XANADU MINES

2016 ANNUAL REPORT

Xanadu Mines Limited ASX: XAM

For the year ended 31 December 2016

Corporate Directory

Directors

Mark Wheatley	Non-Executive Chairman
Andrew Stewart	Managing Director & Chief Executive Officer (appointed MD on 24 October 2016)
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Marcus Engelbrecht	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Barry Lavin	Independent Non-Executive Director

Company Secretary
Janine Rolfe

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Fax: +61 2 9287 0350

Registered Office - Mongolia
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Olympic Street, Khoroo 1, Sukhbaatar District
Ulaanbaatar 14240
Tel: +976 11 7012 0211

Share Registry
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney, NSW 2000
Tel: +61 1300 855 080

Auditor
Ernst & Young
680 George Street
Sydney, NSW 2000

Stock Exchange Listing

ASX

Xanadu Mines Ltd shares are listed on the Australian Securities Exchange (ASX code: XAM)

ABN 92 114 249 026

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The Corporate Governance Statement is available on the Company’s website.
www.xanadumines.com

Letter from the Chairman

Dear Shareholder

It is my pleasure to be able to present the 2016 Annual Report and Financial Statements to shareholders.

Xanadu's safety performance continues to be outstanding and this is particularly pleasing this year as drilling programs have been conducted during the full year including winter months. The Company has also had a busy exploration year advancing its projects on multiple fronts and at the time of writing, is underway on another exciting phase of drilling at Kharmagtai that builds on the results and understanding that has been developed systematically over this and previous years. The team was also successful in the identification of significant copper-gold porphyry mineralisation at Oyut Ulaan and the discovery of several styles of very shallow gold mineralisation at Kharmagtai and Oyut Ulaan.

Persistence and patience is required to unlock the value of porphyry copper-gold projects and 2016 was another year in which understanding of our projects has developed significantly, increasing the likelihood of a game changing discovery. Total direct exploration spend was $4.8 million with over 70% allocated towards the more advanced Kharmagtai project.

Early in 2016, the Company successfully reduced the purchase price of the Kharmagtai project by US$1.0 million in exchange for early repayment of the remainder of the deferred balance of US$2.8 million ($3.9 million) and this was achieved in March 2016. Fully securing this world class project is a major milestone for Xanadu.

There have also been positive developments in Mongolia with the election of a new government and the advancement of the giant Oyu Tolgoi underground project. In addition, markets have improved with the copper price coming off lows and enjoying positive momentum as supply disruptions are announced at various copper projects around the world.

Dr Andrew Stewart was appointed as Managing Director and Chief Executive Officer and is making good progress in the role. Mr Mat Brown joined the Company as Chief Geologist in the back half of the year and adds significant technical and exploration management experience to the team. Dr Stewart was invited to speak at the prestigious Beaver Creek Precious Metals conference in Colorado this year as the profile of the Company continues to increase. The Company also hosted a number of site visits as major companies look to expand their global foot prints and seek out major discoveries.

As an explorer, the Company relies on its ability to raise equity to fund drilling programs. Since the refocus of the Company to copper and gold, and the acquisition of the Kharmagtai project in 2014, the team has successfully raised capital at increasing share prices. The 2016 year was no exception and the Company successfully raised $12.2 million mid-year at 20 cents per share, enjoying the support of existing major shareholders and welcoming several new and well regarded institutional shareholders to the register. This capital raise has allowed the Company to enter its new financial year with a healthy cash balance of $8.3 million. Enterprise value has grown to be consistently over the $100 million threshold and is now of a sufficient size to attract further institutional shareholder interest.

To finish, Xanadu has all the ingredients in place to maximise its chance of creating significant shareholder value, namely; good projects in the right location, a strong team, supportive shareholders, improving copper market fundamentals and major companies looking to add new high quality projects to their portfolios.

Mark Wheatley

Mark Wheatley
Non-Executive Chairman
24 March 2017

Review of Operations

Xanadu Mines continued to make significant progress in its Mongolian copper and gold strategy over the 12 months ending 31 December 2016. The Company controls one of the most promising porphyry copper and gold projects in Asia with Kharmagtai, and has a portfolio of advanced district-scale exploration projects including Oyut Ulaan and Sharchuluut Uul (Figure 1).

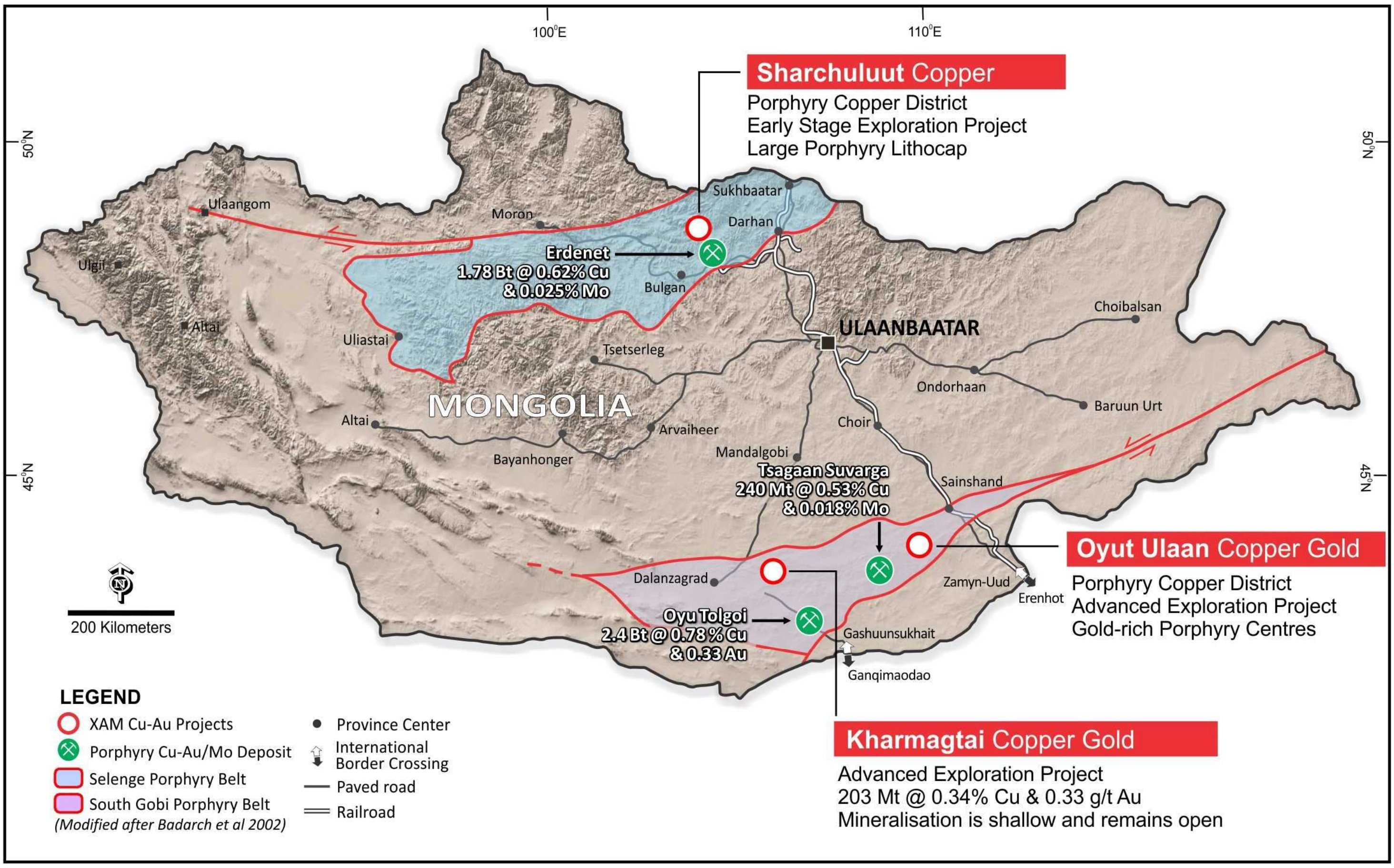

FIGURE 1: Location of Xanadu's copper-gold projects, within Mongolia's highly mineralised and vastly underexplored mineral belts.

The planned exploration programs, among the largest to be undertaken by a junior ASX-listed exploration company last year, targeted the discovery of additional copper-gold deposits on the Company's South Gobi porphyry projects at Kharmagtai and Oyut where a total of 6,928 metres of diamond drilling, 8,836 metres reverse circulation drilling, 11,135 metres of PCD drilling and 11,464 metres of trenching has been completed during the calendar year.

Kharmagtai Copper-gold Project (Xanadu Earning up to 76.5%)

The flagship Kharmagtai project has continued to emerge as one of the premier undeveloped copper and gold assets globally. The project is located within the Omnogovi Province, approximately 420 kilometres southeast of Ulaanbaatar and 120 kilometres north of the Rio Tinto-controlled Oyu Tolgoi deposit. Xanadu and its joint venture partner, Mongol Metals LLC, announced the acquisition of a 90% interest in the Kharmagtai porphyry copper-gold project from Turquoise Hill Resources in February 2014. Under the Mongol Metals LLC joint venture terms, Xanadu has the right to earn an 85% interest in the Kharmagtai project, equivalent to a 76.5% effective interest, by funding acquisition and exploration costs. During the first Quarter 2017, the Company has subscribed for shares in Mongol Metals LLC to increase its shareholding to 82.4% (74.2% effective interest).

The Kharmagtai project is the engine room for Xanadu's short term growth. Previous exploration has focused on the three outcropping porphyry deposits (Altan Tolgoi, Tsagaan Sudal and Zesen Uul) where Xanadu has already defined over 1.5 Mlb copper and over 2 million ounces of gold resource (refer to Xanadu's ASX announcement - 19 March 2015) in the central part of Mining Licence 17387A. Apart from these three deposits the prospective rocks of the Kharmagtai Igneous Complex are covered by either younger unconsolidated gravels or are obscured by younger volcanic rocks.

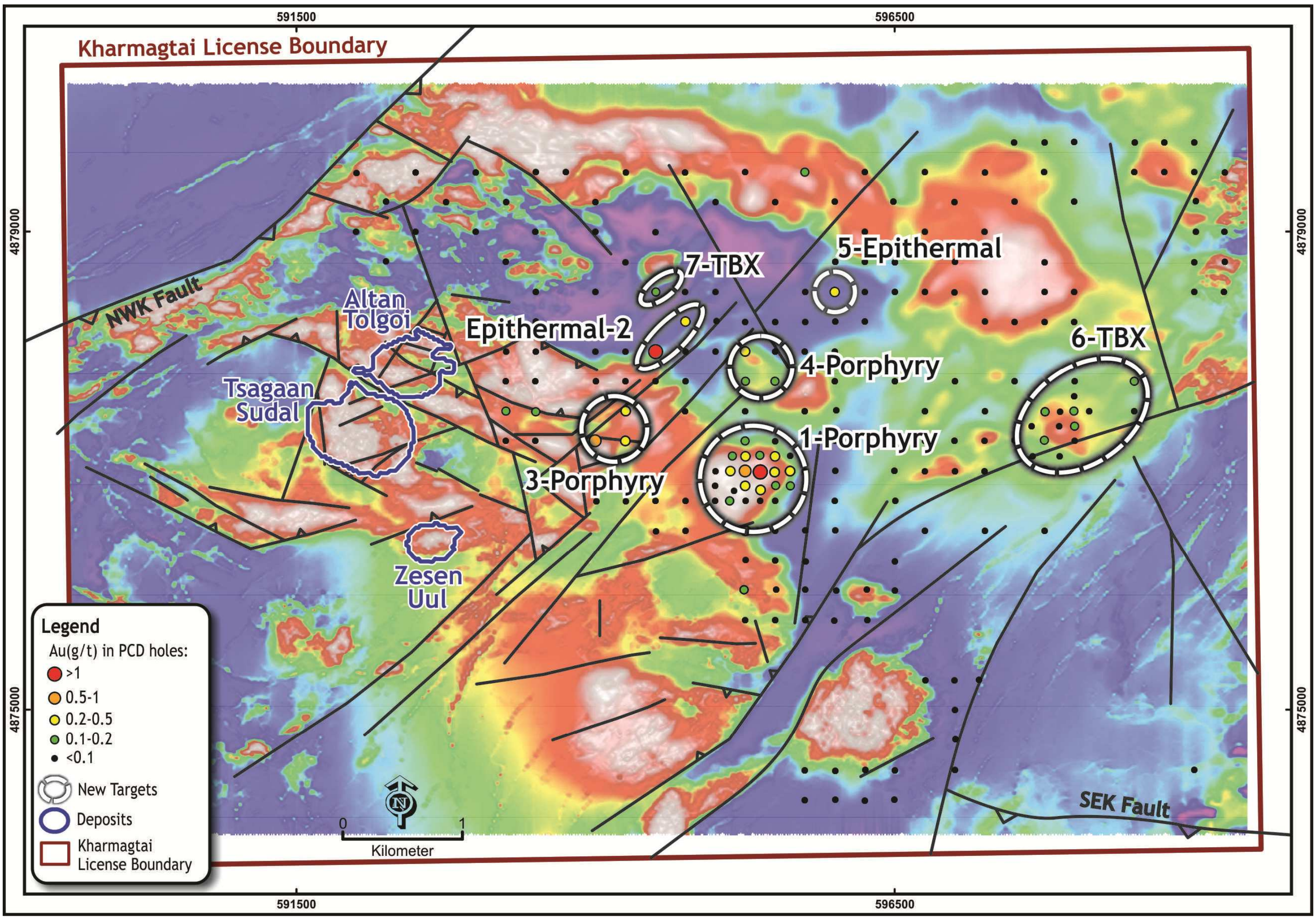

FIGURE 2: The Kharmagtai Mining Licence showing known porphyry deposits and seven new targets.

Exploration in 2016 produced excellent results from drilling with top of basement drilling results confirming the continuity of mineralisation under shallow (20 to 50m) cover with drilling intersecting anomalous bedrock copper and gold mineralisation over a widespread area, approximately 25km². At least seven new targets were identified, with 38 drill holes returning gold grades greater than 0.1 g/t Au and 12 holes more than 0.1% Cu over two metre intervals. The identification of the high-density stockwork copper-gold mineralisation in at least three of the new targets associated with copper over 0.3% Cu and gold over 3g/t Au is an outstanding result, and is validation of our belief that there are undiscovered porphyry centres at Kharmagtai under shallow cover. The drilling also provided important information on depth of cover gravels, which typically ranged from 20 to 50 metres. The shallow depths significantly enhance the prospectivity for further open pit resources within the Kharmagtai district.

New detailed gravity survey covered the entire district, an area of approximately 67.5km² (10km x 6.75km). The gravity dataset will be inverted in three dimensions and constrained using lithological and density data obtained from the top of basement drilling to ensure the most accurate models possible. This inversion model will be used to guide deep drilling of targets identified by the bedrock geochemistry, alteration and lithology. All three known porphyry deposits within Kharmagtai occur as discrete gravity highs. The new gravity survey at Kharmagtai has identified numerous gravity features which may be indicative of porphyry mineralisation. When these features are interpreted relative to the magnetics, known geology and geochemistry, a compelling picture emerges where multiple mineralised intrusive potentially lie beneath shallow cover.

Porphyry deposits such as Kharmagtai are characterised as being vertically extensive. Analagous deposits to Altan Tolgoi like Newcrest and Harmony's Wafi Golpu and Sol Gold's Cascabel deposit extend to significant depths (>2km). Historical drilling at the Altan Tolgoi deposit however has never been conducted to significant depths being mostly in the top 400 metres with little to no drilling below 600 metres. Recently, drilling has been conducted to determine location of the Altan Tolgoi deposit at depth. Drill hole KHDDH394 was drilled along the deposit to attempt to locate the high grade core of the tourmaline breccia blow 600 metres. The hole intersected 646m grading 0.51% cu and 0.87g/t Au (1.06% CuEq), and crossed through a significant fault zone, known as the Altan

Tolgoi Fault and out of high grade tourmaline breccia mineralisation at 752 metres (Figure 3). Deeper drilling will continue to focus on locating the true depth extension of mineralisation at Kharmagtai.

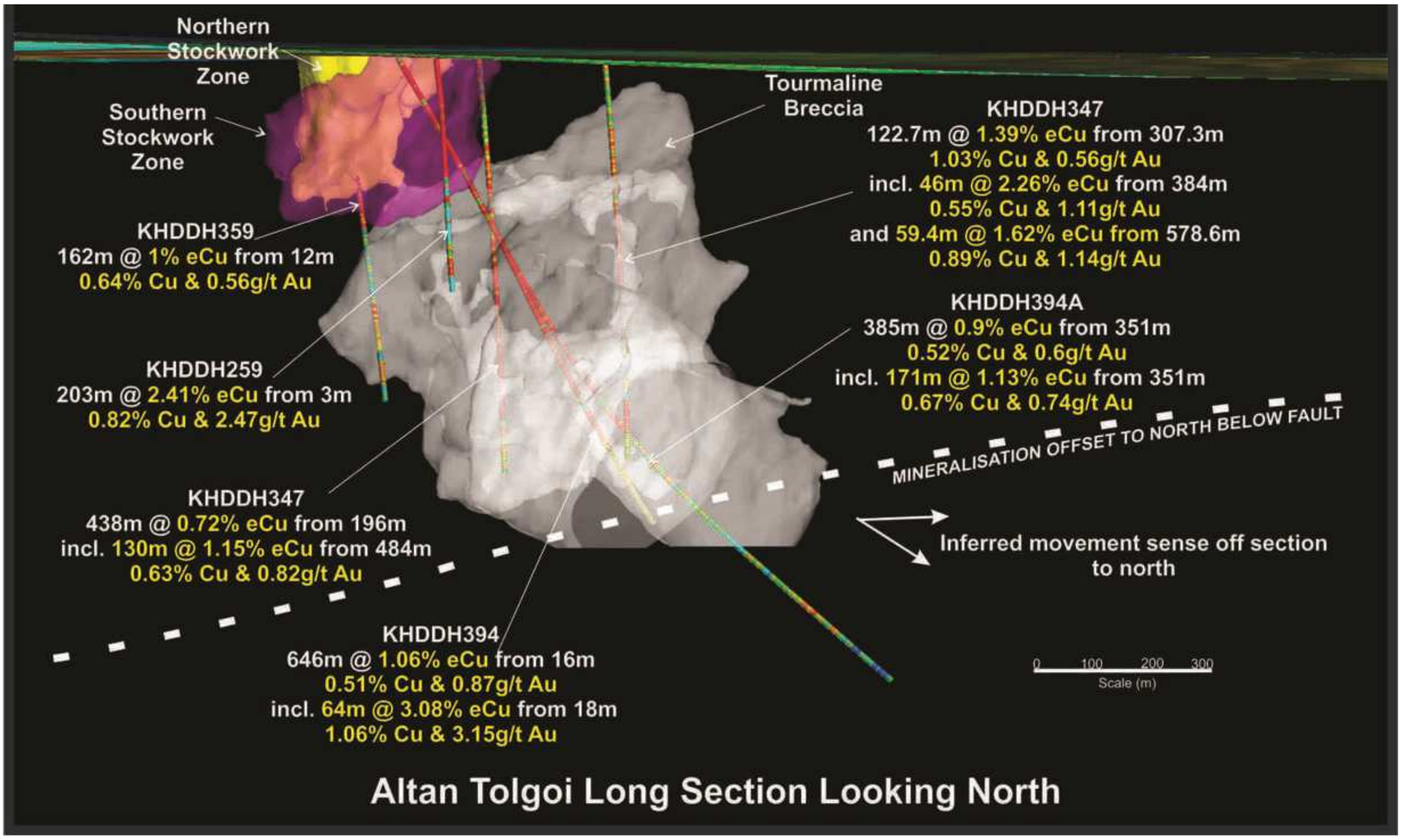

FIGURE 3: Altan Tolgoi long section looking north showing, showing significant drill holes.

Early stage flotation test work on the high-grade tourmaline breccia mineralisation returned exceptional results. These above average results, achieved at a moderate grind size, indicate high recoveries. A standard crushing, grinding and flotation process is all that will be required to extract all the economic minerals from the tourmaline breccia mineralisation. As expected, gold recoveries were also very high. While further testing is required across the ore-body as the project advances, we foresee no significant hurdles to producing a high-quality concentrate via standard processing pathways from the tourmaline breccia mineralisation at Altan Tolgoi. These positive metallurgical test results provide more confidence with the drilling underway to expand the resource by targeting mineralisation in the tourmaline breccia. The new results also complement the previous metallurgical studies undertaken on the shallow copper-gold stockwork zones of the orebody.

Kharmagtai is currently growing towards a moderate-size porphyry deposit, with relatively high gold to copper ratios, however additional resources need to be identified before becoming feasible for mining.

Mineralisation remains open at Altan Tolgoi and Tsagaan Sudal while Zesen Uul may represent an off-faulted block from a larger system. The tendency for porphyry copper deposits to constitute clusters or alignments is clearly exemplified by the mineralised centres at Kharmagtai, and the project has sufficient prospects with exciting geology that it could easily develop into a district comparable to other porphyry districts in the in South Gobi region such as Oyu Tolgoi (located 120 kilometres to the south). The quality of this project continues to be demonstrated by positive exploration results reinforcing the view that the Kharmagtai project is one of the most promising copper-gold exploration projects globally and reaffirms our belief in the potential for this mineral system to host a large scale high-grade copper-gold deposit.

Exploration drilling in 2017 will continue to test a combination of targets which includes high level gold-rich porphyry mineralisation and deeper tourmaline breccia mineralisation within the highly prospective 25km² areas of interest which has yielded outstanding results to date.

Oyut Ulaan Project (Xanadu 90%)

The Oyut Ulaan copper-gold project is located in the Dornogovi Province of southern Mongolia, approximately 70 kilometres west of the future industrial centre of Sainshand. Oyut Ulaan is a highly prospective porphyry copper-gold project. The project comprises a large and underexplored porphyry district (covering approximately 40km²) and consists of multiple co-genetic porphyry copper-gold centres, mineralised tourmaline breccia pipes and copper-gold/base metal magnetite skarns, which occur within the central part of Mining Licence 17129A (Figure 4).

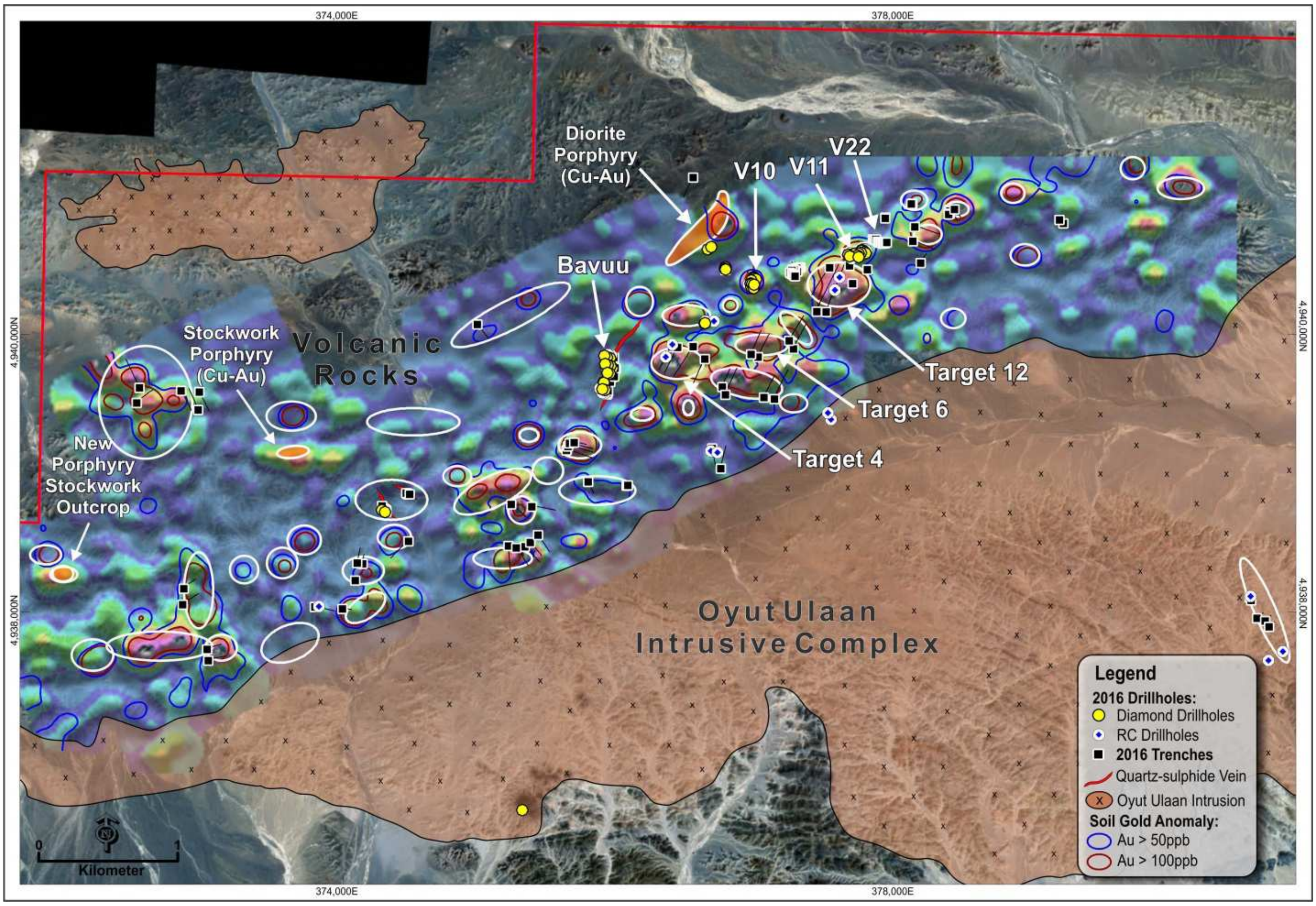

FIGURE 4: The Oyut Ulaan Mining Licence showing known porphyry deposits and new targets.

A systematic exploration program was initiated in July 2016 to unlock the potential of the Oyut Ulaan lease. This program began with a detailed soil survey to define the surface expression of porphyry copper-gold deposits and high-grade epithermal gold deposits. A total of 47 targets were identified from this survey based on gold and copper values, geology and geophysics. These targets were then ranked to set the exploration priorities. The top 23 of the targets were trenched to obtain data on mineralisation style, alteration, lithology and geochemistry for each target. To help tie these components together detailed geological mapping was conducted over the soil survey area and a gravity survey was completed over the entire lease. This work has identified the footprint (size and shape) of a large porphyry system at depth that corresponds with the surface geochemistry and mapped geology (Figure 4).

A gravity survey was completed over the Oyut Ulaan lease to help target large-scale porphyry systems. When this data is combined with the surface geochemistry and recent detailed geological mapping a compelling picture of a large-scale porphyry system emerges. Continued exploration success here is evidence of our evolving and increasing understanding of the mineral system and reinforces the view that the district has strong potential to host large scale high-grade copper-gold mineralisation and potentially shallow high-grade epithermal gold mineralisation (refer to ASX announcement - 24 August 2016).

Xanadu has also continued to define the projects potential through a combination of mapping, geophysics and trenching identifying multiple drill-ready targets. Exploration work indicates that outcropping mineralisation may represent the shallow part of a deeper, more continuous porphyry system. A tourmaline breccia complex is also present at Oyut Ulaan with similarities to the mineralised tourmaline breccia dike complex at Kharmagtai. The Company will continue its systematic and low-cost exploration program at Oyut Ulaan. The next phase of exploration will focus on delineating potential shallow, high-grade gold mineralisation by exploring along strike from existing intersections and testing the many geophysical and geochemical anomalies which remain within the Oyut Ulaan licence area.

Sharchuluut Project (Xanadu 100%)

Sharchuluut Uul is an early stage project focused on what is an extensive advanced argillic (high-sulphidation porphyry lithocap) alteration above a deeper porphyry centre. Limited drilling to date has intersected broad zones of porphyry alteration. Xanadu has outlined two main target areas that are yet to be tested.

Mineral Resources Statement

The Company's Mineral Resource Statement has been compiled in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code 2012 Edition) and Chapter 5 of the ASX Listing Rules and ASX Guidance Note 31. The Mineral Resource Estimate for the Kharmagtai deposit from 2015 amounts to 203Mt @ 0.34% Cu and 0.33g/t Au (0.55% CuEq) for a contained metal content of 1,500Mlb Cu and 2.2Moz Au. No changes were made to Kharmagtai Mineral Resources. This Mineral Resource, based on a total of 108,130 metres of drilling (83,577 metres of diamond and 24,553 metres of Reverse Circulation) and includes indicated resource categories as well as inferred classified material, is reported at a 0.3% CuEq cut-off constrained within Whittle optimised pit shells and CuEq cut-off 0.5% CuEq applied to the underground resources (Table 1). The Resource Estimate also includes a higher-grade core of 56Mt @ 0.47% Cu and 0.59g/t Au (0.85% Cu equivalent) for a contained metal content of 580Mlb Cu and 1.1Moz Au. The higher-grade core is reported at a 0.6% CuEq cut-off and split between open pit within a Whittle optimised pit shell and underground outside of the pit shell (Table 2).

Refer to ASX announcement dated 19 March 2015 "Kharmagtai Maiden JORC Resource" for full details of resource estimation methodology and attributions. Note: All figures may not sum exactly due to rounding.

The tables below set out the Company's Mineral Resources for 2015.

Table 1: Summary Mineral Resource Estimate tabulation for Kharmagtai Deposit, March 2015. Reported at a 0.3% CuEq cut-off constrained within optimised pit shells, and CuEq cut-off 0.5% CuEq applied to the underground.

Deposit	Mining Method	Cut-Off CuEq (%)	Resource Category	Material (Mt)	Grade			Metal	
					Cu(%)	Au(g/t)	CuEq(%)	Cu(Mlb)	Au(Koz)
All	OC	0.3	Indicated	23	0.41	0.55	0.76	203	401
			Inferred	107	0.27	0.24	0.42	641	833
			Subtotal	129	0.30	0.30	0.48	844	1,234
	UG	0.5	Indicated	24	0.43	0.47	0.73	225	359
			Inferred	51	0.42	0.36	0.64	463	591
			Subtotal	74	0.42	0.40	0.67	688	950
	Combined		**Indicated**	**46**	**0.42**	**0.51**	**0.74**	**428**	**759**
			Inferred	**157**	**0.32**	**0.28**	**0.49**	**1,104**	**1,424**
			Total	**203**	**0.34**	**0.33**	**0.55**	**1,533**	**2,184**

Notes:

- JORC 2012 categorised Mineral Resources for the Kharmagtai Copper Gold Project have been classified as indicated and inferred confidence categories on a spatial, areal and zone basis and are listed in the table below.
- A cut-off 0.3% CuEq within a Whittle Pit Shell and 0.5% CuEq below a Whittle Pit Shell.

Table 2: Summary Mineral Resource Estimate tabulation for Kharmagtai Deposit, March 2015. Reported at a 0.6% CuEq cut-off constrained within an optimised pit shell.

Deposit	Mining Method	Cut-Off CuEq(%)	Resource Category	Material (Mt)	Grade			Metal	
					Cu(%)	Au(g/t)	CuEq(%)	Cu(Mlb)	Au(Koz)
All	OC	0.6	Indicated	9	0.52	0.87	1.08	102	248
			Inferred	1	0.38	0.82	0.92	11	34
			Subtotal	10	0.50	0.86	1.06	113	282
	UG	0.6	Indicated	20	0.46	0.57	0.83	203	368
			Inferred	26	0.46	0.50	0.78	263	418
			Subtotal	46	0.46	0.53	0.80	465	786
	Combined		**Indicated**	**29**	**0.48**	**0.66**	**0.91**	**305**	**616**
			Inferred	**27**	**0.46**	**0.52**	**0.79**	**274**	**452**
			Total	**56**	**0.47**	**0.59**	**0.85**	**578**	**1,068**

Notes:
- JORC 2012 categorised Mineral Resources for the Kharmagtai Copper Gold Project have been classified as indicated and inferred confidence categories on a spatial, areal and zone basis and are listed in the table below.
- A cut-off 0.6% CuEq within a Whittle Pit Shell and 0.6% CuEq below a Whittle Pit Shell.

The Mineral Resource estimate for Kharmagtai was completed by external independent consultants, Mining Associates Ltd. The Mineral Resource is reported according to the principles and guidelines of JORC 2012. It is based on a database containing 64,296 records from 265 holes, with a total of 91,837.8 metres drilled that was available as of 31 December 2014. The Mineral Resource was tested for and found to have reasonable and realistic prospects for eventual economic extraction. It represents a realistic inventory of mineralisation within a conceptual open cut and underground mine design (Tables 1 and 2). The base case CuEq cut-off grade assumptions for each deposit were determined using cut-off grades applicable to mining operations exploiting similar deposits. The CuEq cut-off applied for the open pit was 0.3% CuEq and CuEq cut-off 0.5% CuEq applied to the underground. The CuEq calculation represents the total metal value for each metal, multiplied by the conversion factor, summed and expressed in equivalent copper percentage. Grades have not been adjusted for metallurgical or refining recoveries and the copper equivalent grades are intended for summarising grade. The copper equivalent calculation is intended as an indicative value only. The following copper equivalent conversion factors and long term price assumptions have been adopted: Copper Equivalent Formula (CuEq) = Cu% + (Au (ppm) x 0.6378); Price assumptions: Cu (US$2.60lb) and Au (US$1,300oz) and a gold recovery factor of 70.85%.

Competent Person's Statements

The information in this report that relates to the Mineral Resource is based on information compiled by Mr Andrew J. Vigar, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Vigar is employed by Mining Associates Limited Hong Kong. Mr Vigar has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a "Competent Person" as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Vigar consents to the inclusion in this report of the matters based on his information in the form and context in which it appears. The information in this report 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, which is incorporated in the database that was provided to Mining Associates for undertaking the Resource estimate. Dr Stewart is an employee of Xanadu and is a Member of the Australasian Institute of Geoscientists. Dr Stewart has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the "Competent Person" as defined in the 2012 Edition of the "Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves". Dr Stewart consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Exploration Expenditure

The Company invested $4.8 million (31 December 2015: $3.8 million) in exploration activities at the Kharmagtai and Oyut Ulaan copper-gold projects. A total of 26,899 metres of drilling (6,928 metres of diamond, 8,836 metres of RC, and 11,135 metres of PCD) and 11.5 kilometres of trenching were completed at the Kharmagtai and Oyut Ulaan projects.

Capital Management

The Company's cash position was $8.3 million as at 31 December 2016 (31 December 2015: $8.6 million). The Company realised net $11.5 million (31 December 2015: $9.2 million) in financing cash flows from a share placement.

During the year, the Company reduced the purchase price of the Kharmagtai project by US$1.0 million in exchange for early repayment of the remainder of the deferred balance of US$2.8 million ($3.9 million) and realised gain on settlement of deferred consideration of $1.2 million.

The primary use of funds over 2017 will be the continuation of exploration activities at the Company's Kharmagtai and Oyut Ulaan copper-gold projects, working capital, and for repayment of the loan due to Noble Resources. The related party loan payable to Noble Resources in 2017 was classified from non-current liabilities to current liabilities. The Company may need to raise additional capital for its exploration activities or seek joint venture partners. There is a risk that capital or joint venture partners may not be available or available on acceptable terms. Capital management is a priority of Management and the Company retains the flexibility to reduce its cost base while preserving its exploration projects if required.

Political & Regulatory Risks

The Company's operations are subject to various levels of government controls and regulations in the countries where it operates, including Australia and Mongolia. These laws and regulations include matters relating to land tenure, drilling, production practices, environmental protection, royalties, various taxes and levies including income tax, foreign trade and investment and government approval of license transfers and other regulatory approvals that are subject to change from time to time.

Current legislation is generally a matter of public record and the Company cannot predict what additional legislation or amendments may be proposed that will affect the Company's operations or when any such proposals, if enacted, might become effective. As changes in government policy or laws and regulations could adversely affect the Company's results of operations and financial condition, the Company actively monitors any risk relating to Mongolia's regulatory and political environment.

While there have been several changes and disruptions to business conditions in Mongolia over the past three years as a result of changes to the foreign investment rules, the new government that was formed following the Parliamentary election in June 2016 has shown that it is firmly committed to foreign mining investment and development.

Exchange Rate & Commodity Price Risks

The Company's foreign currency requirements include Australian Dollar, Mongolian Tugrug, and US Dollar and will vary from time to time. The Company raises funds in Australian Dollars while a substantial portion of the Company's exploration and remuneration costs are denominated in Mongolian Tugrug in addition to the US Dollar denominated debt the Company holds. These factors expose the Company to the fluctuations and volatility of the rates of exchange as determined in international markets. To mitigate the exchange rate risks, the Company has adopted a treasury policy. The policy mandates the Company to hold certain ratios of Australian and US Dollars while avoiding currency speculation and adopting a natural hedging approach based on cost budgets.

Commodity prices are volatile and are subject to fluctuations. At this stage, the Company's projects do not generate any operating revenues. However, commodity prices, and in particular the copper price, may impact the feasibility and valuation of the Company's projects. The Company's projects contain a high proportion of gold which to some extent mitigates copper price risk as the gold price is often negatively correlated to the copper price.

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Xanadu Mines Ltd (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the period ended 31 December 2016.

Directors

The following persons were Directors of Xanadu Mines Ltd during the whole of the financial period and up to the date of this report, unless otherwise stated:

Mark Wheatley
Andrew Stewart (appointed Managing Director on 24 October 2016)
Ganbayar Lkhagvasuren
Hannah Badenach
Marcus Engelbrecht
Darryl Clark
Barry Lavin

Principal activities

The principal activities of the entities within the Group during the year were exploration and development of its various mineral exploration projects in Mongolia.

Dividends

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

Review of operations

The Company realised a loss of $2.1 million for the period ending 31 December 2016 (31 December 2015: $4.4 million) and recognised total net assets of $36.8 million (31 December 2015: $34.4 million). The Company had other operating expenses of $2.9 million before net foreign currency losses (31 December 2015: $3.9 million) including wages expense of $1.8 million (31 December 2014: $2.1 million). A review of operations is presented before the directors' report.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial period.

Matters subsequent to the end of the financial period

On 27 January 2017, the Company announced the retirement of Chairman, Mark Wheatley, who will leave Xanadu at the Annual General Meeting in May 2017.

On 9 February 2017, pursuant to the Mongol Metals farm-in JV agreement, the shareholders of Mongol Metals JV resolved that the Company subscribe for shares in Mongol Metals to increase its shareholding from 79.8% to 82.4% in the JV.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the group and the expected results of operations have been included in the review of operations report. The Company intends to continue to invest and explore the projects described in this report.

Environmental regulation

Entities in the extractive industries incur rehabilitation obligations which are imposed under contractual or licensing arrangements, or by legislation, or are undertaken on the basis of entity policy or in accordance with industry best practice. While the Company's activities are still in the exploration phase, no provision for rehabilitation work has been recognised in relation to expenditures for dismantling and removing structures, rehabilitating quarries and mines, dismantling operating facilities and restoring affected areas expected to be incurred as the level of disturbance to date has been minimal. However, the Company recognises that such remedial work will be required should mining operations commence and is committed to the adoption of industry best practice in regard to any remediation required. The Company has adopted a Code of Environmental Practice that is implemented on all field operations in which the Company engages.

Information on Directors

Name:	Mark Wheatley
Title:	Non-Executive Chairman
Qualifications:	BE (Chem Eng Hons 1), MBA
Experience and expertise:	Mark is an experienced resources Company director with a career spanning more than 30 years in mining and related industries. He is currently serving as non-executive director of Peninsula Energy Limited. His other independent non-executive board roles have included former Chair of Gold One International Limited, Norton Goldfields Limited and Goliath Gold Mining Limited as well as directorships of St Barbara Mines Limited, Uranium One Inc., and Uranium Resources Inc.
Other current directorships:	Peninsula Energy Limited.
Former directorships (last 3 years):	Uranium Resources Inc. (appointed Jan 2013 – ceased Mar 2016)
Special responsibilities:	Member of the Audit Committee and Safety, Health and Environment Committee
Interests in shares:	2,590,718
Interests in rights:	None

Name:	Dr Andrew Stewart (appointed Managing Director on 24 October 2016)
Title:	Managing Director & Chief Executive Officer
Qualifications:	BSc, PhD, MAIG, MSEG, MAICD
Experience and expertise:	Andrew is a geologist with over 15 years' experience in mineral exploration; primarily focussed on project generation, project evaluation and exploration strategy development throughout Asia and Eastern Europe. Andrew has particular expertise in porphyry copper and epithermal gold deposits, but has worked across a diverse range of commodities. He holds a BSc (Hons) from Macquarie University and a PhD from the Centre of Ore Deposits and Exploration Studies at the University of Tasmania. During his time at Ivanhoe Mines and Vale Andrew held various technical and management positions in Mongolia and Indonesia and has been involved in several green fields discoveries. After providing technical and program management for Vale in Indonesia and Mongolia, Andrew joined Xanadu Mines as Chief Geologist leading the gold and base metals project generation and evaluation team in Mongolia. In 2016 Andrew became the Managing Director & Chief Executive Officer of Xanadu Mines.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Managing Director
Interests in shares:	4,011,083
Interests in rights:	None

Name:	Ganbayar Lkhagvasuren
Title:	Executive Director
Qualifications:	M.IBL
Experience and expertise:	Ganbayar is a co-founder of Xanadu and has been a Director since 2006. He is the joint venture partner in Mongol Metals LLC and brings a vital Mongolian perspective to the Board of Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and Safety, Health and Environment Committee
Interests in shares:	16,558,329
Interests in rights:	None

Name:	Hannah Badenach
Title:	Non-Executive Director
Qualifications:	B. Laws (Hons), B. Arts
Experience and expertise:	Hannah is a lawyer and an Executive Director at Noble Resources International Pte Ltd (Noble). Hannah has built and manages the Mongolian business and also runs the global Base Metals business on behalf of Noble. Hannah has worked in various markets globally and has extensive commercial and business development experience. She has been responsible for the development and execution of business development strategies for the last 14 years.
Other current directorships:	Aspire Mining Limited (ASX listed) (appointed 18 April 2013 - current)
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Governance Committee
Interests in shares:	1,057,738
Interests in rights:	None

Name:	Dr Darryl Clark
Title:	Independent Non-Executive Director
Qualifications:	B.Sc (Honours), Phd (Economic Geology), FAusIMM
Experience and expertise:	Darryl is an exploration geologist whose career has taken him throughout Australia, Central Asia and South East Asia for over 20 years. His responsibilities over the last 10 years have involved him in a diverse range of technological, political and cultural environments with unique challenges. During previous corporate roles with both Vale and BHP Billiton, and in consulting roles including SRK, he has been responsible for business development strategies, designing multi-commodity exploration programs and the co-ordination of exploration teams to deliver discovery events. Currently, Darryl is General Director for the Inkai Joint Venture mining operation in Kazakhstan owned by Cameco Corporation and Kazatomprom.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Safety, Health and Environment Committee, in addition to the Governance Committee
Interests in shares:	1,556,000
Interests in rights:	None

Name:	Barry Lavin
Title:	Independent Non-Executive Director
Qualifications:	BSc (Hons) (Mining Engineering), MBA, C Eng, MIMM
Experience and expertise:	Barry is an accomplished senior mining executive who spent 18 years with the Rio Tinto Group until 2009, where his most recent executive role was in its Copper Group having the responsibility for identifying and evaluating acquisitions. Barry is a mining engineer and while at Rio Tinto was the Managing Director of the Northparkes Mines JV where he helped position the operation as a highly productive, profitable and safe underground block caving operation. At Rio Tinto, Barry also held the role of Managing Director of Rio Tinto Technical Services. Barry is currently a non-executive director of Barminco Ltd, an Australian underground mining contractor with international operations, a non-executive director of Ferrum Americas Inc., a listed Canadian junior and is Managing Director of Teviot Resources Pty Ltd., a diversified junior. Barry also served on the Board of Oz Minerals from 2011 to 2013.
Other current directorships:	Barminco Ltd.
Former directorships (last 3 years):	Ferrum Americas Inc (TSX listed) (appointed 30 Jan 2011 - ceased 15 Oct 2015)
Special responsibilities:	Chairman of the Safety, Health and Environment Committee, Chairman of the Governance Committee and member of the Audit Committee
Interests in shares:	65,700
Interests in rights:	1,000,000

Name:	Marcus Engelbrecht
Title:	Non-Executive Director
Qualifications:	MAICD, H Compt
Experience and expertise:	Marcus is a well-rounded senior mining executive with considerable experience in the international mining industry. He has worked in various emerging markets across the globe, including Indonesia and the Philippines in South East Asia, and brings a good network and reputation across the international institutional investment community. Marcus has worked in the mining industry since 1985 and spent 20 years at BHP Billiton through to 2005 where he served as Chief Financial Officer for their Diamonds and Specialty Products business. From 2009 to 2011, he served as Chief Financial Officer of ASX/TSX/NZX listed OceanaGold Corporation and from 2011 to 2013, he served as Managing Director and Chief Executive Officer of London AIM listed and Singapore based Archipelago Resources Plc, a gold producer in Indonesia. Currently Marcus is the CEO of a London AIM listed exploration company, Stratex International plc.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Audit Committee and member of the Governance Committee
Interests in shares:	433,333
Interests in rights:	666,667

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company Secretary

Janine Rolfe, BEc LLB (Hons)

Janine was appointed Company Secretary of Xanadu in November 2013. An experienced corporate lawyer and company secretary, Janine established the business now known as Company Matters in 2006. Previously, Janine was Company Secretary and Legal Counsel at Qantas Airways Limited where Janine was responsible for the day-to-day management of all public company issues arising within the Qantas Group. Prior to that she was a Solicitor at Mallesons Stephen Jaques (now Kings & Wood Mallesons), working in the Mergers & Acquisitions/Corporate Advisory teams.

Janine will step down as Company Secretary on 31 March 2017. Nathan Bartrop has been appointed Company Secretary effective 31 March 2017.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the period ended 31 December 2016, and the number of meetings attended by each Director were:

	Full Board		Audit Committee		Governance Committee		Safety, Health and Environment Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
M Wheatley	13	13	3	3	–	–	1	1
A Stewart	9	10	–	–	–	–	–	–
G Lkhagvasuren	11	13	3	3	–	–	1	1
H Badenach	10	13	–	–	4	4	–	–
D Clark	12	13	–	–	4	4	1	1
B Lavin	13	13	2	3	4	4	1	1
M Engelbrecht	13	13	3	3	3	4	–	–

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant Committee.

As at the date of this report the Company has a Safety, Health and Environment Committee, Audit Committee and a Governance Committee. Further details are set out in the Corporate Governance Statement on the Company's website.

Remuneration Report (audited)

The Remuneration Report, which has been audited, outlines the key management personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives. KMP comprise the Directors of the Company and executives of the Company and the Group including the most highly remunerated executives.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel.

Principles used to determine the nature and amount of remuneration

Xanadu is a Mongolian-focused exploration company. Our strategy is to convert our South Gobi porphyry copper and gold projects into mineable deposits and build long-term value for shareholders by becoming the next internationally competitive mid-tier copper and gold company in Asia.

The Company's remuneration philosophy is to ensure that the level and composition of remuneration is competitive, reasonable and appropriate to attract, retain and motivate the directors and employees with the skills required to deliver on the Company's strategy. Our philosophy recognises the importance of people and a team approach.

Important attributes that impact on Xanadu's success are:
- exploration and safety excellence, dedication and persistence;
- understanding of Mongolia and a strong national team;
- ability to communicate exploration success in the public markets to attract capital and increase shareholder value; and
- adherence to good corporate governance principles.

When considering remuneration matters, the Governance Committee reviews and recommends to the Board on matters of remuneration policy, specific recommendations in relation to senior management and all matters concerning equity plans and awards.

Executive Remuneration

There are up to three categories of remuneration employed to reward employees depending on their role and responsibility within Xanadu:
1. Total Fixed Remuneration;
2. Short Term Incentive; and
3. Long Term Incentive.

The remuneration mix consists of fixed and variable or "at-risk" pay and of short and longer-term rewards.

Total Fixed Remuneration

Total Fixed Remuneration (TFR) comprises base salary, any relevant allowances and statutory contributions that the Company is legally required to make in the local jurisdiction. TFR is set with reference to market data and will reflect the scope of the role and the size and activities of the Company.

TFR is reviewed annually as part of the performance appraisals undertaken in the fourth quarter of the year (prior to finalisation of the following year's budget).

Within Mongolia the term net and gross TFR is used. Net TFR is fixed remuneration net of all taxes including Personal Income Tax and Social Insurance Tax and the Company is responsible for paying these taxes. Gross TFR includes PIT but excludes employer SIT. Within Australia, the term TFR is inclusive of personal income tax but excludes payroll tax.

Variable or At-Risk Incentive Remuneration
It is the Board's policy to deliver at-risk incentive remuneration to employees as both a Short Term Incentive (STI) and a Long Term Incentive (LTI). The payment of STIs and LTIs are linked to achievement of agreed performance measures and establishes a variable remuneration arrangement that links short and long term performance with short and longer term rewards.

Any equity awarded will be governed by the Xanadu Equity Incentive Plan (Plan), and if awarded to a Director, the award will be subject to shareholder approval.

The Plan was initially approved by shareholders at the 2013 Annual General Meeting, reapproved at the 2016 Annual General meeting, and permits the award of a number of styles of awards including Options and Share Rights to employees. The issue of securities under the Plan is subject to the Xanadu Securities Trading Policy. Shares issued may be acquired on-market, transferred or issued from the capital of the Company.

Short Term Incentive (STI)
Xanadu has established the STI to achieve the following objectives:
- focus employees on the achievements of annual key safety, financial and business targets that the Board believes will lead to sustained and improved business performance; and
- reward and recognise superior performance, if achieved.

The incentive offered under the STI will vary depending upon individual performance against key performance indicators (KPIs) and any discretion employed by the Board. KPIs for the Executive Chairman (for the relevant period), Managing Director & Chief Executive Officer (MD & CEO) and MD & CEO direct reports are approved by the Board upon recommendation from the Governance Committee. KPIs for all other employees are approved by the MD & CEO. Depending on the individual's position, KPIs will include a range of metrics including health and safety, exploration results, corporate governance, financial stewardship, risk management, business development and leadership. Payment of STIs can be cash or shares which is also at the discretion of the Board.

Long Term Incentive (LTI)
The Board believes that an appropriately designed long-term incentive is an important component of the Group's remuneration arrangements. The LTI is a key tool to allow the Group to attract and retain talented directors, executive and managers and ensure the interests of LTI participants are aligned with those of shareholders in creating long-term shareholder value.

The Board's policy is to design equity style awards as LTIs. The vesting of an LTI award is dependent on the achievement of longer term objectives, at least including share price growth over a three-year performance period.

Total Reward Mix - Executives
As a guide, the proportion of remuneration attributable to each component of the Xanadu remuneration philosophy is dependent on the level of seniority of the employee.

The target total reward mix on average is as follows:

	Total Fixed Remuneration %	STI % of TFR	LTI % of TFR
Managing Director & Chief Executive Officer	100	50	50
MD & CEO Direct Reports	100	30	30

The STI and LTI percentages of TFR are the maximum payable and the overall mix may vary depending on individual circumstances, legacy contracts and other benefits associated with expatriate allowances. The value of equity based awards is determined at the time of grant using industry standard valuation techniques.

Non-Executive Remuneration
The aggregate cash remuneration for Non-Executive Directors will not exceed the maximum approved amount of $350,000. The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable by shareholders. Non-Executive Directors may also participate in the Xanadu Equity Incentive Plan if participation is approved by shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers fees paid and securities issued to Non-Executive Directors of comparable companies when undertaking the annual review as well as the time commitment of directors in discharging duties at Board, Committee work and any additional assistance provided to the Company. Currently, the Non-Executive Director base fee is $52,000 per annum and a Committee Chairman receives $4,000 per annum per committee. The Non-Executive Chairman receives fee of $80,000 per annum.

Non-Executive Directors are encouraged by the Board to hold shares purchased on market in accordance with the Xanadu Securities Trading Policy. The Board considers that by holding shares in the Company, the Non-Executive Directors are aligning themselves with the best interests of the shareholders.

Details of remuneration

Amounts of remuneration
Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the Directors of Xanadu Mines Ltd and the following persons:
- M Dambiinyam - Chief Financial Officer
- M Brown - Chief Geologist (appointed on 23 December 2016).

	Short-term benefits			Post-employment benefits	Share-based payments[2]	
Year ended 31 December 2016	Cash salary and fee $	Bonus $	Others/ Non-monetary $	Super-annuation $	Equity-settled	Total $
Non-Executive Directors:						
M Wheatley[1]	178,912	-	-	31,151	21,540	231,603
D Clark	51,999	-	-	-	-	51,999
B Lavin	54,795	-	-	5,205	5,484	65,484
M Engelbrecht	51,142	-	-	4,858	62,908	118,908
Executive Directors:						
A Stewart	390,121	-	72,620	-	79,206	541,947
G Lkhagvasuren	225,415	-	-	-	47,821	273,236
Other KMP:						
M Dambiinyam	151,660	-	-	-	32,125	183,785
M Brown	4,231	-	-	-	-	4,231
	1,108,275	-	72,620	41,214	249,084	1,471,193

1 On 24 October 2016, Mark Wheatley moved from Executive Chairman to Non-Executive Chairman.

2 Includes Short-term Incentives issued in shares.

H Badenach did not receive any remuneration.

Year ended 31 December 2015	Short-term benefits: Cash salary and fees $	Short-term benefits: Bonus $	Short-term benefits: Others/ Non-monetary $	Post-employment benefits: Super-annuation $	Share-based payments[4]: Equity-settled $	Total $
Non-Executive Directors:						
D Clark	51,999	-	-	-	4,445	56,444
B Lavin	54,795	-	-	5,205	32,991	92,991
M Engelbrecht[1]	25,723	-	-	2,444	2,293	30,460
Executive Directors:						
M Wheatley[2]	154,432	-	-	35,000	6,667	196,099
G Lkhagvasuren	236,960	-	-	-	7,701	244,661
G Lloyd[3]	226,741	100,000	-	-	13,284	340,025
Other KMP:						
A Stewart	385,610	-	56,493	-	85,080	527,183
M Dambiinyam	163,705	-	-	-	15,929	179,634
	1,299,965	100,000	56,493	42,649	168,390	1,667,497

1 Appointed 16 June 2015

2 On 17 March 2015, Mark Wheatley was appointed Executive Chairman. Prior to his appointment Mark Wheatley was a Non-Executive Chairman.

3 Ceased 17 March 2015

4 Includes Short-term Incentives issued in shares.

H Badenach did not receive any remuneration.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration: Year ended 31 December 2016	Fixed remuneration: Year ended 31 December 2015	At risk - STI: Year ended 31 December 2016	At risk - STI: Year ended 31 December 2015	At risk - LTI: Year ended 31 December 2016	At risk - LTI: Year ended 31 December 2015
Non-Executive Directors:						
M Wheatley[1]	91%	97%	9%	-	-	3%
D Clark	100%	92%	0%	-	-	8%
B Lavin	92%	65%	0%	-	8%	35%
M Engelbrecht	47%	92%	0%	-	53%	8%
Executive Directors:						
A Stewart	85%	84%	14%	15%	1%	1%
G Lkhagvasuren	82%	97%	17%	-	1%	3%
G Lloyd[2]	-	67%	-	29%	-	4%
Other KMP:						
M Dambiinyam	83%	91%	16%	8%	1%	1%
M Brown	100%	-	-	-	-	-

1 Appointed 16 June 2015

2 On 17 March 2015, Mark Wheatley was appointed Executive Chairman. Prior to his appointment Mark Wheatley was a Non-Executive Chairman.

3 Ceased 17 March 2015

Service agreements
Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Andrew Stewart
Title:	Managing Director & Chief Executive Officer
Details:	Dr Stewart's fixed remuneration is an annual salary package of US$260,000 plus compulsory taxes and social insurance applicable as an employee in Mongolia. Dr Stewart also receives a rental allowance of US$30,000 per annum, travel and health care entitlements. In the event of termination of Dr Stewart's employment other than in the case of misconduct, the executive must give a minimum of 6 months' notice prior to termination, and the Company must give 9 months' notice prior to termination. The Company may, at its discretion, provide Dr Stewart with payment of fixed remuneration in whole or in part in lieu of notice. For the avoidance of doubt, the Company's right to make such a payment does not give Dr Stewart any right to receive such a payment. Dr Stewart's engagement terms are amended when he relocates to Australia in 2017. The terms are outlined in ASX announcement dated 24 October 2016.

Name:	Ganbayar Lkhagvasuren
Title:	Executive Director
Details:	Mr Lkhagvasuren's fixed remuneration is an annual salary package of MNT429 million (A$239,000) including compulsory taxes and social insurance applicable as an employee in Mongolia effective 1 January 2017 (social insurance payable in Mongolia is not identical to superannuation in Australia). In the event of Mr Lkhagvasuren's employment being terminated other than in the case of misconduct, Mr Lkhagvasuren must give a minimum of 3 months' notice prior to termination, and the Company must give 3 months' notice prior to termination.

Name:	Munkhsaikhan Dambiinyam
Title:	Chief Financial Officer
Details:	Mr Dambiinyam's fixed remuneration is an annual salary package of MNT257 million (A$143,400) plus the compulsory taxes and social insurance applicable as an employee in Mongolia effective 1 January 2017 (social insurance payable in Mongolia is not identical to superannuation in Australia). In the event of termination of Mr Dambiinyam's employment other than in the case of misconduct, Mr Dambiinyam must give a minimum of 3 months' notice prior to termination, and the Company must give 3 months' notice prior to termination.

Name:	Mathew Brown
Title:	Chief Geologist
Details:	Mr Brown's fixed remuneration is an annual salary package of A$220,000 including any applicable taxes required to be withheld. In the event of termination of Mr Brown's employment other than in the case of misconduct, the executive must give a minimum of 6 months' notice prior to termination, and the Company must give 6 months' notice prior to termination.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

Details of shares issued to Directors and other key management personnel as part of compensation during the period ended 31 December 2016 are set out below:

Name	Date	Shares	Issue price	$
M Wheatley*	18 May 2016	172,318	$0.12	21,540
M Engelbrecht**	18 May 2016	333,333	$0.00	-
A Stewart*	18 May 2016	622,340	$0.12	77,793
A Stewart**	18 May 2016	600,000	$0.00	-
G Lkhagvasuren*	18 May 2016	368,764	$0.12	46,096
G Lkhagvasuren**	18 May 2016	600,000	$0.00	-
M Dambiinyam*	18 May 2016	240,294	$0.12	30,037
M Dambiinyam**	18 May 2016	350,000	$0.00	-

* Short-term incentives
** Vesting of share rights

Options

There were no options over ordinary shares issued to Directors and other key management personnel as part of compensation that were outstanding as at 31 December 2016.

There were no options over ordinary shares granted to or vested by Directors and other key management personnel as part of compensation during the period ended 31 December 2016.

Share rights

Details of share rights over ordinary shares granted, vested and lapsed for Directors and other key management personnel as part of compensation during the period ended 31 December 2016 are set out below:

Name	Grant date	Expiry date	Number of rights granted	Number of rights vested	Value of rights vested $	Number of rights lapsed	Value of rights lapsed $
M Wheatley	16 May 2014	28 February 2016	-	-	-	750,000	135,000
D Clark	16 May 2014	28 February 2016	-	-	-	500,000	90,000
M Engelbrecht	23 December 2015	16 June 2018	-	333,333	45,000	-	-
A Stewart	22 May 2013	23 May 2016	-	600,000	112,200	-	-
G Lkhagvasuren	22 November 2013	23 May 2016	-	600,000	112,200	-	-
M Dambiinyam	1 December 2014	1 June 2017	-	350,000	50,295	-	-
M Brown	23 December 2016	23 December2019	1,800,000	-	-	-	-

Additional information

The section below contains further detail on how the Company's performance has impacted on remuneration outcomes for executives under the Company's incentive programs.

The table below contains a snapshot of the Company's performance against annual financial Key Performance Indicators:

	*2012**	*2013**	*Jun 2014**	*Dec 2014***	*2015**	*2016**
Share price at financial year end ($)	*0.19*	*0.03*	*0.04*	*0.10*	*0.11*	*0.21*
Basic earnings per share (cents per share)	*(3.73)*	*(9.41)*	*(4.09)*	*(1.21)*	*(1.15)*	*(0.47)*
Diluted earnings per share (cents per share)	*(3.73)*	*(9.41)*	*(4.09)*	*(1.21)*	*(1.15)*	*(0.47)*

* 12 months period

** 6 months period

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial period by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Additions*	Exercised	Balance at the end of the period
Ordinary shares					
M Wheatley	2,350,000	172,318	68,400	-	2,590,718
G Lkhagvasuren	15,589,565	368,764	-	600,000	16,558,329
H Badenach	1,057,738	-	-	-	1,057,738
D Clark	1,456,000	-	100,000	-	1,556,000
B Lavin	65,700	-	-	-	65,700
M Engelbrecht	100,000	-	-	333,333	433,333
A Stewart	2,736,743	622,340	52,000	600,000	4,011,083
M Dambiinyam	538,284	240,294	-	350,000	1,128,578
	23,894,030	1,403,716	220,400	1,883,333	27,401,479

* On-market purchases

Option holding

The number of options over ordinary shares in the Company held during the financial period by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other *	Balance at the end of the period
Options over ordinary shares					
A Stewart	3,000,000	-	-	(3,000,000)	-
	3,000,000	-	-	(3,000,000)	-

Share rights holding

The number of share rights over ordinary shares in the Company held during the financial period by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Vested and exercised	Expired/ forfeited/ other	Balance at the end of the period
Performance rights over ordinary shares					
M Wheatley	750,000	-	-	(750,000)	-
G Lkhagvasuren	600,000	-	(600,000)	-	-
D Clark	500,000	-	-	(500,000)	-
B Lavin	1,000,000	-	-	-	1,000,000
M Engelbrecht	1,000,000	-	(333,333)	-	666,667
A Stewart	600,000	-	(600,000)	-	-
M Dambiinyam	700,000	-	(350,000)	-	350,000
M Brown	-	1,800,000	-	-	1,800,000
	5,150,000	1,800,000	(1,883,333)	(1,250,000)	3,816,667

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Xanadu Mines Ltd under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
21 January 2014*	14 January 2019	$0.00	35,000,000
			35,000,000

* Series A and Series B options issued to the vendor of the Oyut Ulaan Mining Licence. Vesting of Series A (15,000,000) is contingent on recognition of a JORC resource of at least 300,000 tonnes contained copper equivalent, and Series B (20,000,000) is contingent on the recognition of a JORC resource of at least 900,000 tonnes contained copper equivalent.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares under share rights

Unissued ordinary shares of Xanadu Mines Ltd under share rights at the date of this report are as follows:

Grant date	Expiry date (vesting price)	Exercise price	Number under rights
28 November 2014	18 September 2017 (vesting price**: $0.3121)	$0.00	1,000,000
1 December 2014	1 July 2017 (vesting price**: $0.1870)	$0.00	350,000
19 June 2015	1 February 2018 (vesting price: individual KPIs)	$0.00	600,000
23 December 2015	16 June 2018 (vesting range*: $0.1750-$0.2281)	$0.00	666,667
23 December 2016	23 December 2019 (vesting range***: $0.30-$0.50)	$0.00	1,800,000
			4,416,667

* The share rights vest where the closing price of the shares on any 3 consecutive trading days during the period from the appointment date to the day immediately preceding the vesting date exceeds the hurdle price.

** The share rights vest where the price of the shares on any 3 consecutive trading days during the period from the grant date to the day immediately preceding the vesting date exceeds the hurdle price.

*** The share rights vest where the price of the shares on any 20 consecutive trading days during the period from the grant date to the day immediately preceding the vesting date exceeds the hurdle price.

No person entitled to exercise the share rights had or has any right by virtue of the share right to participate in any share issue of the Company or of any other body corporate. Details of the vesting conditions of the share rights, including share price thresholds, are described in the notes to the financial statements.

Shares issued on the exercise of options

There were no ordinary shares of Xanadu Mines Ltd issued on the vesting and exercise of options during the period ended 31 December 2016 and up to the date of this report.

Indemnity and insurance of officers

During or since the end of the year, the Company has not given any indemnity to a current or former officer or auditor against a liability or made any agreement under which an officer or auditor may be given any indemnity of the kind covered by subsection 199A(2) or (3) of the Corporations Act 2001.

During the financial period, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify the auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit. No payment has been made to indemnify the auditors during the financial year. During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in Note 21 to the financial statements.

Other services in relation to tax advice were provided by Ernst & Young during the financial year. The fees, excluding GST, were $1,000 (2015: $5,124) for those services. Therefore, the Directors are satisfied that given the total quantum paid for the non-audit services provided during the financial year by Ernst & Young as the external auditor, the general standard of independence for auditors imposed by the Corporations Act was not compromised.

Officers of the Company who are former partners of Ernst & Young

There are no officers of the Company who are former partners of Ernst & Young.

Rounding of amounts

The Company is of a kind referred to in the ASIC 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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Mark Wheatley

Mark Wheatley
Non-Executive Chairman
24 March 2017

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Auditor's Independence Declaration to the Directors of Xanadu Mines Limited

As lead auditor for the audit of Xanadu Mines Limited for the financial year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Xanadu Mines Limited and the entities it controlled during the financial year.

Ernst & Young

Scott Jarrett
Partner
24 March 2017

Statement of Profit or Loss and Other Comprehensive Income

For the period ended 31 December 2016

	Note	Consolidated 2016 $'000	Consolidated 2015 $'000
Other income	4	1,260	37
Expenses			
Depreciation and amortisation expense		(114)	(150)
Other expenses	5	(2,901)	(3,909)
Finance costs		(376)	(351)
Loss before income tax expense		(2,131)	(4,373)
Income tax expense	6	-	-
Loss after income tax expense for the period		(2,131)	(4,373)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(7,436)	128
Other comprehensive income for the period, net of tax		(7,436)	128
Total comprehensive income for the period		(9,567)	(4,245)
Loss for the period is attributable to:			
Non-controlling interest		124	(35)
Owners of Xanadu Mines Ltd	16	(2,255)	(4,338)
		(2,131)	(4,373)
Total comprehensive income for the period is attributable to:			
Non-controlling interest		363	351
Owners of Xanadu Mines Ltd		(9,930)	(4,596)
		(9,567)	(4,245)
		Cents	Cents
Basic earnings per share	29	(0.47)	(1.15)
Diluted earnings per share	29	(0.47)	(1.15)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of Financial Position

As at 31 December 2016

	Note	Consolidated 2016 $'000	Consolidated 2015 $'000
Assets			
Current assets			
Cash and cash equivalents	7	8,277	8,639
Prepayment and other assets		46	-
Other receivables	8	469	497
Total current assets		8,792	9,136
Non-current assets			
Property, plant and equipment	9	307	363
Deferred exploration expenditure	10	31,952	34,049
Total non-current assets		32,259	34,412
Total assets		41,051	43,548
Liabilities			
Current liabilities			
Trade and other payables	11	422	177
Term loan - related party	12	3,814	-
Deferred acquisition consideration	13	-	5,185
Total current liabilities		4,236	5,362
Non-current liabilities			
Term loan - related party		-	3,782
Other		49	-
Total non-current liabilities		49	3,782
Total liabilities		4,285	9,144
Net assets		36,766	34,404
Equity			
Issued capital	14	93,964	82,108
Reserves	15	(519)	7,083
Accumulated losses	16	(61,322)	(59,067)
Equity attributable to the owners of Xanadu Mines Ltd		32,123	30,124
Non-controlling interest	17	4,643	4,280
Total equity		36,766	34,404

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of Changes in Equity

For the period ended 31 December 2016

Consolidated	Issued capital $'000	Other reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2015	71,843	9,009	(794)	(54,729)	3,929	29,258
Loss after income tax expense for the period	-	-	-	(4,338)	(35)	(4,373)
Other comprehensive income for the period, net of tax	-	-	(258)	-	386	128
Total comprehensive income for the period	-	-	(258)	(4,338)	351	(4,245)
Transactions with owners in their capacity as owners:						
Share-based payments (note 30)	93	97	-	-	-	190
Shares issued during the year, net of transaction costs	9,385	-	-	-	-	9,385
Allotment of shares relating to pre-year end issue	787	(787)	-	-	-	-
Other	-	(184)	-	-	-	(184)
Balance at 31 December 2015	82,108	8,135	(1,052)	(59,067)	4,280	34,404

Consolidated	Issued capital $'000	Other reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2016	82,108	8,135	(1,052)	(59,067)	4,280	34,404
Profit/(loss) after income tax expense for the period	-	-	-	(2,255)	124	(2,131)
Other comprehensive income for the period, net of tax	-	-	(7,675)	-	239	(7,436)
Total comprehensive income for the period	-	-	(7,675)	(2,255)	363	(9,567)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs (note 14)	11,489	-	-	-	-	11,489
Share-based payments (note 30)	366	74	-	-	-	440
Balance at 31 December 2016	93,963	8,209	(8,727)	(61,322)	4,643	36,766

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of Cash Flows

For the period ended 31 December 2016

	Note	Consolidated 2016 $'000	2015 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(2,612)	(3,919)
Interest received		36	37
Interest and other finance costs paid		(396)	(81)
Net cash used in operating activities	28	(2,972)	(3,963)
Cash flows from investing activities			
Payments for property, plant and equipment	9	-	(48)
Payments for exploration and evaluation	10	(4,383)	(3,757)
Payments of deferred consideration		(3,934)	(838)
Net cash used in investing activities		(8,317)	(4,643)
Cash flows from financing activities			
Proceeds from issue of shares	14	12,204	9,733
Transaction costs on issue of shares		(715)	(532)
Net cash from financing activities		11,489	9,201
Net increase in cash and cash equivalents		200	595
Cash and cash equivalents at the beginning of the financial period		8,639	7,508
Effects of exchange rate changes on cash and cash equivalents		(562)	536
Cash and cash equivalents at the end of the financial period	7	8,277	8,639

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

AASB 9 Financial Instruments

A finalised version of AASB 9 which contains accounting requirements for financial instruments, replacing AASB 139 Financial Instruments: Recognition and Measurement. The standard contains requirements in the areas of classification and measurement, impairment, hedge accounting and derecognition. The Group is in the process of determining the potential impact of the new standard on the Group's financial report. This standard applies to annual reporting periods beginning on or after 1 January 2018.

AASB 15 Revenue from Contracts with Customers

AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The Group is in the process of determining the potential impact of the new standard on the Group's financial report. This standard applies to annual reporting periods beginning on or after 1 January 2018

AASB 16 Leases

AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees. The Group is in the process of determining the potential impact of the new standard on the Group's financial report. This standard applies to annual reporting periods beginning on or after 1 January 2019.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This standard applies to annual reporting periods beginning on or after 1 January 2017. The Group is in the process of determining the potential impact of the amendments on the Group's financial report.

AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions

This standard amends AASB 2 Share-based Payments, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the:

- Effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- Share-based payment transactions with a net settlement feature for withholding tax obligations
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

This standard applies to annual reporting periods beginning on or after 1 January 2018. The Group is in the process of determining the potential impact of the amendments on the Group's financial report.

Note 1. Significant accounting policies (continued)

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the group only. Supplementary information about the parent entity is disclosed in Note 24.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Xanadu Mines Ltd ('Company' or 'Parent Entity') as at 31 December 2016 and the results of all subsidiaries for the period then ended. Xanadu Mines Ltd and its subsidiaries together are referred to in these financial statements as the 'group'.

Subsidiaries are all those entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the group. Losses incurred by the group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Xanadu Mines Ltd's functional and presentation currency. The functional currencies of the group's foreign subsidiaries are Mongolian Tughrik ("MNT") and Singapore Dollar ("SGD").

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Note 1. Significant accounting policies (continued)

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity. The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest income
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:
- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Note 1. Significant accounting policies (continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Deferred exploration and evaluation expenditure
Costs arising from exploration and evaluation activities relating to an area of interest are carried forward, provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable resources. Rights of tenure must be current to carry forward deferred exploration and evaluation expenditure.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

Property, plant and equipment
Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment:	2-10 years
Motor vehicles:	4-5 years

Note 1. Significant accounting policies (continued)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

The carrying values of property, plant & equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

Investment in Joint Venture
An associate is an entity over which the consolidated entity has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The consolidated entity's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the consolidated entity's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the consolidated entity's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the consolidated entity's Other Comprehensive Income (OCI). In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the consolidated entity recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the consolidated entity and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.
The aggregate of the consolidated entity's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the consolidated entity. When necessary, adjustments are made to bring the accounting policies in line with those of the consolidated entity.

After application of the equity method, the consolidated entity determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the consolidated entity determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the consolidated entity calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Note 1. Significant accounting policies (continued)

Rehabilitation of property
Where conditions of title, or other rights to use property including rights to mine require that rehabilitation activities be carried out during the course of the use of the property, costs of such are brought to account as an expense at the time incurred. Where, due to current or previous activities, an obligation exists to carry out rehabilitation works in the future, provision is made for the mine site rehabilitation and restoration by recognising the present value of expected rehabilitation cash flows as a provision. These provisions include costs associated with reclamation, plant closure and monitoring activities. The discount on the provision unwinds as an interest expense. These costs have been determined on the basis of current costs, current legal requirements and current technology. Changes in estimates are dealt with on a prospective basis.

Uncertainty exists as to the amount of restoration obligations which will be incurred due to:
- uncertainty as to the remaining life of existing operating sites; and
- the impact of changes in environmental legislation.

Assumptions have been made as to the remaining useful life of existing sites based on studies conducted by independent and internal technical advisers. Such studies are conducted on an ongoing basis.

Impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to Xanadu. Trade accounts payable are normally settled within 30 days.

Borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital
Ordinary shares are classified as equity.

Note 1. Significant accounting policies (continued)

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share
Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Xanadu Mines Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Share-based payment transactions
The group measures the cost of equity-settled transactions with employees 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 Binomial 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.

Note 1. Significant accounting policies (continued)

In addition to consulting fees and salaries, the consolidated entity provides benefits to certain directors and employees of the consolidated entity in the form of share-based payment transactions, whereby directors and employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The cost of equity-settled transactions with employees (including directors) is measured by reference to the fair value at the date at which they are granted. The fair value of the options is determined by an independent written valuation.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions, if any, are fulfilled.

The cumulative expenses recognised for equity-settled transactions at each reporting date until vesting date reflects:
(i) the extent to which the vesting period, if any, has expired; and
(ii) the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised is recognised immediately. However, if a new award is substituted for the cancelled award and designated a replacement award on the date it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the reporting period ended 31 December 2015. The group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

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

Note 3. Operating segments

The group operates predominantly in the minerals exploration sector. The principle activity of the group is exploration for copper and gold. The group classifies these activities under a single operating segment, in a single geographical segment; the Mongolian exploration projects.

Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in deferred exploration expenditure note of the financial report. No segment revenues are disclosed as all segment expenditure is capitalised, with the exception of expenditure written off. The non-current assets of the group, attributable to the parent entity, are located in Mongolia.

Note 4. Other income

	Consolidated	
	2016 $'000	2015 $'000
Interest	36	37
Gain on settlement of deferred consideration	1,224	-
Other income	1,260	37

During the year, the Company has recognised a gain of $1,224,000 as a result of the settlement of the deferred consideration. An agreement was reached in January 2016 to reduce the deferred consideration by settling the liability early.

Note 5. Other expenses

	Consolidated	
	2016 $'000	2015 $'000
Other expenses		
Administration and other expenses	839	1,568
Net foreign currency loss	1	87
Wages and management fees	1,812	2,064
Share-based payments	249	190
	2,901	3,909

Note 6. Income tax expense

	Consolidated 2016 $'000	Consolidated 2015 $'000
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(2,131)	(4,373)
Tax at the statutory tax rate of 30%	(639)	(1,312)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax effect of expenses not allowed for tax purposes	91	93
	(548)	(1,219)
Current period tax losses not recognised	561	1,006
Difference in overseas tax rates - Mongolia at 25% (June 2014: 25%)	55	119
Difference in overseas tax rates - Singapore at 17% (June 2014: 17%)	(68)	94
Income tax expense	-	-

At the reporting date, the group has estimated tax losses of $22,080,000 (Dec 2015: $20,210,000). A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available to use against such losses.

Note 7. Current assets - cash and cash equivalents

	Consolidated 2016 $'000	Consolidated 2015 $'000
Cash at bank and on hand	8,277	8,639

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Note 8. Current assets - Other receivables

	Consolidated 2016 $'000	Consolidated 2015 $'000
Sundry debtors	68	72
GST recoverable	401	425
	469	497

Sundry debtors relate to interest on term deposits accrued but not yet received, refund of goods and services tax payments due and other current loans. Balances within sundry debtors do not contain impaired assets and are not past due. It is expected that these balances will be received in full. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

Note 9. Non-current assets - Property, plant and equipment

	Consolidated 2016 $'000	Consolidated 2015 $'000
Plant and equipment - at cost	332	367
Less: Accumulated depreciation	(235)	(231)
	97	136
Motor vehicles - at cost	358	374
Less: Accumulated depreciation	(148)	(147)
	210	227
	307	363

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

Consolidated	Plant & Equipment $'000	Motor Vehicles $'000	Total $'000
Balance at 1 January 2015	186	249	435
Additions	27	21	48
Exchange differences	(6)	(6)	(12)
Depreciation expense	(71)	(37)	(108)
Balance at 31 December 2015	136	227	363
Additions	21	55	76
Exchange differences	(20)	(39)	(59)
Depreciation expense	(40)	(33)	(73)
Balance at 31 December 2016	97	210	307

Note 10. Non-current assets - Deferred exploration expenditure

	Consolidated 2016 $'000	Consolidated 2015 $'000
Deferred exploration expenditure	31,952	34,049

Note 10. Non-current assets - Deferred exploration expenditure (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

Consolidated	Exploration & evaluation $'000
Balance at 1 January 2015	29,864
Expenditure during the period	3,757
Exchange differences	428
Balance at 31 December 2015	34,049
Expenditure during the period	4,764
Exchange differences	(6,861)
Balance at 31 December 2016	31,952

Note 11. Current liabilities - trade and other payables

	Consolidated	
	2016 $'000	2015 $'000
Trade payables	339	85
Accrued expenses	83	92
	422	177

Refer to note 19 for further information on financial risk management objectives and policies.

Trade payables and other creditors are non-interest bearing and are normally settled on 30 day terms.

Note 12. Current liabilities - Term loan - related party

	Consolidated	
	2016 $'000	2015 $'000
Term loan - related party	3,814	-

Refer to note 19 for further information on financial risk management objectives and policies.

Note 13. Current liabilities - Deferred acquisition consideration

	Consolidated	
	2016 $'000	2015 $'000
Deferred acquisition consideration	-	5,185

During the period, the Company has fully settled its above deferred acquisition consideration for a total cash payment of $3.9 million with the differences recognised as other comprehensive income.

Note 14. Equity - Issued capital

	Consolidated			
	2016 Shares	2015 Shares	2016 $'000	2015 $'000
Ordinary shares - fully paid (net of transaction cost)	511,218,639	445,285,489	93,964	82,108

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 January 2015	354,763,294	71,843
Shares issued - Rights issue	2 January 2015	8,590,785	1,031
Shares issued - Shortfall	19 March 2015	5,547,885	666
Shares issued - Short Term Incentive	19 March 2015	776,262	93
Shares issued - Equity Incentive Plan	19 March 2015	2,300,000	180
Shares issued - Equity Incentive Plan	26 May 2015	2,700,000	-
Shares issued - Placement	19 November 2015	56,200,000	7,025
Shares issued - Share purchase plan	10 December 2015	4,138,074	518
Shares issued - Placement	31 December 2015	10,269,189	1,284
Transaction costs		-	(532)
Balance	31 December 2015	445,285,489	82,108
Shares issued - Settlement of Oyut Ulaan Acquisition	1 April 2016	1,364,000	191
Shares issued - Equity Incentive Plan	20 May 2016	2,333,333	-
Shares issued - Short Term Incentives	20 May 2016	1,403,716	176
Shares issued - Placement	27 June 2016	56,332,101	11,304
Shares issued - Deferred cash settlement	27 June 2016	4,500,000	900
Transaction costs		-	(715)
Balance	31 December 2016	511,218,639	93,964

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
The group'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 the group’s capital by assessing the group’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 June 2015 Annual Report.

Note 15. Equity - reserves

	Consolidated 2016 $'000	Consolidated 2015 $'000
Foreign currency reserve	(8,727)	(1,052)
Share-based payments reserve	8,208	8,135
	(519)	7,083

Share-based payments - Employee benefits
This reserve is used to record the value of equity benefits provided to directors, employees and external service providers as part of their fees and remuneration.

Share-based payments - Acquisition of tenements
This reserve is used to record in equity the value of equity issued to the vendor of the Oyut Ulaan Project as part of the acquisition consideration.

Foreign currency translation reserve
This reserve is used to accumulate the changes in the value investments in subsidiaries that arise from changes in the exchange rates.

Other reserve
As at 31 December 2014, $786,947 were received in relation to the rights issue offer announced on 25 November 2014, which closed on 23 December 2014. New shares were allotted on 2 January 2015. Given the shares were issued in the financial year ended 31 December 2015 this amount was disclosed in other reserve at 31 December 2014.

Movements in reserves
Movements in each class of reserve during the current and previous financial period are set out below:

Consolidated	Share - based payments $'000	Foreign currency translation $'000	Other $'000	Total $'000
Balance at 1 January 2015	8,222	(794)	787	8,215
Share based payment - employee benefits	(87)	-	-	(87)
Foreign currency translation	-	(258)	-	(258)
Rights issue allotted during the year	-	-	(787)	(787)
Balance at 31 December 2015	8,135	(1,052)	-	7,083
Share-based payments - employee benefits	73	-	-	73
Foreign currency translation	-	(7,675)	-	(7,675)
Balance at 31 December 2016	8,208	(8,727)	-	(519)

Note 16. Equity - accumulated losses

	Consolidated 2016 $'000	Consolidated 2015 $'000
Accumulated losses at the beginning of the financial period	(59,067)	(54,729)
Loss after income tax expense for the period	(2,255)	(4,338)
Accumulated losses at the end of the financial period	(61,322)	(59,067)

Note 17. Equity - non-controlling interest

	Consolidated 2016 $'000	Consolidated 2015 $'000
Retained profits	4,643	4,280

Note 18. Equity - dividends

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

Note 19. Financial risk management objectives and policies

Financial risk management

The group's principal financial instruments comprise cash, short-term deposits, receivables, payables and loans. The main purpose of these financial instruments is to raise finance for its operations. The consolidated entity has financial instruments such as debtors and creditors, which arise directly from its operations.

The group manages its exposure to key financial risks in accordance with its risk management policy with the objective to ensure that the financial risks inherent in exploration activities are identified and managed accordingly.
The main financial risks that arise in the normal course of business for the group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. Management employs different methods to measure and mitigate the different risks to which the group is exposed. These include monitoring exposure to foreign exchange risk and assessments of market forecast for interest rate, foreign exchange and commodity prices. Liquidity risk is managed by development of rolling budgets and forecasts.

Primary responsibility for identification and control of financial risks lies with the Managing Director and Chief Financial Officer, under the authority of the Board. The Board is abreast of these risks and agrees any policies that may be implemented to manage the risks identified.

Market risk

Foreign currency risk

As a result of significant operations in Mongolia and the majority of expenditure being denominated in United States Dollars, the group's balance sheet can be affected significantly by movements in the USD and AUD exchange rates per MNT. The group seeks to mitigate the effect of its foreign currency exposure by holding part of its cash reserves in US Dollars.

The group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

The group's currency risk to USD foreign denominates financial assets and liabilities at the end of the reporting period, expressed in Australian Dollars, was as follows:

	Assets		Liabilities	
Consolidated	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cash and cash equivalents	5,291	319	-	-
Term loan - related party	-	-	3,813	3,782
Deferred acquisition consideration	-	-	-	3,842
	5,291	319	3,813	7,624

Note 19. Financial risk management objectives and policies (continued)

The following sensitivity is based on the interest rate risk exposures in existence at the balance date:

Consolidated - 2016	AUD strengthened % change	AUD strengthened Effect on profit before tax	AUD strengthened Effect on equity	AUD weakened % change	AUD weakened Effect on profit before tax	AUD weakened Effect on equity
AUD/USD	10%	(148)	(148)	(10%)	148	148

Consolidated - 2015	AUD strengthened % change	AUD strengthened Effect on profit before tax	AUD strengthened Effect on equity	AUD weakened % change	AUD weakened Effect on profit before tax	AUD weakened Effect on equity
AUD/USD	10%	731	731	(10%)	(731)	(731)

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Interest rate risk
The group’s exposure to market risk for changes in interest rates relates primarily to its cash held in variable interest accounts.

As at the reporting date, the group had the following cash and cash equivalents and variable rate borrowings outstanding:

Consolidated	2016 Weighted average interest rate %	2016 Balance $'000	2015 Weighted average interest rate %	2015 Balance $'000
Cash and cash equivalents	2.40%	8,277	2.40%	8,639
Interest bearing loans and borrowings	10.68%	(3,814)	10.23%	(3,782)
Net exposure to cash flow interest rate risk		4,463		4,857

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

The following sensitivity is based on the interest rate risk exposures in existence at the balance date:

Consolidated - 2016	Basis points increase Basis points change	Basis points increase Effect on profit before tax	Basis points increase Effect on equity	Basis points decrease Basis points change	Basis points decrease Effect on profit before tax	Basis points decrease Effect on equity
Net interest rate risk exposure	100	45	45	(100)	(45)	(45)

Consolidated - 2015	Basis points increase Basis points change	Basis points increase Effect on profit before tax	Basis points increase Effect on equity	Basis points decrease Basis points change	Basis points decrease Effect on profit before tax	Basis points decrease Effect on equity
Net interest rate risk exposure	100	49	49	(100)	(49)	(49)

The movements in post-tax profit are due to the movements in interest amounts from higher cash balances held that balance date in comparison to the prior period.

Note 19. Financial risk management objectives and policies (continued)

Credit risk
Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, and other receivables. The group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the group's policy to securitise its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant.

Liquidity risk
Liquidity risk arises from the group's management of working capital. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due.

The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least twelve months.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the group expected to have sufficient liquid resources to meet its obligations, and forward expenditure commitments, under all reasonably expected circumstances.

At balance date, financial liabilities include a term loan from a related party at an annual interest rate of 10.23% and repayable before 30 June 2017 and deferred consideration in relation to the acquisition of the Kharmagtai Project. There is no interest accruing on the deferred consideration liability.

Fair value
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 20. Key management personnel disclosures

Directors
The following persons were directors of Xanadu Mines Ltd during the financial period:

Mark Wheatley	Executive Chairman and Non-Executive Chairman from 24 October 2016
Andrew Stewart	Managing Director & Chief Executive Officer (appointed MD on 24 October 2014)
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Marcus Engelbrecht	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Barry Lavin	Independent Non-Executive Director

Other key management personnel
The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the group, directly or indirectly, during the financial period:

Munkhsaikhan Dambiinyam	Chief Financial Officer
Mathew Brown	Chief Geologist

Note 20. Key management personnel disclosures (continued)

Compensation
The aggregate compensation made to directors and other members of key management personnel of the group is set out below:

	Consolidated	
	2016 $	2015 $
Short-term employee benefits	1,176,664	1,456,458
Post-employment benefits	41,214	42,649
Share-based payments	249,084	168,390
	1,466,962	1,667,497

Note 21. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company:

	Consolidated	
	2016 $	2015 $
Audit services - Ernst & Young		
Audit or review of the financial statements - Australia	69,525	68,801
Audit or review of the financial statements - Singapore	8,311	12,586
Other services - Ernst & Young		
Tax services	1,000	5,124
	78,836	86,511

Note 22. Contingent liabilities

There are no material contingent liabilities relating to the Company and/or the Group.

Note 23. Commitments

Commitments in relation to exploration licences contracted at the reporting date, including regulatory charges such as license fees, but not recognised as liabilities within one year are $3.9 million (31 December 2015: $2.1 million). As the future exploration activity is in most cases dependent upon reserves being found it is not possible to set out the funds due to be contributed in more than one year's time.

No other commitments or contingencies existed at 31 December 2016.

Note 24. Related party transactions

Parent entity
Xanadu Mines Ltd is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 26.

Key management personnel
Disclosures relating to key management personnel are set out in note 20 and the remuneration report included in the directors' report.

Note 24. Related party transactions (continued)

Transactions with related parties
On 2 April 2014, the Company announced it had sold its 64% interest in the Ulaanbaatar office building to Ganbayar Lkhagvasuren a Director of the Company. The sale was for cash and a rent free period amounting to $677,636. The sale price was supported by an independent valuation. The rent free period expired on 30 November 2015. The Company paid rent totalling $139,249 in 2016 (2015: $12,938 being one month rent).

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

Loans to/from related parties
In the prior year, Noble Resources International Pte Ltd made a variable rate loan to Xanadu at LIBOR +10%. At 31 December 2016 the amount drawn down is $3,813,553 (31 December 2015: $3,782,000). The loan is due for repayment on 1 July 2017.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 25. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2016 $'000	2015 $'000
Loss after income tax	(8,658)	(1,593)
Total comprehensive income	(8,658)	(1,593)

Statement of financial position

	Parent	
	2016 $'000	2015 $'000
Total current assets	6,205	8,332
Total assets	36,221	32,898
Total current liabilities	58	6
Total liabilities	58	6
Equity		
Issued capital	93,964	82,108
Share-based payments reserve	8,208	8,135
Other reserves	256	256
Accumulated losses	(66,265)	(57,607)
Total equity	36,163	32,892

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The Company has entered into a guarantee for the obligations of Mongol Metals LLC in relation to the deferred consideration payable for the acquisition of the Kharmagtai Project.

Note 25. Parent entity information (continued)

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2016.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 31 December 2016.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the group, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 26. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

		Ownership interest	
	Principal place of business /	2016	2015
Name	Country of incorporation	%	%
Xanadu Exploration Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Metals Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Copper Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Mines Singapore Pte Ltd	Singapore	100.00%	100.00%
Khuiten Metals Pte Ltd	Singapore	100.00%	100.00%
Mongol Metals LLC	Mongolia	79.80%	71.20%
Vantage LLC	Mongolia	90.00%	90.00%
Oyut Ulaan LLC	Mongolia	90.00%	90.00%

Note 27. Events after the reporting period

On 27 January 2017, the Company announced the retirement of Chairman, Mark Wheatley, who will leave Xanadu at the Annual General Meeting in May 2017.

On 9 February 2017, pursuant to the Mongol Metals farm-in JV agreement, the shareholders of Mongol Metals JV resolved that the Company subscribe for shares in Mongol Metals to increase its shareholding from 79.8% to 82.4% in the JV.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Note 28. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2016 $'000	2015 $'000
Loss after income tax expense for the period	(2,131)	(4,373)
Adjustments for:		
Depreciation and amortisation	114	150
Share-based payments	249	190
Foreign exchange differences	1	87
Interest on loan capitalised	(20)	351
Other non-cash transactions	-	150
Gain on deferred consideration	(1,224)	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(11)	(168)
Increase/(decrease) in trade and other payables	50	(350)
Net cash used in operating activities	(2,972)	(3,963)

Note 29. Earnings per share

	Consolidated	
	2016 $'000	2015 $'000
Loss after income tax	(2,131)	(4,373)
Non-controlling interest	(124)	35
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(2,255)	(4,338)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	478,840,156	378,472,099
Weighted average number of ordinary shares used in calculating diluted earnings per share	478,840,156	378,472,099
	Cents	Cents
Basic earnings per share	(0.47)	(1.15)
Diluted earnings per share	(0.47)	(1.15)

Note 30. Share-based payments

The Xanadu Equity Incentive Plan was approved by shareholders at the Company's 2013 Annual Greeting Meeting ("Plan"). Under the Plan, the Board may grant options and share rights over ordinary shares in the Company to certain key management personnel of the group. The share rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Board. No options have been granted under this Plan.

Note 30. Share-based payments (continued)

Set out below are summaries of options granted under the plan:

31 December 2016

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other *	Balance at the end of the period
01/07/2011	30/06/2016	$0.00	1,000,000	-	-	(1,000,000)	-
01/07/2011	30/06/2016	$0.00	1,000,000	-	-	(1,000,000)	-
01/07/2011	30/06/2016	$0.00	1,000,000	-	-	(1,000,000)	-
			3,000,000	-	-	(3,000,000)	-

* Lapsed during the period.

31 December 2015

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
01/07/2011	30/06/2016	$0.60	1,000,000	-	-	-	1,000,000
01/07/2011	30/06/2016	$1.20	1,000,000	-	-	-	1,000,000
01/07/2011	30/06/2016	$1.80	1,000,000	-	-	-	1,000,000
			3,000,000	-	-	-	3,000,000

* Lapsed during the period.

All options were exercisable at the end of the financial year.

Set out below are summaries of share rights granted under the plan:

31 December 2016

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Vested and awarded	Expired/ forfeited/ other *	Balance at the end of the period
22/05/2013	23/05/2016	$0.00	600,000	-	(600,000)	-	-
22/11/2013	23/05/2016	$0.00	600,000	-	(600,000)	-	-
16/05/2014	28/02/2016	$0.00	1,250,000	-	-	(1,250,000)	-
28/11/2014	18/09/2017	$0.00	1,000,000	-	-	-	1,000,000
01/12/2014	01/06/2017	$0.00	700,000	-	(350,000)	-	350,000
23/12/2015	16/06/2018	$0.00	1,000,000	-	(333,333)	-	666,667
23/12/2016	23/12/2019	$0.00	-	1,800,000	-	-	1,800,000
			5,150,000	1,800,000	(1,883,333)	(1,250,000)	3,816,667

* Lapsed during the period.

Note 30. Share-based payments (continued)

31 December 2015

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Vested and awarded	Expired/ forfeited/ other	Balance at the end of the period
22/05/2013	23/05/2016	$0.00	1,800,000	-	(1,200,000)	-	600,000
22/11/2013	23/05/2016	$0.00	1,800,000	-	(1,200,000)	-	600,000
22/11/2013	26/02/2016	$0.00	4,000,000	-	(2,300,000)	(1,700,000)	-
16/05/2014	28/02/2016	$0.00	1,250,000	-	-	-	1,250,000
28/11/2014	18/09/2017	$0.00	1,000,000	-	-	-	1,000,000
01/12/2014	01/06/2017	$0.00	1,000,000	-	(300,000)	-	700,000
23/12/2015	16/06/2018	$0.00	-	1,000,000	-	-	1,000,000
			10,850,000	1,000,000	(5,000,000)	(1,700,000)	5,150,000

* Lapsed during the period.

Should the KMP remain employed with Xanadu at the date of vesting, the share rights will vest where the closing price or share price of Xanadu shares (as the case may be depending on the terms of issue) on consecutive trading days during the period exceeds the hurdle price. If hurdle price is not met, share rights get accumulated to a future vesting date until the expiry date where all unvested share rights lapse. Vesting conditions are as follows:

- 350,000 share rights which may vest on 1 June 2017 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1870;
- 1,000,000 share rights which may vest on 18 September 2017 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.3121.
- 333,333 share rights which may vest on 16 June 2017 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1755; and
- 333,334 share rights which may vest on 16 June 2018 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.2281.
- 600,000 share rights with may vest on 23 December 2017 if the volume weighted average price of shares for 20 consecutive days in the prior 12 month period exceeds $0.30;
- 600,000 share rights with may vest on 23 December 2018 if the volume weighted average price of shares for 20 consecutive days in the prior 12 month period exceeds $0.40; and
- 600,000 share rights with may vest on 23 December 2019 if the volume weighted average price of shares for 20 consecutive days in the prior 12 month period exceeds $0.50.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2016 and of its performance for the financial period ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Mark Wheatley

Mark Wheatley
Executive Chairman
24 March 2017

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Independent auditor's report to the members of Xanadu Mines Limited

Opinion

We have audited the financial report of Xanadu Mines Limited, including its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Company.

In our opinion:

the accompanying financial report of Xanadu Mines Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's consolidated financial position as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional* Accountants (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Going Concern

Why significant to the audit	How our audit addressed the matter
The Directors have concluded that in their opinion there are reasonable grounds to believe that the group has the ability to pay its debts as and when they fall due. Accordingly they have prepared the financial statements on a going concern basis. Estimated future cash flows, the availability of financing and the requirements of the Group's financiers have all been considered by the Directors in reaching this conclusion. The going concern assumption is fundamental to the basis of preparation of the financial statements. Accordingly, our consideration of this matter and the related disclosures was one of the most significant matters addressed by our audit.	We assessed the Group's cash flow model supporting the Directors' assessment that the Group continues to be a going concern, Our procedures included: ► considering the accuracy of exploration and evaluation expenditure commitments; ► assessed the basis for projected administration overhead costs. ► considered the impact of a range of cash flow sensitivities to the model and to the conclusion reached by the Directors ► challenged the sensitivities and stress testing that the Group performed on the going concern forecast ► assessed the possible mitigating actions identified by the Group in the event that actual cash flows are below forecast; and ► Assessed the consistency of the assumptions included within the going concern model with the statements related to future plans and commitments contained within the Annual Report and financial statements.

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2. Carrying value of capitalised exploration and evaluation

Why significant to the audit	How our audit addressed the matter
Capitalised exploration and evaluation assets are the Group's largest asset. The carrying value of exploration and evaluation assets is impacted by Xanadu Mines Limited's ability, and intention, to continue to explore their exploration assets. The results of exploration work also determines to what extent the mineral reserves and resources may or may not be commercially viable for extraction. Due to the quantum of this asset and the subjectivity involved in determining its carrying value, this is a key audit matter. Refer to Note 10 - Exploration and evaluation assets to the financial statements for the amounts held on the Balance sheet by the Group as at 31 December 2016 and related disclosure.	Our procedures to address the Group's assessment of the carrying value of exploration and evaluation assets included: ▸ considered the Company's right to explore in the relevant exploration area which included obtaining and assessing relevant documentation such as license agreements; ▸ considered the Group's intention to carry out significant exploration and evaluation activity in the relevant exploration area which included assessment of the Group's cash-flow forecast models, discussions with senior management and Directors as to the intentions and strategy of the Group; ▸ assessed the carrying value of assets where recent exploration activity in a given exploration license provided negative indicators as to the recoverability of other capitalised costs; ▸ assessed the commercial viability of results relating to exploration and evaluation activities carried out in the relevant licensed area; and ▸ assessed the ability to finance any planned future exploration and evaluation activity.

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Other information

The Directors of the Company are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 13 to 19 of the Directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Xanadu Mines Limited for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities
The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.
The engagement partner on the audit resulting in this independent auditor's report is Scott Jarrett.

Ernst + Young

Ernst & Young

Scott Jarrett
Engagement Partner
Sydney
24 March 2017

ASX Additional Information

Additional information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below. The information is current as at 10 March 2017.

(a) Substantial shareholders

The number of securities held by substantial shareholders and their associates, as disclosed to Xanadu and ASX are set out below:

	Fully Paid Ordinary Shares	
	Number of Shares	Percentage of Shares
CAAF Limited	134,028,606	26.22% [1]
Copper Plate Success Limited	134,028,606	26.22% [1]
Noble Resources International Pte. Ltd.	33,478,041	7.77% [3]
Fast Lane Australia Pty Ltd	25,495,829	5.73% [4]

1 As notified to Xanadu on 27 June 2016. CAAF Limited and Copper Plate Success Limited are associates as defined in the Corporations Act 2001 (Cth).
2 As notified to Xanadu on 24 June 2016.
3 As notified to Xanadu on 23 November 2015.
4 As notified to Xanadu on 5 January 2016.

(b) Number of security holders and securities on issue

Quoted securities

Xanadu has on issue 511,218,639 fully paid ordinary shares held by 960 shareholders.

Unquoted securities

Share rights
Xanadu has on issue 4,416,667 unquoted share rights with various vesting prices held by 7 right holders. For the purposes of ASX Listing Rule 4.10.7, each right holder holds more than 100,001 rights.

Options
Xanadu has on issue:
35,000,000 unquoted options with various exercise prices held by 1 option holder:

- 15,000,000 unquoted Series A options held by 1 option holder (Temujin Mining Corp). The issue of these options were approved by shareholders at Xanadu's 2013 Annual General Meeting; and
- 20,000,000 unquoted Series B options held by 1 option holder (Temujin Mining Corp). The issue of these options were approved by shareholders at Xanadu's 2013 Annual General Meeting.

For the purposes of ASX Listing Rule 4.10.7, each option holder holds more than 100,001 options.

(c) Voting rights

Ordinary shares

The voting rights attached to ordinary shares are that on a show of hands, every member present, in person or proxy, has one vote and upon a poll, each share shall have one vote.

Share rights

Share rights holders do not have any voting rights on the share rights held by them.

Options

Option holders do not have any voting rights on the options held by them.

ASX Additional Information

(d) Distribution of security holders

	Fully paid ordinary shares		
	Number of Holders	Number of Shares	Percentage of Shares
1 - 1,000	35	10,899	0%
1,001 - 5,000	172	579,149	0.11%
5,001 - 10,000	130	1,100,285	0.22%
10,001 - 100,000	427	16,898,587	3.31%
100,001 and over	196	492,629,719	96.36%
	960	511,218,639	100%

(e) Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 76. 2,273 shares comprise a marketable parcel at Xanadu's closing share price of $0.22 on 10 March 2017.

(f) Twenty largest shareholders of quoted equity securities

		Fully paid ordinary shares	
		Number of Shares	Percentage of Shares
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	80,639,080	15.77
2.	ASIA CAPITAL AND ADVISORS PTE LTD <COPPER PLATE SUCCESS LTD A/C>	66,756,241	13.06
3.	NOBLE RESOURCES INTERNATIONAL PTE LTD	39,884,228	7.80
4.	FAST LANE AUSTRALIA PTY LTD	30,600,000	5.99
5.	SAKARI ENERGY TRADING PTE LTD	24,642,332	4.82
6.	CM SUPER FUND PTY LTD <CAROL MCCOLL SUPER FUND A/C>	17,000,000	3.33
7.	MR GANBAYAR LKHAGVASUREN	16,558,329	3.24
8.	J P MORGAN NOMINEES AUSTRALIA LIMITED	16,207,081	3.17
9.	CITICORP NOMINEES PTY LTD	12,186,734	2.38
10.	BELFORT INVESTMENT ADVISORS LIMITED	11,369,431	2.22
11.	BELLARINE GOLD PTY LTD <RIBBLESDALE SUPER FUND A/C>	8,720,000	1.71
12.	EMSDALE HOLDINGS PTY LTD	8,331,500	1.63
13.	ROJO NERO CAPITAL PTY LTD	8,038,106	1.57
14.	MS JAN MEEK	7,900,000	1.55
15.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	6,900,673	1.35
16.	FARRINGTON CORPORATE SERVICES PTY LTD <FARRINGTON SUPER FUND A/C>	6,826,100	1.34
17.	BIKINI ATOLL INVESTMENTS PTY	5,260,000	1.03
18.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	4,147,744	0.81
19.	MR BRIAN MCCUBBING <B MCCUBBING SUPER FUND A/C>	4,123,616	0.81
20.	DR ANDREW LACHLAN STEWART	4,011,083	0.78
		380,102,278	**74.36%**

(g) On market buy-back

There is no current on market buy-back of Xanadu shares.

(h) Tenements held as at 10 March 2017

Area of Interest	Tenements	Location	Interest
Kharmagtai	MV17387A[1]	Omnogovi Province	74%
Oyut Ulaan	MV017129	Dornogovi Province	90%
Sharchuluut	13670x	Bulgan Province	100%

[1] The Kharmagtai project has been funded through Xanadu's interest in Mongol Metals LLC by a combination of equity and shareholder advances converted to equity periodically. Xanadu's interest in Mongol Metals LLC is equivalent to approximately 82.4% as at 10 March 2017 (an effective 74.1% interest in the Kharmagtai project).