

## First Quarter 2022 Financial Statements and MD&A

6 May 2022

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

### BY ELECTRONIC LODGEMENT

#### First Quarter 2022 Financial Statements and Management's Discussion & Analysis

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

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#### **About Xanadu Mines Ltd:**

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

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



# XANADU MINES

## **Xanadu Mines Ltd**

### **First Quarter 2022 Report**

### **Condensed Interim Consolidated Financial Statements**

**As at and for the three months ended  
March 31, 2022**

### **Unaudited**

(stated in Australian dollars, unless otherwise indicated)

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- Notes to the Condensed Interim Consolidated Financial Statements

## Interim Financial Statements

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### **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed interim consolidated financial statements of Xanadu Mines Ltd ('Xanadu' or the 'Company') have been prepared by and are the responsibility of the Company's management.

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

## Interim Financial Statements

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	Consolidated	
		3 months ending Mar 31, 2022 A\$'000	3 months ending Mar 31, 2021 A\$'000
<b>Revenue</b>			
Other income		17	-
<b>Expenses</b>			
Other expenses	5	(861)	(1,187)
Depreciation and amortisation expense		(16)	(14)
Finance costs		(9)	(8)
<b>Loss before income tax expense</b>		<b>(869)</b>	<b>(1,209)</b>
Income tax expense		-	-
<b>Loss after income tax expense for the period</b>		<b>(869)</b>	<b>(1,209)</b>
<b>Other comprehensive income profit/(loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(2,913)	519
Other comprehensive income profit/(loss) for the period, net of tax		(2,913)	519
<b>Total comprehensive income profit/(loss) for the period</b>		<b>(3,782)</b>	<b>(690)</b>
<b>Profit/(loss) for the period is attributable to:</b>			
Non-controlling interest		(282)	12
Owners of Xanadu Mines Ltd		(587)	(1,221)
		<b>(869)</b>	<b>(1,209)</b>
<b>Total comprehensive income profit/(loss) for the period is attributable to:</b>			
Non-controlling interest		(432)	67
Owners of Xanadu Mines Ltd		(3,350)	(757)
		<b>(3,782)</b>	<b>(690)</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	11	(0.05)	(0.11)

# Interim Financial Statements

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - stated in thousands of Australian dollars)

	Note	Consolidated	
		Mar 31, 2022 A\$'000	Dec 31, 2021 A\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		1,255	3,321
Other receivables		94	86
Prepayments and other assets		5	15
<b>Total current assets</b>		<b>1,354</b>	<b>3,422</b>
<b>Non-current Assets</b>			
Property, plant and equipment		520	559
Right-of-use-assets		345	323
Deferred exploration and evaluation expenditure	6	48,673	50,328
<b>Total non-current assets</b>		<b>49,538</b>	<b>51,210</b>
<b>Total Assets</b>		<b>50,892</b>	<b>54,632</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		254	253
Contract liabilities		-	-
Employee benefits		11	9
Lease liabilities		33	40
<b>Total current liabilities</b>		<b>298</b>	<b>302</b>
<b>Non-current Liabilities</b>			
Lease liabilities		195	192
<b>Total non-current liabilities</b>		<b>195</b>	<b>192</b>
<b>Total Liabilities</b>		<b>493</b>	<b>494</b>
<b>Net Assets</b>		<b>50,399</b>	<b>54,138</b>
<b>EQUITY</b>			
Issued capital	7	145,871	145,659
Reserves		(6,512)	(3,580)
Accumulated losses		(92,592)	(92,005)
Equity attributable to the owners of Xanadu Mines Ltd		46,767	50,074
Non-controlling interest		3,632	4,064
<b>Total Equity</b>		<b>50,399</b>	<b>54,138</b>

## Interim Financial Statements

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - stated in thousands of Australian dollars)

Consolidated	Issued capital A\$'000	Foreign currency translation reserve A\$'000	Share-based payments reserve A\$'000	Transactions with owners' reserve A\$'000	Accumulated losses A\$'000	Non-controlling interest A\$'000	Total equity A\$'000
Balance at January 1, 2021	136,005	(16,253)	10,016	(537)	(82,197)	3,672	50,706
Loss after income tax expense for the period	-	-	-	-	(1,221)	12	(1,209)
Other comprehensive income profit/(loss) for the period, net of tax	-	464	-	-	-	55	519
Total comprehensive income profit/(loss) for the period	-	464	-	-	(1,221)	67	(690)
<i>Transactions with owners in their capacity as owners:</i>							
Shares issued	-	-	-	-	-	-	-
Transaction costs	-	-	-	-	-	-	-
Share-based payments expensed	-	-	-	-	-	-	-
Options exercised	-	-	-	-	-	-	-
Balance at March 31, 2021	136,005	(15,789)	10,016	(537)	(83,418)	3,739	50,016

Consolidated	Issued capital A\$'000	Foreign currency translation reserve A\$'000	Share-based payments reserve A\$'000	Transactions with owners' reserve A\$'000	Accumulated losses A\$'000	Non-controlling interest A\$'000	Total equity A\$'000
Balance at January 1, 2022	145,659	(13,751)	10,708	(537)	(92,005)	4,064	54,138
Loss after income tax expense for the period	-	-	-	-	(587)	(282)	(869)
Other comprehensive income loss for the period, net of tax	-	(2,763)	-	-	-	(150)	(2,913)
Total comprehensive income loss for the period	-	(2,763)	-	-	(587)	(432)	(3,782)
<i>Transactions with owners in their capacity as owners:</i>							
Shares issued (note 7)	43	-	-	-	-	-	43
Transaction costs	-	-	-	-	-	-	-
Share-based payments expensed	-	-	-	-	-	-	-
Options exercised (note 7)	169	-	(169)	-	-	-	-
Balance at March 31, 2022	145,871	(16,514)	10,539	(537)	(92,592)	3,632	50,399

## Interim Financial Statements

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - stated in thousands of Australian dollars)

	Note	3 months ending Mar 31, 2022 A\$'000	3 months ending Mar 31, 2021 A\$'000
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(818)	(1,435)
Interest and other finance costs paid		(9)	(8)
Net cash used in operating activities		(827)	(1,443)
<b>Cash flows from investing activities</b>			
Proceeds from disposal of plant and equipment		17	-
Payment for exploration and evaluation expenditure	6	(1,044)	(2,047)
Payment for exploration and evaluation on behalf of JOGMEC	6	-	(839)
Proceeds from JOGMEC Red Mountain earn-in payments capitalised	6	-	884
Net cash used in investing activities		(1,027)	(2,002)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	-
Repayment of lease liabilities		(27)	(9)
Net cash used in financing activities		(27)	(9)
Net increase/(decrease) in cash and cash equivalents		(1,881)	(3,454)
Cash and cash equivalents at the beginning of the financial period		3,321	7,687
Effects of exchange rate changes on cash and cash equivalents		(185)	(7)
Cash and cash equivalents at the end of the financial period		1,255	4,226

# Notes to the Condensed Interim Consolidated Financial Statements

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## Note 1. Corporate information

Xanadu Mines Ltd ('Xanadu' or the 'Company') was incorporated on May 12, 2005 and is the ultimate holding company for the Xanadu group (the 'Group'). The unaudited financial report of the Company and its controlled entities are for the period ended March 31, 2022. The principal activity of the Company (and its subsidiaries) is copper-gold exploration in Mongolia.

## Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period ended March 31, 2022 ('interim financial statements') have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001 (Cth)* ('Corporations Act'), as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the Company's annual report for the year ended December 31, 2021 and any public announcements made by the Company during the interim reporting period ended March 31, 2022, in accordance with the continuous disclosure requirements of the Corporations Act.

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

### New or amended Accounting Standards and Interpretations adopted

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

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

### Going concern

The Group has incurred net losses after tax of \$869,000 (March 31, 2021: \$1,209,000) and net cash outflows from operations of \$827,000 (March 31, 2021 \$1,443,000) for the period ended March 31, 2022. At period end, cash and cash equivalents were \$1,255,000.

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

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

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

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 interim financial statements. The interim financial statements do 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.

The introduction of a strategic partnership with Zijin Mining<sup>1</sup>, subsequent to the quarter, materially reduces the going concern uncertainty, subject to regulatory and shareholder approvals. This provides A\$11 million funding to Xanadu and US\$35 million in funding to the Kharmagtai project to progress the Pre-Feasibility Study and further exploration.

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<sup>1</sup> ASX/TSX Announcement 19 April 2022 – Strategic Partnership with Zijin Mining



# Notes to the Condensed Interim Consolidated Financial Statements

## Rounding of amounts

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

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the interim 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 interim 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.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with directors, employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Monte Carlo or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

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

The Group assesses impairment of 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. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

### *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.

### *Exploration and evaluation costs*

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

## Note 4. Operating segments

Xanadu operates predominantly in the minerals exploration sector. The principal activity of the Company is exploration for copper and gold. Xanadu classifies these activities under a single operating segment, the Mongolian exploration projects. Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in note 6 'Deferred exploration and evaluation expenditure'. No segment revenues are disclosed, as all segment expenditure is capitalised, with the exception of expenditure written off. The non-current assets of Xanadu, attributable to the parent entity, are located in Mongolia.

## Notes to the Condensed Interim Consolidated Financial Statements

### Note 5. Other expenses

	Consolidated	
	3 months ending Mar 31, 2022 A\$'000	3 months ending Mar 31, 2021 A\$'000
Administration expenses	339	154
Wages and management fees	380	744
Consulting fees	143	289
Net foreign currency (gains) / losses	(1)	-
Other expenses	861	1,187

### Note 6. Deferred exploration and evaluation expenditure

	Consolidated	
	Mar 31, 2022 A\$'000	Dec 31, 2021 A\$'000
<i>Non-current assets</i>		
Deferred exploration and evaluation expenditure	57,322	59,525
Less: Accumulated impairment <sup>(a)</sup>	(8,649)	(9,197)
	48,673	50,328

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

Yellow Mountain was fully impaired during 2019, 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.

During the year ended December 31, 2021, an impairment loss of \$4,637,000 was recognised at Red Mountain, triggered by the exit of Japan Oil Gas and Metals National Corporation ('JOGMEC') from a Joint Exploration Agreement. This impaired the asset down to its fair value less cost to dispose, which was determined by a Market Valuation Approach using the Comparable Transaction method, cross checked by Yardstick and Geoscientific Rating methods. Comparable Transaction compares the asset with transaction value of similar assets under similar time and circumstances on an open market.

## Notes 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:

<b>Consolidated</b>	<b>Exploration and evaluation A\$'000</b>
Balance at January 1, 2022	50,328
Additions <sup>(i)</sup>	1,044
Exchange differences	(2,699)
Balance at March 31, 2022	<u>48,673</u>
(i) Additions made up of:	<b>A\$'000</b>
<b>Additions Funded by Xanadu:</b>	
Cashflow payments for exploration and evaluation at Kharmagtai	802
Cashflow payments for exploration and evaluation at Red Mountain	242
Cashflow payments for exploration and evaluation expenditure <small>(see Statement of cash flows investing activities)</small>	<u>1,044</u>
<b>Other additions:</b>	
Other	<u>-</u>
Total additions to exploration and evaluation asset	<u>1,044</u>

The Company held interests in two tenements during the period to March 31, 2022:

- (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 activities undertaken during the first quarter of 2022 included delivery of the Kharmagtai National Instrument 43-101 Technical Report, progression of the Kharmagtai Scoping Study, continued multi-spectral scanning of drill core, and developing the drilling plan for the second half of 2022. Xanadu did not complete any drilling at Kharmagtai during the first quarter.

#### *Red Mountain Copper-Gold Project*

Xanadu's Red Mountain porphyry copper-gold Project is located within the Dornogovi Province of southern Mongolia, approximately 420km southeast of Ulaanbaatar, and 70km west from the provincial centre of Sainshand. The project holds a 30-year mining licence and is owned 100% by Xanadu. During the period, the project was subject to a Joint Exploration Agreement with JOGMEC, dated March 2020, in which JOGMEC would earn 51% interest, subject to sole funding US\$7.2 million of expenditure over four years (earn-in condition). This agreement was terminated in November 2021, prior to completion of earn-in conditions.

Exploration activities undertaken during the first quarter of 2022 included a third-party review of prior exploration and targeting, following Xanadu acquiring 100% control of Red Mountain during the prior quarter. Xanadu did not complete any drilling at Red Mountain during the first quarter.

# Notes to the Condensed Interim Consolidated Financial Statements

## Note 7. Issued capital

	Consolidated			
	Mar 31, 2022 Shares	Dec 31, 2021 Shares	Mar 31, 2022 A\$'000	Dec 31, 2021 A\$'000
Ordinary shares - fully paid (net of transaction costs)	1,265,071,356	1,259,037,750	145,871	145,659

### Movements in ordinary share capital

Details	Date	Shares	A\$'000
Balance	January 1, 2022	1,259,037,750	145,659
Fair value of options vested and exercised	January 7, 2022	4,560,000	169
Shares issued as payment for consulting services	March 1, 2022	1,473,606	43
Share issue costs		-	-
Balance	March 31, 2022	<u>1,265,071,356</u>	<u>145,871</u>

### Movements in options

Details	Date	Options
Balance	January 1, 2022	51,510,000
Unlisted options exercised	January 7, 2022	<u>(4,560,000)</u>
Balance	March 31, 2022	<u>46,950,000</u>

### Ordinary shares

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

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

### Share buy-back

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

### Capital risk management

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

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

Management effectively manages Xanadu's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. The capital risk management policy remains unchanged from the December 31, 2021 Annual Report.

# Notes to the Condensed Interim Consolidated Financial Statements

## Note 8. Dividends

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

## Note 9. Contingent liabilities

There are no material contingent liabilities relating to the Company.

## Note 10. Events after the reporting period

Since March 31, 2022, Xanadu published the Kharmagtai Scoping Study, demonstrating a long-life, low-cost project that can be developed in the near term. The project features strong economics, driven by scale and gold by-product credits, relatively low risk, driven by well proven technologies and favourable environmental, social and governance ('ESG') parameters, and significant upside opportunities identified and currently being evaluated.

After the Scoping Study publication, the Company announced a strategic partnership with Zijin Mining Group Co., Ltd ('Zijin Mining'), a global top-10 copper producer and experienced developer of new copper mines, which, subject to required approvals, will inject approximately A\$11 million into Xanadu and US\$35 million into the Kharmagtai project, funding it through Pre-Feasibility Study ('PFS') to a final decision to construct.

No other matter or circumstance has arisen since March 31, 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's situation in future financial years.

## Note 11. Earnings per share

	Consolidated	
	3 months ending Mar 31, 2022 A\$'000	3 months ending Mar 31, 2021 A\$'000
Loss after income tax	(869)	(1,209)
Non-controlling interest	282	(12)
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(587)	(1,221)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share income	1,263,801,325	1,091,841,522
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(0.05)	(0.11)



XANADU MINES

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

**March 31, 2022**

(stated in Australian dollars, unless otherwise stated)

# Management's Discussion and Analysis

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This *Management's Discussion and Analysis (MD&A)* dated May 6, 2022, relates to the financial condition and results of the consolidated operations of Xanadu Mines Ltd (**Xanadu**, **Xanadu Mines**, or the **Company**) for the three months ended March 31, 2022. This is Management's assessment of the operations and the financial results together with future prospects of Xanadu Mines and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2021 and 2020 and notes thereto. The accompanying Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2022, have been prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting', and all dollar figures in this MD&A are expressed in Australian dollars (\$) unless stated otherwise.

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

Additional information relating to the Company, including the Company's most recent financial reports, are available on the Canadian System for Electronic Document Analysis and Retrieval (**SEDAR**) at [www.sedar.com](http://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](http://www.xanadumines.com).

## COMPETENT PERSON STATEMENT

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

The information in this MD&A that relates to exploration results is based on information compiled by Dr Andrew Stewart who is responsible for the exploration data, comments on exploration target sizes, QA/QC and geological interpretation and information. Dr Stewart, who is an employee of Xanadu and is a Member of the 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.

## BUSINESS OVERVIEW

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

## HIGHLIGHTS DURING THE MARCH 2022 QUARTER

During the March 2022 Quarter, Xanadu was focused on work to progress the Kharmagtai Copper-Gold Project into its next stage of development. This included completion of the updated Kharmagtai *National Instrument 43-101 Technical Report*<sup>1</sup>, completing technical work for the Kharmagtai Scoping Study and transitioning the Executive and Board to a development footing.

Subsequent to the March 2022 Quarter, Xanadu published the Kharmagtai Scoping Study<sup>2</sup>, demonstrating a long-life, low-cost project that can be developed in the near term. The project features strong economics, driven by scale and gold by-product credits, relatively low risk, driven by well proven technologies and favourable environmental, social and governance (**ESG**) parameters, and significant upside opportunities identified and currently being evaluated.

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<sup>1</sup> ASX/TSX Announcement 28 February 2022 - Kharmagtai Technical Report

<sup>2</sup> ASX/TSX Announcement 6 April 2022 - Scoping Study - Kharmagtai Copper-Gold Project

# Management's Discussion and Analysis

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After the Scoping Study publication, the Company announced a strategic partnership with Zijin Mining Group Co., Ltd (**Zijin Mining**), a global top-10 copper producer and experienced developer of new copper mines, which, subject to required approvals, will inject approximately A\$11 million into Xanadu and US\$35 million into the Kharmagtai project, funding it through Pre-Feasibility Study (**PFS**) to a final decision to construct.<sup>3</sup>

## Kharmagtai Project

- Completed and filed a National Instrument 43-101 Technical Report<sup>4</sup> for its Mineral Resource Estimate.
- Completed technical work for the Scoping Study, with 20% internal rate of return (**IRR**) (range 16-25%), US\$630 million net present value (**NPV**) @ 8% (range US\$ 405-850 million), first quartile all-in sustaining cost over initial 5 years, and 4-year payback (range 4-7 years) over a 30-year mine life.
- Scoping Study was published subsequent to the March 2022 Quarter. The Xanadu Board endorsed the Scoping Study, and subject to funding, to progress to the PFS Stage.<sup>5</sup>

## Corporate

- Board and Management were reconfigured to progress Kharmagtai into the development phase, including Mr. Colin Moorhead becoming Executive Chairman and Managing Director and Dr. Andrew Stewart becoming Vice President Exploration.<sup>6</sup>
- Subsequent to the quarter, the Company announced a strategic partnership with Zijin Mining<sup>7</sup>, a global top-10 copper producer, providing funding and technical expertise to progress the Kharmagtai Copper-Gold Project (**Kharmagtai**) through PFS to a decision to construct.
- Subject to approvals, the Zijin Mining partnership includes a 19.9% stake in Xanadu at an approx. 38% premium to market for approx. A\$11 million and an approx. US\$35 million investment directly into the Kharmagtai project for a 50% stake in Khuiten Metals Pte Ltd., equivalent to a 38.25% stake in Kharmagtai.

## Executive Chairman & Managing Director, Colin Moorhead, said:

*"This next phase for Kharmagtai is exciting. With our updated Mineral Resource Estimate and Scoping Study completed, we look forward to sharing what we have here at Kharmagtai - which we believe is a globally competitive copper-gold project, located in a mining friendly jurisdiction and on the doorstep of the world's largest copper market. As a mining professional with a long history in large porphyry projects, I am excited to be taking this project forward.*

*"We are delighted to have attracted Zijin Mining, a global top 10 copper producer and highly capable mine developer as our partner, and we look forward to finalising negotiations to move Kharmagtai forward and realise its potential on an accelerated path. This partnership is a good outcome for our shareholders, for Mongolia and for a world looking to fill a global copper supply gap.*

*I particularly thank Andrew Stewart for his hard work and dedication, under his stewardship, the Company secured and has grown Kharmagtai into a globally significant copper gold resource, ready to progress to the next phase of development. Critically, we aren't losing Andrew, and as VP Exploration, he will continue to leverage his skills and knowledge for the Company, aiming to discover and define the next major development project in our portfolio, whilst ensuring continuity and growth of our deposit knowledge at Kharmagtai."*

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 March 31, 2022.

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<sup>3</sup> ASX/TSX Announcement 19 April 2022 – Strategic Partnership with Zijin Mining Group

<sup>4</sup> ASX/TSX Announcement 28 February 2022 – Kharmagtai Technical Report

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

<sup>6</sup> ASX/TSX Announcement 23 March 2022 – Executive Board Transition – Xanadu Enters New Phase

<sup>7</sup> ASX/TSX Announcement 19 April 2022 – Strategic Partnership with Zijin Mining Group



# Management's Discussion and Analysis

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## REVIEW OF OPERATIONS

### Kharmagtai Copper-Gold Project

#### NATIONAL INSTRUMENT 43-101 TECHNICAL REPORT

During the March 2022 Quarter, the Company filed a National Instrument 43-101 Technical report (**NI 43-101 Technical Report**)<sup>8</sup> titled *Mineral Resource Estimation, Kharmagtai Project, Omnogovi Province, Mongolia*, in support of the Company's ASX/TSX Announcement dated December 8, 2021<sup>9</sup> and as required by Canadian Securities Administrators (**CSA**) and the Toronto Stock Exchange (**TSX**).

The NI 43-101 Technical Report<sup>10</sup> was authored by a Qualified Person, Mr. Robert Spiers of Spiers Geological Consultants Pty Ltd (**SGC**) who is a Qualified Person as defined by NI 43-101. The Mineral Resource Estimate has been classified in accordance with the CIM Definition Standards - Standards for Disclosure for Mineral Projects (May 9, 2016) and with JORC Code, 2012.

The updated Mineral Resource Estimate for Kharmagtai has an effective date of December 8, 2021 and is supported by information from 120 diamond drill holes for 69,479 metres between 2018 and 2021.

- The Indicated Mineral Resources for Kharmagtai total 455 million tonnes (**Mt**) grading 0.3% copper and 0.2g/t gold.
- The Inferred Mineral Resources for Kharmagtai total 664 Mt grading 0.3% copper and 0.2g/t gold.

The NI 43-101 Technical Report, dated February 28, 2022, may be found under the Company's profile on SEDAR at <https://www.sedar.com> and on the Xanadu Mines website: <https://www.xanadumines.com/technical-reports/>

#### KHARMAGTAI COPPER-GOLD PROJECT, SCOPING STUDY

Subsequent to the March 2022 Quarter, the Company released its Scoping Study<sup>11</sup> (**Study**) for its flagship Kharmagtai Copper-Gold Project, based on an updated 2021 Mineral Resource Estimate.

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

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

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

#### Strong Investment Returns

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

#### Low Technical Complexity

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

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<sup>8</sup> ASX/TSX Announcement 28 February 2022 - Technical Report to Support Kharmagtai Mineral Resource Upgrade

<sup>9</sup> ASX/TSX Announcement 8 December 2021 - Kharmagtai Resource Grows to 1.1 billion tonnes

<sup>10</sup> This NI 43-101 Technical Report updates the ASX/TSX Announcement 8 December 2021 - Kharmagtai Resource Grows to 1.1 billion Tonnes, including amendments to the resource classified as Indicated within the smaller Zephyr deposit.

<sup>11</sup> ASX/TSX Announcement 6 April 2022 - Scoping Study - Kharmagtai Copper-Gold Project

# Management's Discussion and Analysis

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## Globally Competitive Time to Production

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

## Significant Upside Opportunities

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

The Study underpins Xanadu Board's decision to gate the project to PFS. Parallel studies are underway to assess further upside at depth, considering high grade found in deeper drill holes, and for new discoveries across the district. Similar to other large porphyry copper districts, Xanadu expects there to be significant opportunity for future growth and value creation over the mine life. The full Scoping Study report is available on the Xanadu Mines website: <https://www.xanadumines.com/asx-announcements/>

The next major project milestone will be the Kharmagtai PFS, planned to commence in Q2 2022 and expected to complete in Q4 of 2023, subject to funding.

## Red Mountain Copper-Gold Project

No exploration activity was undertaken in this period.

## PLANNED ACTIVITIES FOR JUNE 2022 QUARTER

Key activities planned during the June 2022 Quarter include:

- Completing negotiations and finalising the Company's strategic partnership with Zijin Mining for approval by regulators in Australia and China;
- Developing updated exploration plans for Kharmagtai and Red Mountain, to commence on receipt of funds from Zijin Mining;
- Finalising the Project Execution Plan including drilling, metallurgy, engineering and infrastructure work for the Kharmagtai PFS, to commence upon completion of the Joint Venture with Zijin Mining; and
- Updating the Kharmagtai National Instrument 43-101 to include the recently released Scoping Study.

# Management's Discussion and Analysis

## RESULTS OF OPERATIONS

### SELECTED QUARTERLY INFORMATION

	Quarter Ending				
	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Exploration Expenditure					
Kharmagtai	802	2,028	2,756	2,297	1,640
Red Mountain	242	435	1,090	480	885
Exploration expenditures capitalised *	1,044	2,178	3,092	2,457	1,640
Impairment of deferred exploration expenditure	-	4,637	-	-	-
Corporate general and administration	861	854	929	606	1,188
Share-based payments	-	815	-	-	-
Depreciation and amortisation	-	17	11	13	14
Loss after income tax attributable to owners of XAM	587	6,320	1,098	666	1,221
Basic loss per share	0.05	0.50	0.09	0.06	0.11
Diluted loss per share	0.05	0.50	0.09	0.06	0.11
Kharmagtai drill metres ^	-	5,716	11,146	8,760	7,984
Red Mountain drill metres	-	-	2,948	-	4,039

\* Red Mountain exploration funded by JOGMEC under the Joint Exploration Agreement was not capitalised

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

## CORPORATE

### MANAGEMENT CHANGES

The Company announced an internal restructure of its Board and leadership teams as it progresses its flagship Kharmagtai project into the development phase<sup>12</sup>. Changes took effect from March 31, 2022.

- Former Non-Executive Chairman Colin Moorhead became Executive Chairman and Managing Director.
- Former Chief Executive Officer (**CEO**) Andrew Stewart transitioned into a newly created role of Vice President (**VP**) Exploration, leading Xanadu's continuing exploration for new deposits at both Red Mountain and Kharmagtai.
- Chief Financial Officer (**CFO**) Spencer Cole gained additional duties, with an expanded title of Chief Development Officer and CFO.

<sup>12</sup> ASX/TSX Announcement 23 March 2022 – Xanadu enters exciting new phase

# Management's Discussion and Analysis

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## STRATEGIC PARTNERSHIP WITH ZIJIN MINING GROUP

On April 19, 2022, the Company announced it had agreed a strategic partnership (**Agreement**) with Zijin Mining Group Co., Ltd (**Zijin Mining**) to progress the Company's flagship Kharmagtai Copper-Gold Project (**Kharmagtai**) through its next phase of project evaluation and decision on future development<sup>13</sup>.

Under the Agreement, Zijin Mining will invest in both the Xanadu corporate level and the Kharmagtai project level through a series of transactions commencing with the subscription of 139 million fully paid ordinary shares in Xanadu (**New Shares**) to provide Zijin with a 9.9% shareholding in the Company (**Phase 1 Placement**). The Phase 1 Placement was conducted at an issue price of A\$0.04 per share, representing approximately a 38% premium to Xanadu's last traded price of A\$0.029 prior to the Announcement, and raised A\$5.56 million. The 139,000,000 shares were issued on April 27, 2022.

Two subsequent phases are then proposed (subject to formal documentation) including a second placement of ordinary shares at A\$0.04 per share to increase Zijin Mining's total shareholding in the Company to 19.99% (**Phase 2 Placement**) and the creation of a 50/50 Joint Venture in Khuiten Metals Pte. Ltd., the entity currently 100% owned by Xanadu that holds a 76.5% effective interest in Kharmagtai (**Phase 3 JV**)<sup>14</sup>, for a cash payment of US\$35 million.

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

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

## ASX/TSX ANNOUNCEMENTS

This Quarterly Activities Report contains information reported in accordance with JORC Code, 2012 in the following announcements released during the March quarter.

- ASX/TSX Announcement 8 Dec 2021 – Kharmagtai Resource Grows to 1.1 billion tonnes
- ASX/TSX Announcement 6 Apr 2022 – Scoping Study – Kharmagtai Copper-Gold Project
- ASX/TSX Announcement 28 Feb 2022 – Technical Report to Support Kharmagtai Mineral Resource Upgrade
- ASX/TSX Announcement 23 Mar 2022 – Xanadu enters exciting new phase
- ASX/TSX Announcement 19 Apr 2022 - Strategic partnership with Zijin Mining Group

## MONGOLIA MINING INDUSTRY

### FOREIGN DIRECT INVESTMENT

In January 2022, a comprehensive agreement<sup>15</sup> was reached between Rio Tinto and the Government of Mongolia to progress the US\$7 billion underground mine expansion at Oyu Tolgoi, located approximately 100km south of Kharmagtai in the South Gobi Desert. This included a waiver of US\$2.4 billion in debt owed by the Mongolian Government, alignment on requirements for power generation, and agreement to progress the undercut for the block cave at Oyu Tolgoi. Rio Tinto subsequently expanded its potential investment in Mongolia through an offer to purchase all minority shares in Turquoise Hill.<sup>16</sup>

Xanadu believes this removes a major hurdle to new foreign investment in the Mongolian mining sector. The market had considered the dispute between Rio Tinto and the Government of Mongolia at Oyu Tolgoi as a key reason to discount other projects located in Mongolia. Resolution of this dispute removes a key driver for that discount.

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<sup>13</sup> ASX/TSX Announcement 19 April 2022 - Strategic partnership with Zijin Mining Group

<sup>14</sup> The Phase 1 Placement Agreement provides that the parties will negotiate in good faith formal documentation for the Phase 2 Placement and Phase 3 JV. These further transactions are subject to regulatory and shareholder approvals and the parties agreeing formal documentation.

<sup>15</sup> Rio Tinto Media Release 25 Jan 2022 – Oyu Tolgoi partners reach comprehensive agreement and approve commencement of underground mining operations

<sup>16</sup> Rio Tinto Media Release 14 March 2022 - Rio Tinto Makes All-Cash Proposal to Acquire Full Ownership of Turquoise Hill

# Management's Discussion and Analysis

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## COVID-19

Like many countries around the world, COVID-19 is becoming endemic in Mongolia, and with a high vaccination rate across the country, Mongolia has returned to a form of normalcy including commercial travel to and from the country. Mining and exploration facilities continue to operate without interruption from the pandemic.

## FINANCE

### LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2022, the Company had cash and cash equivalents on hand of \$1.3 million (December 31, 2021: \$3.3 million). Subsequent to the Quarter, the Company completed a transaction with Zijin Mining which will inject \$58 million<sup>17</sup> into the Company and Kharmagtai project.

The primary use of funds in 2022 is to progress the PFS at Kharmagtai, including resource definition drilling, plus continued exploration activities at the Company's Kharmagtai and Red Mountain copper-gold projects. There remains a risk that the second and third phases of the Zijin Mining transaction will not be completed. Capital management is a priority of Management, and the Company retains the flexibility to reduce its cost base while preserving its projects if required.

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

### Outstanding Share Capital

On March 31, 2022, the Company had an unlimited number of ordinary shares authorised, with 1,265,071,356 fully paid shares and 46,950,000 options over ordinary shares on issue (Dec 31, 2021: 1,259,037,750 shares and 51,510,000 options).

### Off balance sheet arrangements

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

### Operating segment

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

### Contractual commitments

The following summarises the Company's contractual obligations at March 31, 2022 (\$'000):

- Trade payables \$254 due in 30 days
- Ulaanbaatar office rent \$60 to the end of the calendar year
- Vehicle leases \$33 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.

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<sup>17</sup> Includes \$11 million equity placement plus US\$35 million JV funding, converted at AUD:USD = 0.7387 as at 19 Apr 2022 close (transaction announcement date)

# Management's Discussion and Analysis

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Refer to the Company's audited annual financial statements for the years ended December 31, 2021 and December 31, 2020 and the notes thereto for information on the Company's significant judgements in applying accounting policies as well as significant accounting estimates and assumptions.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

### Market risk

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

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

### Credit Risk

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

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$1.3 million as at March 31, 2022 (December 31, 2021: \$3.3 million).

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The primary source of funds available to the Company is from equity financing and its planned joint venture with Zijin Mining. 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

# Management's Discussion and Analysis

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basis, to support its exploration plans, and to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, Management will consider securing additional funds through equity or debt transactions.

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

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

## **Other business risks**

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

### *Political and Legal Risks*

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

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

### *License Risks*

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

### *Mineral Resource Assumptions Risk*

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

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

### *Environmental Risk*

Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted, and which may well be beyond the

## Management's Discussion and Analysis

capacity of the Company to fund. Failure to comply with applicable environmental laws and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

### *Operational Risk*

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

### *Contractual Risk*

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

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

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

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

## KEY MANAGEMENT COMPENSATION

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

	Three Months Ended March 31, 2022 \$'000	Three Months Ended March 31, 2021 \$'000
Salaries and fees	421	413
STI Bonus *	-	407
Superannuation	12	11
Share based payments	-	-
	<b>433</b>	<b>831</b>

\* STI payments in 2022 were deferred until the second quarter in order to maintain company working capital.

The Company had the following Unvested Options on issue as at March 31, 2022, related to the Company's Employee Share and Option Plan.<sup>18</sup> These were approved by Shareholders in a December 2020 Extraordinary General Meeting<sup>19</sup>, and new Independent Non-Executive Director Tony Pearson was added to the plan with Shareholder approval in the June 2021 Annual General Meeting<sup>20</sup>. The vesting of the options for Executive Directors and Key Management Personnel is subject to the Company achieving both share price targets and technical & development hurdles.<sup>21</sup>

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

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

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

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



# Management's Discussion and Analysis

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Key Management Personnel	Unvested Options March 31, 2022
Colin Moorhead	2,280,000
Michele Muscillo	1,140,000
Tony Pearson	2,280,000
Andrew Stewart	12,750,000
Ganbayar Lkhagvasuren	8,500,000
Munkhsaikhan Dambiinyam	8,500,000
Spencer Cole	8,500,000

## TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are disclosed in Note 26 of the Company's audited annual financial statements for the period ended December 31, 2021. Additional transactions during the first quarter of 2022 are described below.

Payments made to related parties and their associates was \$293,571 in the quarter ended March 31, 2022. The amounts relate to salary, superannuation and bonus payments to Directors; legal fees paid to HopgoodGanim Lawyers (a company associated with Xanadu Non-Executive Director Michele Muscillo) for legal services; rent paid to Xanadu Executive Director Ganbayar Lkhagvasuren in relation to Xanadu's Ulaanbaatar office; rent and consulting fees paid to Colin Moorhead & Associates (a company associated with Xanadu Executive Chairman and Managing Director Colin Moorhead) in relation to Xanadu's Melbourne office and geology consultants; and rent paid to Bastion Minerals Limited (a company in which Xanadu VP Exploration Dr Andrew Stewart is a Non-Executive Director) in relation to Xanadu's Sydney office.

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

## MINERAL RESOURCES AND ORE RESERVES REPORTING REQUIREMENTS

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

## MINERAL RESOURCES AND ORE RESERVES

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

## MINING ACTIVITIES

There were no mine production or development activities during the March 2022 Quarter.

# Management's Discussion and Analysis

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## FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A, including information as to the future financial or operating performance of Xanadu and its projects may also include statements which are 'forward-looking statements' that may include, amongst other things, statements regarding targets, estimates and assumptions in respect of mineral reserves and mineral resources and anticipated grades and recovery rates, production and prices, recovery costs and results, capital expenditures and are or may be based on assumptions and estimates related to future technical, economic, market, political, social and other conditions. These 'forward-looking statements' are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Xanadu, are inherently subject to significant technical, business, economic, competitive, political and social uncertainties and contingencies and involve known and unknown risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in such forward-looking statements.

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

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

For further information please visit the Xanadu Mines' web site [www.xanadumines.com](http://www.xanadumines.com).