XANADU MINES

2019 INTERIM REPORT

Xanadu Mines Ltd (ASX: XAM)

For the half-year ended 30 June 2019

Corporate Directory

Directors

Darryl Clark	Independent Non-Executive Chairman (appointed Chairman 30 April 2019)
Andrew Stewart	Chief Executive Officer
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Michele Muscillo	Independent Non-Executive Director

Company Secretary
Phil Mackey

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c/o Company Matters Pty Limited
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Sydney NSW 2000
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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
200 George Street
Sydney, NSW 2000

Stock Exchange Listings

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

ABN 92 114 249 026

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 six month period ended 30 June 2019.

DIRECTORS

The following persons were directors of Xanadu Mines Ltd during the whole of the half year and up to the date of this report, unless otherwise stated:

Darryl Clark	Independent Non-Executive Chairman (appointed Chairman 30 April 2019)
Andrew Stewart	Chief Executive Officer
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Michele Muscillo	Independent Non-Executive Director
Kevin Tomlinson	Independent Non-Executive Chairman (ceased 30 April 2019)
Marcus Engelbrecht	Non-Executive Director (ceased 30 April 2019)

PRINCIPAL ACTIVITIES

Xanadu is an Australian and Canadian listed public company with its shares traded on the Australian Securities Exchange ("ASX") and Toronto Stock Exchange ("TSX) under the symbol "XAM". Xanadu 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 located in Mongolia. The principal activity of Xanadu and its subsidiaries during the period was the continued exploration on its mineral exploration project, Kharmagtai.

REVIEW OF OPERATIONS

HIGHLIGHTS DURING THE PERIOD

Kharmagtai open pit scoping study completed

- The Scoping Study confirmed the Company's strategy to explore for high-value large copper porphyry systems in Mongolia;
- Based on results, the Company will progress additional drilling at the project and proceed with more advanced mining studies;
- The Scoping Study focussed on open pit mining only and should be considered an interim study – leaving a great deal of potential upside development opportunity; and
- The Scoping Study identified important opportunities for further upside both from extending the life of the open pit mine, assessing higher-grade underground options and evaluating oxide gold potential near surface at several locations.

Significant new zone of bornite gold-rich porphyry mineralisation at Stockwork Hill

- Drill hole KHDDH488 discovered a significant new zone of high-grade mineralisation outside the current open pit resource returning:
  - KHDDH488 returns **126m @ 0.88% Cu & 1.39g/t Au (1.77% eCu or 2.77g/t eAu) from 550m;**

    including **78m @ 1.14% Cu & 2.06g/t Au (2.45% eCu or 3.85g/t eAu) from 594m**;
  - KHDDH488a returns **102m @ 0.55% Cu & 0.72g/t Au (1.01% eCu or 1.58g/t eAu) from 260.5m; and**
  - KHDDH488b returns **127m @ 0.6% Cu & 0.81g/t Au (1.12% eCu or 1.75g/t eAu) from 243.1m.**

Excellent oxide gold recoveries at Kharmagtai complement existing copper-gold resources

- Excellent gold recoveries up to 92.56% achieved in gravity and leach tests for Golden Eagle;

- The exploration target confirms the presence of a substantial oxide gold system measuring approximately ~500m in strike and up to 375m in width at surface, which is mineralised to at least 200m depth and remains open;
- Seven other zones also contained significant shallow oxide gold mineralisation and provide project optionality and support for the Company's ongoing exploration strategy at Kharmagtai;
- Oxide gold may provide additional and or alternative options for the development of the project; and
- Further development of metallurgical performance will be targeted with additional test work.

Potential low-cost, high-value oxide gold project being pursued

- Potential for a shallow oxide gold project at Kharmagtai to help fund further development and exploration;
- Oxide gold caps over existing deposits and Golden Eagle being assessed;
- Initial drill program designed to test tenor and gold deportment at Stockwork Hill oxide cap;
- Current work will provide decision point for advancing an oxide gold project.

Corporate activities

- The Company announced a Board reorganisation with two London based directors, Kevin Tomlinson and Marcus Engelbrecht, standing down from the Board and Melbourne based Darryl Clark being appointed to the position of Non-Executive Chairman. Chief Executive Officer, Andrew Stewart, currently based in Mongolia, will be relocated to Australia.
- Subsequent to period-end, the Company completed capital raising of $3.3 million (before costs) through a 1-for-10 non-renounceable Rights Issue at $0.052 per new share issued.

Kharmagtai Copper-Gold Project

The Kharmagtai copper-gold project is located within the South Gobi porphyry copper province of Mongolia, approximately 440 km south-southwest of Ulaanbaatar and 120 km north of Rio Tinto's Oyu Tolgoi copper-gold mine (Figure 1). Access from the capital to Kharmagtai is via sealed highway for 450 km and then for 70 km along a well-used gravel road. Activities during the quarter ended 31 March 2019 focused on completion of the first open pit Scoping Study at Kharmagtai, metallurgical test work on oxide gold mineralisation at Golden Eagle, diamond drilling at Stockwork Hill to expand the high-grade bornite zone and drilling to expand the White Hill Deposit. A total of 3,618.5 metres of diamond drilling was conducted at Kharmagtai during the quarter within four drill holes (Figure 2).

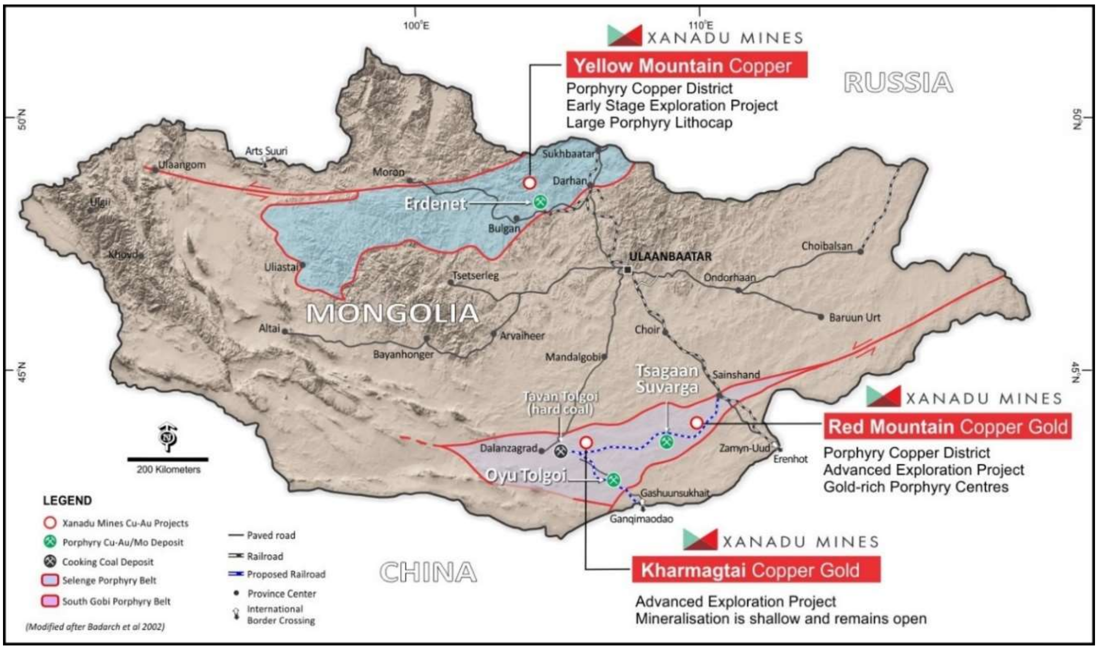


FIGURE 1: Location of the Kharmagtai project in the South Gobi porphyry copper belt.

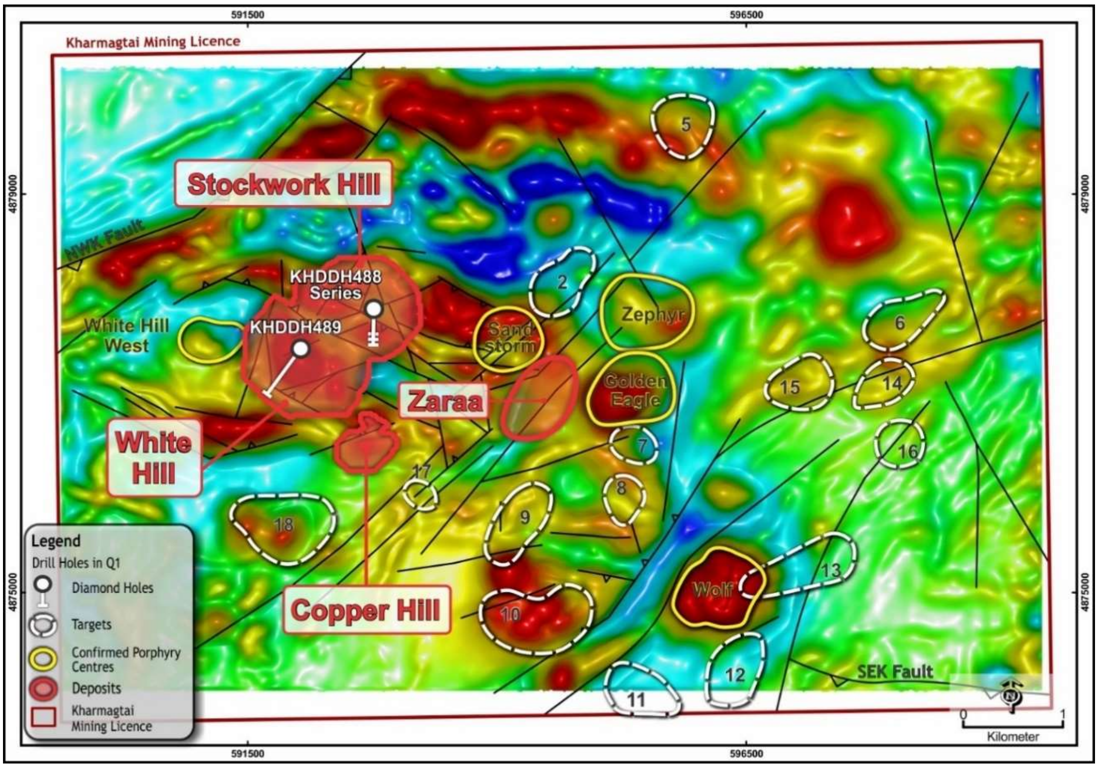


FIGURE 2: The Kharmagtai District showing ground magnetic data and location of the Kharmagtai Deposits (Stockwork Hill, White Hill and Copper Hill), porphyry centres, targets and location of drilling during Q1 2019.

Summary - Kharmagtai open pit project

The Scoping Study commissioned to assess the economic viability of the near-surface copper and gold mineralisation from the Company's Kharmagtai project in Mongolia. The Scoping Study is based upon the current Indicated and Inferred Mineral Resources.

The Study was commissioned to assess the potential economics of a standalone open cut mine accessing value from the Mineral Resource Estimate as it now exists and does not consider any value that may be generated using underground mining techniques, or oxide gold potential (refer to Xanadu's ASX/TSX announcement dated March 20, 2019) nor from possible expansion in the resource stemming from the current evaluation drilling programmes. The project economics are highly encouraging and highlight Xanadu's Kharmagtai project's potential to become a robust, high margin, rapid payback, long life and low strip ratio copper-gold mine in Mongolia at 10-year average copper and gold prices.

The Scoping Study was prepared by CSA Global Pty Ltd ("CSA Global") with input from reputable industry consultants O2 Mining Limited and the Company. The findings of the Scoping Study are positive with a recommendation that the project be progressed to the Preliminary Feasibility Study (PFS) level. The Scoping Study suggests that mining could occur in three deposit areas; Stockwork Hill, Copper Hill and White Hill. These deposits have been optimised using the Lerch-Grossman algorithm and it is planned that mining will initially be undertaken as three separate pits but will ultimately result in two large open pits (Figure 3). The optimised open pit designs extend to a maximum vertical depth of approximately 380m and the largest final pit (Stockwork Hill and White Hill combined) would be 2.1 km in length and 1.3 km in width. The project was modelled assuming a processing facility of 20 million tonnes per annum ("Mtpa") capacity would be constructed at site to process the mineralisation.

The Scoping Study is based on Indicated Mineral Resources and Inferred Mineral Resources. It should be noted there is a low level of geological confidence associated with Inferred Mineral Resources and there is no certainty that further exploration work will result in the determination of Indicated Mineral Resources or that the production target will be realised. The Kharmagtai open pit Scoping Study indicates there is the potential to economically extract approximately 51% of mineralisation from within the Indicated and Inferred Mineral Resources (refer to Xanadu's ASX/TSX Announcement dated October 31, 2018) using open cut mining and the material assumptions (Table 1) used in the Scoping Study. The Company notes that all three currently defined deposits are open at depth and along strike and are the subject of current and planned drilling programs.

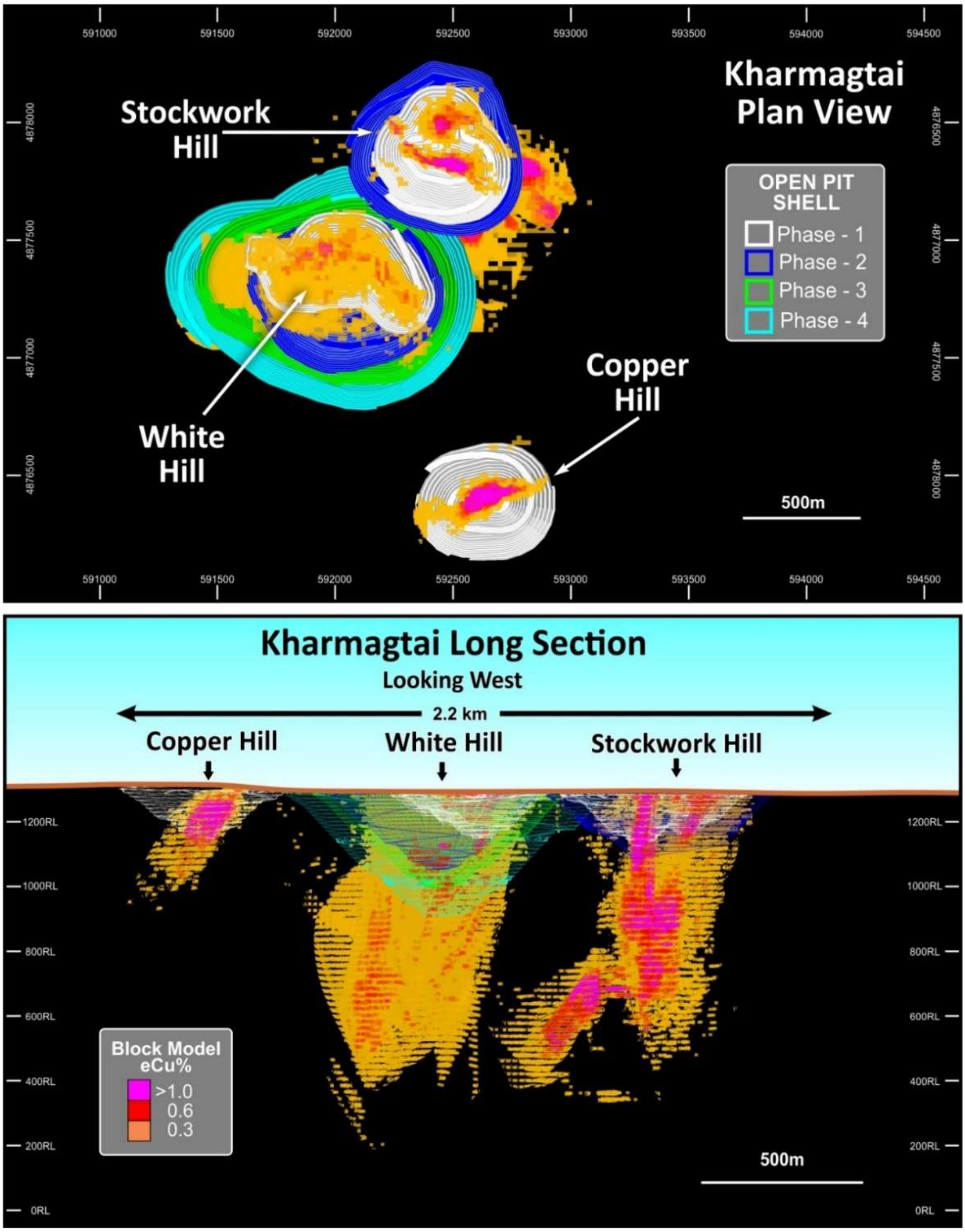


FIGURE 3: Open Pit design from 2019 Scoping Study (colour coded by phase).

Table 1: Key Scoping Study Input Assumptions

Parameters	**Units**	**Estimated Values**
Processing		
Maximum processing constraint	Mtpa	20
Metal Recovery		
Copper (average)	%	86.6
Gold (average)	%	70.9
Concentrate transport cost	US$/t	25
Payablity Cu	%	96
Payability Au	%	90
Smelting Charge Cu	US$.dmt	90
Refining Charge Au	US$/Payable Oz	5
Preproduction Capital Cost Estimates		
Open pit mining capital (mining fleet, pre-strip)	US$ million	115
Surface Infrastructure (camp, workshop, power, magazine, water, tailings)	US$ million	61
Processing	US$ million	209
Indirects (owner cost, EPCM)	US$ million	44
Contingency	US$ million	55
Total Initial Capital	**US$ million**	**484**
Sustaining Capital	US$ million	194
Environmental	US$ million	5
Total Capital	**US$ million**	**683**

NOTES:

1. Estimates are based upon the Kharmagtai open pit mining operations only. The Scoping Study excludes the production potential from the Zaara copper-gold deposit, Golden Eagle Oxide, underground sources of mineable material, and further near surface open pit resources.
2. Estimates presented in Table 1 are on the basis of a 100% project interest. Xanadu holds a 76% participating interest in the project through a contractual joint venture.
3. The Mineral Resource Estimate reported in accordance with JORC (2012) and NI 43-101 and announced by the Company on October 31, 2018 forms the basis of the mining and financial estimates referred to in the Announcement.
4. Technical and economic estimates in the Scoping Study are based on low level technical and economic assessments (+/- 35% accuracy) that are not sufficient to support the estimation of Ore Reserves.

Extension to the Stockwork Hill deposit discovered

Drilling is targeting mineralisation below chalcopyrite-gold mineralisation to test for a higher-grade bornite core in the root zones for the causative porphyry intrusion (Figure 4). High-grade mineralisation may manifest as bornite-gold-cemented breccia or as bornite-gold stockwork mineralisation in the causative intrusive. Significant drill hole intersections from assay results received are summarised in Tables 4 and 5.

Drill hole KHDDH488 has returned:

352m @ 0.41% Cu & 0.58g/t Au (0.78% eCu or 1.22g/t eAu) from 448m;

***including* 102m @ 1.00% Cu and 1.67g/t Au (2.06% eCu or 3.23g/t eAu) from 572m;**

***including* 78m @ 1.14% Cu and 2.06g/t Au (2.45% eCu or 3.85g/t eAu) from 594m;**

***including* 14m @ 1.51% Cu and 3.36g/t Au (3.66% eCu or 5.73g/t eAu) from 622m; and**

***and* 10m @ 2.24% Cu and 5.28g/t Au (5.60% eCu or 8.78g/t eAu) from 658m.**

Wedge drill hole (KHDDH488A) was collared at a depth of 299m down KHDDH488 targeting the same zone of high-grade mineralisation approximately 50m vertically above KHDDH488. KHDDH488A encountered the gold rich zone (where Au:Cu is greater than 2) from 321.5m downhole returning **102m @ 0.55% Cu and 0.72g/t Au (1.01% eCu or 1.58g/t eAu) from 260.5m**.

A second wedge hole (KHDDH488B) was collared at 306m down hole within KHDDH488. This returned **127m @ 0.6% Cu and 0.81g/t Au (1.12% eCu or 1.75g/t eAu) from 243.1m** including **65m @ 0.72% Cu and 1.14g/t Au (1.44% eCu or 2.26g/t eAu) from 303.1m.**

The high-grade bornite zone as currently drilled, appears to be the tip of a wedge of mineralisation that could broaden significantly at depth. Drilling will focus on expanding this wedge of mineralisation in the coming months.

Expanding White Hill Deposit

A single diamond drill hole (KHDDH489) was drilled at White Hill, targeting the extensions to mineralisation to the south west of the main deposit (Figure 5). KHDDH489 expanded known mineralisation some 540m towards the southwest and at depth from the previous limits of drilling.

KHDDH489 returned:

735.1m @ 0.33% Cu and 0.12g/t Au (0.4% eCu or 0.63g/t eAu) from 603.7m,

including **316m @ 0.47% Cu and 0.19g/t Au (0.59% eCu or 0.92g/t eAu) from 674m.**

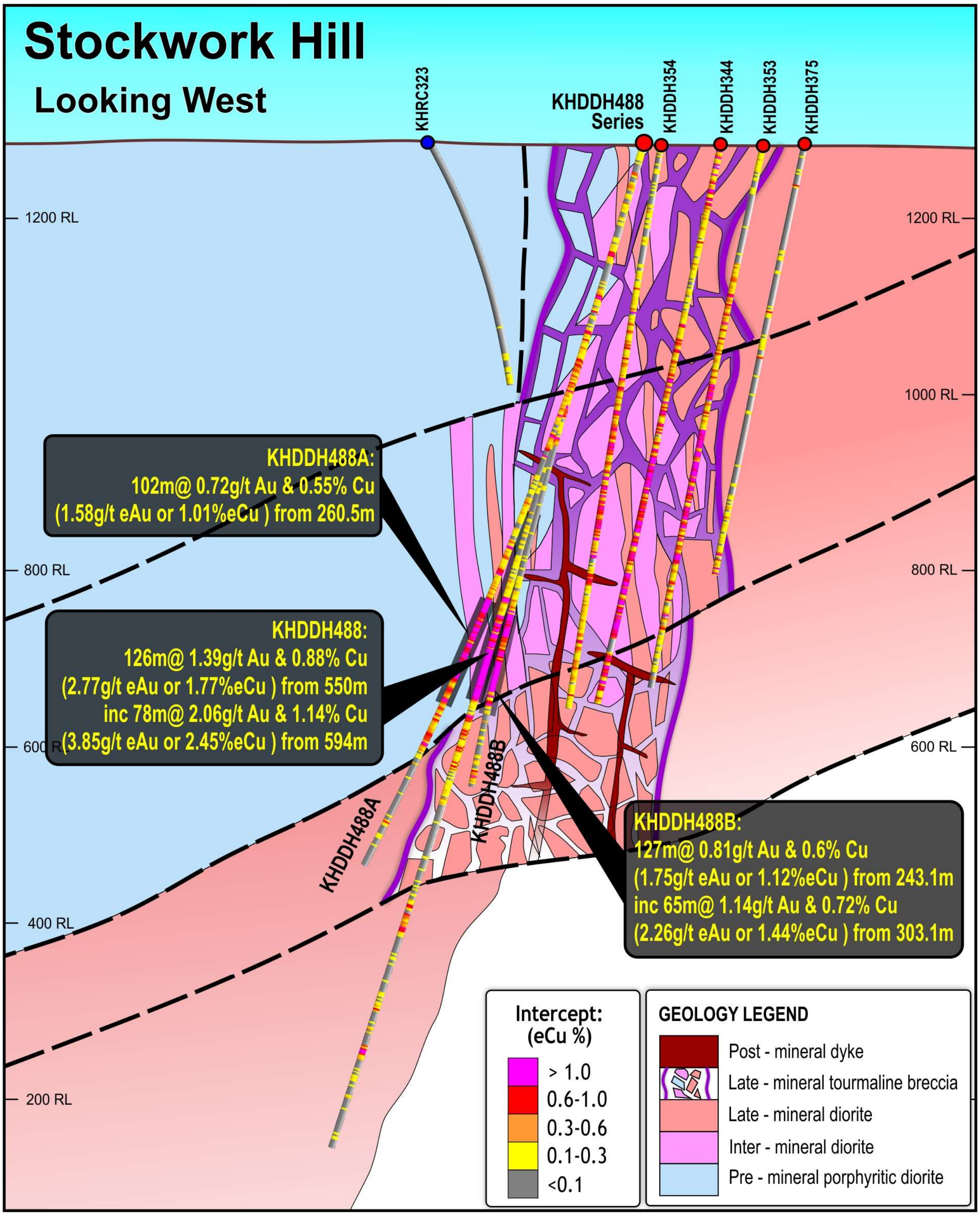


FIGURE 4: Cross section through Stockwork Hill showing Drill Holes KHDDH488, KHDDH488A and KHDDH488B.

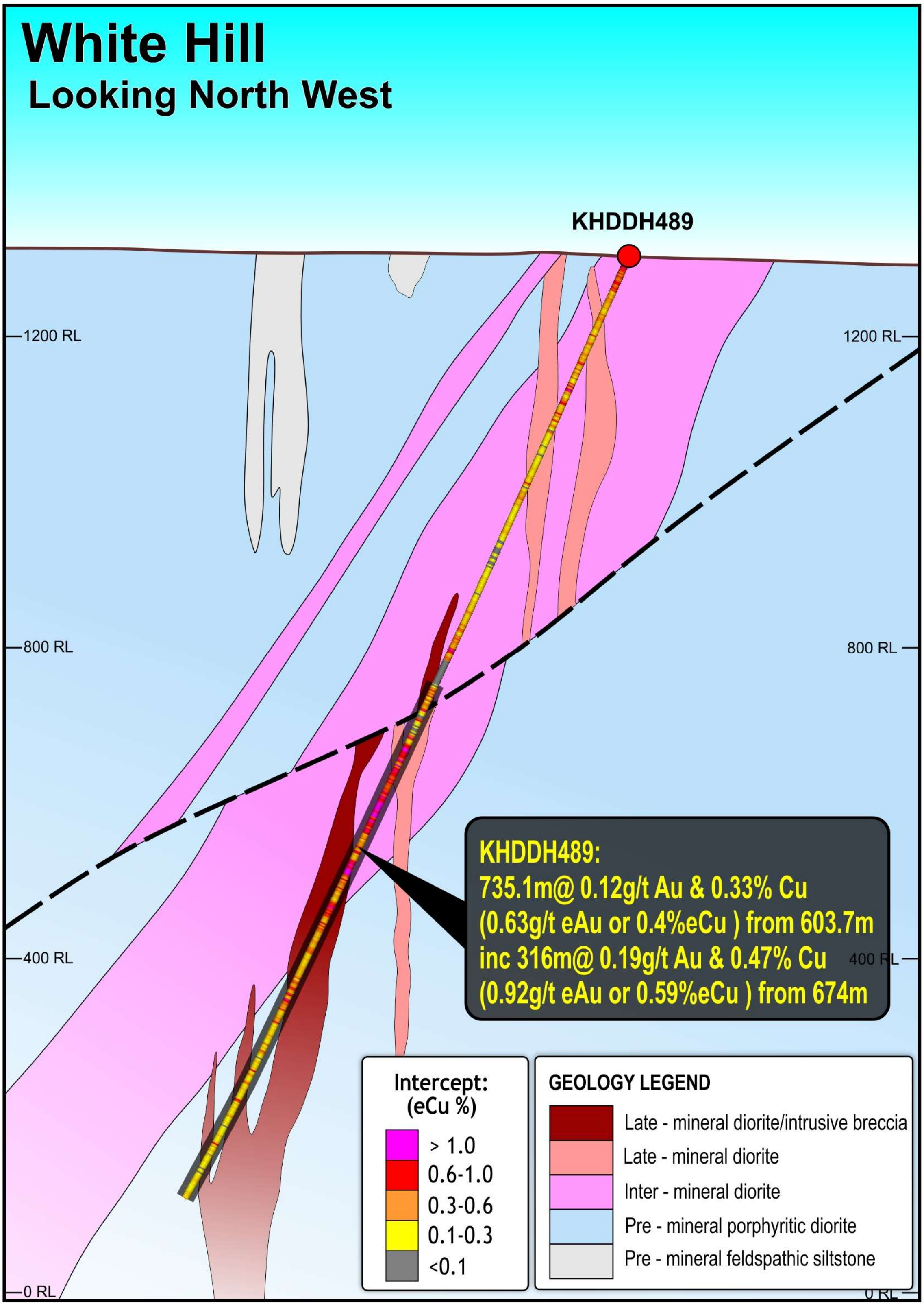


FIGURE 5: Cross section through White Hill showing Drill Hole KHDDH489.

Excellent oxide gold recoveries at Kharmagtai complement existing copper-gold resources

Preliminary testwork on diamond core from shallow oxide gold mineralisation at the Kharmagtai copper-gold project has returned excellent results. Gold mineralisation at Golden Eagle is hosted in the oxide cap above a deeper and significantly larger copper-gold porphyry (refer to Xanadu's ASX Announcement –January 16, 2017). A new exploration target and metallurgical tests confirm the presence of significant, leachable oxide gold at Golden Eagle, one of eight zones known to contain significant shallow oxide gold mineralisation.

The aim of this test program was to assess the suitability of Golden Eagle mineralisation for gravity concentration and/or cyanidation processes. Three composite samples were selected for the work, based on grade ranges across a variety of rock types within a conceptual 20Mt open pit. Each composite consisted of 10 individual two-metre sample intervals of drill core and coarse reject material from previous assays representing mineralisation of the following grades (2.35g/t Au, 1.32g/t Au and 0.5g/t Au).

Gravity separation and bottle roll leach test work was conducted on three composite samples from Golden Eagle during the quarter returning excellent recoveries (up to 92.56%).

Each composite sample represented a specific grade range (0.5g/t Au, 1.32g/t Au and 2.35g/t Au) and were made up of 10 individual samples from across the deposit, within a conceptual 20Mt open pit shell. Each composite was tested for commination, gravity concentration and bottle roll cyanidation tests at different grind sizes. Table 1 shows a summary of the integrated results.

Table 2: Integrated Gravity Concentration and Cyanidation Results

Composite ID	Au Recovery by gravity (%)	Gravity Tails P_{80}, µm	Gravity Tailings Recovery		Total recovery, %
			Au %		
GE-01	22.86	150	92.23		90.76
		100	92.63		91.05
		70	94.68		92.56
GE-02	5.36	150	85.98		81.27
		100	90.57		85.32
		70	92.56		87.08
GE-03	14.68	150	80.00		77.41
		100	79.17		76.75
		70	81.63		78.69

These preliminary metallurgical testwork results provide a very good indication of the viability of a simple and efficient gold recovery process at Golden Eagle using SAG or ball milling to a grind of approximately 80% -100µm whilst using gravity concentration to recover the larger gold grains and then using cyanidation (Carbon in Pulp) to extract the finer gold. The testwork suggests gold recoveries in the range of 76% to 92%.

Oxide gold drill program designed to test oxide gold target

During the quarter, a drill program was designed to test the Stockwork Hill deposit oxide cap, where previous drilling has identified high-grade shallow oxide gold but the majority of the holes were stepped away from the oxide zone and targeting the deeper copper-gold sulphide mineralisation. The objective of this drill program is to quickly and cheaply test one of the main oxide-gold targets at Kharmagtai to confirm the expected gold grades and characterise the gold deportment. A total of eight vertical PQ drill holes have been designed to test several sections across the oxide cap and several holes to test beneath extremely high-grade gold at surface along strike (Figures 6, 7 and 8). PQ drilling is being used to ensure sufficient material for metallurgical and geotechnical data is gathered. Material from this work will be submitted for gravity and leach metallurgical work to obtain initial recovery data. Drilling will commence in late July and the results of this work will form a decision point for further drilling, metallurgical work and resource estimation.

Oxide gold potential of the Kharmagtai lease

A review of the shallow gold potential of the Kharmagtai lease has been conducted with the aim of assessing the potential for a low-cost, high-value gold project to deliver cash into the early stages of a larger scale copper-gold development.

Eight gold targets across the lease have been reviewed in detail and exploration targets developed for each of these prospects. These targets include sparsely drilled oxide gold above the existing resources at Copper Hill and Stockwork Hill, oxide gold potential above Golden Eagle, disseminated free gold and electrum within Golden Eagle and numerous carbonate base metal epithermal gold veins previously drilled while targeting porphyry mineralisation (Table 3). The location of each target is summarised in Figure 9.

For full details please consult ASX/TSX Announcement dated 20 March 2019.

The Exploration Targets are conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource under The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, (the "JORC Code 2012"). The Exploration Targets are not being reported as part of any Mineral Resource or Ore Reserve.

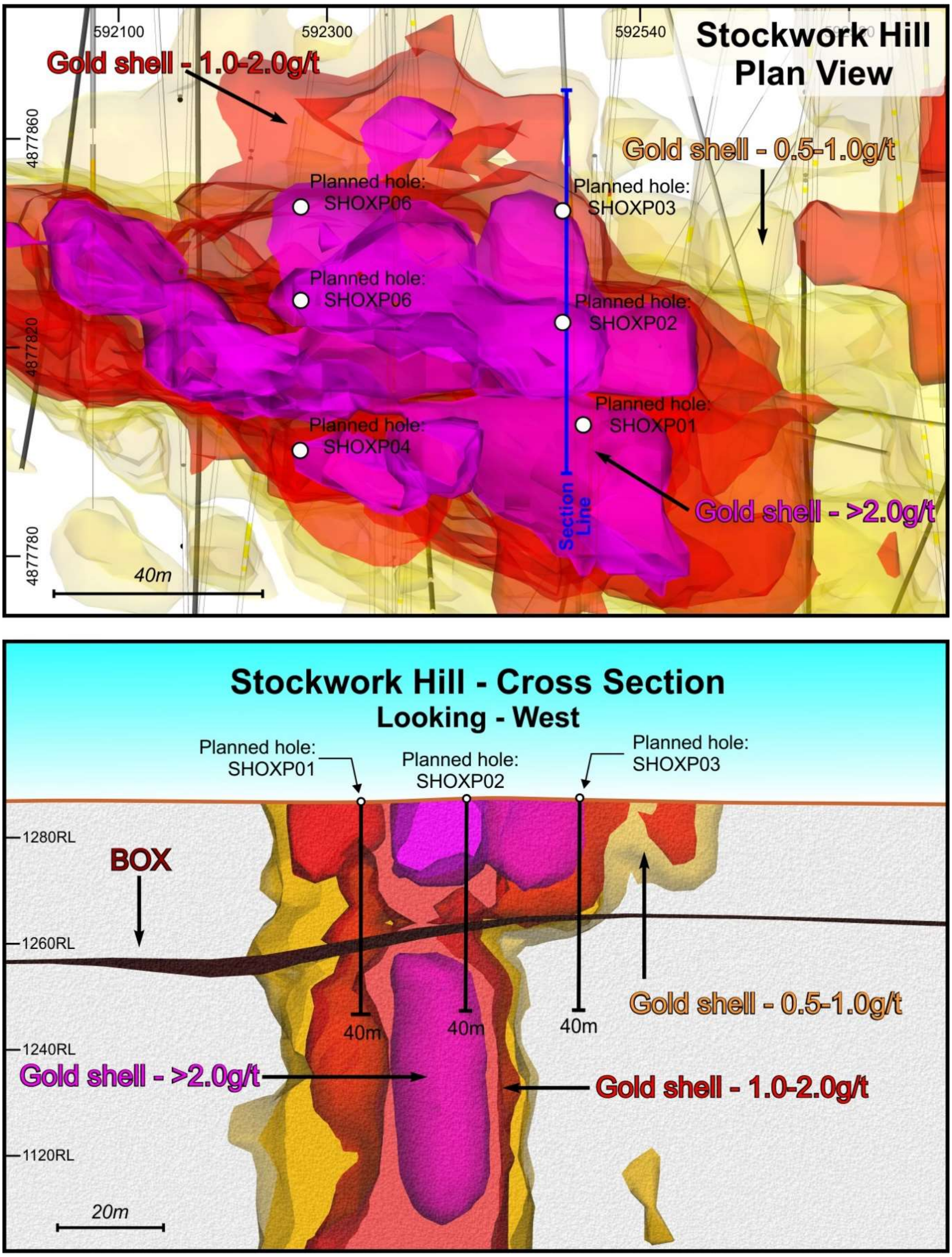


FIGURE 6: Stockwork Hill oxide gold plan and cross section showing section line SHOXP01-2-3 and CSA 2018 Au block model evaluation with 0.5 – 1g/t Au, 1 – 2g/t Au and +2gt Au grade shells and bottom of oxidation.

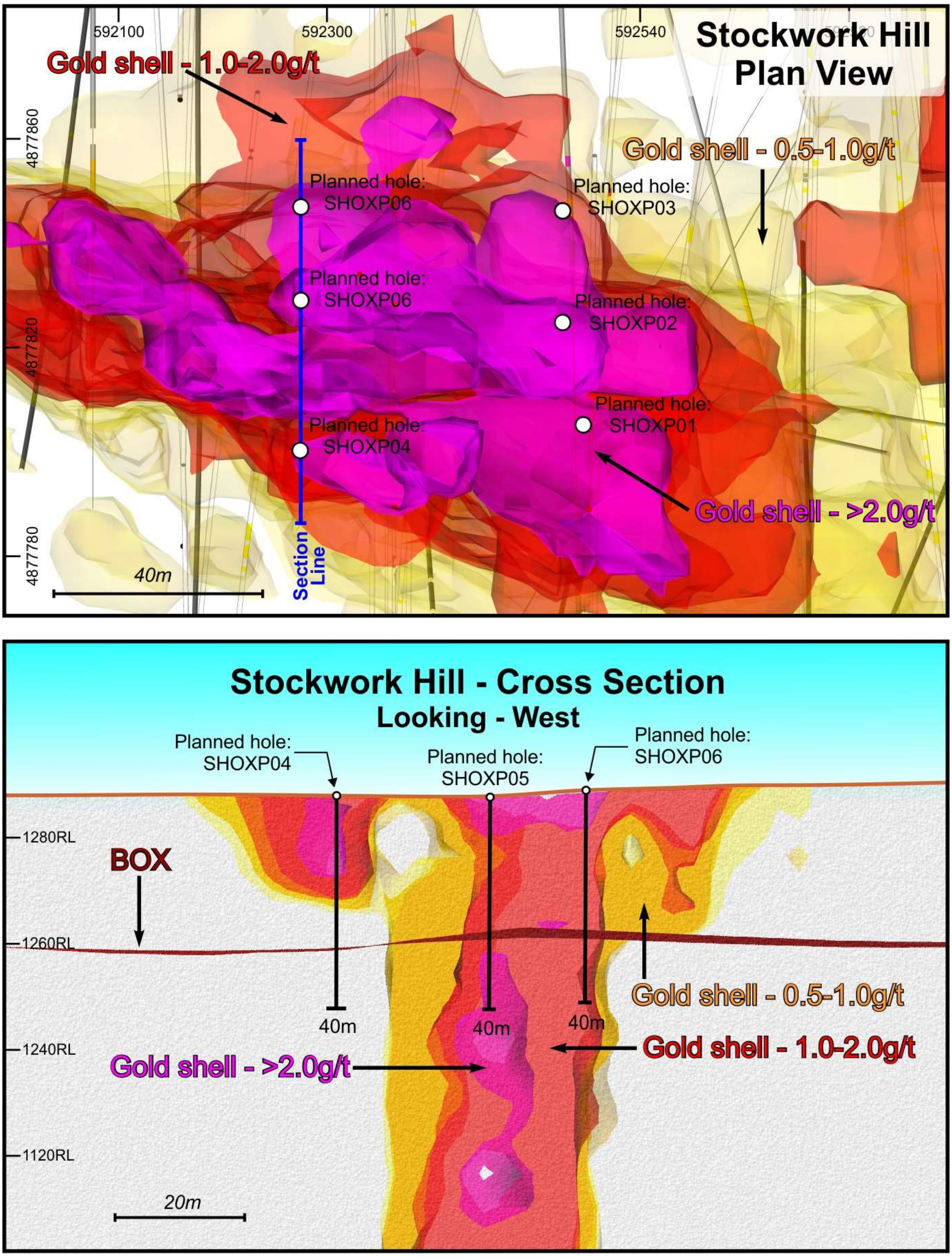
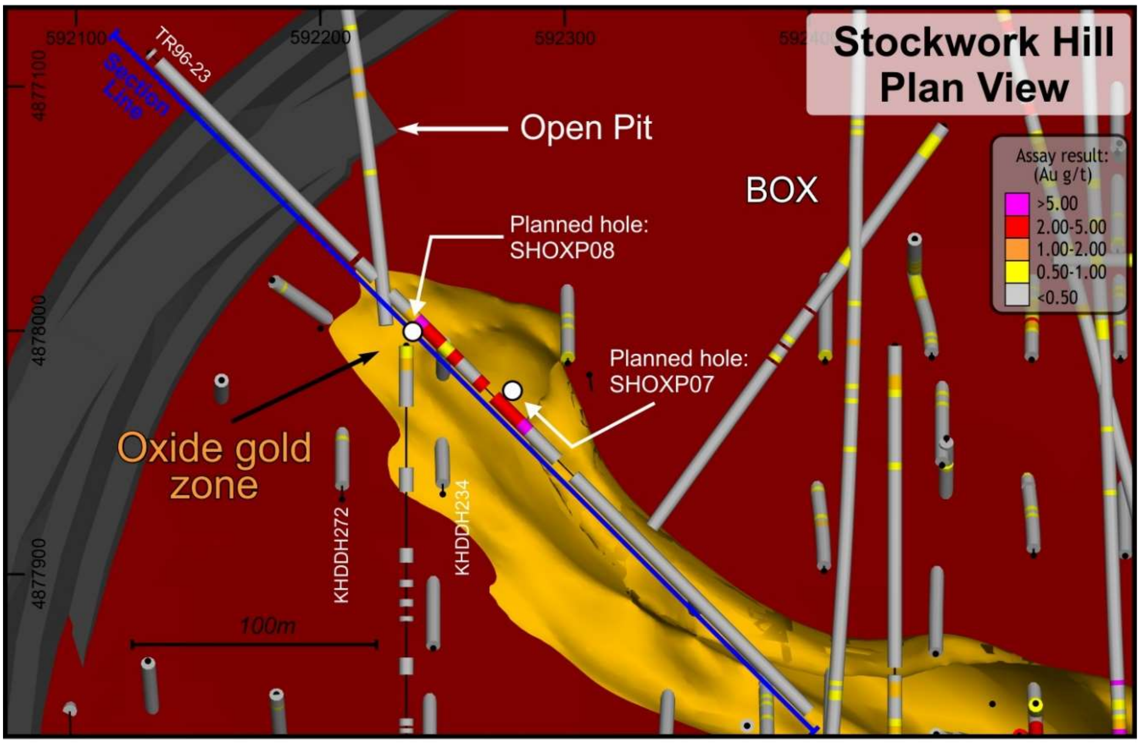


FIGURE 7: Stockwork Hill oxide gold plan and cross section showing section line SHOXP04-5-6 and CSA 2018 Au block model evaluation with 0.5 – 1g/t Au, 1 – 2g/t Au and +2gt Au grade shells and bottom of oxidation.



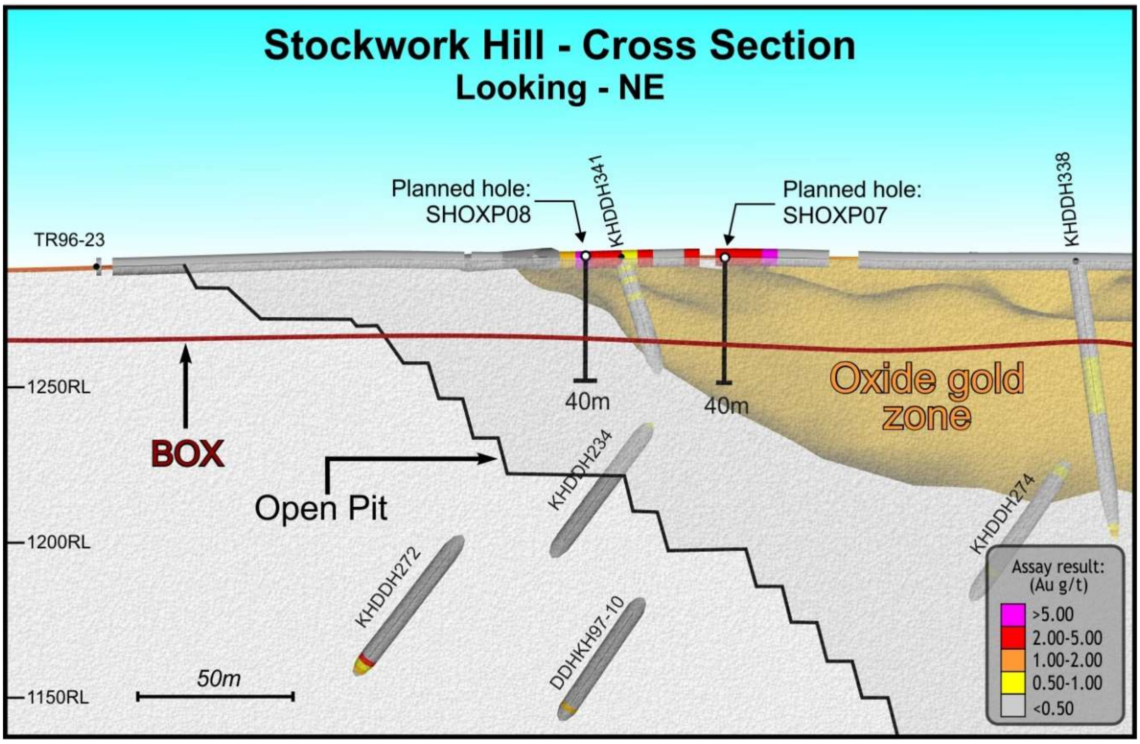


FIGURE 8: Stockwork Hill oxide gold plan and cross section showing section line SHOXP07-8 and CSA 2018 Au block model evaluation with 0.5 – 1g/t Au, 1 – 2g/t Au and +2gt Au grade shells and bottom of oxidation.

Directors' Report

Table 3: Kharmagtai oxide gold Exploration Targets

Target Name	Gold Style*1	Length*2	Width*3	Depth*4	Density*5	Tonnage Range*6	Grade Range*7	Metallurgical Recoveries*8	Potential Oz Range including metallurgical factor*9
Golden Eagle (0.3 to 0.6g/t Au)	Oxide gold cap and disseminated free gold and electrum	400 to 500m	300 to 375m	200m	2.76	66Mt to 103Mt	0.3 to 0.6g/t Au	77 to 92% (average 85%)	1MOz to 1.32MOz
Golden Eagle (0.6 to 1g/t Au)	Oxide gold cap and disseminated free gold and electrum	200 to 350m	75 to 100m	150m	2.76	6.2Mt to 14.5Mt	0.6 to 1g/t Au	78 to 92% (average 85%)	170KOz to 240KOz
Copper Hill Oxide Gold	Oxide gold cap above Copper Hill	150 to 200m	50 to 100m	30m	2.75	0.62Mt to 1.65Mt	1 to 2g/t Au	No metallurgy assumes 85%	34KOz to 45KOz
Stockwork Hill Oxide Gold	Oxide gold cap above Stockwork Hill	200 to 400m	85 to 100m	30m	2.75	1.4Mt to 3.3Mt	1 to 2g/t Au	No metallurgy assumes 85%	77KOz to 90KOz
Zaraa Vein One and Two	C.B.M Oxide Epithermal Gold	2 X 200 to 400m veins	2 to 3m	45	2.75	99.5Kt to 195Kt	Vein one 2.5 to 18g/t Au Vein Two 1 to 3g/t Au	No metallurgy assumes 85%	15KOz to 32.75KOz
Wolf Vein One and Two	C.B.M Oxide Epithermal Gold	2 x 400 to 500m	1.5 to 2m	45	2.75	148Kt to 248Kt	2 to 4.5g/t Au	No metallurgy assumes 85%	16KOz to 22KOz
Badger Vein	C.B.M Oxide Epithermal Gold	280 to 500m	1.5 to 2m	45	2.75	52Kt to 124Kt	2.8 to 5.7g/t Au	No metallurgy assumes 85%	9.5KOz to 10KOz
Seventeen One and Two	C.B.M Oxide Epithermal Gold	2 X 400 to 500m	1.5 to 2m	45	2.75	128Kt to 248Kt	1 to 1.5g/t	No metallurgy assumes 85%	5.2KOz to 6.8KOz
Target Two	C.B.M Oxide Epithermal Gold	400 to 500m	2 to 3m	45	2.75	100Kt to 185Kt	1 to 3g/t Au	No metallurgy assumes 85%	5KOz to 8.2KOz

1* - each style of gold mineralisation will manifest (size, shape, gangue minerals) differently and perform differently within metallurgical plant
2* - length of the exploration target is defined as a conservative maximum and minimum length estimation based off the distances over which drill intercepts are observed and geological or geophysical characteristics associated with the mineralisation are observed
3* - width of the exploration targets is taken from drill intercepts and expressed as a range

4* - depth information is gained from drill intercepts. the oxide/weathering zone is often taken from geochemical data from drilling, i.e. sulphur often helps define the base of oxidation as it is readily weathered and does not commonly exist in the weathering profile. the base of oxidation is interpreted to be the depth that sulphur appears within the drill hole
5* - density data is taken from drilling or assumed to be the average rock density in the Kharmagtai dataset (2.75)
6* - tonnage range is estimated as a calculation of the maximum and minimum length, width and depth.
7* - grade range is taken directly from drill results
8* - metallurgical factor is either taken from existing metallurgical results or assumed to be 85%.
9* - potential oz range is estimated from a calculation of tonnage ranges and grade ranges. larger tonnage with lesser grade range and smaller tonnage with higher grade range.

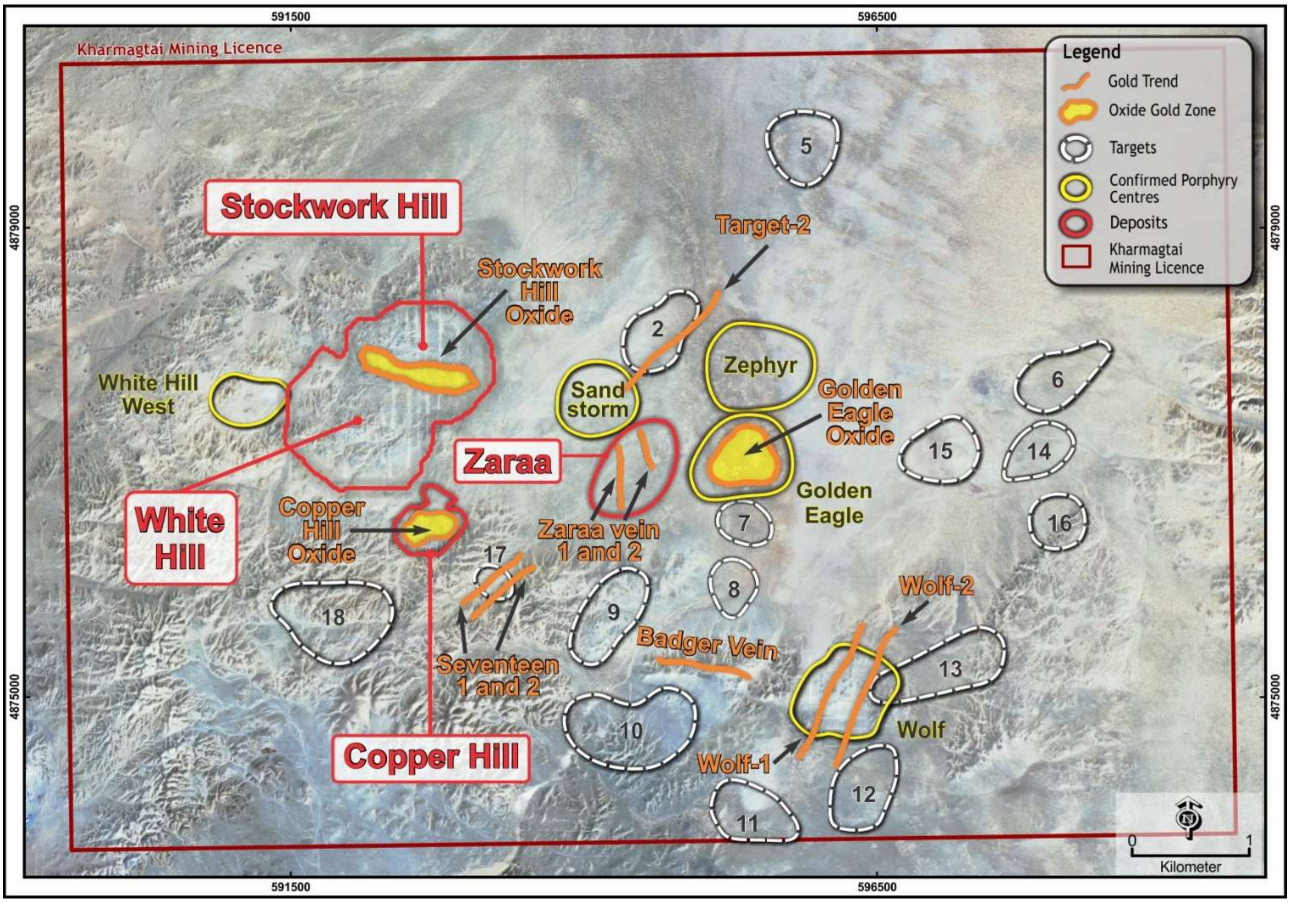


FIGURE 9: The Kharmagtai Mining Licence showing location of shallow gold exploration targets.

RESULTS OF OPERATIONS

Six months ended June 30, 2019 compared to the six months ended June 30, 2018:

The Company reports a loss after income tax expense of $2.0 million during the six month period ended June 30, 2019 as compared to a loss after income tax of $3.3 million during the comparative six month period ended June 30, 2018. Overall, this represents a significant reduction in expenses of $1.3 million. The variances between the two periods were primarily due to the reduction in share based payments expenses.

Exploration Expenditure

The Company invested $1.4 million in exploration activities during the half-year (corresponding period to 30 June 2018: $5.3 million). A total of 3,618.5 metres of diamond drilling was completed at the Kharmagtai project.

Summary of quarterly results

The following table sets out selected quarterly unaudited interim condensed consolidated financial information of the Company and is derived from unaudited interim condensed consolidated financial statements prepared by the Company's management.

	Quarter ended June 30, 2019 $'000	Quarter ended March 31, 2019 $'000	Quarter ended December 31, 2018 $'000	Quarter ended September 30, 2018 $'000
Corporate administration	$ 1,272	$ 890	$ 1,615	$ 996
Share-based expenses	(293)	71	164	164
Depreciation & amortisation	13	13	18	19
Loss after income taxes	1,096	909	1,828	1,176
Basic loss per share	0.17	0.14	0.24	0.16
Diluted loss per share	0.17	0.14	0.24	0.16

	Quarter ended June 30, 2018 $'000	Quarter ended March 31, 2018 $'000	Quarter ended December 31, 2017 $'000	Quarter ended September 30, 2017 $'000
Corporate administration	$ 965	$ 1,054	$ 1,201	$ 643
Share-based expenses	684	684	178	-
Depreciation & amortisation	17	27	23	19
Loss after income taxes	1,522	1,801	1,505	713
Basic loss per share	0.25	0.30	0.22	0.13
Diluted loss per share	0.25	0.30	0.22	0.13

	As at June 30, 2019 $'000	As at March 31, 2019 $'000	As at December 31, 2018 $'000	As at September 30, 2018 $'000
Cash & cash equivalents	$ 1,099	$ 3,085	$ 5,225	$ 7,827
Deferred exploration expenditures	47,587	46,857	45,903	45,326
Total assets	49,278	50,947	52,076	54,229
Total liabilities	233	568	814	683
Shareholders' equity	49,045	50,379	51,262	53,546

	As at June 30, 2018 $'000	As at March 31, 2018 $'000	As at December 31, 2017 $'000	As at September 30, 2017 $'000
Cash & cash equivalents	$ 10,851	$ 5,103	$ 9,065	$ 1,196
Deferred exploration expenditures	44,134	40,311	37,157	34,800
Total assets	56,129	46,427	47,213	36,763
Total liabilities	1,090	564	1,421	4,397
Shareholders' equity	55,039	45,863	45,792	32,366

Liquidity and capital resources

On June 30, 2019, the Company had cash and cash equivalents on hand of $1.1 million (December 31, 2018 $5.1 million).

On 8 July 2019, the Company closed a non-renounceable Rights Issue made to shareholders of the Company on the basis of 1 new fully paid ordinary share for every 10 shares held at an issue price of $0.052 per share. Acceptances of entitlements under the Rights Issue were received for a total of 40,393,314 New Shares (including 12,566,076 Additional New Shares) raising $2,100,452.33.

On 22 August 2019, the Company placed the non-renounceable Rights Issue shortfall raising further $1,269,377.15, representing 24,411,099 New Shares at $0.052 per share.

The Company will rely on future equity financings as well as cash flows from potential future production to fund operations. It is not possible to predict whether financing efforts will be successful. The Company has no assurance that additional funding will be available for further development, exploration and evaluation, and operation of its projects. Any additional funding will be dependent upon the Company's ability to obtain financing through joint ventures, equity or debt financing or other means. Although the Company has been successful in the past in obtaining financing through the sale of equity securities and other means, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further business advancements.

The consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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

Outstanding Share Capital

The Company has an unlimited number of ordinary shares authorized, with 688,437,445 fully paid shares outstanding as of the date of this MD&A. In addition, the Company had 2,000,000 performance rights and 29,411,759 unlisted as of the date of this MD&A.

On January 14, 2019, 35,000,000 options, issued pursuant to the Red Mountain project acquisition terms, expired. The vesting of 15,000,000 Series A Options was contingent on recognition of a JORC resource of at least 300,000 tonnes contained copper equivalent and the vesting of 20,000,000 Series B Options was contingent on the recognition of a JORC resource of at least 900,000 tonnes contained copper equivalent.

Unlisted options

June 2018 Private Placement Options, 29,411,759, are exercisable until June 26, 2020 at an exercise price of A$0.25.

Performance rights

A total of 2,000,000 share rights are outstanding as follows:

Grant Date	No. of Share Rights Granted	Vesting Date	Description
November 16, 2017	2,000,000	October 11, 2019	VWAP of the Ordinary Shares as traded on the ASX is equal to, or exceeds, A$0.60 per Ordinary Share for 45 consecutive days during the period.

Off balance sheet arrangements

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

Contractual commitments

The following summarizes the Company's contractual obligations at June 30, 2019 ($'000):

- Trade payables $113 due in 30 days
- Ulaanbaatar office rent $48 to the end of the year
- Vehicle leases $120 due in two years.

Critical accounting estimates

The preparation of the interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses for the reporting period. Refer to the Company's audited annual financial statements for the year ended December 31, 2018 and the notes thereto for information on the Company's significant judgements in applying accounting policies as well as significant accounting estimates and assumptions.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

On 8 July 2019, the Company closed a non-renounceable Rights Issue made to shareholders of the Company on the basis of 1 new fully paid ordinary share for every 10 shares held at an issue price of $0.052 per share. Acceptances of entitlements under the Rights Issue were received for a total of 40,393,314 New Shares (including 12,566,076 Additional New Shares) raising $2,100,452.33.

On 22 August 2019, the Company placed the non-renounceable Rights Issue shortfall raising further $1,269,377.15, representing 24,411,099 New Shares at $0.052 per share.

No other matter or circumstance has arisen since 30 June 2019 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Market risk

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

- *Foreign currency risk:* The Company is exposed to foreign exchange fluctuations with respect to 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.

- *Interest Rate Risk:* Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings at variable rates. Interest rate risk is limited to potential decreases on the interest rate offers on cash and cash equivalents held with chartered financial institutions. The Company considers this risk to be immaterial.

- *Commodity Price Risk:* 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.

- *Equity Price Risk:* Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings.

Credit Risk

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

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of $1.1 million (December 31, 2018 $5.2 million).

Liquidity Risk

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

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

Other business risks

A summary of the business risks are highlighted below and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2018.

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 has licenses covering the Kharmagtai project, Red Mountain project and Yellow 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 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.

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.

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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.

TRANSACTIONS WITH RELATED PARTIES
Transactions with related parties are disclosed in Note 25 of the Company's audited annual financial statements for the period ended December 31, 2018. The following updates are disclosed to the period ended June 30, 2019.

On January 2, 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 June 30, 2019 ($7,369 being one month rent).

For the six months ended June 30, 2019, the Company sourced legal services for total $9,900 from HopgoodGanim Lawyers where the Company's Independent Non-Executive Director, Michele Muscillo, is a partner.

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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

ROUNDING OF AMOUNTS

The Company is of a kind referred to in the Corporations Instrument 2016/191, issued by the Australian Securities and Investment 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 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

D.G. Clark
____
Darryl Clark
Independent Non-Executive Chairman

13 September 2019

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

As lead auditor for the review of the half-year financial report of Xanadu Mines Limited for the half-year ended 30 June 2019, 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 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	Consolidated June 30, 2019 $'000	Consolidated December 31, 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		1,099	5,225
Financial assets at fair value through profit or loss		160	190
Other receivables	6	81	398
Other		19	-
Total current assets		1,359	5,813
Non-current assets			
Property, plant and equipment		332	360
Deferred exploration expenditure	7	47,587	45,903
Total non-current assets		47,919	46,263
Total assets		49,278	52,076
Current liabilities			
Trade and other payables		113	680
Total current liabilities		113	680
Non-current liabilities			
Other non-current liabilities		120	134
Total non-current liabilities		120	134
Total liabilities		233	814
Net assets		49,045	51,262
Equity			
Issued capital	8	117,850	117,850
Reserves		(213)	(1)
Accumulated losses		(73,300)	(71,345)
Equity attributable to the owners of Xanadu Mines Ltd		44,337	46,504
Non-controlling interest		4,708	4,758
		49,045	51,262

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Consolidated 6 months ending June 30, 2019 $'000	Consolidated 6 months ending June 30, 2018 $'000
Interest revenue calculated using the effective interest method		4	5
Expenses			
Depreciation and amortisation expense		(26)	(44)
Other expenses	5	(1,940)	(3,388)
Finance costs		(13)	(16)
Revaluation loss on financial assets at fair value through profit or loss		(30)	120
Loss before income tax expense		(2,005)	(3,323)
Income tax expense		-	-
Loss after income tax expense for the period		(2,005)	(3,323)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		10	1,767
Total comprehensive income for the period		(1,995)	(1,556)
Loss for the period is attributable to:			
Non-controlling interest		(50)	(39)
Owners of Xanadu Mines Ltd		(1,955)	(3,284)
		(2,005)	(3,323)
Total comprehensive income for the period is attributable to:			
Non-controlling interest		(50)	(62)
Owners of Xanadu Mines Ltd		(1,945)	(1,494)
		(1,995)	(1,556)
		Cents	**Cents**
Basic earnings per share	13	(0.30)	(0.56)
Diluted earnings per share	13	(0.30)	(0.56)

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Consolidated	
		6 months ending June 30, 2019 $'000	6 months ending June 30, 2018 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(2,193)	(2,044)
Interest received		4	5
Interest and other finance costs paid		(13)	(16)
Net cash used in operating activities		(2,202)	(2,055)
Cash flows from investing activities			
Payment for exploration and evaluation expenditure		(1,934)	(5,729)
Net cash used in investing activities		(1,934)	(5,729)
Cash flows from financing activities			
Proceeds from issue of shares	8	-	10,000
Transaction costs on issue of shares		-	(566)
Net cash from financing activities		-	9,434
Net increase/(decrease) in cash and cash equivalents		(4,136)	1,650
Cash and cash equivalents at the beginning of the financial period		5,225	9,065
Effects of exchange rate changes on cash and cash equivalents		10	136
Cash and cash equivalents at the end of the financial period		1,099	10,851

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 2018	108,450	8,534	(11,047)	-	(65,164)	5,017	45,790
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:							
Other	-	-	537	(537)	-	-	-
Balance at 30 June 2018	108,450	8,534	(8,720)	(537)	(68,448)	4,955	44,234

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 2019	117,850	10,231	(9,695)	(537)	(71,345)	4,758	51,262
Loss after income tax expense for the period	-	-	-	-	(1,955)	(50)	(2,005)
Other comprehensive income for the period, net of tax	-	-	10	-	-	-	10
Total comprehensive income for the period	-	-	10	-	(1,955)	(50)	(1,995)
Transactions with owners in their capacity as owners:							
Share-based payments	-	(222)	-	-	-	-	(222)
Balance at 30 June 2019	117,850	10,009	(9,685)	(537)	(73,300)	4,708	49,045

NOTES TO THE 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 2019. 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 half-year reporting period ended 30 June 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard 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 2018 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.

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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 16 Leases

The Group has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

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.

Going concern

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. As at 30 June 2019, the Group had cash reserves of $1.1 million (31 December 2018: $5.2 million). On 8 July 2019, the Company closed a non-renounceable Rights Issue made to shareholders of the Company on the basis of 1 new fully paid ordinary share for every 10 shares held at an issue price of $0.052 per share. Acceptances of entitlements under the Rights Issue were received for a total of 40,393,314 New Shares (including 12,566,076 Additional New Shares) raising $2,100,452.33. On 22 August 2019, the Company placed the non-renounceable Rights Issue shortfall raising further $1,269,377.15, representing 24,411,099 New Shares at $0.052 per share.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding, the Group's ability to effectively manage their expenditures and cash flows from operations and the likelihood of deferring the deferred considerations further, the Directors believe that there is reasonable basis to prepare the financial statements on a going concern basis.

Note 3. 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 including exploration rights to all tenements held. The group assesses impairment of such assets at each reporting date by evaluating conditions specific to the group.

Capitalisation of exploration and evaluation costs

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

Note 4. Operating segments

Xanadu operates predominantly in the minerals exploration sector. The principle activity of the Company is exploration for copper and gold. Xanadu classifies these activities under a single operating segment; the Mongolian exploration projects. Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in deferred exploration expenditure note of the financial report. No segment revenues are disclosed as the company is not yet generating any revenue. The non-current assets of Xanadu, attributable to the parent entity, are located in Mongolia.

Note 5. Other expenses

	Consolidated	
	30 Jun 2019 $'000	30 Jun 2018 $'000
Other expenses		
Administration expenses	728	761
Wages and management fees	1,007	1,001
Technical Consulting fees	427	257
Share-based payments*	(222)	1,369
	1,940	3,388

* During the reporting period, Kevin Tomlinson stood down from the Board and his performance rights were forfeited.

Note 6. Current assets - Other receivables

	Consolidated	
	30 Jun 2019 $'000	31 Dec 2018 $'000
Sundry debtors	49	65
GST recoverable	32	333
	81	398

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.

GST receivable $315,894 was written off to the Capitalise Exploration and Evaluation costs due to changes in the Mongolian tax codes.

Note 7. Non-current assets - Deferred exploration expenditure

	Consolidated	
	30 Jun 2019 $'000	31 Dec 2018 $'000
Deferred exploration expenditure	47,587	45,903

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

Consolidated	$'000
Balance at 1 January 2019	45,903
Expenditure during the period	1,368
GST capitalised	316
Balance at 30 June 2019	47,587

Note 8. Equity - issued capital

	Consolidated			
	30 Jun 2019 Shares	31 Dec 2018 Shares	30 Jun 2019 $'000	31 Dec 2018 $'000
Ordinary shares - fully paid	648,044,131	648,044,131	117,850	117,850

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 9. Equity - dividends

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

Note 10. Fair value measurement

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 by 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 values 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 markers 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 assets and liabilities, either directly or indirectly.
Level 3 : Unobservable inputs for the assets and liability

	Level 1	Level 2	Level 3	Total
Consolidated – June 30, 2019	$'000	$'000	$'000	$'000
Assets				
Ordinary shares - Aspire Mining Limited (ASX: AKM)	160	-	-	160
Total assets	160	-	-	160

Consolidated - December 31, 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Ordinary shares - Aspire Mining Limited (ASX: AKM)	190	-	-	190
Total assets	190	-	-	190

Note 11. Related party transactions

Transactions with related parties are disclosed in Note 24 to the most recent audited annual report dated 31 December 2018. The following updates are disclosed for the period ended 30 June 2018.

On January 2, 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 June 30, 2019 ($7,369 being one month rent).

For the six months ended June 30, 2019, the Company sourced legal services for total $9,900 from HopgoodGanim Lawyers where the Company's Independent Non-Executive Director, Michele Muscillo, is a partner.

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

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

Note 12. Events after the reporting period

On 8 July 2019, the Company closed a non-renounceable Rights Issue made to shareholders of the Company on the basis of 1 new fully paid ordinary share for every 10 shares held at an issue price of $0.052 per share. Acceptances of entitlements under the Rights Issue were received for a total of 40,393,314 New Shares (including 12,566,076 Additional New Shares) raising $2,100,452.33.

On 22 August 2019, the Company placed the non-renounceable Rights Issue shortfall raising further $1,269,377.15, representing 24,411,099 New Shares at $0.052 per share.

No other matter or circumstance has arisen since 30 June 2019 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 13. Earnings per share

	Consolidated	
	30 Jun 2019 $'000	30 Jun 2018 $'000
Loss after income tax	(2,005)	(3,323)
Non-controlling interest	50	39
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(1,955)	(3,284)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	648,044,131	590,075,264
Weighted average number of ordinary shares used in calculating diluted earnings per share	648,044,131	590,075,264

	Cents	Cents
Basic earnings per share	(0.30)	(0.56)
Diluted earnings per share	(0.30)	(0.56)

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 given a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the half year 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

D.G. Clark

____

Darryl Clark
Independent Non-Executive Chairman

13 September 2019

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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 condensed statement of financial position as at 30 June 2019, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed 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 Company is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its 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 2019 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 2019