XANADU MINES

2018 INTERIM REPORT

Xanadu Mines Ltd (ASX: XAM)

For the period ended 30 June 2018

Contents

General Information

The financial statements cover Xanadu Mines Ltd as a Group consisting of Xanadu Mines Ltd and the entities it controlled at the end of, or during, the period. The financial statements are presented in Australian Dollars, which is Xanadu Mines Ltd's functional and presentation currency.

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

Corporate Directory

Directors

Kevin Tomlinson	Independent Non-Executive Chairman
Andrew Stewart	Managing Director & Chief Executive Officer
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Marcus Engelbrecht	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Michele Muscillo	Independent Non-Executive Director

Company Secretary
Phil Mackey

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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
200 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

Management Discussion and Analysis

This report (referred to hereafter as the "MD&A") is management's assessment of the results and financial condition of Xanadu Mines Ltd (referred to hereafter as "Xanadu", the "Company", or "Group) and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended 31 December 2017. These general purpose financial statements for the interim reporting period ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting'.

Management is responsible for the preparation of the financial statements and this MD&A. Unless otherwise stated, all amounts discussed in this MD&A are denominated in **Australian dollars** ("$").

The information included in this MD&A is as of 13 September 2018 and all information is current as of such date.

PRINCIPAL ACTIVITIES

The principal activity of the entities within the Group during the period was the continued exploration on its mineral exploration projects in Mongolia.

REVIEW OF OPERATIONS

Xanadu continued to make significant inroads into its Mongolian copper and gold strategy over the six months. The Company controls one of the most promising porphyry copper and gold projects in Asia with the Kharmagtai project, and has a portfolio of advanced district-scale exploration projects including Red Mountain and Yellow Mountain (Figure 1).

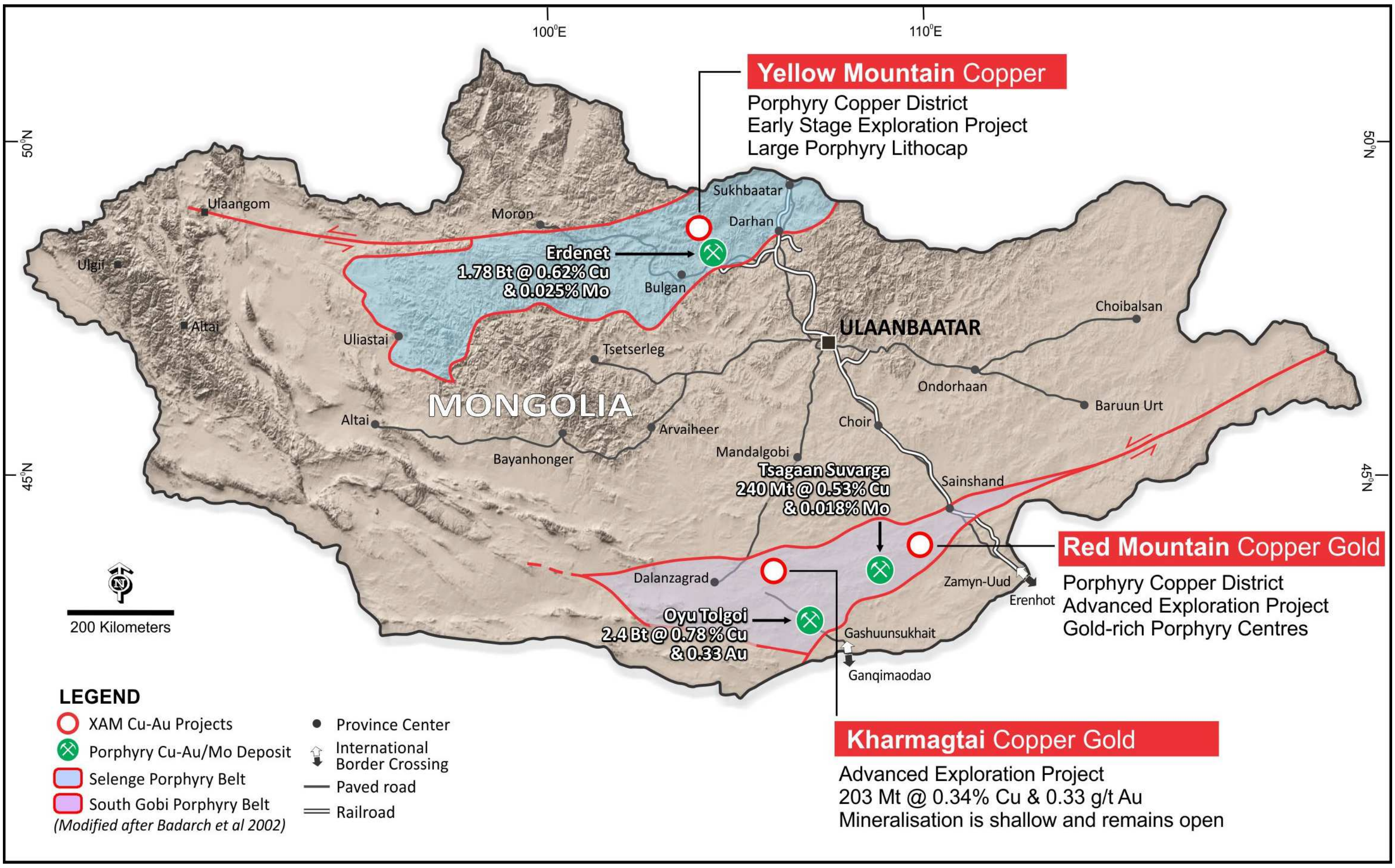

FIGURE 1: Location of Xanadu's copper-gold projects within Mongolia's highly mineralised and vastly underexplored mineral belts.

Xanadu's exploration programs, among the largest undertaken by a junior ASX-listed exploration company, are targeting discovery of additional copper-gold deposits on the Company's two core projects, Kharmagtai and Red Mountain.

Kharmagtai Copper-gold Project (Xanadu 76.5%)
The Kharmagtai copper-gold project is located within the South Gobi porphyry copper province of Mongolia, approximately 440km south-southwest of Ulaanbaatar and 120km north of Rio Tinto's Oyu Tolgoi copper-gold mine (Figure 2).

Activities during the period focused on targeting near-surface porphyry copper-gold deposits and the continuity of mineralisation below the current resources within this largely under-explored porphyry copper-gold district. Total of 29,742 metres of drilling were completed during the period including 20,371 metres of diamond, 5,600 metres of PCD and 3,771 metres of RC drilling.

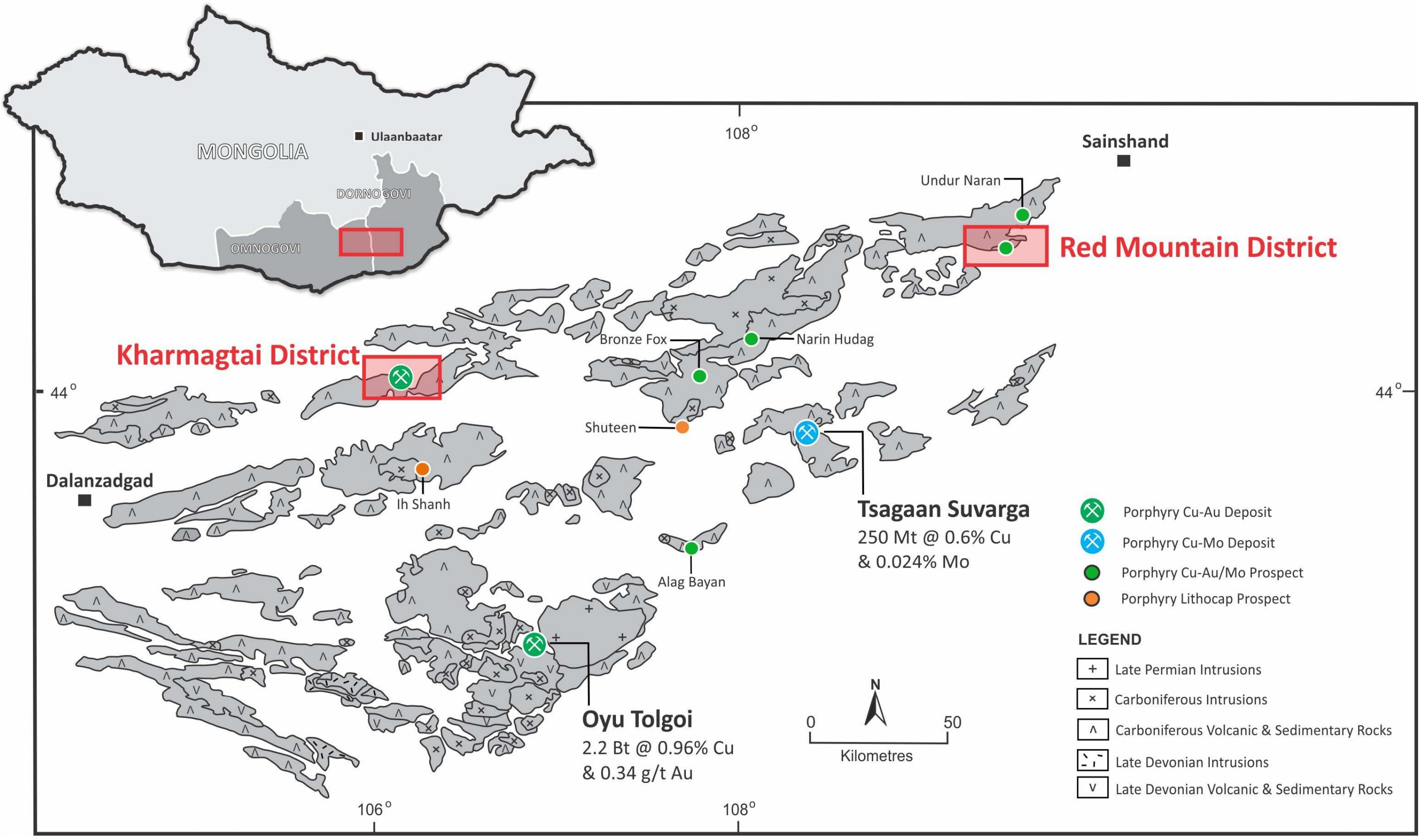

FIGURE 2: Location of Xanadu's copper-gold projects within Mongolia's South Gobi Copper Belt.

Discovery of a fourth large-scale porphyry centre with high-grade potential at Zaraa
Xanadu's aggressive 2018 drilling program, which was targeting the discovery of additional porphyry copper-gold centres undercover in the large underexplored Kharmagtai porphyry district, has proved to be highly successful with the discovery of the blind Zaraa porphyry copper-gold centre. New drilling at Zaraa supports the discovery of a fourth large-scale porphyry centre located approximately 2km east-southeast of the currently defined resources including Stockwork Hill, White Hill and Copper Hill (Figure 3).

Drilling has achieved a high hit rate to date with virtually every widely spaced drill hole at Zaraa encountering broad intervals (up to 920m) of near continuous strong porphyry copper-gold mineralisation (Figures 4 and 5). Much of this success can be attributed to the integrated use of geological and geochemical exploration, drilling information and advanced geophysical modelling which continues to provide an evolving insight into the geometry of copper and gold mineralisation and the potential source of intrusions. These new drilling results provide significant advances in our understanding of the Kharmagtai project and continues to indicate potential for a large-scale mineralised porphyry system alongside the established Mineral Resource and is transforming the Company's view of the growth potential of Kharmagtai.

FIGURE 3: Kharmagtai mining licence ground magnetic data and known porphyry deposits with newly confirmed porphyry systems and the location of holes drilled during the quarter.

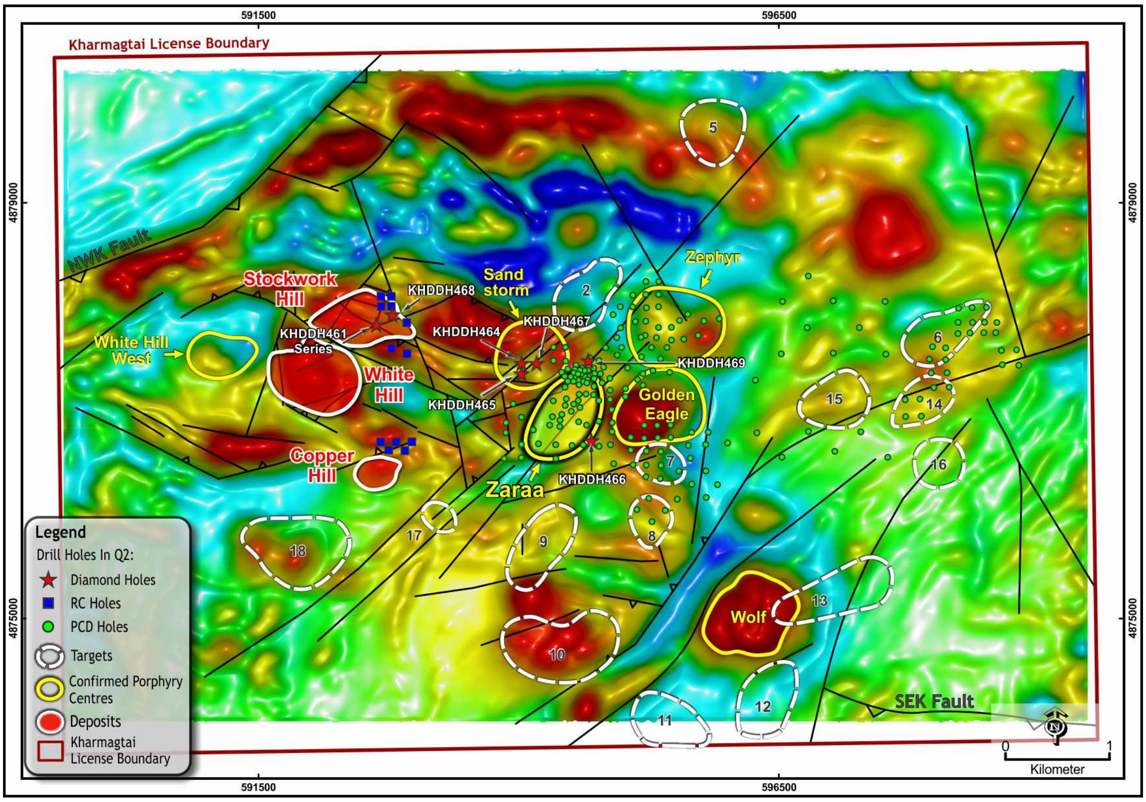

FIGURE 3: The Kharmagtai District showing ground magnetic data and location of the Kharmagtai Deposits (Stockwork Hill, White Hill, Copper Hill), porphyry centres, targets, location of Zaraa and current drilling.

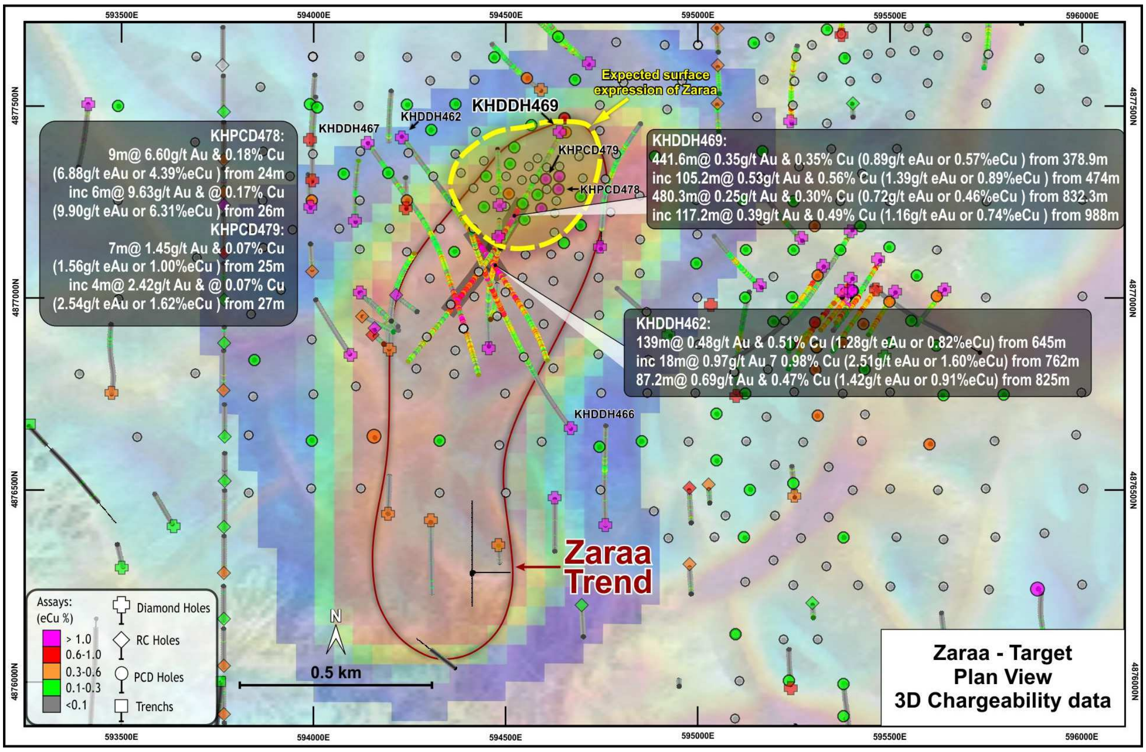

FIGURE 4: Plan view of the Zaraa discovery with 3D Induced polarisation.

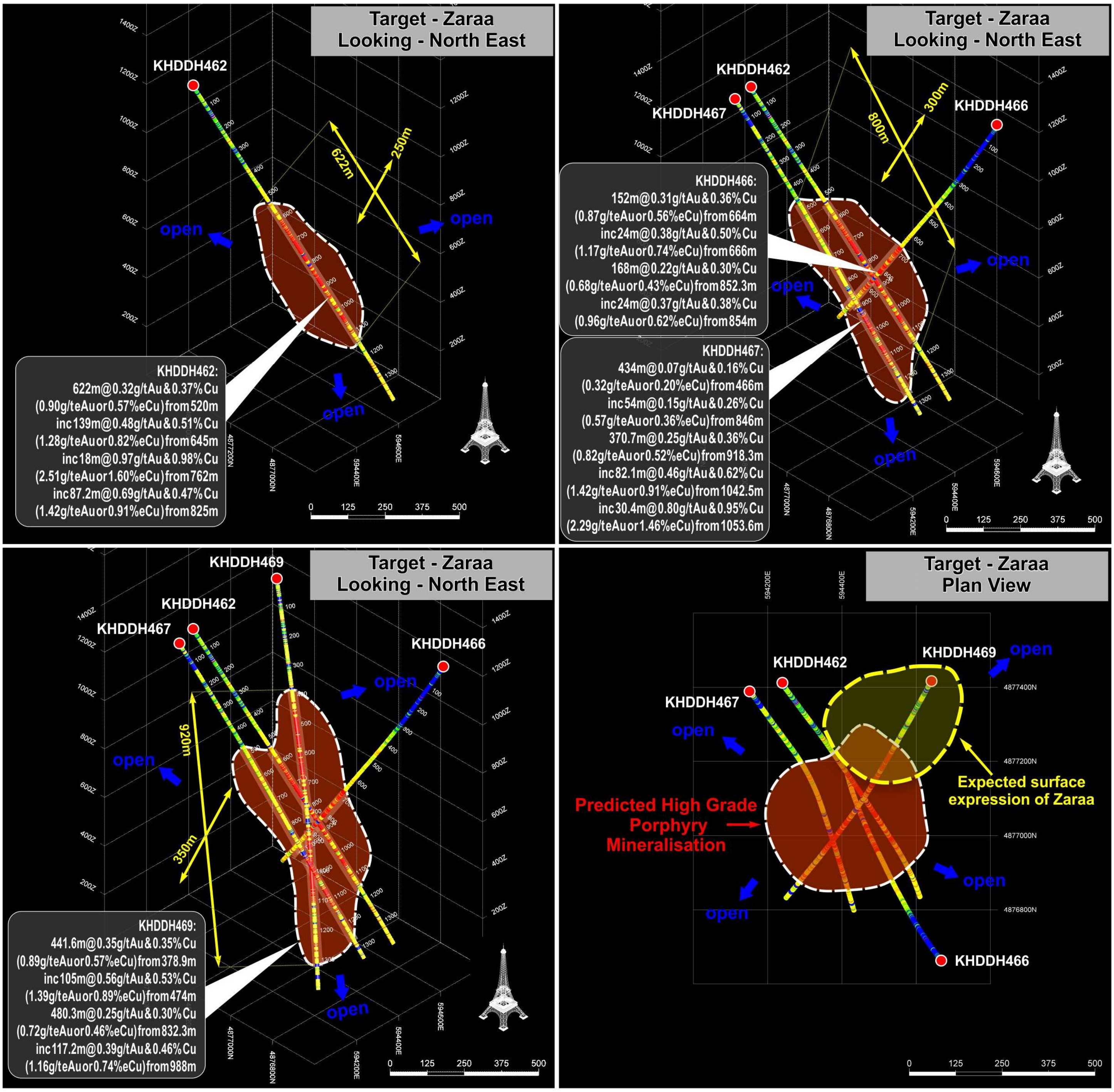

FIGURE 5: Zaraa porphyry growth after only four drill holes, with footprint and expected location of surface expression.

Diamond drill hole **KHDDH462** targeting a buried porphyry system encountered some 928m of porphyry style mineralisation.

KHDDH462 – 928.4m @ 0.30% Cu and 0.27g/t Au (0.47% eCu) from 458m
including 613.9m @ 0.37% Cu and 0.33g/t Au (0.58% eCu) from 557m
including 240m @ 0.42% Cu and 0.36g/t Au (0.64% eCu) from 557m
including 108m @ 0.47% Cu and 0.42g/t Au (0.73% eCu) from 645m
and 69m @ 0.51% Cu and 0.45g/t Au (0.79% eCu) from 825m.

This intercept is open at depth as drill hole KHDDH462 was terminated within +0.26% eCu mineralisation. The drill hole was terminated because geological data from the hole including vein densities, alteration and chalcopyrite percentages suggested drilling was very slowly passing out of the system and a decision was made to explore the nearer surface and along strike extensions before progressing to any significant depths.

Two additional drill holes were completed at Zaraa, expanding mineralisation towards the southwest (Figure 4).

KHDDH466 was collared approximately one kilometre southeast of discovery drill hole KHDDH462 and drilled toward the northwest. KHDDH466 entered mineralisation at 340 metres down hole (290m vertically from surface) at least 200 metres shallower than it was anticipated and drilled approximately 750 metres of moderate to strong porphyry mineralisation. Significant assays returned:

750m @ 0.22% Cu and 0.18g/t Au (0.33% eCu or 0.52g/t eAu) from 340m
including 152m @ 0.36% Cu and 0.31g/t Au (0.56% eCu or 0.87g/t eAu) from 664m
including 24m @ 0.50% Cu and 0.38g/t Au (0.74% eCu or 1.17g/t eAu) from 666m and 168m @ 0.30% Cu and 0.22g/t Au (0.43% eCu or 0.68g/t eAu) from 852m.

KHDDH467 was collared as a 100 metre step out to the west from the discovery hole (Figure 4). KHDDH467 entered mineralisation at 460 metres down hole (420m vertically from surface). KHDDH467 has extended Zaraa 280 metres towards the southwest. Significant assays returned:

370.7m @ 0.36% Cu and 0.25g/t Au (0.52% eCu or 0.82g/t eAu) from 918.3m
including 82m @ 0.62% Cu and 0.46g/t Au (0.91% eCu or 1.42g/t eAu) from 1,042m
including 30.4m @ 0.95% Cu and 0.80g/t Au (1.46% eCu or 2.29g/t eAu) from 1,053m.

Bringing Zaraa discovery to surface

Top of bedrock drilling has been very successful in delineating the near-surface expression of the Zaraa porphyry, which comprises a gold-rich cap. The surface expression was found from a significant geochemical anomaly which was identified from previous top of bedrock drilling. Two holes drilled at the predicted surface expression returned very high-grade results from shallow depths below the sand cover (Figure 4):

– KHPCD478 intersected 9m @ 6.60 g/t Au and 0.18% Cu (6.88 g/t eAu or 4.39% eCu) from 24m
  including 6m @ 9.63 g/t Au and 0.17% Cu (9.90 g/t eAu or 6.31% eCu) from 26m and

– KHPCD479 intersected 7m @ 1.45g/t Au and 0.07% Cu (1.56 g/t eAu or 1.00% eCu) from 25m
  including 4m @ 2.42 g/t Au and 0.07% Cu (2.54 g/t eAu or 1.62% eCu) from 27m.

The objective at Zaraa is to first define a large scale open pit resource, then step deeper towards the higher-grade underground potential.

Stockwork Hill Extensions

Three diamond drill holes were drilled into the Stockwork Hill deposit during the period and extended the new high-grade Southern Lobe Target towards Stockwork Hill and White Hill. Xanadu's interpretation of the data suggests that these deposits coalesce into a much larger deposit at depth.

– KHDDH468 was drilled on the eastern end of the Southern Lobe Target and returned 364.8m @ 0.28% Cu and 0.26g/t Au (0.45% eCu or 0.71g/t eAu) from 124.5m.

– KHDDH461 was drilled on the western margin of the Southern Lobe Target and returned 276m @ 0.35% Cu and 0.39g/t Au (0.60% eCu or 0.94g/t eAu) from 192m
  including 150m @ 0.48% Cu and 0.56g/t Au (0.84% eCu or 1.32g/t eAu) from 290m
  and 294.9m @ 0.22% Cu and 0.24g/t Au (0.37% eCu or 0.58g/t eAu) from 693.1m.

– KHDDH461A was drilled as a wedge hole off KHDDH461 and returned 309.6m @ 0.31% Cu and 0.41g/t Au (0.57% eCu or 0.89g/t eAu) from 414.4m
  including 158m @ 0.35% Cu and 0.42g/t Au (0.61% eCu or 0.96g/t eAu) from 508m.

Further drilling in the Southern Lobe target is planned in the coming period once the upgraded resource estimate for the Kharmagtai Project has been completed.

Red Mountain Copper-gold Project (Xanadu 90%)
The Red Mountain copper-gold project is located within the South Gobi porphyry copper province of Mongolia, approximately 420km south-southwest of Ulaanbaatar (Figure 1). This large and underexplored porphyry district (covering approximately 40km²) consists of multiple co-genetic porphyry copper-gold centres, mineralised tourmaline breccia pipes copper-gold/base metal magnetite skarns and epithermal gold veins.

Red Mountain has immense potential to contain multiple metalliferous deposits of various styles, which means it is a true district scale opportunity. No field work was conducted at Red Mountain during the period, however, Xanadu plans to conduct an exploration program in the coming period with field work (geological mapping) already commenced.

Corporate Activities
No significant corporate activities took place during the period other than the financing by way of placement.

Financing
On 27 June 2018, Xanadu successfully completed the bookbuild for a placement to domestic and international institutional and sophisticated investors raising approximately A$10 million ("Placement"). The Placement of approximately 58.8 million ordinary shares ("New Shares") was issued pursuant to Xanadu's 15% placement capacity in accordance with ASX Listing Rule 7.1. Participants in the Placement will also receive 1 free attaching unlisted option for every 2 shares subscribed with a strike price of A$0.25 and two (2) year term ("Options"). The Company will issue approximately 29.4 million unlisted options. New Shares rank equally with the Company's existing ordinary shares. The issue price pursuant to the Placement was A$0.17 per New Share ("Issue Price").

Proceeds from the Placement will be used to complete resource drilling at the Kharmagtai Open Pit and proceed with a scoping study, continuing exploration at Kharmagtai and Red Mountain projects, and general working capital.

Business Risks
A summary of the business risks are highlighted below and should be read in conjunction with the Company's audited annual report for the year ended 31 December 2017.

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

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

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

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

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

Liquidity and Financing Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The primary source of funds available to the Company is from equity financing. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis, to support its exploration plans, and to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions.

The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfill its obligations under any applicable agreements. Disruptions in the capital and credit markets as a result of uncertainty, geo-political events, changing or increased regulation of financial institutions, reduced alternatives or failures of significant financial institutions could adversely affect the Company's access to the liquidity needed for the business in the longer term. Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of the Company's properties.

Metal Prices Risk
Even if commercial quantities of mineral deposits are discovered, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any minerals discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including, among other things, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The Company is particularly exposed to the risk of movement in the price of copper and gold.

Foreign Currency Fluctuations Risk
The Company is exposed to foreign exchange fluctuations with respect to A$, US$, MNT, and C$. The Company's financial results are reported in A$. Salaries for certain local employees in Mongolia may be paid in MNT. The Company's operations are in Mongolia and some of its payment commitments and exploration expenditures under the various agreements governing its rights are denominated in MNT and US$. As a result, the Company's financial position and results are impacted by the exchange rate fluctuations among A$, US$, MNT and C$. Such fluctuations may materially affect the Company's financial position and results.

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

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

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

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

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

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

RESULTS OF OPERATIONS

The six month ended 30 June 2018 (referred to hereafter as the "period") compared with the period ended 30 June 2017.

Operating Results

The Company realised a loss after income tax of $3.3 million for the period (corresponding period to 30 June 2017: $1.6 million) and total net assets of $55.0 million as at 30 June 2018 (corresponding period to 31 December 2017: $45.8 million). The increase in expenses was largely due to recognising $1.4 million share-based payment expenses amortised for the equity incentive plan approved at the Company's Extraordinary General Meeting held on 16 November 2017. Refer to Note 4 of the financial statements for comparative details on operating expenses.

Exploration Expenditure

Total capitalised expenditures on exploration and evaluation assets as at 30 June 2018 were $44.1 million compared to $37.1 million at 31 December 2017. The Company's exploration expenditure was $5.3 million during the period which gave the increase to the capitalised exploration asset. In addition foreign currency exchange differences of $1.6 million were recognised to the capitalised exploration asset. Total of 29,742 metres of drilling were completed during the period including 20,371 metres of diamond, 5,600 metres of PCD and 3,771 metres of RC drilling.

Capital Management and Liquidity

The Company's cash position was $10.8 million as at 30 June 2018 (corresponding period to 31 December 2017: $9.1 million). On 20 June 2018, the Company successfully raised $10 million from a placement to domestic and international institutional and sophisticated investors. Proceeds from the Placement will be used to complete resource drilling at the Kharmagtai Open Pit and proceed with a scoping study, continuing exploration at Kharmagtai and Red Mountain projects, and general working capital.

The Company has no history of revenues from its operating activities and the Company has financed its activities by raising capital through equity issuances. Given the nature of the Company's current activities, it will remain dependant on equity funding in the short to medium term until such time as the Company becomes self-financing from the commercial production of mineral resources.

Share Capital

As at 30 June 2018, the Company had 648,044,131 fully paid shares, 20,000,000 performance rights, 29,411,759 unlisted options and 35,000,000 options issued pursuant to the Red Mountain acquisition terms.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

No other matter or circumstance has arisen since 30 June 2018 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.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order 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 immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors,

K. M. [signature]

Kevin Tomlinson
Non-Executive Chairman

13 September 2018

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

As lead auditor for the review of Xanadu Mines Limited for the half-year ended 30 June 2018, 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 review; and

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

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

Ernst & Young

Scott Jarrett
Partner
13 September 2018

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Consolidated 6 months ending 30 June 2018 $'000	Consolidated 6 months ending 30 June 2017 $'000
Other income		5	15
Expenses			
Depreciation and amortisation expense		(44)	(49)
Other expenses	4	(3,388)	(1,377)
Finance costs		(16)	(202)
Revaluation gain on financial assets at fair value through profit or loss		120	-
Loss before income tax expense		(3,323)	(1,613)
Income tax expense		-	-
Loss after income tax expense for the period		(3,323)	(1,613)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		1,767	(86)
Total comprehensive income for the period		(1,556)	(1,699)
Loss for the period is attributable to:			
Non-controlling interest		(39)	57
Owners of Xanadu Mines Ltd		(3,284)	(1,670)
		(3,323)	(1,613)
Total comprehensive income for the period is attributable to:			
Non-controlling interest		(62)	212
Owners of Xanadu Mines Ltd		(1,494)	(1,911)
		(1,556)	(1,699)
		Cents	Cents
Basic earnings per share	12	(0.56)	(0.33)
Diluted earnings per share	12	(0.56)	(0.33)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	Consolidated 30 June 2018 $'000	Consolidated 31 December 2017 $'000
Current assets			
Cash and cash equivalents		10,851	9,065
Financial assets at fair value through profit or loss		220	100
Prepayment and other assets		29	5
Other receivables	5	495	498
Total current assets		11,595	9,668
Non-current assets			
Property, plant and equipment		400	388
Deferred exploration expenditure	6	44,134	37,157
Total non-current assets		44,534	37,545
Total assets		56,129	47,213
Current liabilities			
Trade and other payables		938	1,262
Total current liabilities		938	1,262
Non-current liabilities			
Other non-current liabilities		152	159
Total non-current liabilities		152	159
Total liabilities		1,090	1,421
Net assets		55,039	45,792
Equity			
Issued capital	7	117,886	108,452
Reserves		646	(2,513)
Accumulated losses		(68,448)	(65,164)
Equity attributable to the owners of Xanadu Mines Ltd		50,084	40,775
Non-controlling interest		4,955	5,017
		55,039	45,792

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Consolidated 6 Months ended 30 June 2018 $'000	Consolidated 6 Months ended 30 June 2017 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(2,044)	(1,396)
Interest received		5	10
Interest and other finance costs paid		(16)	(202)
Net cash used in operating activities		(2,055)	(1,588)
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		-	30
Payment for exploration and evaluation expenditure		(5,729)	(2,096)
Net cash used in investing activities		(5,729)	(2,066)
Cash flows from financing activities			
Proceeds from issue of shares	7	10,000	-
Transaction costs on issue of shares	7	(566)	-
Net cash from financing activities		9,434	-
Net increase/(decrease) in cash and cash equivalents		1,650	(3,654)
Cash and cash equivalents at the beginning of the financial period		9,065	8,277
Effects of exchange rate changes on cash and cash equivalents		136	(223)
Cash and cash equivalents at the end of the financial period		10,851	4,400

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Consolidated	Issued capital $'000	Other reserves $'000	Foreign currency translation reserve $'000	Transactions with owners Reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2017	93,963	8,209	(8,727)	-	(61,322)	4,643	36,766
Profit/(loss) after income tax expense for the period	-	-	-	-	(1,670)	57	(1,613)
Other comprehensive income for the period, net of tax	-	-	(241)		-	155	(86)
Total comprehensive income for the period	-	-	(241)	-	(1,670)	212	(1,699)
Transactions with owners in their capacity as owners:							
Share-based payments	-	11	-	-	-	-	11
Balance at 30 June 2017	93,963	8,220	(8,968)	-	(62,992)	4,855	35,078

Consolidated	Issued capital $'000	Other reserves $'000	Foreign currency translation reserve $'000	Transactions with owners reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2018	108,452	8,534	(11,047)	-	(65,164)	5,017	45,792
Loss after income tax expense for the period	-	-	-	-	(3,284)	(39)	(3,323)
Other comprehensive income for the period, net of tax	-	-	1,790	-	-	(23)	1,767
Total comprehensive income for the period	-	-	1,790	-	(3,284)	(62)	(1,556)
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs (note 7)	9,434	-	-	-	-	-	9,434
Share-based payments	-	1,369	-	-	-	-	1,369
Other			537	(537)	-	-	-
Balance at 30 June 2018	117,886	9,903	(8,720)	(537)	(68,448)	4,955	55,039

Notes to the Interim Financial Statements

Note 1. Corporate information

Xanadu Mines Ltd ("the Company") was incorporated on 12 May 2005 and is the ultimate holding company for the Xanadu group ("Group"). The unaudited financial report of the Company and its controlled entities are for the period ended 30 June 2018. The nature of the operations and principal activities of the group are described in the review of operations.

Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

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, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended AASB Standards that are mandatory for the applicable annual reporting periods. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

<u>AASB 9 Financial Instruments</u>

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. This standard applies to annual reporting periods beginning on or after 1 January 2018. The Company has applied the new standard for the current unaudited interim financial statements for the six months ended 30 June 2018, and there has been no material impact.

<u>AASB 15 Revenue from Contracts with Customers</u>

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. This standard applies to annual reporting periods beginning on or after 1 January 2018. The Company has no revenue and the application of the new standard for the current unaudited interim financial statements for the six months ended 30 June 2018, had no impact.

<u>AASB 16 Leases</u>

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 will be required to measure right-of-use assets in a manner similar to how other non-financial assets, lease liabilities and other financial liabilities are measured. 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 company is in the process of determining the potential impact of the new standard on the Company's financial report. This standard applies to annual reporting periods beginning on or after 1 January 2019.

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

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; and

Note 2. Significant accounting policies (continued)

– 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 Company has applied the new standard for the current interim financial statements for the six months ended 30 June 2018, and there has been no material impact.

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; 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 expenses

	Consolidated	
	6 months ending 30 June 2018 $'000	6 months ending 30 June 2017 $'000
Other expenses		
Administration expenses	1,018	346
Wages and management fees	1,001	1,019
Share-based payments	1,369	12
	3,388	1,377

Note 5. Current assets - Other receivables

	Consolidated	
	30 June 2018 $'000	31 December 2017 $'000
Sundry debtors	65	83
GST / VAT recoverable	430	415
	495	498

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 6. Non-current assets - Deferred exploration expenditure

	Consolidated	
	30 June 2018 $'000	31 December 2017 $'000
Deferred exploration expenditure	44,134	37,157

Reconciliations

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

Consolidated	Exploration & Evaluation $'000
Balance at 1 January 2018	37,157
Expenditure during the period	5,309
Exchange differences	1,668
Balance at 30 June 2018	44,134

Note 7. Equity - issued capital

	Consolidated			
	30 June 2018 Shares	31 December 2017 Shares	30 June 2018 $'000	31 December 2017 $'000
Ordinary shares	648,044,131	588,687,267	117,886	108,452

Details	Date	Shares		$'000
Balance	1 January 2018	588,687,267		108,452
Shares issued - Equity Incentive Plan	19 April 2018	200,000	$0.00	-
Shares issued - Placement	27 June 2018	58,823,530	$0.17	10,000
Shares issued - Equity Incentive Plan	27 June 2018	333,334	$0.00	-
Transaction costs		-	$0.00	(566)
Balance	30 June 2018	648,044,131		117,886

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 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.

Note 8. Equity - dividends

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

Note 9. Net fair values

Fair value estimation

The fair value of financial assets and financial liabilities are the equivalent of the net carrying amount as the financial assets and financial liabilities are short-term instruments. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values have been determined based on the following methodologies:

- Investments in listed shares with reference to the share price at the period end.
- Other receivables, trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.
- Trade and other payables exclude amounts provided for relating to annual leave which is not considered a financial instrument.

Fair value hierarchy
The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated - 30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Ordinary shares - Aspire Mining Limited (ASX: AKM)	220	-	-	220
Total assets	220	-	-	220

Consolidated - 31 December 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Ordinary shares - Aspire Mining Limited (ASX: AKM)	100	-	-	100
Total assets	100	-	-	100

There were no transfers between levels during the financial period.

Note 10. Transactions with related parties
Transactions with related parties are disclosed in Note 25 to the most recent audited annual report dated 31 December 2017. The following updates are disclosed to the period ended 30 June 2018.

Transactions with related parties
On 2 January 2017, the Company relocated its Ulaanbaatar office and entered into a rental agreement with Ganbayar Lkhagvasuren, a Director of the Company. The transaction between related parties is on normal commercial terms and conditions no more favourable than those available to other parties that are arm's length. The company paid rent totalling $44,214 for the period end 30 June 2018 ($7,369 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.

Note 11. Events after the reporting period
No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 12. Earnings per share

	Consolidated	
	6 Months ended 30 June 2018 $'000	**6 Months ended 30 June 2017 $'000**
Loss after income tax	(3,323)	(1,613)
Non-controlling interest	39	(57)
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(3,284)	(1,670)

	Number as at 30 June 2018	Number as at 30 June 2017
Weighted average number of ordinary shares used in calculating basic earnings per share	590,075,264	511,218,639
Weighted average number of ordinary shares used in calculating diluted earnings per share	590,075,264	511,218,639
	Cents	**Cents**
Basic earnings per share	(0.56)	(0.33)
Diluted earnings per share	(0.56)	(0.33)

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Kevin Tomlinson
Non-Executive Chairman

13 September 2018

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Independent Auditor's Review Report to the Members of Xanadu Mines Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Xanadu Mines Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Building a better working world

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Scott Jarrett
Partner
Sydney
13 September 2018