion and Analysis

Criteria	Commentary
	<ul style="list-style-type: none"> • Maximum contiguous dilution within each intercept is 9m for 0.1%, 0.3%, 0.6% and 1% eCu. • 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. • 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>THE COPPER EQUIVALENT (ECU) 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 ECU 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> $eAu = Au + Cu / 0.62097 * 0.8235.$ <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> <ul style="list-style-type: none"> • Copper price - 3.1 \$/lb (or 6834 \$/t) • Gold price - 1320 \$/oz • Copper recovery - 85% • Gold recovery - 70% • Relative recovery of gold to copper = 70% / 85% = 82.35%.
<p>Relationship between mineralisation on widths and intercept lengths</p>	<ul style="list-style-type: none"> • 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.

Management's Discussion and Analysis

Criteria	Commentary
Diagrams	<ul style="list-style-type: none"> • See figures in the body of the report.
Balanced reporting	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Extensive work in this area has been done and is reported separately.
Further Work	<ul style="list-style-type: none"> • The mineralisation is open at depth and along strike. • 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. • Exploration on going.

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

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