

XANADU MINES



23 December 2020

**EXTRAORDINARY  
GENERAL MEETING**

# XANADU MINES

12 November 2020

Dear Shareholders,

On behalf of the Directors of Xanadu Mines Ltd (the **Company** or **Xanadu Mines**), I am pleased to invite you to participate in an Extraordinary General Meeting (**EGM**) of the Company. Enclosed is the *Notice of Meeting* setting out the business of the EGM.

The EGM will be held virtually online on **Wednesday, 23 December 2020 commencing at 10:00am (Sydney time)**.

In light of the ongoing COVID-19 pandemic, the Board has elected that the EGM will be held as an online webcast only, similar to the Annual General Meeting (**AGM**) held virtually on Thursday, 30 July 2020.

At the AGM, shareholders approved the adoption of the Employee Share and Option Plan (**ESOP**) and the Grant of Options under the ESOP to Executive Directors, Dr Andrew Stewart and Mr Ganbayar Lkhagvasuren. Subsequent to the AGM, a number of shareholders have expressed a strong view that a share price vesting hurdle should be included for all grants to Executives under the ESOP. As such, no options have as yet been issued under the ESOP or to Executive Directors Dr Andrew Stewart and Mr Ganbayar Lkhagvasuren. Accordingly, at the EGM, shareholders will be asked to reapprove the Grant of Options under the ESOP to Executive Directors, Dr Andrew Stewart and Mr Ganbayar Lkhagvasuren.

Shareholders will be able to participate in the EGM by:

- joining the EGM in real time via our online platform at <https://web.lumiagm.com/372110246>;
- asking questions of the Board:
  - before the EGM by lodging questions online at [www.investorvote.com.au/xam](http://www.investorvote.com.au/xam) and/or
  - during the EGM via the online platform; and
- voting on the resolution to be considered at the EGM either by lodging the enclosed Proxy Form before the EGM or by voting online during the meeting,

or by a combination of these steps.

Further details of how to participate in the online meeting are set out in the attached Notice of Meeting and in the *Online Meeting Guide* that accompanies it. The Online Meeting Guide includes details of how to ensure your browser is compatible with the online platform, and a step-by-step guide to logging in, navigating the site, and asking questions and voting at the online EGM.

I encourage you to read the enclosed Notice of Meeting (including the Explanatory Memorandum) and the Proxy Form and consider directing your proxy how to vote on the resolutions by marking either the **For** box, the **Against** box or the **Abstain** box on the Proxy Form.

The Directors of Xanadu Mines recommend that shareholders vote in favour of the resolutions.

Thank you for your continued support of Xanadu Mines.

Yours faithfully,



**Colin Moorhead**  
**Chairman**  
**Xanadu Mines Ltd**

**XANADU MINES LTD**

**ABN 92 114 249 026**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

Notice is given that an Extraordinary General Meeting **EGM** or **Meeting**) of shareholders of Xanadu Mines Ltd (the **Company** or **Xanadu Mines**) will be held:

**Date:** **Wednesday, 23 December 2020**

**Time:** **10:00am (Sydney time)**

**Venue:** **Online only**

The Explanatory Memorandum accompanying this Notice of Meeting provides additional information on matters to be considered at the EGM is hereby incorporated into and forms part of this Notice of Meeting.

**ORDINARY BUSINESS**

**RESOLUTIONS**

**Resolution 1 Grant of Options to Dr Andrew Stewart**

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution of the Company:

*“That in accordance with the provisions of Listing Rule 10.14 and Part 2E of the Corporations Act and for all other purposes, the Company be authorised to issue 12,750,000 options to subscribe for Shares with a zero exercise price to Dr Andrew Stewart, being a Director of the Company, or his nominee and otherwise on terms set out in the Explanatory Memorandum accompanying this Notice.”*

**Resolution 2 Grant of Options to Mr Ganbayar Lkhagvasuren**

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution of the Company:

*“That in accordance with the provisions of Listing Rule 10.14 and Part 2E of the Corporations Act and for all other purposes, the Company be authorised to issue 8,500,000 options to subscribe for Shares with a zero exercise price to Mr Ganbayar Lkhagvasuren, being a Director of the Company, or his nominee and otherwise on terms set out in the Explanatory Memorandum accompanying this Notice.”*

**NOTES**

- A copy of this Notice of Meeting and the accompanying Explanatory Memorandum has been lodged with the Australian Securities & Investments Commission in accordance with section 218 of the Corporations Act.
- A detailed summary of the proposed terms of the Options to be granted in accordance with Resolutions 1 and 2 is contained within the Explanatory Memorandum.
- The total number of Options to be issued to Dr Stewart and Mr Lkhagvasuren, or their respective nominees in accordance with Resolutions 1 and 2 is 21,250,000.
- The Options are intended to be issued as soon as possible following the Meeting, but in any event, no later than three (3) years after the date of the Meeting.
- The Options are being issued for nil cash consideration and no funds will be raised by the issue or exercise of the Options.

**Voting Exclusion Statement - Resolutions 1 and 2, Listing Rule 10.14**

The Company will disregard any votes cast in favour of Resolutions 1 and 2 by or on behalf of:

- a) a person referred to in Listing Rule 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the employee incentive scheme the subject Resolutions 1 and 2;
- b) an Associate of that person or those persons.

However, this does not apply to a vote cast in favour of Resolutions 1 and 2 by:

- a) a person as proxy or attorney for a person who is entitled to vote on the Resolutions, in accordance with directions given to the proxy or attorney to vote on the Resolutions in that way; or
- b) the chair of the meeting as proxy or attorney for a person who is entitled to vote of the Resolutions, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or

- c) holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
- i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolutions; and
  - ii) the holder votes on the Resolutions in accordance with directions given by the beneficiary to the holder to vote in that way.

#### Voting Exclusion Statement - Resolutions 1 and 2, Chapter 2E

For the purposes of Part 2E of the Corporations Act, a vote on Resolutions 1 and 2 must not be cast (in any capacity) by or on behalf of a related party of the Company to whom the resolution would permit a financial benefit to be given, or an associate of such a related party. Accordingly, the Company will disregard any votes cast on:

- a) Resolution 1 by Dr Stewart and any associate of Dr Stewart; and
- b) Resolution 2 by Mr Lkhagvasuren and any associate of Mr Lkhagvasuren.

However, the Company need not disregard a vote if, in relation to Resolutions 1 and 2, it is cast by a person as a proxy in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of a person referred to directly above.

#### Voting Restriction pursuant to Section 250BD of the Corporations Act

The Company will disregard any votes cast on Resolutions 1 and 2 by:

- a) any Key Management Personnel (which includes the chair) of the Company or if the Company is part of a consolidated entity, of the entity; or
- b) a Closely Related Party of Key Management Personnel,

who is appointed as a Shareholder's proxy and where the Shareholder does not direct in writing the way the proxy is to vote on the Resolutions.

However, the Company need not disregard a vote if it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, where the Shareholder does not direct in writing the way the proxy is to vote on the Resolutions, if the appointment of proxy expressly authorises the chair to exercise the proxy even if the Resolutions are connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or if the Company is part of a consolidated entity, of the entity.

#### Voting Intention of Chair

Shareholders should be aware that any undirected proxies given to the Chairman of the Meeting will be cast by the Chairman of the Meeting and counted in favour of the Resolutions the subject of this Meeting, subject to compliance with the *Corporations Act 2001 (Cth)* (**Corporations Act**). In exceptional circumstances, the Chairman of the Meeting may change his voting intention on the Resolutions, in which case an ASX announcement will be made.

#### ENTITLEMENT TO ATTEND AND VOTE

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, the Board has determined that persons who are registered holders of shares of the Company as at 7:00pm (Sydney time) on Monday, 21 December 2020 will be entitled to attend and vote at the EGM as a shareholder.

If more than one joint holder of shares is present at the EGM (whether personally, by proxy or by attorney or by representative) and tenders a vote, only the vote of the joint holder whose name appears first on the register is counted.

#### *Appointment of Proxy*

If you are a shareholder entitled to attend and vote, you may appoint an individual or a body corporate as a proxy. If a body corporate is appointed as a proxy, that body corporate must ensure that it appoints a corporate representative in accordance with section 250D of the Corporations Act to exercise its powers as proxy at the EGM. A proxy need not be a shareholder of the Company.

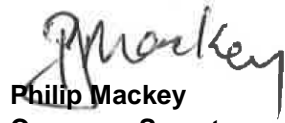
A shareholder may appoint up to two proxies and specify the proportion or number of votes each proxy may exercise. If the shareholder does not specify the proportion or number of votes to be exercised, each proxy may exercise half of the shareholder's votes.



registry's website at [www.investorcentre.com](http://www.investorcentre.com) to ensure the timely and cost-effective receipt of your proxy;

- **Virtual Meeting and Voting Guide**, which includes details of how to ensure your browser is compatible with the online platform, and a step-by-step guide to logging in, navigating the site, and asking questions and voting at the online EGM.

BY ORDER OF THE BOARD



**Philip Mackey**  
**Company Secretary**

12 November 2020

## EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared to assist shareholders of the Company (**Shareholders**) in considering the Resolution set out in the Company's *Notice of Extraordinary General Meeting*. This Explanatory Memorandum forms part of the Company's Notice of Extraordinary General Meeting to be held at **10:00am (Sydney time) on Wednesday, 23 December 2020**.

The purpose of this Explanatory Memorandum is to provide Shareholders with information that is reasonably required by Shareholders to decide how to vote upon the Resolutions. The Company's Notice of Extraordinary General Meeting and this Explanatory Memorandum should be read in their entirety and in conjunction with each other.

Subject to the abstentions noted below, the Directors unanimously recommend that Shareholders vote in favour of the Resolutions. The Chairman of the Meeting intends to vote all available undirected proxies in favour of each resolution.

The Resolutions are ordinary resolutions, which require that a simple majority of votes cast by Shareholders present and entitled to vote on each resolution must be in favour of the relevant Resolution.

## BACKGROUND TO THE ITEMS OF BUSINESS

### ORDINARY BUSINESS

#### Resolutions 1 and 2 - Grant of Options to Dr Andrew Stewart and Mr Ganbayar Lkhagvasuren

The Company has recently undertaken an extensive review of, and has implemented an updated Board, Executive and Employee Remuneration Policy (the **Remuneration Policy**). The purpose of the policy is to establish clear and guiding principles for decisions by the Company around employee, executive and director remuneration and to ensure fair, competitive and appropriate pay for the markets in which the Company operates. The Company's goal is to ensure that the mix and balance of remuneration is appropriate to attract, motivate and retain high calibre directors, senior executives and key management personnel, utilising a policy that is consistent with the Company's business strategy and contemporary corporate governance standards.

As part of this review, the Directors resolved to refer to Shareholders for approval the proposed grant of 12,750,000 Options to Dr Stewart and 8,500,000 Options to Mr Lkhagvasuren, which were approved at the recent AGM. As a result of feedback received from a number of shareholders subsequent to the AGM, those Options have not as yet been issued and the Directors have now resolved to again refer to Shareholders for approval the proposed grant of 12,750,000 Options to Dr Stewart and 8,500,000 Options to Mr Lkhagvasuren with amended terms (the **Executive Director Options**).

The terms of the Executive Director Options are set out in more detail below.

Approval for the issue of the Executive Director Options is sought in accordance with the provisions of Listing Rule 10.14 and Part 2E of the Corporations Act. As approval is being sought under Listing Rule 10.14, approval will not be required under Listing Rules 7.1 or 10.11. In order for the Executive Director Options to be granted to a Director, the board has determined that the requirements of Chapter 2E of the Corporations Act should also be observed.

### Options Terms

A summary of the terms of the Executive Directors Options is set out below.

- Consistent with the Remuneration Policy, the Executive Director Options are directly linked to the Company's business strategy (from 2020 through 2022), which aims to deliver the following objectives:
  - Position Xanadu for the next copper cycle in ~3 years
  - Increase latent value of Kharmagtai to ~A\$300M, growing it to a Tier 1 copper deposit
  - Position Kharmagtai for a liquidity event or to progress to PFS for further value creation
  - Achieve a significant copper porphyry discovery at Red Mountain JV
  - Explore a new prospect in the portfolio, aiming to make another Tier 1 discovery
- The Executive Director Options are intended to be issued promptly after the meeting and in any event within three (3) years of the Meeting (as permitted by Listing Rule 10.15) and, subject to:

- the satisfaction of one or more performance criteria described in the table below (**Performance Criteria**);
  - the Executive Director remaining continuously employed or engaged with the Company (or any related body corporate) for a period of two years from 30 July 2020 (being the date of the most recent AGM) (**Continuous Employment Condition**); and
  - the satisfaction of the share price hurdle described in the table below (**Share Price Hurdle**),
- will vest at the end of the calendar year (2022, 2023) in which the relevant tranche Performance Criteria, Continuous Employment Condition and Share Price Hurdle is achieved (**Vesting Conditions**). These criteria referred to above and below are key terms of the Remuneration Policy.

Tranche	Performance Criteria
A	Approval by Government of Mongolia to progress exploration at Yellow Mountain, or replacement by the Company of Yellow Mountain with new prospective ground in the portfolio.
B	Discovery at Red Mountain of a pre-JORC >60Mt @0.6% CuEq, confirmed as a highly prospective discovery by an Independent Competent Person review.
C	Define a JORC compliant Mineral Resource Estimate >1000Mt @ 0.5% CuEq at Kharmagtai with an accompanying Independent Competent Person sign-off
D	Define a high grade starter pit or block at Kharmagtai supported by a JORC compliant Mineral Resource Estimate >100Mt @0.8% CuEq and an Independent Competent Person sign-off
E	Where there is publicly announced any proposal in relation to the Company which the Board reasonably believes may lead to a Shareholder Liquidity Event taking the form of: <ul style="list-style-type: none"> <li>• Kharmagtai sale as an asset with &gt;1Bt JORC Mineral Resource Estimate;</li> <li>• Xanadu company sale (or JV at least 30%) at &gt;5% premium to market;</li> <li>• Kharmagtai JV, funding at least 50% through to PFS</li> </ul>

Tranche	Share Price Hurdle
A	The volume weighted average market price of the Company's shares calculated over 10 consecutive days on which sales in the shares of the Company were recorded ( <b>10-day VWAP</b> ) after the date on which the Performance Criteria for the Tranche A Executive Director Options is satisfied has been at least \$0.18 per share.
B	The 10-day VWAP after the date on which the Performance Criteria for the Tranche B Executive Director Options is satisfied has been at least \$0.18 per share.
C	The 10-day VWAP after the date on which the Performance Criteria for the Tranche C Executive Director Options is satisfied has been at least \$0.18 per share.
D	The 10-day VWAP after the date on which the Performance Criteria for the Tranche D Executive Director Options is satisfied has been at least \$0.18 per share.
E	The 10-day VWAP after the date on which the Performance Criteria for the Tranche E Executive Director Options is satisfied has been at least \$0.28 per share.

- Consistent with the Remuneration Policy, the number of Executive Director Options which will vest on satisfaction of the relevant Vesting Conditions is set out below.

Name	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E
Dr Stewart	750,000	1,500,000	2,250,000	2,250,000	6,000,000
Mr Lkhagvasuren	500,000	1,000,000	1,500,000	1,500,000	4,000,000



- Consistent with the Remuneration Policy, in the event that the Tranche E Performance Criteria and Share Price Hurdle and the Continuous Employment Condition are satisfied, the Vesting Conditions associated with all other Executive Director Options will be deemed to have been satisfied and all Executive Director Options will vest (if they have not already).
- Consistent with the Remuneration Policy, if vested, the Executive Director Options will be subject to the following restrictions (**Restriction Conditions**):
  - Vested and unrestricted = 80%
  - Vested, but restricted from exercise or disposal for two years = 20%
- Consistent with the Remuneration Policy, if an Executive Director leaves the Company prior to the satisfaction of the relevant Performance Criteria and Continuous Employment Condition for a tranche, they will not be eligible for vesting of that tranche of Executive Director Options. Other than in the case of a 'Bad Leaver' as determined by the Board, if an Executive Director leaves after the date that the relevant Performance Criteria and Continuous Employment Condition for a tranche are achieved, they will remain eligible to receive the Executive Director Options for that tranche, subject to the Share Price Hurdle for that tranche being met, at the end of the relevant calendar year.
- Where the cessation of an Executive Directors' employment is due to death of the Executive Director, and the Executive Director has been continuously employed with the Company (or any related body corporate) at least since 12 months up to and including the date of death, the Vesting Conditions and any Restriction Conditions applicable to all or any of their Options and Shares cease to apply.
- Consistent with the Remuneration Policy, in all other cases of a 'Good Leaver' (as determined by the Board), the Board may, in its discretion, determine that some or all of the Executive Director's Options or Shares continue to be subject to their Vesting Conditions or Restriction Conditions (as the case may be) or that some or all of those Vesting Conditions or Restriction Conditions will be waived, and/or that some or all of the Executive Director's unvested Executive Director Options will lapse.
- Consistent with the Remuneration Policy, where the Board determines that an Executive Director is a 'Bad Leaver' all unvested Executive Director Options would automatically lapse.
- Consistent with the Remuneration Policy, if the Executive Director remains with the Company at the time of a Change in Control, 100% of all Executive Director Options will vest immediately with no Restriction Conditions.
- Consistent with the Remuneration Policy, a Change in Control will occur where there is publicly announced any proposal in relation to the Company which the Board reasonably believes may lead to:
  - the Company entering into a scheme of arrangement with its creditors or Shareholders or any class thereof pursuant to section 411 of the Corporations Act;
  - the commencement of a bid period (as defined in the Corporations Act) in relation to the Company to acquire any Share where the takeover bid extends to Shares issued and allotted after the date of the takeover bid; or
  - when a person or group of associated persons having a relevant interest in, subsequent to the issue of the Director Options, sufficient Shares in the Company to give it or them the ability, in general meeting, to replace all or a majority of the Directors in circumstances where such ability was not already held by a person associated with such person or group of associated persons.
- Consistent with the Remuneration Policy, the Board may also determine that an Executive Director's Options will lapse or be forfeited in circumstances where the Board may also determine that the Executive Director has:
  - committed an act of fraud, defalcation or gross misconduct in relation to the affairs of the Company;
  - hedged the value of, or entered into a derivative arrangement in respect of, unvested Executive Director Options;
  - purported to dispose of, or grant any security Interest, over an Executive Director Options other than in accordance with any policy of the Company in place at the relevant time or as otherwise approved by the Board; or

- become subject to the application of any applicable malus and clawback Policy adopted by the Company from time to time (included as set out below).
- Consistent with the Remuneration Policy, the Board may also take action on the recommendation of the Nominations and Remuneration Committee to adjust (malus) or clawback unvested Executive Director Options where there is reasonable evidence that an Executive Director has materially contributed to, or been materially responsible for, the need for the restatement of financial results for the reasons including:
  - personally acting fraudulently or dishonestly or in a manner that adversely affects the Company's reputation or which is characterised as gross misconduct;
  - directing an employee, contractor or advisor to act fraudulently, dishonestly or to undertake other misconduct;
  - breaching their material obligations to the Company through error, omission or negligence;
  - receiving a short term incentive (**STI**) or long term incentive (**LTI**) award because of fraud, dishonesty or a breach of obligation committed by another person; and/ or
  - receiving a STI or LTI award because of an error in the calculation of a performance measure.
- The Remuneration Policy gives examples of a breach of material obligation that could trigger application of this the above malus or clawback which could include:
  - a material misstatement in the accounts of the group entity for the years relevant to an unvested or unpaid award; or
  - conduct exposing the Company to potential reputational damage or legal action or that is otherwise in a breach of the Company's Code of Conduct.
- Consistent with the Remuneration Policy, the Board may also take action on the recommendation of the Remuneration Committee to cancel or adjust unvested Executive Director Options where the Board is not satisfied that an award is appropriate or warranted due to exceptional circumstances.
- Any tranche that does not vest within 72 months (6 years) of their issue will expire.
- Any vested Executive Director Options that are not exercised within 48 months (4 years) of their vesting will expire.
- The securities to be issued to each Executive Director are options to subscribe for fully paid Shares.
- The Executive Director Options are to be issued for no cash consideration.
- The exercise price of each Executive Director Option is zero (**Exercise Price**).
- Shares issued on exercise of the Executive Director Options will rank equally with all existing Shares from the date of issue.
- The Executive Director Options, once vested, may be exercised wholly or in part by notice in writing to the Company received at any time on or before they expire.
- The Executive Director Options shall be unlisted but shall be transferable.
- Upon allotment of Shares pursuant to the exercise of Executive Director Options, the Company shall use its best endeavours to have such Shares quoted and listed on the Official List of the ASX.
- Option holders do not have any right to participate in new issues of securities in the Company made to Shareholders generally. The Company will, where required pursuant to the Listing Rules, provide Option holders with notice prior to the books record date (to determine entitlements to any new issue of securities made to Shareholders generally) to exercise the Executive Director Options, in accordance with the requirements of the Listing Rules.
- Option holders do not participate in dividends or in bonus issues unless the Options are exercised and the resultant shares of the Company are issued prior to the record date to determine entitlements to the dividend or bonus issue.
- In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company:
  - the number of Executive Director Options, the exercise price, or both will be reconstructed (as appropriate) in a manner consistent with the Listing Rules, but with the intention that such

reconstruction will not result in any benefits being conferred on the Executive Director Option holder which are not conferred on Shareholders; and

- subject to the provisions with respect to rounding of entitlements as sanctioned by a meeting of Shareholders of the Company approving a reconstruction of capital, in all other respects the terms for the exercise of the Executive Director Options will remain unchanged.
- If there is a bonus issue to the holders of Shares, the number of Shares over which an Executive Director Option is exercisable will be increased by the number of Shares which the Executive Director Option holder would have received if the Executive Director Options had been exercised before the record date for the bonus issue.
- The terms of the Executive Director Options shall only be changed if holders (whose votes are not to be disregarded) of Shares approve of such a change. However, the terms of the Executive Director Options shall not be changed to increase the number of Executive Director Options or change any period for exercise of the Executive Director Options.

## **Regulatory Requirements**

### *Chapter 2E of the Corporations Act*

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of a public company unless the benefit falls within one of various exceptions to the general prohibition. One of the exceptions includes where the company first obtains the approval of its shareholders in general meeting in circumstances where the requirements of Chapter 2E in relation to the convening of that meeting have been met. A “related party” for the purposes of the Corporations Act is defined widely and includes a director of the public company.

A “financial benefit” for the purposes of the Corporations Act has a very wide meaning. It includes the public company paying money or issuing securities to the related party. In determining whether or not a financial benefit is being given, it is necessary to look to the economic and commercial substance and effect of what the public company is doing (rather than just the legal form). Any consideration which is given for the financial benefit is to be disregarded, even if it is full or adequate.

The proposed Resolutions 2 and 3, if passed, will confer financial benefits to the recipients of the Executive Director Options and the Company seeks to obtain member approval in accordance with the requirements of Chapter 2E of the Corporations Act and for this reason, and for all other purposes, the following information is provided to Shareholders.

### **(a) The related parties to whom Resolutions 1 and 2 would permit the financial benefit to be given**

With respect to:

- Resolution 1, Dr Stewart; and
- Resolution 2, Mr Lkhagvasuren,

(or their respective nominees), being directors of the Company.

### **(b) The nature of the financial benefit**

The nature of the proposed financial benefit to be given is:

- the grant of 12,750,000 Executive Director Options to Dr Stewart as referred to in Resolution 1;
- the grant of 8,500,000 Executive Director Options to Mr Lkhagvasuren as referred to in Resolution 2;
- the Executive Director Options shall be issued for no cash consideration; and
- the Executive Director Options shall be exercisable into fully paid Shares at a nil exercise price.

### **(c) Directors' recommendations**

With respect to Resolution 1, Mr Moorhead, Mr Muscillo and Mr Lkhagvasuren recommend that Shareholders vote in favour of this Resolution. The reasons for their recommendation include:

- (i) the grant of the Executive Director Options as proposed to Dr Stewart are directly linked to the Company's business strategy (from 2020 through 2022) and will provide him with reward and incentive for future services he will provide to the Company to further the progress the Company;
- (ii) the Executive Director Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and

(iii) in the Company's circumstances as they existed as at the date of this Explanatory Memorandum, Mr Moorhead, Mr Muscillo and Mr Lkhagvasuren considered that the incentive provided a cost-effective and efficient incentive as opposed to alternative forms of incentives (e.g. increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Executive Director Options (and resulting Shares) to a third party.

As Dr Stewart is interested in the outcome of Resolution 1, he accordingly makes no recommendation to Shareholders in respect of this Resolution.

With respect to Resolution 2, Mr Moorhead, Mr Muscillo and Dr Stewart recommend that Shareholders vote in favour of this Resolution. The reasons for their recommendation include:

- (i) the grant of the Executive Director Options as proposed to Mr Lkhagvasuren are directly linked to the Company's business strategy (from 2020 through 2022) and will provide him with reward and incentive for future services he will provide to the Company to further the progress the Company;
- (ii) the Executive Director Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and
- (iii) in the Company's circumstances as they existed as at the date of this Explanatory Memorandum, Mr Moorhead, Mr Muscillo and Dr Stewart considered that the incentive provided a cost-effective and efficient incentive as opposed to alternative forms of incentives (e.g. increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Executive Director Options (and resulting Shares) to a third party.

As Mr Lkhagvasuren is interested in the outcome of Resolution 2, he accordingly makes no recommendation to Shareholders in respect of this Resolution.

#### **(d) Directors' interests and other remuneration**

##### **Dr Andrew Stewart - Resolution 1**

Dr Stewart has a material personal interest in the outcome of Resolution 1, as it is proposed that Executive Director Options be granted to him (or his nominee) as set out in Resolution 1.

Excluding the Executive Director Options, Dr Stewart holds 4,931,292 Shares in the Company. Please refer to the table below which indicates the holdings of Dr Stewart.

Other than the Executive Director Options to be issued to Dr Stewart pursuant to Resolution 1, Dr Stewart currently receives total fixed remuneration of \$365,000 per annum (total cost to the Company) from the Company for his services as Chief Executive Officer and an Executive Director. In addition, Dr Stewart is eligible for an annual short term incentive payable in cash of up to 50% of this total fixed remuneration (being up to a further \$182,500).

##### **Mr Lkhagvasuren - Resolution 2**

Mr Lkhagvasuren has a material personal interest in the outcome of Resolution 2, as it is proposed that Executive Director Options be granted to him (or his nominee) as set out in Resolution 2.

Excluding the Executive Director Options, Mr Lkhagvasuren holds 16,558,329 Shares in the Company. Please refer to the table below which indicates the holdings of Mr Lkhagvasuren.

Other than the Executive Director Options to be issued to Mr Lkhagvasuren pursuant to Resolution 2, Mr Lkhagvasuren currently receives total fixed remuneration of US\$265,000 per annum (total cost to the Company) from the Company for his services as an Executive Director. In addition, Mr Lkhagvasuren is eligible for an annual short term incentive payable in cash of up to 30% of this total fixed remuneration (being up to a further US\$79,500).

If all of the new Executive Director Options granted vest and are exercised by Dr Stewart and Mr Lkhagvasuren, the following will be the effect on their holdings in the Company (assuming no other Shares in the Company are issued or acquired by those Directors, other than on the exercise of those Options to be issued to Mr Moorhead (6,840,000 Options) and Mr Muscillo (3,420,000 Options) as approved at the recent AGM):

Director (including associated entities)	Current Share Holding	% of Total Share Capital*	Share Capital Upon Exercise	% of Total Share Capital*
Mr Moorhead	1,000,000	0.09%	7,840,000	0.70%
Mr Muscillo	59,441	0.01%	3,479,441	0.31%
Dr Stewart	4,931,292	0.45%	17,681,292	1.57%
Mr Lkhagvasuren	16,558,329	1.52%	25,058,329	2.23%
All Other Holders	1,069,292,460	97.93%	1,069,292,460	95.19%
<b>Total</b>	<b>1,091,841,522</b>	<b>100.00%</b>	<b>1,123,351,522</b>	<b>100.00%</b>

**(e) Valuation**

The Director Options are not currently quoted on the ASX and as such have no readily observed market value. The Executive Director Options each grant the holder thereof a right to subscribe for one Share upon exercise of each Executive Director Option and payment of the Exercise Price of the Executive Director Option described above. Accordingly, the Executive Director Options may have a present value at the date of their grant.

The Executive Director Options may acquire future value dependent upon the extent to which the Shares exceed the Exercise Price of the Executive Director Options during the term of the Executive Director Options.

As a general proposition, options to subscribe for ordinary fully paid shares in a company have value. Various factors impact upon the value of options including things such as:

- the period outstanding before the expiry date of the options;
  - the exercise price of the options relative to the underlying price or value of the securities into which they may be converted;
  - the proportion of the issued capital as expanded consequent upon exercise represented by the shares issued upon exercise (i.e. whether or not the shares that might be acquired upon exercise of the options represent a controlling or other significant interest);
  - the value of the shares into which the options may be converted; and
  - whether or not the options are listed (i.e. readily capable of being liquidated),
- and so on.

There are various formulae which can be applied to determining the theoretical value of options (including the formula known as the Monte Carlo simulation).

The Company has received an independent valuation of the Executive Director Options utilising the hybrid single barrier option pricing model with a Parisian barrier adjustment. The model incorporates a Monte Carlo simulation, which simulates the Company's share price at the test date.

Inherent in the application of this pricing model are a number of inputs, some of which must be assumed. The data relied upon in the valuation applying the hybrid single barrier option pricing model was:

- an exercise price of the options being zero;
- a market price of Shares of \$0.041 being the closing price of Shares prior to the 10 November 2020 valuation, as a proxy for the market price at the future date of issue, being the date of the Meeting to approve the issue;
- the Executive Director Options vesting on 10 November 2026;
- an Expiry Date of 10 November 2030 for the Executive Director Options;
- a volatility measure of 80%;
- a risk-free interest rate of 0.30%; and
- a dividend yield of Nil.

- Based on the independent valuation, the Company has adopted an indicative value for the Executive Director Options as follows:

Item	Executive Director Options				
	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E
<b>Underlying Security spot price</b>	\$0.041	\$0.041	\$0.041	\$0.041	\$0.041
<b>Exercise price</b>	Nil	Nil	Nil	Nil	Nil
<b>10 day VWAP barrier</b>	\$0.180	\$0.180	\$0.180	\$0.180	\$0.280
<b>Valuation date</b>	10-Nov-20	10-Nov-20	10-Nov-20	10-Nov-20	10-Nov-20
<b>Commencement of performance period</b>	10-Nov-20	10-Nov-20	10-Nov-20	10-Nov-20	10-Nov-20
<b>Performance measurement date</b>	10-Nov-26	10-Nov-26	10-Nov-26	10-Nov-26	10-Nov-26
<b>Expiry date</b>	10-Nov-30	10-Nov-30	10-Nov-30	10-Nov-30	10-Nov-30
<b>Performance period (years)</b>	6.00	6.00	6.00	6.00	6.00
<b>Life of the Options (years)</b>	10.00	10.00	10.00	10.00	10.00
<b>Volatility</b>	80%	80%	80%	80%	80%
<b>Dividend yield</b>	Nil	Nil	Nil	Nil	Nil
<b>Risk-free rate</b>	0.30%	0.30%	0.30%	0.30%	0.30%
<b>Number of Options</b>					
	1,250,000	2,500,000	3,750,000	3,750,000	10,000,000
<b>Valuation per Option</b>					
	\$0.023	\$0.023	\$0.023	\$0.023	\$0.019
<b>Valuation per Tranche</b>					
	\$28,750	\$57,500	\$86,250	\$86,250	\$190,000

On that basis, the respective value of the Executive Director Options to be issued pursuant to Resolutions 1 and 2 are as follows:

Name	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E	Total
	(Number)	(Number)	(Number)	(Number)	(Number)	(Number)
Dr Stewart (Resolution 1)	750,000	1,500,000	2,250,000	2,250,000	6,000,000	12,750,000
Mr Lkhagvasuren (Resolution 2)	500,000	1,000,000	1,500,000	1,500,000	4,000,000	8,500,000
<b>Total</b>	<b>1,250,000</b>	<b>2,500,000</b>	<b>3,750,000</b>	<b>3,750,000</b>	<b>10,000,000</b>	<b>21,250,000</b>

Name	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E	Total
	(Value)	(Value)	(Value)	(Value)	(Value)	(Value)
Dr Stewart (Resolution 1)	\$17,250	\$34,500	\$51,750	\$51,750	\$114,000	\$269,250
Mr Lkhagvasuren (Resolution 2)	\$11,500	\$23,000	\$34,500	\$34,500	\$76,000	\$179,500
<b>Total</b>	<b>\$28,750</b>	<b>\$57,500</b>	<b>\$86,250</b>	<b>\$86,250</b>	<b>\$190,000</b>	<b>\$448,750</b>

**(f) Any other information that is reasonably required by Shareholders to make a decision and that is known to the Company or any of its Directors**

There is no other information known to the Company or any of the Directors save and except as follows:

**Market Price movements**

The option valuation noted above is based on a market price of the Shares at the time of the valuation dated 10 November 2020 of \$0.041.

There is a possibility that the market price of the Shares on the date of issue of the Director Options will be different to this and that the market price of the Shares will change up to the date of the Meeting.

The effect on the valuation per option of movements in the market price of the Shares is set out below:

Impact of a share price movement	Tranche A (Value)	Tranche B (Value)	Tranche C (Value)	Tranche D (Value)	Tranche E (Value)
<b>Underlying security spot price of \$0.040</b>	\$0.022	\$0.022	\$0.022	\$0.022	\$0.018
<b>Underlying security spot price of \$0.050</b>	\$0.030	\$0.030	\$0.030	\$0.030	\$0.025
<b>Underlying security spot price of \$0.055</b>	\$0.034	\$0.034	\$0.034	\$0.034	\$0.029
<b>Underlying security spot price of \$0.060</b>	\$0.038	\$0.038	\$0.038	\$0.038	\$0.032

**Opportunity Costs**

The opportunity costs and benefits foregone by the Company issuing the Director Options to Dr Stewart and Mr Lkhagvasuren, or their respective nominees, is the potentially diluted impact on the issued Share capital of the Company (in the event that the Executive Director Options are exercised). Until exercised, the issue of the Executive Director Options will not impact upon the number of Shares on issue in the Company. To the extent that upon their exercise the dilutionary impact caused by the issue of the Shares will be detrimental to the Company, this is more than offset by the advantages accruing from the Company securing the services of experienced and skilled directors on appropriate incentive terms. It is also considered that the potential increase of value in the Executive Director Options is dependent upon a concomitant increase in the value of the Company generally.

**Trading History of the Shares**

As at 10 November 2020, the closing price of Shares on ASX was \$0.041.

Set out below is the trading history of the Shares over the past 12 months.

	<b>Market Price 6 months prior to Notice of Meeting</b>	<b>Market Prices 12 months prior to Notice of Meeting</b>
High	\$0.063	\$0.063
Low	\$0.027	\$0.021
VWAP	\$0.046	\$0.043

### **Taxation Consequences**

No stamp duty will be payable in respect of the grant of the Executive Director Options. No GST will be payable by the Company in respect of the grant of the Executive Director Options (or if it is then it will be recoverable as an input credit).

AASB 2 “Share Based Payments” requires that these payments shall be measured at the more readily determinable fair value of the equity instrument. Under the accounting standards this amount will be expensed in the statement of financial performance. Where the grant date and the vesting date are different the total expenditure calculated will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management’s assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions.

### **Dilutionary Effect**

The dilutionary effect on the Company and its shareholders is summarized in the table on page 12 above.

### **Listing Rule 10.14**

The Company is proposing to issue the Executive Director Options.

Listing Rule 10.14 provides that a listed company must not permit any of the following persons to acquire equity securities under an employee incentive scheme:

- **Listing Rule 10.14.1:** a director of the Company;
- **Listing Rule 10.14.2:** an associate of a director of the Company; or
- **Listing Rule 10.14.3:** a person whose relationship with the Company or a person referred to in Listing Rule 10.14.1 or 10.14.2 is such that, in ASX’s opinion, the acquisition should be approved by its Shareholders,

unless it obtains the approval of its Shareholders.

The issue of the Executive Director Options falls within Listing Rule 10.14.1 above and therefore requires the approval of Xanadu’s Shareholders under Listing Rule 10.14.

Resolutions 1 and 2 seek the required Shareholder approval to issue the Executive Director Options under and for the purposes of Listing Rule 10.14.

If Resolutions 1 and 2 are passed, the Company will be able to proceed with the issue of the Executive Director Options and the Directors will be remunerated accordingly based on the achievement of the criteria set out above.

If either of Resolutions 1 or 2 are not passed, the Company will not be able to proceed with the issue of the relevant Executive Director Options (the subject of the Resolution(s) which was not passed) and the Company may need to consider other forms of performance-based remuneration in that regard.

For the purposes of Listing Rule 10.15, the Company advises as follows:

- The following directors (or their respective nominees) are to be the recipients of the Executive Director Options:
  - Resolution 1, Dr Stewart; and
  - Resolution 2, Mr Lkhagvasuren.
- As each of the above are directors of the Company they fall within the category stipulated by Listing Rule 10.14.1. In the event the Executive Director Options are issue to a nominee of the Director, that person will fall within the category stipulated by Listing Rule 10.14.2



- The maximum number of Executive Director Options to be issued to Dr Stewart and Mr Lkhagvasuren is 21,250,000 Director Options, being:
  - the grant of 12,750,000 Executive Director Options to Dr Stewart or his nominee;
  - the grant of 8,500,000 Executive Director Options to Mr Lkhagvasuren or his nominee.
- Details of the total remuneration package of each of Dr Stewart and Mr Lkhagvasuren is set out on page 11 above. Details of the value of the Executive Director Options are set out on pages 12 - 14 above.
- No securities have previously been issued to any Director under the newly adopted remuneration policy.
- The Company has proposed to issue the Executive Director Options to reward and incentivise the Directors to contribute to the growth of the Company. The Executive Director Options are directly linked to the Company's business strategy (from 2020 through 2026). The Company believes that the grant of the Executive Director Options provides a cost-effective and efficient incentive as opposed to alternative forms of incentives (e.g. increased remuneration).
- Details regarding the value of the Executive Director Options are set out on pages 12 – 14.
- The Executive Director Options are intended to be granted as soon as possible following the meeting, but in any event, within three (3) years of the date of the Meeting.
- The Executive Director Options are being issued for nil cash consideration and the Executive Director Options have a zero exercise price.
- A summary of the material terms of the Executive Director Options is set out above. For completeness it is noted that the Executive Director Options are not being issued pursuant to the ESOP.
- No funds are being raised by the grant or exercise of the Executive Director Options. Accordingly, no loans of any description will be provided to the Directors in relation to the Executive Director Options.
- Details of any securities issued under the Remuneration Policy will be published in the Company's Annual Report relating to the period in which they were issued, along with a statement that approval for the issue was obtained under Listing Rule 10.14.
- Any additional Directors covered by Listing Rule 10.14 who will become entitled to participate in an issue of securities under the remuneration policy after Resolutions 1 and 2 are approved (should they be approved) and who are not named in this Notice will not participate until approval is obtained under Listing Rule 10.14.

In accordance with Listing Rule 7.2 exception 14, as approval is being sought under Listing Rule 10.14, approval is not required to be obtained under Listing Rule 7.1.

Save as set out in this Explanatory Memorandum, the Directors are not aware of any other information that will be reasonably required by Shareholders to make a decision in relation to benefits contemplated by Resolutions 1 and 2.