

22 October 2019

Dear Shareholders,

I am writing to update you on the Company's recent positive inroads in our oxide gold strategy at Kharmagtai, and other initiatives we have taken to maximise value for all shareholders.

It is no secret that it is tough to be an explorer in the current market. The recent share price declines and related loss of shareholder value is deeply disappointing to all shareholders, your Directors and our dedicated team in Mongolia.

However, your Board has taken this opportunity to refocus its efforts on what it considers to be a more cost effective, and (subject to achieving our technical objectives) more rapid strategy to unlock some of the inherent and latent value of our key copper and gold assets in Mongolia.

Our Strategy - Oxide Gold at Kharmagtai

Mongolia's nascent geological opportunity and potential, particularly for copper and gold, remains undiminished. If anything, we believe it has been enhanced with our continued exploration success at our flagship Kharmagtai copper-gold project, located within 1 hours' drive north from the giant Oyu Tolgoi copper-gold deposit.

The recently completed open pit Scoping Study at Kharmagtai clearly demonstrates that the Kharmagtai copper-gold project is one of the leading development projects with unrivalled exploration upside globally today, and means Xanadu is one of a few Junior companies controlling a large copper-gold deposit left on the ASX or TSX.

If we add a benign operating environment in the South Gobi i.e. flat topography, no boundary fences, a secure water licence, nearby power and rail and most crucially our proximity to the world's largest consumer of both copper and gold, China, Xanadu Mines should have a winning formula to be successful going forward.

Since the delineation of open-cut copper and gold resources at Kharmagtai were announced to the market earlier this year in our Preliminary Economic Assessment (**PEA**), our exploration team in Mongolia, have unlocked the previously overlooked gold potential that sits above and adjacent to the known copper resources at Kharmagtai.

Ongoing assessment of the shallow oxide gold mineralisation has continued to achieve impressive results, which has led us to re-define our short/medium term development strategy and focus on low risk exploration of the shallow oxide.

Significantly, the Company has entered an exciting period of cost-effective discovery and growth and news flow from this program.

While it may take some time for all of these initiatives to bear fruit, we remain committed and confident that the changes we have made is a winning strategy for Xanadu Mines, as the oxide gold represents the opportunity for a low cost, high-value gold gravity and leach operation which could be run early in the development life of Kharmagtai, injecting significant cash into the project to offset the cost of developing a large-scale copper-gold mine.

This is the rationale for our redefined strategy and current focus on the low-cost oxide gold opportunities already identified.



Recent changes targeting cost reduction

In line with market sentiment, the Board has implemented several cost saving initiatives to reflect our changed circumstances. These have included a reduction in the number of Directors to five, the relocation of myself to Australia with related cost savings and further reductions in Corporate and Administration costs to preserve cash and focus on drilling.

We are committed to further Xanadu Mines Group cost savings as we redefine our strategy and priorities going forward and other initiatives to enhance shareholder value.

The Board is dedicated to delivering substantial returns for shareholders through discovery of globally significant deposits in Mongolia that will drive value-creative transactions with large mining companies.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'A Stewart', with a stylized flourish at the end.

Andrew Stewart
Chief Executive Officer