

## Amended 2019 Annual Report

3 April 2020

ASX Markets Announcement Office  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

### BY ELECTRONIC LODGEMENT

### Amended 2019 Annual Report

Please find attached for release to the market, an *Amended 2019 Annual Report*. The amendments are on page 6 under the new heading 'Mineral Resources' and on page 11 under the new heading 'Resource reporting governance arrangements', and are provided to expand on the existing disclosure provided in accordance with ASX Listing Rules 5.21 and 5.24.

-ENDS-

### For further information, please contact:

Andrew Stewart  
Chief Executive Officer  
T: +61 2 8280 7497  
M: +61 409 819 922  
E: [Andrew.stewart@xanadumines.com](mailto:Andrew.stewart@xanadumines.com)  
W: [www.xanadumines.com](http://www.xanadumines.com)

This Announcement was authorised for release by Xanadu's Board of Directors

XANADU MINES



# 2019 ANNUAL REPORT

Xanadu Mines Limited ASX | TSX: XAM  
For the year ended December 31, 2019

# Corporate Directory

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## Directors

|                       |                                                                  |
|-----------------------|------------------------------------------------------------------|
| Colin Moorhead        | Independent Non-Executive Chairman (appointed November 28, 2019) |
| Andrew Stewart        | Chief Executive Officer                                          |
| Ganbayar Lkhagvasuren | Executive Director                                               |
| Michele Muscillo      | Independent Non-Executive Director                               |
| Stephen Motteram      | Non-Executive Director (appointed October 18, 2019)              |

## Company Secretary

Phil Mackey

## Registered Office - Australia

c/o Company Matters Pty Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Tel: +61 2 8280 7497  
Fax: +61 2 9287 0350

## Registered Office - Mongolia

Suite 23, Building 9B  
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



Toronto Stock  
Exchange

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

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# Letter from the Chairman

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## Dear Shareholder

I am pleased to take this opportunity, as your incoming Chairman, to share with you my views on Xanadu Mines and where we are today, and to share my thoughts on the appropriate forward strategy for our company. The 2019 year saw a weakening of our market position, despite some technical success at Kharmagtai. There were many possible contributing factors for this outcome not the least of which can be boiled down to the need for clarity of purpose and strategy.

Since my appointment in late November, my primary focus has been on gaining an understanding of our company, its assets, and the operating environment in Mongolia. I have also been engaging with stakeholders, evaluating our projects and understanding options around capital management in these challenging times. This process included an early visit to Mongolia with a trip to our flagship project at Kharmagtai in the South Gobi.

Kharmagtai is a large and complex, gold-rich, porphyry copper system that bears all the hallmarks of a potential Tier 1 asset, with many similarities to giant deposits such as Oyu Tolgoi in Mongolia and Cadia Valley operations in New South Wales. These systems are quite different in some important ways to the much younger porphyries located on the Pacific Rim such as Tuhuh Bukit in Indonesia, Wafi Golpu in Papua New Guinea and Cascabel in Ecuador.

To be considered a true Tier 1 copper-gold deposit, Kharmagtai needs to grow in size and in grade. These outcomes are clearly possible with more drilling, as the mineralisation defined to date remains open in all directions, and importantly, there is clear evidence of higher-grade zones at Stockwork Hill and Copper Hill.

Coupled with this significant exploration upside, the recently completed Kharmagtai Scoping Study clearly demonstrates that the project is one of the leading copper-gold development projects in the world today, which positions Xanadu Mines as one of a few junior companies listed on the Australia Securities Exchange (ASX) or Toronto Stock Exchange (TSX) that controls a major gold rich porphyry copper system.

Kharmagtai also benefits from the relatively benign operating environment that the South Gobi offers flat topography, few fences, secure access to water, power and rail, and most crucially, proximity to the world's largest consumer of both copper and gold in China. Combined these advantages should deliver shorter time to production and reduced capital intensity, if and when a decision to develop the project is made.

Oxide gold does exist at Kharmagtai, but unlike some porphyry systems that have an epithermal "gold cap", the gold at Kharmagtai identified to date is supergene in nature. This limits the potential size of the oxide gold deposits there, with only small occurrences identified to date. Notwithstanding this, a desktop study is underway to quantify what opportunities are possible at Kharmagtai.

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

One of Xanadu Mines' other major project in Mongolia is Red Mountain. We were pleased and honored to announce recently a Joint Venture (JV) with the Japan Oil, Gas and Metals National Corporation (JOGMEC). The Red Mountain Project is another highly prospective, porphyry copper-gold district in Mongolia. The JOGMEC JV will fund a focused and accelerated exploration program at Red Mountain, thereby maximising the probability of success while minimising shareholder dilution. Previous drilling at the project has returned numerous high-grade copper-gold intercepts from a broad range of mineralisation styles. Deploying a suite of modern exploration technologies in 2020 will provide a whole new perspective on the mineral potential at Red Mountain. Both parties perceive the Red Mountain area to have high potential for discovery of a globally significant copper-gold deposit and look forward to demonstrating the value of this new relationship.

As I write to you, the world is being disrupted on an unprecedented scale by the global COVID-19 pandemic. Your board and management have been working hard making plans to weather this storm and the uncertainty it brings, and to position Xanadu Mines to take advantage as the global economy recovers as no doubt it will do. The longer-term fundamentals for the global copper market remain sound, with the distinct lack of large, new projects forecast to give rise to a significant supply deficit over coming years. Xanadu is ideally positioned on the doorstep of the world's largest copper consumer and stands to benefit from demand growth resulting from the "One Belt, One Road" initiative.

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

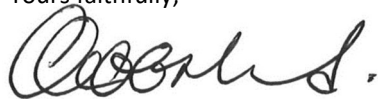
## Letter from the Chairman

continued

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I would like to personally thank you for your support over the past 12 months. We look forward to unlocking more value from Kharmagtai and our other Mongolian exploration projects over the course of 2020.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Colin Moorhead', written over a horizontal line.

**Colin Moorhead**

Non-Executive Chairman

March 31, 2020

# Management Discussion and Analysis

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## General

This Management Discussion and Analysis (**MD&A**) is current to March 31, 2020 and is Management's assessment of the operations and the financial results together with future prospects of Xanadu Mines. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018 and notes thereto, prepared in accordance with International Financial Reporting Standards (**IFRS**). Management is responsible for the preparation of the financial statements and this MD&A.

All dollar figures in this MD&A are expressed in Australian dollars (\$) unless stated otherwise.

This MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in the "Risks and Uncertainties" and the "Cautionary Note Regarding Forward-Looking Information" sections at the end of this MD&A.

Additional information relating to the Company, including the Company's most recent financial reports, are available on the Canadian System for Electronic Document Analysis and Retrieval (**SEDAR**) at [www.sedar.com](http://www.sedar.com), on the ASX Announcements platform under the Company's code **XAM** and on the Company's website at [www.xanadumines.com](http://www.xanadumines.com).

The information in this MD&A relating to the broader Kharmagtai project is supported by the technical report titled *Independent Technical Report on the Kharmagtai Property, Mongolia* prepared by Andrew Vigar and Rod Graham of Mining Associates Limited, dated June 8, 2018.

The information in this MD&A that relates to exploration results is based on information compiled by Dr Andrew Stewart who is responsible for the exploration data, comments on exploration target sizes, QA/QC and geological interpretation and information. Dr Stewart, who is an employee of Xanadu and is a Member of the Australian Institute of Geoscientists, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the "Competent Person" as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and the National Instrument 43-101. Dr Stewart consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

## Forward-looking statements

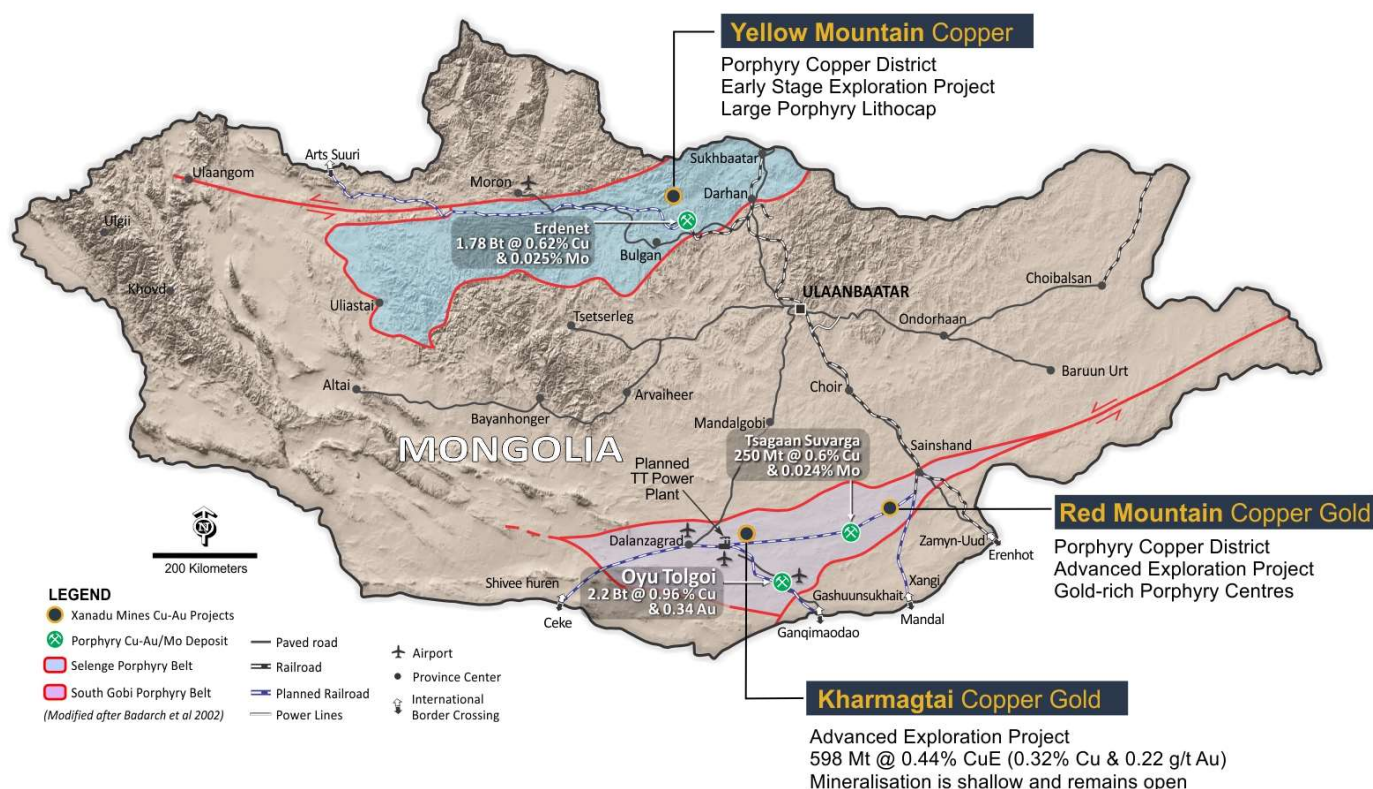
This MD&A contains **forward-looking statements**, which are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. The forward-looking statements in this MD&A are subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations that may include, amongst other things, statements regarding targets, estimates and assumptions in respect of mineral reserves and mineral resources and anticipated grades and recovery rates, production and prices, recovery costs and results, capital expenditures and are or may be based on assumptions and estimates related to future technical, economic, market, political, social and other conditions. These forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Xanadu, are inherently subject to significant technical, business, economic, competitive, political and social uncertainties and contingencies and involve known and unknown risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in such forward-looking statements. The words **believe, expect, anticipate, indicate, contemplate, target, plan, intends, continue, budget, estimate, may, will, schedule** and similar expressions identify forward-looking statements. The forward-looking statements included in this MD&A are made as of the date of this MD&A and other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Description of Business

Xanadu is an Australian incorporated public company with its shares listed on the ASX and TSX under the code XAM. The principal activity of the Company (and its subsidiaries) is copper-gold exploration in Mongolia. The Company holds interests in three tenements: (a) the Kharmagtai copper-gold project; (b) the Red Mountain copper-gold project; and (c) the Yellow Mountain copper project (**Figure 1**).

## Review of Operations

The 12 months ended 31 December 2019 have proved to be a pivotal year for Xanadu Mines. The Company controls one of the most promising porphyry copper and gold projects in Asia with Kharmagtai and has a portfolio of advanced district-scale exploration projects including Red Mountain and Yellow Mountain (**Figure 1**).



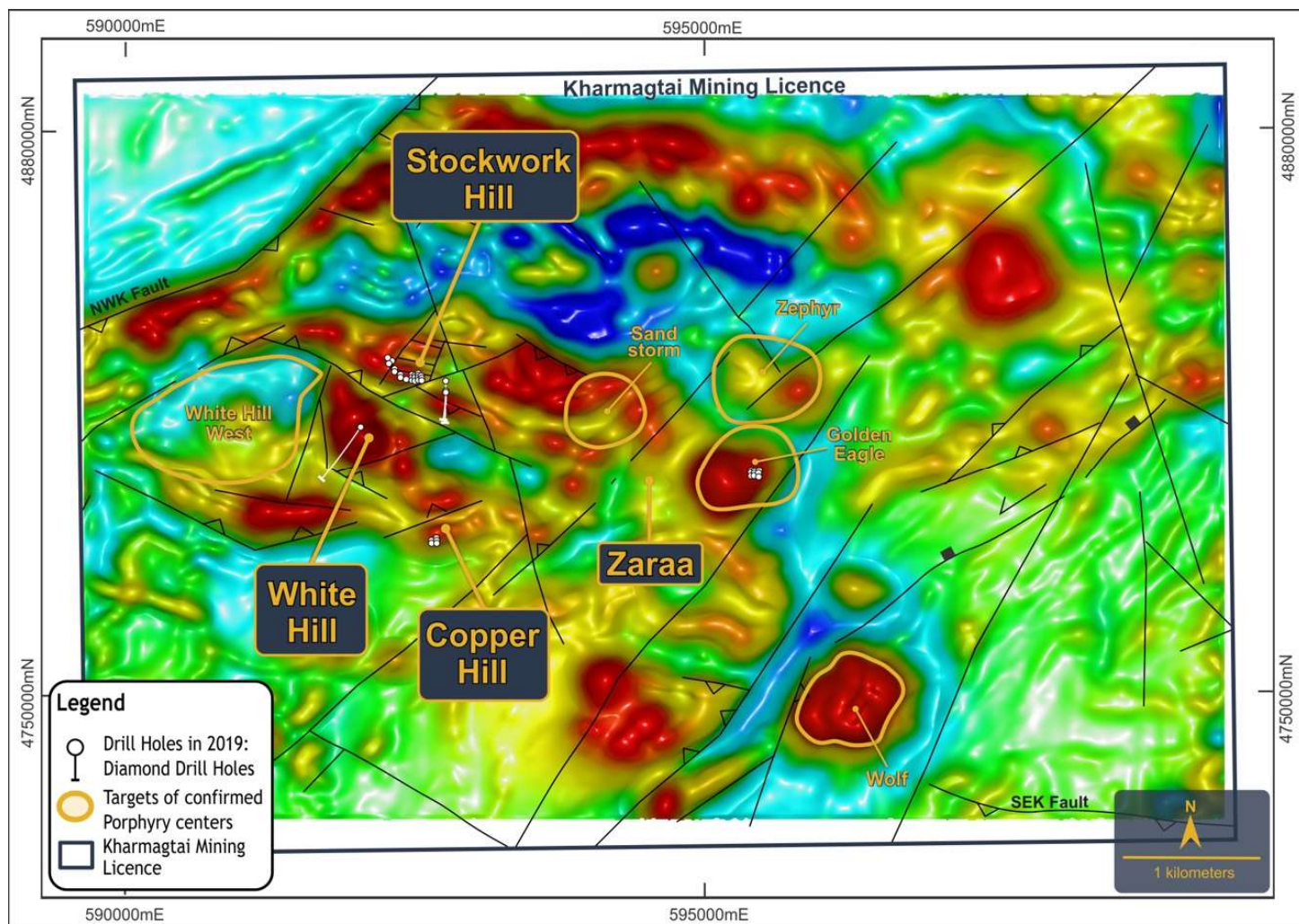
**FIGURE 1:** Location of Xanadu's copper-gold projects, within Mongolia's highly mineralised and vastly underexplored mineral belts. The resource figure above (598 million tonnes (Mt)) includes both indicated (129.3Mt) and inferred (468.9Mt) resource categories. Both at the same 0.3eCu cut-off grade (refer to Xanadu's ASX/TSX Announcement dated October 31, 2018).

The planned exploration programs targeted the discovery of additional copper-gold deposits on the Company's South Gobi porphyry projects at Kharmagtai and Red Mountain, where a total of 5,208 metres (m) of diamond drilling were completed during the calendar year (**Figure 2**).

### Kharmagtai Copper-gold Project (Xanadu 76.5%)

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

Exploration during 2019 focused on the dual strategy of assessing the Kharmagtai project economics via an open pit Scoping Study, updated metallurgy and assessing the opportunity for an oxide gold project, to provide funding for the larger copper gold project. Figure 2 shows the Kharmagtai license with drilling completed during 2019.



**FIGURE 2:** The Kharmagtai Mining Licence showing known porphyry deposits, new targets and holes completed in 2019.

### KHARMAGTAI OPEN PIT SCOPING STUDY

The Study was commissioned to assess the potential economics of a standalone open pit operation and concentrator exploiting the currently known Mineral Resource. It does not consider any value that may be generated using underground mining techniques, oxide gold potential (refer to Xanadu's ASX/TSX Announcement dated 20 March 2019), nor from possible resource growth from future exploration success. The project economics indicated by the study are considered 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 with input from reputable industry consultants O2 Mining Limited and the Company. Although a case exists to progress to PFS based on current resources, further exploration will enhance and could transform the project from good to great.

The Scoping Study suggests that mining could occur three pits: Stockwork Hill, Copper Hill and White Hill. These deposits have been optimised using the Lerch-Grossman algorithm and sequenced in concept as three separate pits but will ultimately resulting 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 2.1km in length and 1.3km in width. The project concept assumes a processing facility with a notional throughput capacity of 20 million tonnes per annum (**Mtpa**).

The Scoping Study is based on Indicated 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 upgrading of that material to Indicated or Measured classification.

## Management Discussion and Analysis

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 31 October 2018) using open cut mining and the material assumptions (**Table 2**) 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.

### Mineral Resources

The Mineral Resource that forms the basis of the Scoping Study is unchanged from that announced by the Company on 31 October 2018 (and presented in an NI 43-101 report lodged on SEDAR in October 2018). The Mineral Resource Estimate was reported in accordance with JORC (2012) and NI 43-101 and demonstrates that the mineralisation is robust and continuous with over 22% of the resource classified in the Indicated Mineral Resource category. Recent drilling over the last two years has significantly advanced the understanding of the deposit geology and the relationships between lithology, alteration, structure and mineralisation. **Table 1** below provides a summary of the Mineral Resources as presented in the 31 October 2018 Mineral Resource report. There have been no changes to the reported Mineral Resource Estimate during the current reporting period.

**Table 1. Interim Kharmagtai Mineral Resource Estimate (valid as at 31 October 2018)**

| Deposit         | Classification | Tonnes | Grades  |       |         | Contained Metal |        |         |
|-----------------|----------------|--------|---------|-------|---------|-----------------|--------|---------|
|                 |                | Mt     | CuEq, % | Cu, % | Au, g/t | CuEq, Kt        | Cu, Kt | Au, Koz |
| White Hill      | Indicated      | 45.2   | 0.42    | 0.30  | 0.23    | 189             | 135    | 340     |
| Stockwork Hill  |                | 74.4   | 0.59    | 0.38  | 0.41    | 441             | 286    | 972     |
| Copper Hill     |                | 9.7    | 0.76    | 0.48  | 0.54    | 73              | 47     | 167     |
| Total Indicated |                | 129.3  | 0.54    | 0.36  | 0.36    | 703             | 468    | 1,479   |
| White Hill      | Inferred       | 412.8  | 0.40    | 0.31  | 0.17    | 1,653           | 1,299  | 2,227   |
| Stockwork Hill  |                | 55.4   | 0.47    | 0.30  | 0.34    | 263             | 167    | 601     |
| Copper Hill     |                | 0.7    | 0.39    | 0.31  | 0.16    | 3               | 2      | 4       |
| Total Inferred  |                | 468.9  | 0.41    | 0.31  | 0.19    | 1,919           | 1,468  | 2,832   |

### Notes:

- Mineral Resources are classified according to Canadian Institute of Mining (**CIM**) Definition Standards for Mineral Resources and Mineral Reserves (10 May 2014).
- Mineral Resources for open pit mining are estimated within the limits of an ultimate pit shell. Mineral Resources for underground mining are estimated outside the limits of ultimate pit shell.
- A cut-off grade of 0.3% CuEq has been applied for open pit mineral resources.
- A cut-off grade of 0.5% CuEq has been applied for underground mineral resources.
- Dry bulk density values of 2.65 t/m<sup>3</sup> for oxide zones; 2.76, 2.74, 2.73 and 2.71 t/m<sup>3</sup> for country rocks, 2.78, 2.80, 2.77, 2.81 and 2.76 t/m<sup>3</sup> for porphyries and 2.76 t/m<sup>3</sup> for andesite dyke were used for the model cells.
- CuEq was calculated using conversion factor 0.62097 for gold. Metal prices were US\$3.1 /lb for copper and US\$1320 /oz for gold, recoveries – 70% for gold and 85% for copper (82.35% relative gold to copper recovery), copper equivalent formula applied:  $CuEq = Cu + Au * 0.62097 * 0.8235$ .
- Rows and columns may not add up exactly due to rounding.

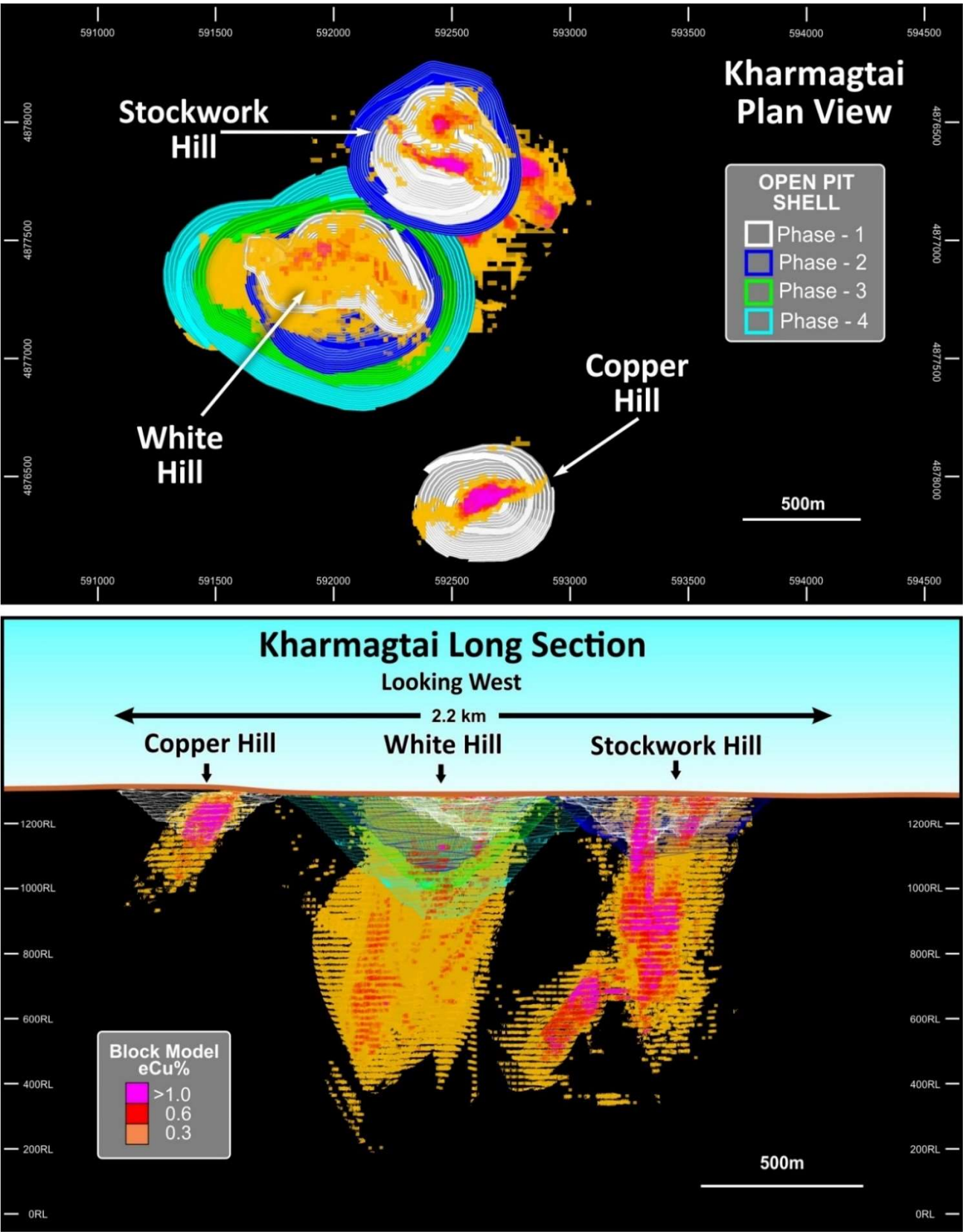


FIGURE 3: Open Pit design from 2019 Scoping Study (colour coded by phase).

## Management Discussion and Analysis

**Table 2: Key Scoping Study Input Assumptions**

| Parameters                                                                                   | Units                                | Estimated Values |
|----------------------------------------------------------------------------------------------|--------------------------------------|------------------|
| <b>Processing</b>                                                                            |                                      |                  |
| Maximum processing constraint                                                                | Mtpa                                 | 20               |
| <b>Metal Recovery</b>                                                                        |                                      |                  |
| Copper (average)                                                                             | %                                    | 86.6             |
| Gold (average)                                                                               | %                                    | 70.9             |
| Concentrate transport cost                                                                   | US\$/tonne                           | 25               |
| Payability Copper ( <b>Cu</b> )                                                              | %                                    | 96               |
| Payability Gold ( <b>Au</b> )                                                                | %                                    | 90               |
| Smelting Charge Cu                                                                           | US\$/dry metric tonne ( <b>dmt</b> ) | 90               |
| Refining Charge Au                                                                           | US\$/Payable Oz                      | 5                |
| <b>Preproduction Capital Cost Estimates</b>                                                  |                                      |                  |
| 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, Engineering, Procurement and Construction Management ( <b>EPCM</b> )) | US\$ million                         | 44               |
| Contingency                                                                                  | US\$ million                         | 55               |
| <b>Total Initial Capital</b>                                                                 | <b>US\$ million</b>                  | <b>484</b>       |
| Sustaining Capital                                                                           | US\$ million                         | 194              |
| Environmental                                                                                | US\$ million                         | 5                |
| <b>Total Capital</b>                                                                         | <b>US\$ million</b>                  | <b>683</b>       |

**NOTES:**

- Estimates are based upon the Kharmagtai open pit mining operations only. The Scoping Study excludes the production potential from the Zara copper-gold deposit, Golden Eagle Oxide, underground sources of mineable material, and further near surface open pit resources.
- 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.
- The Mineral Resource Estimate reported in accordance with JORC Code 2012 and NI 43-101 and announced by the Company on 31 October 2018, forms the basis of the mining and financial estimates referred to in the Announcement.
- 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.

### IMPROVED METALLURGY FOR KHARMAGTAI COPPER-GOLD PROJECT

Additional metallurgical testing has been completed on the Kharmagtai project. This work was conducted at SGS Canada Inc. in Vancouver, British Columbia (**SGS**) under the direction of David Middleditch and Andy Holloway of AGP Mining Consultants Inc. (**AGP**) (Toronto, Canada). New composites, three domain composites and nine variability composites were selected by Xanadu geologists with input from AGP personnel to represent the main geological and alteration domains within the open pit portion of the three existing deposits and to be representative of material in the 2018 Mineral Resource Estimate.

Copper and gold recoveries average 89.5% and 69.7% respectively for the two main master composites, ranging from 89.3% to 89.7% for copper and 60.8% to 78.7% for gold. Copper concentrates graded at an average of 25.2% Cu and 26.5g/t Au and ranged from 24.8 to 25.6% Cu and 21.5 to 30.0g/t Au.

## Management Discussion and Analysis

The 2019 metallurgical test program was designed to improve upon metallurgical assumptions in the 2018 Mineral Resource Estimate (see Xanadu's ASX/TSX announcement dated 31 October 2018) and 2019 Scoping Study (see Xanadu's ASX/TSX announcement dated 11 April 2019). Three domain composites and nine variability composites were selected to represent the main geometallurgical domains within the open pits designed during the 2018 Mineral Resource Estimate.

Each composite was run using the same base parameters as the 2008 metallurgical tests as a starting point. Selected composites were then optimised for the effect of primary grind and changes to cleaner parameters, flotation times and additive dosages. Locked cycle test characteristics for the two major alteration domains (Albite and Chlorite-Sericite) which represent around 80% of the mill feed from the 2018 MRE and 2019 Scoping Study can be found in **Table 3**.

2019 samples were selected from all three deposits with variability domains within each deposit defined by a geometallurgical model developed to represent the key rock type and alteration types.

Full details of this metallurgical work can be found in Xanadu's ASX/TSX announcement dated 19 December 2019.

**Table 3: Locked cycle test results for the two main master composites at Kharmagtai**

| Test            | Products            | Wt. % | Assays, g/t, % |       |       |       | Distribution, % |      |      |      |
|-----------------|---------------------|-------|----------------|-------|-------|-------|-----------------|------|------|------|
|                 |                     |       | Cu             | Fe    | Au    | S     | Cu              | Fe   | Au   | S    |
| Alb MC-LCT1     | 3rd Cleaner Con     | 1.0   | 25.57          | 31.60 | 30.04 | 35.80 | 89.7            | 5.4  | 78.7 | 41.2 |
|                 | 1st Cleaner Tailing | 20.2  | 0.03           | 7.36  | 0.13  | 2.25  | 2.1             | 24.9 | 7.0  | 51.9 |
|                 | Rougher Tailing     | 78.8  | 0.03           | 5.28  | 0.07  | 0.08  | 8.2             | 69.7 | 14.3 | 6.9  |
|                 | Feed                |       | 0.29           | 5.97  | 0.39  | 0.88  |                 |      |      |      |
| Ser_Ch1 MC-LCT1 | 3rd Cleaner Con     | 1.2   | 24.77          | 21.50 | 21.49 | 34.96 | 89.3            | 5.0  | 60.8 | 14.1 |
|                 | 1st Cleaner Tailing | 21.8  | 0.06           | 14.47 | 0.55  | 11.51 | 3.9             | 41.6 | 27.9 | 83.4 |
|                 | Rougher Tailing     | 77.0  | 0.03           | 5.25  | 0.06  | 0.10  | 6.9             | 53.4 | 11.4 | 2.5  |
|                 | Feed                |       | 0.34           | 7.58  | 0.43  | 3.00  |                 |      |      |      |
| Average         | 3rd Cleaner Con     | 1.1   | 25.2           | 26.5  | 25.8  | 35.4  | 89.5            | 5.2  | 69.7 | 27.7 |

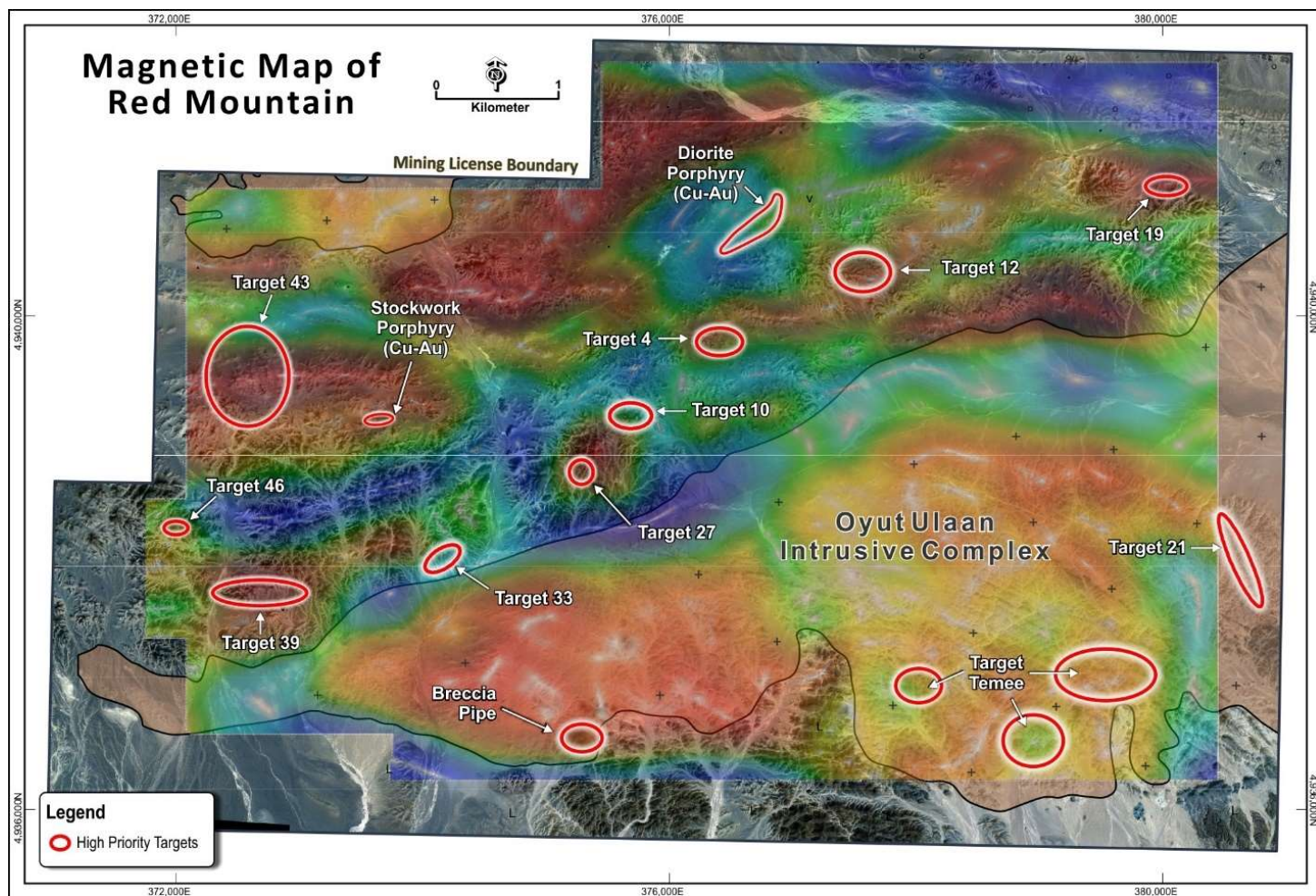
### Red Mountain Project (Xanadu 90%)

The Red Mountain copper-gold project is located in the Dornogovi Province of southern Mongolia, approximately 70km west of the future industrial centre of Sainshand. Red Mountain is a highly prospective porphyry copper-gold project. The project comprises a large and underexplored porphyry district (covering approximately 40km<sup>2</sup>) and consists of multiple co-genetic porphyry copper-gold centres, mineralised tourmaline breccia pipes and copper-gold/base metal magnetite skarns, which occur within the central part of Mining Licence 17129A (**Figure 4**).

Exploration during 2019 at Red Mountain, continued to define the project's potential through a combination of mapping, geophysics and geochemistry, identifying multiple drill-ready targets. Exploration work indicates that outcropping mineralisation may represent the shallow part of a deeper, more continuous porphyry system. A tourmaline breccia complex is also present at Red Mountain with similarities to the mineralised tourmaline breccia dike complex at Kharmagtai. The Company will continue its systematic and low-cost exploration program at Red Mountain. The next phase of exploration will focus on delineating potential large-scale porphyry deposits via testing the many geophysical and geochemical anomalies which remain within the Red Mountain licence area.

Xanadu and JOGMEC have entered into a new exploration earn-in agreement over Xanadu's Red Mountain project, located in the south Gobi region of Mongolia. Exploration objectives are discovery of a Tier-1 porphyry copper-gold discovery. The key terms of the earn-in and joint venture agreement are as follows:

- JOGMEC may earn a 51% interest in the project by sole funding \$USD7.2 million of expenditure over four years;
- During the earn-in, Xanadu will be the Manager of the Project;
- Upon JOGMEC completing the earn-in, a joint venture will be formed, and the parties must contribute funds based on their percentage interest to maintain their respective interests; and
- Standard dilution clauses will apply to the parties' interests. Should a party's interest dilute to below 10%, it shall automatically convert to a net smelter royalty.



**FIGURE 4:** The Red Mountain Mining Licence showing known porphyry deposits and new targets.

### Yellow Mountain Project (Xanadu 100%)

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

### Competent Person's Statements

The *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves* (the **JORC Code 2012**) sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The Information contained in this MD&A has been presented in accordance with the JORC Code 2012.

The information in this MD&A that relates to Mineral Resources is based on information compiled by Dmitry Pertel who is responsible for the Mineral Resource Estimate. Mr Pertel is a full-time employee of CSA Global and is a Member of the Australian Institute of Geoscientists, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the Qualified Person as defined in the CIM Guidelines and NI 43-101. Mr Pertel consents to the inclusion in the Scoping Study report of the matters based on this information in the form and context in which it appears.

The information in this MD&A that relates to the Scoping Study is based, and fairly reflects, information compiled by Gordon Zurowski, P.Eng is a registered Professional Engineer in Ontario, Canada. Mr Zurowski is employed by CSA Global. Mr Zurowski has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code 2012. Mr Zurowski consents to the inclusion in the Scoping Study report of the matters based on his information in the form and context in which it appears.

The information in this MD&A that relates to metallurgical test work is based on a summary of results compiled by Andrew Holloway who is responsible for metallurgical and process engineering aspects of the project. Mr. Holloway, who is a principal of AGP and is a Professional Engineer in Ontario, Canada, has sufficient experience relevant to the style of mineralisation and type of deposit under

## Management Discussion and Analysis

consideration and to the activity he is undertaking to qualify as the Competent Person as defined in JORC Code 2012 and NI 43-101. Mr Holloway consents to the inclusion in the Scoping Study report of the matters based on this information in the form and context in which it appears.

The information in this MD&A that relates to exploration results is based on information compiled by Dr Andrew Stewart who is responsible for the exploration data, comments on exploration target sizes, QA/QC and geological interpretation and information. Dr Stewart, who is an employee of Xanadu and is a Member of the Australasian Institute of Geoscientists, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the Competent Person as defined in JORC Code 2012 and NI 43-101. Dr Stewart consents to the inclusion in the Scoping Study report of the matters based on this information in the form and context in which it appears.

### Resource reporting governance arrangements

Xanadu Mines reporting of resource estimates are governed by the following:

- Reporting in accordance to the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the **JORC Code 2012**); and
- By suitably qualified and experienced persons

The Company confirms it is not aware of any new information or data that materially affects the information included in this MD&A relating to exploration activities and all material assumptions and technical parameters underpinning the exploration activities in the market announcements referenced continue to apply and have not been changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcements.

## Results of Operations

### Selected annual information

|                                                | Year ended<br>December 31, 2019<br>\$'000 | Year ended<br>December 31, 2018<br>\$'000 | Year ended<br>December 31, 2017<br>\$'000 |
|------------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
| Exploration expenditures                       | 3,219                                     | 8,290                                     | 7,086                                     |
| Impairment of deferred exploration expenditure | 4,425                                     | -                                         | -                                         |
| Corporate general and administration           | 3,720                                     | 4,630                                     | 3,208                                     |
| Share-based payments                           | (215)                                     | 1,696                                     | 326                                       |
| Depreciation and amortisation                  | 60                                        | 81                                        | 91                                        |
| Total comprehensive loss                       | 9,272                                     | 5,625                                     | 5,788                                     |
| Basic loss per share                           | 1.18                                      | 1.00                                      | 0.72                                      |
| Diluted loss per share                         | 1.18                                      | 1.00                                      | 0.72                                      |

|                                   | As at<br>December 31, 2019<br>\$'000 | As at<br>December 31, 2018<br>\$'000 | As at<br>December 31, 2017<br>\$'000 |
|-----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Deferred exploration expenditures | 43,352                               | 45,903                               | 37,157                               |
| Total assets                      | 44,995                               | 52,076                               | 47,213                               |
| Total liabilities                 | 161                                  | 814                                  | 1,421                                |
| Net assets                        | 44,834                               | 51,262                               | 45,792                               |

The Company is in the exploration stage and does not generate operating revenue.

Expenditures arising from exploration and evaluation activities relating to an area of interest are carried forward, provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable resources. Rights of tenure must be current to carry forward deferred exploration and evaluation expenditure. Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Exploration expenditures in the reporting period decreased due to reduced volume of drilling at the Kharmagtai project. A total of 5,208m of diamond drilling was completed during the calendar year at the Kharmagtai project.

## Management Discussion and Analysis

The impairment of deferred exploration expenditure relates to the following deferred exploration expenditure assets ('000): Yellow Mountain \$3,442 and Red Mountain \$983. Yellow Mountain has been fully impaired as the licence expires in May 2020 and is not expected to be renewed. The company is seeking compensation for this licence as exploration has been restricted for forestry regulations. No amount has been recognised for any compensation. In relation to Red Mountain, the company continues to assess options to fund further exploration and the asset has been written down based on the expected recoverable amount.

Corporate general and administration expenses decreased with measures taken to cut expenses. Share-based payments expense decreased due to expiry and forfeiture of all share performance rights.

### Selected quarterly information

|                                                | Quarter ended<br>December 31,<br>2019<br>\$'000 | Quarter ended<br>September 30,<br>2019<br>\$'000 | Quarter ended<br>June 30,<br>2019<br>\$'000 | Quarter ended<br>March 31,<br>2019<br>\$'000 |
|------------------------------------------------|-------------------------------------------------|--------------------------------------------------|---------------------------------------------|----------------------------------------------|
| Exploration expenditures                       | 554                                             | 1,393                                            | 283                                         | 989                                          |
| Impairment of deferred exploration expenditure | 4,425                                           | -                                                | -                                           | -                                            |
| Corporate general and administration           | 833                                             | 725                                              | 1,272                                       | 890                                          |
| Share-based payments                           | -                                               | 7                                                | (293)                                       | 71                                           |
| Depreciation and amortisation                  | 15                                              | 19                                               | 13                                          | 13                                           |
| Loss after income taxes                        | 5,285                                           | 750                                              | 1,096                                       | 909                                          |
| Basic loss per share                           | 0.76                                            | 0.11                                             | 0.17                                        | 0.14                                         |
| Diluted loss per share                         | 0.76                                            | 0.11                                             | 0.17                                        | 0.14                                         |
|                                                | Quarter ended<br>December 31,<br>2018<br>\$'000 | Quarter ended<br>September 30,<br>2018<br>\$'000 | Quarter ended<br>June 30,<br>2018<br>\$'000 | Quarter ended<br>March 31,<br>2018<br>\$'000 |
| Exploration expenditures                       | 762                                             | 2,109                                            | 2,709                                       | 2,710                                        |
| Corporate general and administration           | 1,615                                           | 996                                              | 965                                         | 1,054                                        |
| Share-based payments                           | 164                                             | 164                                              | 684                                         | 684                                          |
| Depreciation and amortisation                  | 18                                              | 19                                               | 17                                          | 27                                           |
| Loss after income taxes                        | 1,828                                           | 1,176                                            | 1,522                                       | 1,801                                        |
| Basic loss per share                           | 0.24                                            | 0.16                                             | 0.25                                        | 0.30                                         |
| Diluted loss per share                         | 0.24                                            | 0.16                                             | 0.25                                        | 0.30                                         |

Share-based payments are measured by reference to the fair value at the date at which they are granted. The fair value of the options is determined by an independent written valuation. Share-based payments expense is amortised over the vesting period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

### Capital Management

The Company had \$1.2 million cash on hand as at December 31, 2019 (December 31, 2018: \$5.2 million). On July 8, 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 \$2.1 million. On August 22, 2019, the Company placed the non-renounceable Rights Issue shortfall raising further \$1.2 million, representing 24,411,099 New Shares at \$0.052 per share.

Subsequent to the year end, on January 16, 2020, the Company conducted a non-brokered placement raising \$2.5 million. The Placement was conducted at \$0.033 per share and it resulted in 78,326,311 new ordinary shares issued.

The primary use of funds over 2020 will be the continuation of exploration activities at the Company's Kharmagtai copper-gold project and for working capital purposes. The Company may need to raise additional capital for its exploration activities or seek joint venture partners. There is a risk that capital or joint venture partners may not be available or available on acceptable terms. Capital management is a priority of Management and the Company retains the flexibility to reduce its cost base while preserving its exploration projects if required.

## Management Discussion and Analysis

### 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 Australian Dollars (**A\$**), US Dollars (**US\$**), Mongolian Tugrik (**MNT**), and Canadian Dollars (**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.

Xanadu's currency risk to US\$ foreign denominated financial assets and liabilities at the end of the reporting period, expressed in A\$, was as follows:

|                           | Assets |        |
|---------------------------|--------|--------|
|                           | 2019   | 2018   |
| Consolidated              | \$'000 | \$'000 |
| Cash and cash equivalents | 1,209  | 524    |

The following sensitivity is based on the foreign currency risk exposures in existence at the balance date:

|                     | AUD strengthened |                             |                  | AUD weakened |                             |                  |
|---------------------|------------------|-----------------------------|------------------|--------------|-----------------------------|------------------|
|                     | % change         | Effect on profit before tax | Effect on equity | % change     | Effect on profit before tax | Effect on equity |
| Consolidated – 2019 |                  |                             |                  |              |                             |                  |
| A\$/US\$ '000       | 10%              | 39                          | 39               | (10%)        | (39)                        | (39)             |
|                     |                  |                             |                  |              |                             |                  |
|                     | AUD strengthened |                             |                  | AUD weakened |                             |                  |
|                     | % change         | Effect on profit before tax | Effect on equity | % change     | Effect on profit before tax | Effect on equity |
| Consolidated – 2018 |                  |                             |                  |              |                             |                  |
| A\$/US\$ '000       | 10%              | 52                          | 52               | (10%)        | (52)                        | (52)             |

*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.

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

|                                              | 2019                             |                | 2018                             |                |
|----------------------------------------------|----------------------------------|----------------|----------------------------------|----------------|
|                                              | Weighted average interest rate % | Balance \$'000 | Weighted average interest rate % | Balance \$'000 |
| Consolidated                                 |                                  |                |                                  |                |
| Cash and cash equivalents                    | 2.40%                            | 1,209          | 2.40%                            | 5,225          |
| Net exposure to cash flow interest rate risk |                                  | 1,209          |                                  | 5,225          |

## Management Discussion and Analysis

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

|                                 | Basis points increase |                             |                  | Basis points decrease |                             |                  |
|---------------------------------|-----------------------|-----------------------------|------------------|-----------------------|-----------------------------|------------------|
|                                 | Basis points change   | Effect on profit before tax | Effect on equity | Basis points change   | Effect on profit before tax | Effect on equity |
| Consolidated – 2019 ('000)      |                       |                             |                  |                       |                             |                  |
| Net interest rate risk exposure | 100                   | <u>12</u>                   | <u>12</u>        | (100)                 | <u>(12)</u>                 | <u>(12)</u>      |
|                                 | Basis points increase |                             |                  | Basis points decrease |                             |                  |
|                                 | Basis points change   | Effect on profit before tax | Effect on equity | Basis points change   | Effect on profit before tax | Effect on equity |
| Consolidated – 2018 ('000)      |                       |                             |                  |                       |                             |                  |
| Net interest rate risk exposure | 100                   | <u>52</u>                   | <u>52</u>        | (100)                 | <u>(52)</u>                 | <u>(52)</u>      |

**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 \$1.2 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

#### 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.

## Management Discussion and Analysis

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### *Licence 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.

On July 16, 2009, the Mongolian Parliament enacted legislation to Prohibit Mineral Exploration and Mining Operations in Headwaters of Rivers, Protected Zones of Water Reservoirs and *Forested Areas* (the **Long Name Law**) which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the *Mongolian Law on Forest* and areas adjacent to rivers and lakes as defined in the *Law of Mongolia on Water*. New exploration licences and mining licences overlapping with the defined prohibited areas will not be granted, and previously granted licences that overlap with the defined prohibited areas, will be terminated within five months following the adoption of the Long Name Law. The Company's license for the Yellow Mountain project overlaps with the border zone of a forested area and zones allocated to the protection of water basins/reservoirs under the Long Name Law. Pursuant to the *Law of Mongolia on Minerals* (the **Minerals Law**) and the Long Name Law, minerals licences which overlap with restricted areas will be revoked by the mineral's authority only if, and when, compensation is paid in full to the holder of the relevant licence. The Company has not received any such notice from any Mongolian Government Authority, indicating the revocation of the Yellow Mountain Licence or inviting the Company to discuss the revocation of its licence. Notwithstanding the validity of the Yellow Mountain Licence, as a matter of law, the Company will not be entitled to undertake any exploration activities in any portion of the Yellow Mountain Licence area that overlaps with a restricted area.

### *Mineral Resource Assumptions Risk*

The Company's Mineral Resource Estimate and Mineral Reserve Estimate 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.

Subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. We have not seen a significant impact on our business to date. However, although there are currently no restrictions on transportation locally, any further deterioration of the situation may result in quarantines and affect the Company's ability to undertake exploration activities in the South Gobi. Therefore, the outbreak and the response of Governments in dealing with the pandemic may interfere with general activity levels within the community, the economy and the operations of our business. The scale and duration of these developments remain uncertain as at the date of this report however they will have an impact on our forecast cash flow and financial condition.

## Management Discussion and Analysis

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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, 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.

### **Significant changes in the state of affairs**

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

### **Matters subsequent to the end of the financial period**

On January 16, 2020, the Company completed a non-brokered placement raising \$2.58 million (**Placement**). The Placement was conducted at \$0.033 per share and it resulted in 78,326,311 new ordinary shares being issued. Shareholder approval was not required for the Placement, which was undertaken under Xanadu's Listing Rule 7.1, 15% placement capacity. The New Shares were issued to Precious Capital Gold Mining & Metals Fund (**PCG**), managed by SSI Asset Management AG (SSI), a Zurich based fund. Following completion of the Placement, PCG holds approximately 9.9% of Xanadu's issued capital.

On March 24, 2020, the Company announced that it entered into an earn-in agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) to sole fund up to \$USD7.2 million in exploration expenditure at the Company's Red Mountain copper-gold Project in Mongolia. The key terms of the earn-in and joint venture agreement are as follows:

- JOGMEC may earn a 51% interest in the project by sole funding \$USD7.2 million of expenditure over four years;
- during the earn-in, Xanadu will be the Manager of the Project;
- upon JOGMEC completing the earn-in, a joint venture will be formed, and the parties must contribute funds based on their percentage interest to maintain their respective interests; and
- standard dilution clauses will apply to the parties' interests. Should a party's interest dilute to below 10%, it shall automatically convert to a net smelter royalty.

Subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. In March 2020, Mongolia reported its first transported case of COVID-19. As a response, the country closed its borders and halted all international flights. As at date of this report, Mongolia had reported six cases of COVID-19.

We have not seen a significant impact on our business to date. However, although there are currently no restrictions on transportation locally, any further deterioration of the situation may result in quarantines and affect the Company's ability to undertake exploration activities in the South Gobi. Therefore, the outbreak and the response of Governments in dealing with the pandemic may interfere with general activity levels within the community, the economy and the operations of our business. The scale and duration of these developments remain uncertain as at the date of this report however they will have an impact on our forecast cash flow and financial condition.

It is not possible to estimate the impact of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the Group at this time.

The financial statements have been prepared based upon conditions existing at 31 December 2019 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of COVID-19 occurred after 31 December 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at 31 December 2019 for the impacts of COVID-19.

## Management Discussion and Analysis

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No other matter or circumstance has arisen since December 31, 2019 that has significantly affected, or may significantly affect Xanadu's operations, the results of those operations, or the Company's state of affairs in future financial years.

### Commitments

Commitments in relation to exploration licences contracted at the reporting date, including regulatory charges such as licence fees, and corporate administrations, but not recognised as liabilities within one year are \$0.2 million (December 31, 2018: \$0.7 million). As the future exploration activity is in most cases dependent upon reserves being found, it is not possible to set out the funds due to be contributed in more than one year's time. No other commitments or contingencies existed at December 31, 2019.

Commitments recognised as liabilities within one year are trade payables and vehicle leases totalling \$0.2 million.

### Related party transactions

#### *Parent entity and subsidiaries*

Xanadu Mines Ltd is the parent entity. Interests in subsidiaries are set out in Note 27 to the financial statements.

#### *Key management personnel*

Disclosures relating to key management personnel are set out in Note 21 to the financial statements and the Remuneration Report.

#### *Transactions with related parties*

On January 2, 2017, the Company relocated its Ulaanbaatar office and entered into a rental agreement with Mr Ganbayar Lkhagvasuren, an Executive Director of the Company. The transaction between these 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 rental totalling \$86,480 for the year ended December 31, 2019 (December 31, 2018: \$89,438).

For the year ended December 31, 2019, the Company sourced legal services for total \$44,612 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 as at December 31, 2019.

#### *Terms and conditions*

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

### Likely developments and expected results of operations

Information on likely developments in the operations of the Company and the expected results of operations have been included in the MD&A. Xanadu intends to continue to invest and explore the projects described in this MD&A.

### Dividends

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

### Off balance sheet arrangements

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

### New or amended Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended Australian Accounting Standards Board (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.

#### *AASB 16 Leases*

The Group has adopted *AASB 16 Leases (AASB 16)* from 1 January 2019. The standard replaces *AASB 117 Leases (AASB 117)* 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

## Management Discussion and Analysis

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the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**) results improve as the operating expense is now replaced by interest expense and depreciation in the *statement of profit or loss and other comprehensive income*. 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.

### *IFRIC 23: Uncertainty Over Income Tax Treatments*

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Company applies significant judgement in identifying uncertainties over income tax treatments. Since Xanadu and its wholly owned subsidiaries (the **Group**) operates in a multinational environment, it assessed whether the interpretation had an impact on its consolidated financial statements.

This Interpretation does not have any material impact on the current annual financial report for the year ended December 31, 2019.

## Directors' Report

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### Directors

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

Colin Moorhead (appointed November 28, 2019) – Independent Non-Executive Chairman  
Andrew Stewart – Chief Executive Officer  
Ganbayar Lkhagvasuren – Executive Director  
Michele Muscillo – Independent Non-Executive Director  
Stephen Motteram (appointed October 18, 2019) – Non-Executive Director  
Marcus Engelbrecht (ceased April 30, 2019) – Non-Executive Director  
Kevin Tomlinson (ceased April 30, 2019) – Independent Non-Executive Chairman  
Hannah Badenach (ceased October 18, 2019) – Non-Executive Director  
Darryl Clark (ceased November 28, 2019) – Independent Non-Executive Chairman

### Information on Directors

|                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name:</b>                                | <b>Colin Moorhead</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Title:</b>                               | Independent Non-Executive Chairman                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Qualifications:</b>                      | B.Sc (Hons) FAusIMM (CP) GAICD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Experience and expertise:</b>            | Colin is an experienced industry executive with a demonstrated track record of over three decades building value in mining companies through innovation, discovery, project development and safe, efficient operations. Colin has extensive experience in development and financing significant mining projects internationally. He also has experience with global mining operations as well as experience in successful mergers and acquisitions. A geologist by training, Colin is known for strong leadership, strategy and execution that saw him rise through the ranks from a graduate with BHP in 1987 to an executive level manager responsible for global exploration and resource development at Newcrest Mining from 2008 to 2015, a period of significant growth for the company. Colin has significant relevant experience as CEO of emerging Indonesian listed producer PT Merdeka Copper Gold Tbk, where he built and led the team that constructed and commissioned the highly successful Tujuh Bukit Gold Mine. Colin is a Fellow, Chartered Professional and Immediate Past President of AUSIMM, a graduate of AICD and Harvard Business School Advanced Management Program (AMP). |
| <b>Other current directorships:</b>         | Merdeka Copper Gold (IDX:MDKA)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Former directorships (last 3 years):</b> | Finders Resources Limited (ASX:FND) (from August 2018 to October 2019)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Special responsibilities:</b>            | Member of the Audit and Risk Committee, Nomination and Remuneration Committee and Safety, Health and Environment Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Interests in shares:</b>                 | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Interests in rights:</b>                 | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Name:</b>                                | <b>Dr Andrew Stewart</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Title:</b>                               | Chief Executive Officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Qualifications:</b>                      | BSc, PhD, MAIG, MSEG, MAICD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Experience and expertise:</b>            | Andrew is a geologist with over 15 years' experience in mineral exploration; primarily focussed on project generation, project evaluation and exploration strategy development throughout Asia and Eastern Europe. Andrew has particular expertise in porphyry copper and epithermal gold deposits, but has worked across a diverse range of commodities. He holds a BSc (Hons) from Macquarie University and a PhD from the Centre of Ore Deposits and Exploration Studies at the University of Tasmania. During his time at Ivanhoe Mines and Vale, Andrew held various technical and management positions in Mongolia and Indonesia and has been involved in several green field discoveries. After providing technical and program management for Vale in Indonesia and Mongolia, Andrew joined Xanadu Mines as Chief Geologist leading the gold and base metals project generation and evaluation team in Mongolia.                                                                                                                                                                                                                                                                              |
| <b>Other current directorships:</b>         | Godolphin Resources Limited (ASX:GRL) (December 19, 2020 - current)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Former directorships (last 3 years):</b> | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Special responsibilities:</b>            | Chief Executive Officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Interests in shares:</b>                 | 4,721,292                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Interests in rights:</b>                 | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

## Directors' Report

|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name:</b>                                    | <b>Ganbayar Lkhagvasuren</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Title:</b>                                   | Executive Director                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Qualifications:</b>                          | M.IBL                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Experience and expertise:</b>                | Ganbayar is a co-founder of Xanadu and has been a Director since 2006. He is the joint venture partner in Mongol Metals LLC and brings a vital Mongolian perspective to the Board of Directors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Other current directorships:</b>             | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Former directorships (last 3 years):</b>     | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Special responsibilities:</b>                | Member of the Safety, Health and Environment Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Interests in shares:</b>                     | 16,558,329                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Interests in rights:</b>                     | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Name:</b>                                    | <b>Michele Muscillo</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Title:</b>                                   | Independent Non-Executive Director                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Qualifications:</b>                          | LL.B                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Experience and expertise:</b>                | Michele is a Partner with HopgoodGanim Lawyers in Brisbane. He has practised exclusively in corporate law for the duration of his legal career and has extensive experience in mergers and acquisitions and capital markets transactions, including the negotiation of significant commercial contracts and agreements. His key areas of practice include Corporate Advisory and Governance, Mergers and Acquisitions, Capital Markets and Resources and Energy. Michele is also currently a Non-Executive Director with ASX-Listed Aeris Resources Limited (ASX: AIS), a Non-Executive Director with ASX/TSX listed Cardinal Resources Limited (ASX/TSX: CDV) and a Non-Executive Director with ASX listed Mako Gold Limited (ASX: MKG). Formerly, Michele was also Non-Executive Director of Orbis Gold Limited from the time of its ASX listing, through the discovery of its flagship Natougou project and ultimately to the sale of the Company to TSX-Listed SEMAFO Inc. (TSX: SMF) in 2015. |
| <b>Other current directorships:</b>             | Cardinal Resources Limited (appointed October 12, 2017 - current), Aeris Resources Limited (appointed May 2, 2013 - current), Mako Gold Limited (appointed April 20, 2017 - current)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Former directorships (last 3 years):</b>     | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Special responsibilities:</b>                | Chairman of the Audit and Risk Committee and the Nomination and Remuneration Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Interests in shares:</b>                     | 59,441                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Interests in rights:</b>                     | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Name:</b>                                    | <b>Stephen Motteram</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Title:</b>                                   | Non-Executive Director                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Qualifications:</b>                          | B.Ag Sci (Hons), MBA, GAICD, CPA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Experience and expertise:</b>                | Mr Motteram has over 20 years' experience in financial institutions and trading houses, specialising in commodities trading, project & structured finance, equity and equity-linked investments. He has originated, executed and managed natural resource, energy and infrastructure transactions in Australia, Indonesia, Africa, India, Brazil and China. Stephen has worked for Noble since January 2011 and prior to that, worked with National Austral Bank in Hong Kong and Australia for approximately 10 years, and previously was a trader with Louis Dreyfus. Mr Motteram holds a B. Agricultural Science (Honours) from the University of Melbourne and an MBA from the Melbourne Business School. He is a Certified Practicing Accountant and a Graduate of the Australian Institute of Company Directors.                                                                                                                                                                             |
| <b>Other current directorships:</b>             | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Former directorships (last three years):</b> | Cockatoo Coal Limited (ASX: COK) (March 2015 to August 2017)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Special responsibilities:</b>                | Member of the Audit and Risk Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Interests in shares:</b>                     | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Interests in rights:</b>                     | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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

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

## Directors' Report

### Company Secretary

Phil Mackey, B Bus

Phil was appointed Company Secretary of Xanadu in May 2017. Phil has over four decades of listed and unlisted company secretarial and commercial experience, including multi-jurisdictional board practice as both a company secretary and a director. Previously, Phil served as Company Secretary of ASX and SGX dual listed Australand Group Limited (a quadruple stapled group) and Deputy Company Secretary of AMP Limited (ASX:AMP). Phil's commercial experience includes appointment as Chief Operating Officer (Specialised Funds) at Babcock & Brown. Phil is a Fellow of the Governance Institute Australia and a Graduate Member of the Australian Institute of Company Directors.

### Meetings of Directors

The number of meetings of the Company's Board of Directors (the **Board**) and of each Board committee held during the period ended December 31, 2019 and the number of meetings attended by each Director were:

|                | Full Board |      | Audit & Risk Committee |      | Nomination & Remuneration Committee |      | Safety, Health and Environment Committee |      |
|----------------|------------|------|------------------------|------|-------------------------------------|------|------------------------------------------|------|
|                | Attended   | Held | Attended               | Held | Attended                            | Held | Attended                                 | Held |
| C Moorhead     | 1          | 1    | —                      | —    | —                                   | —    | —                                        | —    |
| A Stewart      | 16         | 16   | —                      | —    | —                                   | —    | 2                                        | 2    |
| G Lkhagvasuren | 14         | 16   | —                      | —    | —                                   | —    | 2                                        | 2    |
| M Muscillo     | 16         | 16   | 2                      | 2    | 2                                   | 2    | —                                        | —    |
| S Motteram     | 2          | 2    | —                      | —    | —                                   | —    | —                                        | —    |
| K Tomlinson    | 7          | 7    | 1                      | 1    | 1                                   | 1    | —                                        | —    |
| M Engelbrecht  | 6          | 7    | —                      | —    | —                                   | —    | —                                        | —    |
| H Badenach     | 12         | 14   | —                      | 1    | 1                                   | 1    | —                                        | —    |
| D Clark        | 15         | 15   | 2                      | 2    | 1                                   | 1    | 1                                        | 1    |

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

As at the date of this Directors' Report, the Company has a Safety, Health and Environment Committee, an Audit and Risk Committee and a Nomination and Remuneration Committee. Further details are set out in the Corporate Governance Statement on the Company's website at [www.xanadumines.com](http://www.xanadumines.com).

## Directors' Report

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### Remuneration Report (audited)

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

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

The Remuneration Report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration;
- Details of remuneration;
- Service agreements;
- Share-based compensation;
- Additional information; and
- Additional disclosures relating to key management personnel.

#### **Principles used to determine the nature and amount of remuneration**

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

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

Important attributes that impact on Xanadu's success are:

- exploration and safety excellence, dedication and persistence;
- understanding of Mongolia and a strong national team;
- ability to communicate exploration success in the public markets to attract capital and increase shareholder value; and
- adherence to good corporate governance principles.

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

#### **Executive Remuneration**

There are up to three categories of remuneration employed to reward employees depending on their role and responsibility within Xanadu:

1. Total Fixed Remuneration;
2. Short Term Incentive; and
3. Long Term Incentive.

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

#### **Total Fixed Remuneration**

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

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

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

## Directors' Report

### *Variable or At-Risk Incentive Remuneration*

It is the Board's policy to deliver at-risk incentive remuneration to employees as both a Short-Term Incentive (**STI**) and a Long-Term Incentive (**LTI**). The payment of STIs and LTIs are linked to achievement of agreed performance measures and establishes a variable remuneration arrangement that links short- and long-term performance with short- and longer-term rewards. Any equity awarded will be governed by the Xanadu Equity Incentive Plan (**Plan**), and if awarded to a Director, the award will be subject to shareholder approval.

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

### *Short Term Incentive (STI)*

Xanadu has established the STI to achieve the following objectives:

- focus employees on the achievements of annual key safety, financial and business targets that the Board believes will lead to sustained and improved business performance; and
- reward and recognise superior performance, if achieved.

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

### *Long Term Incentive (LTI)*

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

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

### *Total Reward Mix - Executives*

As a guide, the proportion of remuneration attributable to each component of the Xanadu remuneration philosophy is dependent on the level of seniority of the employee. The target total reward mix on average is as follows:

|                      | Total Fixed<br>Remuneration % | STI<br>% of TFR | LTI<br>% of TFR |
|----------------------|-------------------------------|-----------------|-----------------|
| CEO                  | 100                           | 50              | 50              |
| CEO's Direct Reports | 100                           | 30              | 30              |

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

### *Non-Executive Remuneration*

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

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers fees paid and securities issued to Non-Executive Directors of comparable companies when undertaking the annual review as well as the time commitment of directors in discharging duties at Board, Committee work and additional assistance provided to the Company. Currently, the Non-Executive Director base fee is \$52,000 per annum and a Committee Chairman receives \$4,000 per annum per committee. The Non-Executive Chairman receives fee of \$120,000 per annum.

## Directors' Report

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

### Details of remuneration

#### Amounts of remuneration

Details of the remuneration of KMP of the Group are set out in the following tables.

The KMP of the Group consisted of the Directors of Xanadu Mines and the following persons:

- M Dambiinyam - Chief Financial Officer

| Year ended<br>December 31, 2019 | Short-term benefits    |                |                         | Post-employment<br>benefits | Share-based<br>payments | Total            |
|---------------------------------|------------------------|----------------|-------------------------|-----------------------------|-------------------------|------------------|
|                                 | Cash salary<br>and fee | Bonus          | Others/<br>Non-monetary | Super-<br>annuation         | Equity-<br>settled      |                  |
|                                 | \$                     | \$             | \$                      | \$                          | \$                      | \$               |
| <i>Non-Executive Directors:</i> |                        |                |                         |                             |                         |                  |
| C Moorhead*                     | 9,132                  | -              | -                       | 868                         | -                       | 10,000           |
| M Muscillo                      | 60,000                 | -              | -                       | -                           | 11,205                  | 71,205           |
| K Tomlinson**                   | 40,000                 | -              | -                       | -                           | (342,330)               | (302,330)        |
| M Engelbrecht**                 | 15,830                 | -              | -                       | 1,504                       | -                       | 17,334           |
| D Clark***                      | 46,880                 | -              | -                       | 4,454                       | 11,205                  | 62,539           |
| <i>Executive Directors:</i>     |                        |                |                         |                             |                         |                  |
| A Stewart                       | 394,265                | 122,358        | 58,628                  | 4,564                       | 51,730                  | 631,545          |
| G Lkhagvasuren                  | 381,217                | 78,489         | -                       | -                           | 36,934                  | 496,640          |
| <i>Other KMP:</i>               |                        |                |                         |                             |                         |                  |
| M Dambiinyam                    | 240,239                | 50,528         | -                       | -                           | 7,989                   | 298,756          |
|                                 | <u>1,187,563</u>       | <u>251,375</u> | <u>58,628</u>           | <u>11,390</u>               | <u>(223,267)</u>        | <u>1,285,689</u> |

\* appointed November 28, 2019

\*\* ceased April 30, 2019 and forfeited share based payments

\*\*\* ceased November 28, 2019

Hannah Badenach and Stephen Motteram did not receive remuneration.

| Year ended<br>December 31, 2018 | Short-term benefits    |                |                         | Post-employment<br>benefits | Share-based<br>payments | Total            |
|---------------------------------|------------------------|----------------|-------------------------|-----------------------------|-------------------------|------------------|
|                                 | Cash salary<br>and fee | Bonus          | Others/<br>Non-monetary | Super-<br>annuation         | Equity-<br>settled      |                  |
|                                 | \$                     | \$             | \$                      | \$                          | \$                      | \$               |
| <i>Non-Executive Directors:</i> |                        |                |                         |                             |                         |                  |
| K Tomlinson                     | 142,732                | -              | -                       | -                           | 274,868                 | 417,600          |
| D Clark                         | 54,714                 | -              | -                       | 1,619                       | 96,598                  | 152,931          |
| M Engelbrecht                   | 48,097                 | -              | -                       | 4,569                       | -                       | 52,666           |
| M Muscillo                      | 59,000                 | -              | -                       | -                           | 96,598                  | 155,598          |
| <i>Executive Directors:</i>     |                        |                |                         |                             |                         |                  |
| A Stewart                       | 388,266                | 129,726        | 61,825                  | -                           | 641,358                 | 1,221,175        |
| G Lkhagvasuren                  | 306,562                | 47,516         | -                       | -                           | 378,715                 | 732,793          |
| <i>Other KMP:</i>               |                        |                |                         |                             |                         |                  |
| M Dambiinyam                    | 195,353                | 34,305         | -                       | -                           | 104,548                 | 334,206          |
| M Brown                         | 184,756                | 33,722         | -                       | -                           | 104,548                 | 323,026          |
|                                 | <u>1,379,480</u>       | <u>245,269</u> | <u>61,825</u>           | <u>6,188</u>                | <u>1,697,233</u>        | <u>3,389,995</u> |

H Badenach did not receive any remuneration.

## Directors' Report

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

| Name                            | Fixed remuneration                |                                   | At risk - STI                     |                                   | At risk - LTI                     |                                   |
|---------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                                 | Year ended<br>December 31<br>2019 | Year ended<br>December 31<br>2018 | Year ended<br>December<br>31 2019 | Year ended<br>December 31<br>2018 | Year ended<br>December 31<br>2019 | Year ended<br>December 31<br>2018 |
| <i>Non-Executive Directors:</i> |                                   |                                   |                                   |                                   |                                   |                                   |
| C Moorhead                      | 100%                              | -                                 | -                                 | -                                 | -                                 | -                                 |
| M Muscillo                      | 84%                               | 38%                               | -                                 | -                                 | 16%                               | 62%                               |
| K Tomlinson                     | 100%                              | 34%                               | -                                 | -                                 | -                                 | 66%                               |
| M Engelbrecht                   | 100%                              | 100%                              | -                                 | -                                 | -                                 | -                                 |
| D Clark                         | 82%                               | 37%                               | -                                 | -                                 | 18%                               | 63%                               |
| <i>Executive Directors:</i>     |                                   |                                   |                                   |                                   |                                   |                                   |
| A Stewart                       | 72%                               | 37%                               | 19%                               | 11%                               | 8%                                | 53%                               |
| G Lkhagvasuren                  | 77%                               | 42%                               | 16%                               | 6%                                | 7%                                | 52%                               |
| <i>Other KMP:</i>               |                                   |                                   |                                   |                                   |                                   |                                   |
| M Dambiinyam                    | 80%                               | 58%                               | 17%                               | 10%                               | 3%                                | 31%                               |

### Service agreements

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

Name: Andrew Stewart  
 Title: Chief Executive Officer  
 Details: Dr Stewart's fixed remuneration, effective October 1, 2019, is an annual salary package of A\$365,000 including compulsory taxes and superannuation contributions. In the event of termination of Dr Stewart's employment other than in the case of misconduct, the executive must give a minimum of 9 months' notice prior to termination, and the Company must give 9 months' notice prior to termination. The Company may, at its discretion, provide Dr Stewart with payment of fixed remuneration in whole or in part in lieu of notice. For the avoidance of doubt, the Company's right to make such a payment does not give Dr Stewart any right to receive such a payment.

Name: Ganbayar Lkhagvasuren  
 Title: Executive Director  
 Details: Mr Lkhagvasuren's fixed remuneration is an annual salary package of US\$265,000 including compulsory taxes and social insurance applicable as an employee in Mongolia. In the event of Mr Lkhagvasuren's employment being terminated other than in the case of misconduct, Mr Lkhagvasuren must give a minimum of 6 months' notice prior to termination, and the Company must give 9 months' notice prior to termination.

Name: Munkhsaikhan Dambiinyam  
 Title: Chief Financial Officer  
 Details: Mr Dambiinyam's fixed remuneration is an annual salary package of US\$167,000 including compulsory taxes and social insurance applicable as an employee in Mongolia. In the event of termination of Mr Dambiinyam's employment other than in the case of misconduct, Mr Dambiinyam must give a minimum of 6 months' notice prior to termination, and the Company must give 6 months' notice prior to termination.

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

### Share-based compensation

#### Issue of shares

No shares were issued to Directors and other KMP as part of compensation during the year ended December 31, 2019.

#### Options

There were no options over ordinary shares granted to or vested by Directors and other KMP as part of compensation during the year ended December 31, 2019.

## Directors' Report

### Share rights

Details of share rights over ordinary shares granted, vested and lapsed for Directors and other KMP as part of compensation during the period ended December 31, 2019 are set out below:

| Name           | Grant date        | Expiry date      | Number of rights granted | Number of rights vested | Number of rights lapsed | Value of rights lapsed (\$) |
|----------------|-------------------|------------------|--------------------------|-------------------------|-------------------------|-----------------------------|
| M Muscillo     | November 16, 2017 | October 11, 2019 | -                        | -                       | 1,000,000               | 47,000                      |
| A Stewart      | November 16, 2017 | May 29, 2019     | -                        | -                       | 7,000,000               | 539,000                     |
| G Lkhagvasuren | November 16, 2017 | July 26, 2019    | -                        | -                       | 4,000,000               | 216,000                     |
| M Dambiinyam   | July 26, 2017     | July 26, 2019    | -                        | -                       | 2,000,000               | 108,000                     |

### Additional information

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

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

|                                          | 2015   | 2016   | 2017   | 2018   | 2019   |
|------------------------------------------|--------|--------|--------|--------|--------|
| Share price at financial year end (\$)   | 0.11   | 0.21   | 0.28   | 0.105  | 0.03   |
| Basic loss per share (cents per share)   | (1.15) | (0.47) | (0.72) | (1.00) | (1.18) |
| Diluted loss per share (cents per share) | (1.15) | (0.47) | (0.72) | (1.00) | (1.18) |

### Additional disclosures relating to KMP

#### Shareholding

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

|                                | Balance at the start of the period | On-market purchases | Vesting of share rights | Balance at the end of the period |
|--------------------------------|------------------------------------|---------------------|-------------------------|----------------------------------|
| <i>Non-Executive Directors</i> |                                    |                     |                         |                                  |
| C Moorhead                     | -                                  | -                   | -                       | -                                |
| S Motteram                     | -                                  | -                   | -                       | -                                |
| M Muscillo                     | 54,037                             | 5,404               | -                       | 59,441                           |
| <i>Executive Directors:</i>    |                                    |                     |                         |                                  |
| A Stewart                      | 4,292,083                          | 429,209             | -                       | 4,721,292                        |
| G Lkhagvasuren                 | 16,558,329                         | -                   | -                       | 16,558,329                       |
| <i>Other KMP:</i>              |                                    |                     |                         |                                  |
| M Dambiinyam                   | 1,478,578                          | -                   | -                       | 1,478,578                        |
|                                | <u>22,383,027</u>                  | <u>434,613</u>      | <u>-</u>                | <u>22,817,640</u>                |

#### Share rights holding

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

|                                          | Balance at the start of the period | Granted  | Vested and exercised | Expired/ forfeited  | Balance at the end of the period |
|------------------------------------------|------------------------------------|----------|----------------------|---------------------|----------------------------------|
| <i>Share rights over ordinary shares</i> |                                    |          |                      |                     |                                  |
| C Moorhead                               | -                                  | -        | -                    | -                   | -                                |
| S Motteram                               | -                                  | -        | -                    | -                   | -                                |
| M Muscillo                               | 1,000,000                          | -        | -                    | (1,000,000)         | -                                |
| A Stewart                                | 7,000,000                          | -        | -                    | (7,000,000)         | -                                |
| G Lkhagvasuren                           | 4,000,000                          | -        | -                    | (4,000,000)         | -                                |
| M Dambiinyam                             | 2,000,000                          | -        | -                    | (2,000,000)         | -                                |
|                                          | <u>14,000,000</u>                  | <u>-</u> | <u>-</u>             | <u>(14,000,000)</u> | <u>-</u>                         |

This concludes the remuneration report, which has been audited.

## Directors' Report

### Shares under option

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

| Grant date    | Description                         | Expiry date   | Exercise price | Number under option |
|---------------|-------------------------------------|---------------|----------------|---------------------|
| June 26, 2018 | June 2018 private placement options | June 26, 2020 | \$0.25         | 29,411,759          |
|               |                                     |               |                | <u>29,411,759</u>   |

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

### Shares under share rights

There were no share rights of Xanadu Mines on issue for the period ended December 31, 2019 and up to the date of this report.

### Shares issued on the exercise of options

There were no ordinary shares of Xanadu Mines issued on the vesting and exercise of options during the period ended December 31, 2019 and up to the date of this report.

### Indemnity and insurance of officers

During or since the end of the year, the Company has not given any indemnity to a current or former officer or auditor against a liability or made any agreement under which an officer or auditor may be given any indemnity of the kind covered by subsection 199A(2) or (3) of the Corporations Act. During the financial period, the Company paid a premium in respect of a contract to insure the Directors and Officers of the Company against a liability to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### Indemnity and insurance of auditor

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

### Proceedings on behalf of the Company

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

### Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in Note 22 to the financial statements. The non-audit services fees, excluding GST, were \$1,500 for the period ended December 31, 2019 (2018: \$85,660). The Directors are satisfied that given the total quantum paid for the non-audit services provided during the financial year by Ernst & Young as the external auditor, the general standard of independence for auditors imposed by the Corporations Act was not compromised.

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

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

### Rounding of amounts

The Company is of a kind referred to in the 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.

### Auditor's independence declaration

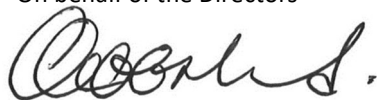
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out page 30.

### Auditor

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

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

On behalf of the Directors



Colin Moorhead  
Chairman  
March 31, 2020

# Auditor's Independence Declaration

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Ernst & Young  
200 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
ey.com/au

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

As lead auditor for the audit of the financial report of Xanadu Mines for the financial year ended 31 December 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Scott Jarrett  
Partner  
31 March 2020

# Statement of Profit or Loss and Other Comprehensive Income

For the period ended December 31, 2019

|                                                                                  | Note | Consolidated   |                |
|----------------------------------------------------------------------------------|------|----------------|----------------|
|                                                                                  |      | 2019<br>\$'000 | 2018<br>\$'000 |
| <b>Other income</b>                                                              |      | 5              | 21             |
| <b>Expenses</b>                                                                  |      |                |                |
| Depreciation and amortisation expense                                            |      | (60)           | (81)           |
| Impairment of exploration and evaluation assets                                  | 10   | (4,425)        | -              |
| Other expenses                                                                   | 3    | (3,505)        | (6,326)        |
| Finance costs                                                                    |      | (25)           | (31)           |
| Revaluation gain/(loss) on financial assets at fair value through profit or loss |      | (30)           | 90             |
| <b>Loss before income tax expense</b>                                            |      | (8,040)        | (6,327)        |
| Income tax expense                                                               | 4    | -              | -              |
| <b>Loss after income tax expense for the period</b>                              |      | (8,040)        | (6,327)        |
| <b>Other comprehensive income</b>                                                |      |                |                |
| <i>Items that may be reclassified subsequently to profit or loss</i>             |      |                |                |
| Foreign currency translation                                                     |      | (1,232)        | 702            |
| Other comprehensive income for the period, net of tax                            |      | (1,232)        | 702            |
| <b>Total comprehensive income for the period</b>                                 |      | <u>(9,272)</u> | <u>(5,625)</u> |
| Loss for the period is attributable to:                                          |      |                |                |
| Non-controlling interest                                                         |      | (120)          | (146)          |
| Owners of Xanadu Mines Ltd                                                       | 17   | (7,920)        | (6,181)        |
|                                                                                  |      | <u>(8,040)</u> | <u>(6,327)</u> |
| Total comprehensive income for the period is attributable to:                    |      |                |                |
| Non-controlling interest                                                         |      | (205)          | (259)          |
| Owners of Xanadu Mines Ltd                                                       |      | (9,067)        | (5,366)        |
|                                                                                  |      | <u>(9,272)</u> | <u>(5,625)</u> |
|                                                                                  |      | <b>Cents</b>   | <b>Cents</b>   |
| Basic loss per share                                                             | 30   | (1.18)         | (1.01)         |
| Diluted loss per share                                                           | 30   | (1.18)         | (1.01)         |

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

# Statement of Financial Position

As at December 31, 2019

|                                                       |      | Consolidated   |                |
|-------------------------------------------------------|------|----------------|----------------|
|                                                       | Note | 2019<br>\$'000 | 2018<br>\$'000 |
| <b>Assets</b>                                         |      |                |                |
| <b>Current assets</b>                                 |      |                |                |
| Cash and cash equivalents                             | 5    | 1,209          | 5,225          |
| Financial assets at fair value through profit or loss | 6    | -              | 190            |
| Prepayment and other assets                           |      | 47             | -              |
| Other receivables                                     | 7    | 99             | 398            |
| Total current assets                                  |      | 1,355          | 5,813          |
| <b>Non-current assets</b>                             |      |                |                |
| Property, plant and equipment                         | 8    | 141            | 360            |
| Right-of-use assets                                   | 9    | 147            | -              |
| Deferred exploration expenditure                      | 10   | 43,352         | 45,903         |
| Total non-current assets                              |      | 43,640         | 46,263         |
| <b>Total assets</b>                                   |      | <b>44,995</b>  | <b>52,076</b>  |
| <b>Liabilities</b>                                    |      |                |                |
| <b>Current liabilities</b>                            |      |                |                |
| Trade and other payables                              | 11   | 60             | 680            |
| Lease liabilities                                     | 12   | 35             | -              |
| Total current liabilities                             |      | 95             | 680            |
| <b>Non-current liabilities</b>                        |      |                |                |
| Lease liabilities                                     | 13   | 66             | 134            |
| Total non-current liabilities                         |      | 66             | 134            |
| <b>Total liabilities</b>                              |      | <b>161</b>     | <b>814</b>     |
| <b>Net assets</b>                                     |      | <b>44,834</b>  | <b>51,262</b>  |
| <b>Equity</b>                                         |      |                |                |
| Issued capital                                        | 14   | 120,909        | 117,850        |
| Reserves                                              | 15   | (1,364)        | (1)            |
| Accumulated losses                                    | 16   | (79,265)       | (71,345)       |
| Equity attributable to the owners of Xanadu Mines Ltd |      | 40,280         | 46,504         |
| Non-controlling interest                              | 17   | 4,554          | 4,758          |
| <b>Total equity</b>                                   |      | <b>44,834</b>  | <b>51,262</b>  |

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

# Statement of Changes in Equity

For the period ended December 31, 2019

| Consolidated                                                 | Issued capital<br>\$'000 | Other reserves<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Transactions with owners reserve<br>\$'000 | Accumulated losses<br>\$'000 | Non-controlling interest<br>\$'000 | Total equity<br>\$'000 |
|--------------------------------------------------------------|--------------------------|--------------------------|------------------------------------------------|--------------------------------------------|------------------------------|------------------------------------|------------------------|
| Balance at January 1, 2018                                   | 108,450                  | 8,534                    | (11,047)                                       | -                                          | (65,164)                     | 5,017                              | 45,792                 |
| Profit/(loss) after income tax expense for the period        | -                        | -                        | -                                              | -                                          | (6,181)                      | (146)                              | (6,327)                |
| Other comprehensive income for the period, net of tax        | -                        | -                        | 815                                            | -                                          | -                            | (113)                              | 702                    |
| Total comprehensive income for the period                    | -                        | -                        | 815                                            | -                                          | (6,181)                      | (259)                              | (5,625)                |
| <i>Transactions with owners in their capacity as owners:</i> |                          |                          |                                                |                                            |                              |                                    |                        |
| Contributions of equity, net of transaction costs (note 14)  | 9,398                    | -                        | -                                              | -                                          | -                            | -                                  | 9,398                  |
| Share-based payments (note 31)                               | -                        | 1,697                    | -                                              | -                                          | -                            | -                                  | 1,697                  |
| Other                                                        | -                        | -                        | 537                                            | (537)                                      | -                            | -                                  | -                      |
| Balance at December 31, 2018                                 | 117,850                  | 10,231                   | (9,695)                                        | (537)                                      | (71,345)                     | 4,758                              | 51,262                 |

| Consolidated                                                 | Issued capital<br>\$'000 | Other reserves<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Transactions with owners reserve<br>\$'000 | Accumulated losses<br>\$'000 | Non-controlling interest<br>\$'000 | Total equity<br>\$'000 |
|--------------------------------------------------------------|--------------------------|--------------------------|------------------------------------------------|--------------------------------------------|------------------------------|------------------------------------|------------------------|
| Balance at January 1, 2019                                   | 117,850                  | 10,231                   | (9,695)                                        | (537)                                      | (71,345)                     | 4,758                              | 51,262                 |
| Profit/(loss) after income tax expense for the period        | -                        | -                        | -                                              | -                                          | (7,920)                      | (120)                              | (8,040)                |
| Other comprehensive income for the period, net of tax        | -                        | -                        | (1,148)                                        | -                                          | -                            | (84)                               | (1,232)                |
| Total comprehensive income for the period                    | -                        | -                        | (1,148)                                        | -                                          | (7,920)                      | (204)                              | (9,272)                |
| <i>Transactions with owners in their capacity as owners:</i> |                          |                          |                                                |                                            |                              |                                    |                        |
| Contributions of equity, net of transaction costs (note 14)  | 3,059                    | -                        | -                                              | -                                          | -                            | -                                  | 3,059                  |
| Share-based payments (note 31)                               | -                        | (215)                    | -                                              | -                                          | -                            | -                                  | (215)                  |
| Balance at December 31, 2019                                 | 120,909                  | 10,016                   | (10,843)                                       | (537)                                      | (79,265)                     | 4,554                              | 44,834                 |

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

# Statement of Cash Flows

For the period ended December 31, 2019

|                                                                    |      | Consolidated   |                |
|--------------------------------------------------------------------|------|----------------|----------------|
|                                                                    | Note | 2019<br>\$'000 | 2018<br>\$'000 |
| <b>Cash flows from operating activities</b>                        |      |                |                |
| Payments to suppliers and employees                                |      | (4,084)        | (4,510)        |
| Interest received                                                  |      | 5              | 21             |
| Interest and other finance costs paid                              |      | (25)           | (31)           |
| Net cash used in operating activities                              | 29   | (4,104)        | (4,520)        |
| <b>Cash flows from investing activities</b>                        |      |                |                |
| Payments for exploration and evaluation                            | 10   | (3,431)        | (8,874)        |
| Proceeds from disposal of investments                              |      | 130            | -              |
| Net cash used in investing activities                              |      | (3,301)        | (8,874)        |
| <b>Cash flows from financing activities</b>                        |      |                |                |
| Proceeds from issue of shares                                      | 14   | 3,370          | 10,000         |
| Repayment of lease liabilities                                     |      | (33)           | -              |
| Transaction costs on issue of shares                               |      | (311)          | (602)          |
| Net cash from financing activities                                 |      | 3,026          | 9,398          |
| Net increase in cash and cash equivalents                          |      | (4,379)        | (3,996)        |
| 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      |      | 363            | 156            |
| Cash and cash equivalents at the end of the financial period       | 5    | 1,209          | 5,225          |

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

# Notes to the Financial Statements

For the period ended December 31, 2019

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## Note 1. Significant accounting policies

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

### Basis of preparation

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

### Historical cost convention

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

### Critical accounting estimates

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

### Parent entity information

In accordance with the Corporations Act, these financial statements present the results of Xanadu only. Supplementary information about the parent entity is disclosed in Note 26 to the Financial Statements.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Xanadu Mines Ltd (**Company or parent entity**) as at December 31, 2019 and the results of all subsidiaries for the period then ended. Xanadu Mines Ltd and its subsidiaries together are referred to in these financial statements as the **Group**.

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

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

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

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

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

### Foreign currency translation

The financial statements are presented in Australian dollars, which is Xanadu's functional and presentation currency. The functional currencies of the Company's foreign subsidiaries are Mongolian Tughrig (**MNT**) and Singapore Dollar (**SGD**).

# Notes to the Financial Statements

continued

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## *Foreign operations*

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

The foreign currency reserve is recognised in the statement of profit or loss and other comprehensive income when the foreign operation or net investment is disposed of.

## **New or amended Accounting Standards and Interpretations adopted**

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the 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 following Accounting Standards and Interpretations are most relevant to the consolidated entity:

## *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, Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**) 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.

The impact to the Company on transition was a balance sheet reclassification of previously recognised finance leases. This resulted in \$0.14m transfer from property plant and equipment to right-of-use assets and \$0.1m from other liabilities to lease liabilities.

The prior period commitment note indicates a commitment of \$0.2m for the 12 months ended 31 December 2019. This relates to exploration licenses, which does not meet the definition of a lease under AASB 16.

The Company has applied the short-term and low dollar value practical expedients outlined by the standard. Accordingly, no other leases have been identified that required recognition on the balance sheet on transition.

## *IFRIC 23 'Uncertainty over Income Tax Treatments'*

The Group has adopted IFRIC 23 Uncertainty over Income Tax Treatments from 1 January 2019. The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the group operates in a multinational environment, it assessed whether the interpretation had an impact on its consolidated financial statements.

## **Interest income**

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

## **Income tax**

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

# Notes to the Financial Statements

continued

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

## Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

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

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

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

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

## Current and non-current classification

Assets and liabilities are presented in the Statement of Financial Position based on current and non-current classification.

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

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

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

## Cash and cash equivalents

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

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

## Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

# Notes to the Financial Statements

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The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. Xanadu initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (**SPPI**) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Xanadu's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets at amortised cost are subsequently measured using the effective interest (**EIR**) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the Statement of Profit or Loss when the right of payment has been established, except when Xanadu benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with net changes in fair value recognised in the Statement of Profit or Loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted.

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

## Impairment of financial assets

Xanadu recognises an allowance for expected credit losses (**ECLs**) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, Xanadu assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its expected recoverable cash flows the asset is considered impaired and is written down to its recoverable amount.

## Deferred exploration and evaluation expenditure

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

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made. Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

# Notes to the Financial Statements

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## Property, plant and equipment

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

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

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

Plant and equipment: 2-10 years

Motor vehicles: 4-5 years

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

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

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

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

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement.

## Rehabilitation of property

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

Uncertainty exists as to the amount of restoration obligations which will be incurred due to:

- uncertainty as to the remaining life of existing operating sites; and
- the impact of changes in environmental legislation.

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

## Impairment of deferred exploration and evaluation assets

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have

# Notes to the Financial Statements

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not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has significant uncertainty regarding its value, the uncertain recoverability is impaired in the year in which the decision is made.

## **Impairment of non-financial assets**

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

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

## **Trade and other payables**

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

## **Fair value measurement**

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

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

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

## **Issued capital**

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

## **Earnings per share**

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

## ***Diluted earnings per share***

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

## **Share-based payment transactions**

In addition to consulting fees and salaries, the consolidated entity provides benefits to certain directors and employees of the consolidated entity in the form of share-based payment transactions, whereby directors and employees render services in exchange

# Notes to the Financial Statements

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for shares or rights over shares ("equity-settled transactions").

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

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

Xanadu measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either Binomial or Black-Scholes model considering the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. The cumulative expenses recognised for equity-settled transactions at each reporting date until vesting date reflects:

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

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

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

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

## Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

## Rounding of amounts

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

## Significant 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 expense. 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 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 to the financial statements) within the next financial year are discussed below.

# Notes to the Financial Statements

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## Carrying value of exploration assets

Xanadu applies judgements in determining the carrying value of exploration assets in particular in determining which exploration costs should be capitalised or expensed. Xanadu also applies judgment in assessing whether indicator of impairment exist for each area of interest at each reporting date by evaluating conditions and information specific to the Company.

## Going concern basis of accounting

The Group incurred a loss after tax of \$8.0 million and operating cash outflows of \$4.1 million for the year ended 31 December 2019. At year-end, cash and cash equivalents were \$1.2 million. As the Group is in the exploration stage and does not generate operating cash inflows, the Group is dependent on further capital raises or external financing to maintain operations, which results in a material uncertainty on whether the Group can continue as a going concern.

Subsequent to end of the financial year in March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. As described further in note 27, it is not possible to estimate the impact of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses. As the Group is dependent on future capital raises to maintain operations, the uncertainty surrounding the future impacts of COVID-19 contributes to the material uncertainty in respect of going concern.

The Directors have assessed that the Group is and will remain a going concern and believe that the going concern basis of preparation of the accounts is appropriate, based upon the following:

- On January 16, 2020, the Group completed a non-brokered placement raising \$2.58 million (Placement). The Placement was conducted at \$0.033 per share and it resulted in 78,326,311 new ordinary shares being issued;
- The Group can defer certain discretionary operating and capital expenditures to proactively manage cash flow requirements to ensure that funds are available when required;
- the Group has the potential to enter into farm-out or joint venture agreements to fund future exploration expenditure; and
- The Group has a history of successfully obtaining funding through equity markets as required.

Should the Group not be successful in managing its cashflow through the above means, there may be uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

## Note 2. 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 all segment expenditure is capitalised, with the exception of expenditure written off. The non-current assets of Xanadu, attributable to the parent entity, are located in Mongolia.

## Note 3. Other expenses

### Other expenses

|                                    | Consolidated |              |
|------------------------------------|--------------|--------------|
|                                    | 2019         | 2018         |
|                                    | \$'000       | \$'000       |
| Administration and other expenses* | 1,817        | 2,343        |
| Wages and management fees          | 1,904        | 2,287        |
| Share-based payments**             | (215)        | 1,697        |
| Net foreign currency loss (gain)   | (1)          | (1)          |
|                                    | <u>3,505</u> | <u>6,326</u> |

\* Inclusive of technical consulting expenses \$681 for the reporting period ended December 31, 2019.

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

# Notes to the Financial Statements

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## Note 4. Income tax expense

|                                                                                      | Consolidated |         |
|--------------------------------------------------------------------------------------|--------------|---------|
|                                                                                      | 2019         | 2018    |
|                                                                                      | \$'000       | \$'000  |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>  |              |         |
| Loss before income tax expense                                                       | (8,040)      | (6,327) |
| Tax at the statutory tax rate of 27.5%                                               | (2,211)      | (1,740) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: |              |         |
| Tax effect of expenses not allowed for tax purposes                                  | (59)         | 467     |
|                                                                                      | (2,270)      | (1,273) |
| Current period tax losses not recognised                                             | 2,204        | 1,147   |
| Difference in overseas tax rates – Mongolia at 25% (2018: 25%)                       | 22           | 20      |
| Difference in overseas tax rates – Singapore at 17% (2018: 17%)                      | 44           | 106     |
| Income tax expense                                                                   | -            | -       |

At the reporting date, the group has estimated tax losses of \$32,960,000 (Dec 2018: \$29,370,000) in Australia. A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available in the foreseeable future to use against such losses.

## Note 5. Current assets – cash and cash equivalents

|                          | Consolidated |        |
|--------------------------|--------------|--------|
|                          | 2019         | 2018   |
|                          | \$'000       | \$'000 |
| Cash at bank and on hand | 1,209        | 5,225  |

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

## Note 6. Current assets – financial assets at fair value through profit or loss

|                                                                   | Consolidated |        |
|-------------------------------------------------------------------|--------------|--------|
|                                                                   | 2019         | 2018   |
|                                                                   | \$'000       | \$'000 |
| Ordinary shares - designated at fair value through profit or loss | -            | 190    |

The ordinary shares relates to the 10,000,000 shares held in Aspire Mining Limited, a company listed on the ASX (ASX: AKM). The carrying value of the shares is based on the closing share price of AKM as at the reporting date. These shares were sold during the year at a loss of \$30,000.

## Note 7. Current assets – Other receivables

|                 | Consolidated |        |
|-----------------|--------------|--------|
|                 | 2019         | 2018   |
|                 | \$'000       | \$'000 |
| Sundry debtors  | 64           | 65     |
| GST recoverable | 35           | 333    |
|                 | 99           | 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 transferred to the Deferred Exploration and Evaluation costs due to changes in the Mongolian tax codes.

# Notes to the Financial Statements

continued

## Note 8. Non-current assets – Property, plant and equipment

|                                | Consolidated |        |
|--------------------------------|--------------|--------|
|                                | 2019         | 2018   |
|                                | \$'000       | \$'000 |
| Plant and equipment - at cost  | 432          | 440    |
| Less: Accumulated depreciation | (327)        | (302)  |
|                                | 105          | 138    |
| Motor vehicles - at cost       | 149          | 352    |
| Less: Accumulated depreciation | (113)        | (130)  |
|                                | 36           | 222    |
|                                | 141          | 360    |

### Reconciliations

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

| Consolidated                                            | Plant & Equipment<br>\$'000 | Motor Vehicles<br>\$'000 | Total<br>\$'000 |
|---------------------------------------------------------|-----------------------------|--------------------------|-----------------|
| Balance at 1 January 2018                               | 134                         | 254                      | 388             |
| Exchange differences                                    | 45                          | 4                        | 49              |
| Depreciation expense                                    | (41)                        | (36)                     | (77)            |
| Balance at 31 December 2018                             | 138                         | 222                      | 360             |
| Exchange differences                                    | (8)                         | (4)                      | (12)            |
| Transfer to right-of-use asset (1 January 2019)         | -                           | (195)                    | (195)           |
| Transfer accumulated depreciation on right-of-use asset | -                           | 48                       | 48              |
| Depreciation expense                                    | (25)                        | (35)                     | (60)            |
| Balance at 31 December 2019                             | 105                         | 36                       | 141             |

New accounting standard 'AASB 16 Leases' was implemented on 1 January 2019. Application of this new standard resulted in a reclassification of leased vehicles from Property, plant and equipment to Right-of-use asset.

## Note 9. Non-current assets – Right-of-use assets

|                                | Consolidated |        |
|--------------------------------|--------------|--------|
|                                | 2019         | 2018   |
|                                | \$'000       | \$'000 |
| Motor vehicles - right-of-use  | 195          | -      |
| Less: Accumulated depreciation | (48)         | -      |
|                                | 147          | -      |

### Reconciliations

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

| Consolidated                | Motor vehicles<br>- right-of-use<br>\$'000 |
|-----------------------------|--------------------------------------------|
| Balance at 1 January 2018   | -                                          |
| Balance at 31 December 2018 | -                                          |

# Notes to the Financial Statements

continued

|                                                                                  |      |
|----------------------------------------------------------------------------------|------|
| Transfer in from Property, plant and equipment - motor vehicles (1 January 2019) | 195  |
| Depreciation expense                                                             | (48) |
| Balance at 31 December 2019                                                      | 147  |

New accounting standard AASB16 Leases was implemented on 1 January 2019. Application of this new standard resulted in a reclassification of leased vehicles from Property, plant and equipment to Right-of-use asset.

As allowed by the standard, there is no change to the recognition of short term leases, which are those leases with terms equal to or less than 12 months. During the period the Group made payments of \$86,480 which have been capitalised to deferred exploration expenditure in respect of the office lease in Mongolia. Further to this, the Group also leases various equipment for 90 day periods. Rental payments relating to equipment leases amounted to \$77,080.

## Note 10. Non-current assets – Deferred exploration expenditure

|                                  | Consolidated |        |
|----------------------------------|--------------|--------|
|                                  | 2019         | 2018   |
|                                  | \$'000       | \$'000 |
| Deferred exploration expenditure | 47,777       | 45,903 |
| Less: Impairment                 | (4,425)      | -      |
|                                  | 43,352       | 45,903 |

### Reconciliations

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

| Consolidated                                     | Exploration & evaluation<br>\$'000 |
|--------------------------------------------------|------------------------------------|
| Balance at 1 January 2018                        | 37,157                             |
| Expenditure during the period                    | 8,290                              |
| Exchange differences                             | 456                                |
| Balance at 31 December 2018                      | 45,903                             |
| Expenditure during the period                    | 3,015                              |
| Exchange differences                             | (1,141)                            |
| Impairment of exploration and evaluation assets* | (4,425)                            |
| Balance at 31 December 2019                      | 43,352                             |

- \* The impairment relates to the following deferred exploration expenditure assets ('000): Yellow Mountain \$3,442 and Red Mountain \$983. Yellow Mountain has been fully impaired as the licence expires in May 2020 and is not expected to be renewed. The company is seeking compensation for this licence as exploration has been restricted for forestry regulations. No amount has been recognised for any compensation. In relation to Red Mountain, the company continues to assess options to fund further exploration and the asset has been written down based on the expected recoverable amount.

## Note 11. Current liabilities – Trade and other payables

|                  | Consolidated |        |
|------------------|--------------|--------|
|                  | 2019         | 2018   |
|                  | \$'000       | \$'000 |
| Trade payables   | 58           | 680    |
| Accrued expenses | 2            | -      |
|                  | 60           | 680    |

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

# Notes to the Financial Statements

continued

## Note 12. Current liabilities – Lease liabilities

|                                  | Consolidated |        |
|----------------------------------|--------------|--------|
|                                  | 2019         | 2018   |
|                                  | \$'000       | \$'000 |
| Lease liability - motor vehicles | 35           | -      |

## Note 13. Non-current liabilities – Lease liabilities

|                                  | Consolidated |        |
|----------------------------------|--------------|--------|
|                                  | 2019         | 2018   |
|                                  | \$'000       | \$'000 |
| Lease liability - motor vehicles | 66           | 134    |

## Note 14. Equity – issued capital

|                                                        | Consolidated |             |         |         |
|--------------------------------------------------------|--------------|-------------|---------|---------|
|                                                        | 2019         | 2018        | 2019    | 2018    |
|                                                        | Shares       | Shares      | \$'000  | \$'000  |
| Ordinary shares – fully paid (net of transaction cost) | 712,848,544  | 648,044,131 | 120,909 | 117,850 |

### Movements in ordinary share capital

| Details                               | Date              | Shares      | \$'000  |
|---------------------------------------|-------------------|-------------|---------|
| Balance                               | January 1, 2018   | 588,687,267 | 108,452 |
| Shares issued - Equity Incentive Plan | April 19, 2018    | 200,000     | -       |
| Shares issued - Placement             | June 27, 2018     | 58,823,530  | 10,000  |
| Share issued - Equity Incentive Plan  | June 27, 2018     | 333,334     | -       |
| Transaction costs                     |                   | -           | (602)   |
| Balance                               | December 31, 2018 | 648,044,131 | 117,850 |
| Shares issued - Rights issue          | July 15, 2019     | 40,393,314  | 2,101   |
| Share issued - Rights issue           | August 28, 2019   | 24,411,099  | 1,269   |
| Transaction costs                     |                   | -           | (311)   |
| Balance                               | December 31, 2019 | 712,848,544 | 120,909 |

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll, each share shall have one vote.

### Share buy-back

There is no current on-market share buy-back.

### Capital risk management

Xanadu's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the Statement of Financial Position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

# Notes to the Financial Statements

continued

Management effectively manages Xanadu's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. The capital risk management policy remains unchanged from the Annual Report 2018.

## Note 15. Equity - reserves

|                                   | Consolidated   |            |
|-----------------------------------|----------------|------------|
|                                   | 2019           | 2018       |
|                                   | \$'000         | \$'000     |
| Foreign currency reserve          | (10,843)       | (9,695)    |
| Share-based payments reserve      | 10,016         | 10,231     |
| Transactions with owner's reserve | (537)          | (537)      |
|                                   | <u>(1,364)</u> | <u>(1)</u> |

### Share-based payments

This reserve is used to record the value of equity benefits provided to directors and employees as part of their fees and remuneration, and external service providers for goods and services provided (including acquisition of tenements).

### Foreign currency translation reserve

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

### Movements in reserves

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

| Consolidated                             | Share-based<br>payments<br>\$'000 | Foreign<br>currency<br>\$'000 | Transactions<br>with owners<br>\$'000 | Total<br>\$'000 |
|------------------------------------------|-----------------------------------|-------------------------------|---------------------------------------|-----------------|
| Balance at 1 January 2018                | 8,534                             | (11,047)                      | -                                     | (2,513)         |
| Share based payment - employee benefits  | 1,697                             | -                             | -                                     | 1,697           |
| Foreign currency translation             | -                                 | 815                           | -                                     | 815             |
| Other                                    | -                                 | 537                           | (537)                                 | -               |
| Balance at 31 December 2018              | 10,231                            | (9,695)                       | (537)                                 | (1)             |
| Share-based payments - employee benefits | (215)                             | -                             | -                                     | (215)           |
| Foreign currency translation             | -                                 | (1,148)                       | -                                     | (1,148)         |
| Balance at 31 December 2019              | <u>10,016</u>                     | <u>(10,843)</u>               | <u>(537)</u>                          | <u>(1,364)</u>  |

## Note 16. Equity - accumulated losses

|                                                             | Consolidated    |                 |
|-------------------------------------------------------------|-----------------|-----------------|
|                                                             | 2019            | 2018            |
|                                                             | \$'000          | \$'000          |
| Accumulated losses at the beginning of the financial period | (71,345)        | (65,164)        |
| Loss after income tax expense for the period                | (7,920)         | (6,181)         |
| Accumulated losses at the end of the financial period       | <u>(79,265)</u> | <u>(71,345)</u> |

## Note 17. Equity - non-controlling interest

|                          | Consolidated |              |
|--------------------------|--------------|--------------|
|                          | 2019         | 2018         |
|                          | \$'000       | \$'000       |
| Non-controlling interest | <u>4,554</u> | <u>4,758</u> |

# Notes to the Financial Statements

continued

## Note 18. Equity – dividends

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

## Note 19. Financial risk management objectives and policies

### Financial risk management

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

The Company manages its exposure to key financial risks in accordance with its Risk Management Policy with the objective to ensure that the financial risks inherent in exploration activities are identified and managed accordingly.

The main financial risks that arise in the normal course of business Xanadu's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and commodity risk. Management employs different methods to measure and mitigate the different risks to which the Company is exposed. These include monitoring exposure to foreign exchange risk and assessments of market forecast for interest rate, foreign exchange and commodity prices. Liquidity risk is managed by development of rolling budgets and forecasts.

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

### Market risk

#### Foreign currency risk

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.

Xanadu's currency risk to US\$ foreign denominated financial assets and liabilities at the end of the reporting period, expressed in Australian Dollars, was as follows:

|                           | 2019<br>\$'000 | 2018<br>\$'000 |
|---------------------------|----------------|----------------|
| Consolidated              |                |                |
| Cash and cash equivalents | 1,209          | 524            |

The following sensitivity is based on the foreign currency risk exposures in existence at the balance date:

|                     | A\$ strengthened |                                |                     | A\$ weakened |                                |                     |
|---------------------|------------------|--------------------------------|---------------------|--------------|--------------------------------|---------------------|
|                     | % change         | Effect on profit<br>before tax | Effect on<br>equity | % change     | Effect on profit<br>before tax | Effect on<br>equity |
| Consolidated – 2019 |                  |                                |                     |              |                                |                     |
| A\$/US\$            | 10%              | 39                             | 39                  | (10%)        | (39)                           | (39)                |
|                     |                  |                                |                     |              |                                |                     |
|                     | A\$ strengthened |                                |                     | A\$ weakened |                                |                     |
|                     | % change         | Effect on profit<br>before tax | Effect on<br>equity | % change     | Effect on profit<br>before tax | Effect on<br>equity |
| Consolidated – 2018 |                  |                                |                     |              |                                |                     |
| A\$/US\$            | 10%              | 52                             | 52                  | (10%)        | (52)                           | (52)                |

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

# Notes to the Financial Statements

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## 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.

The Company's exposure to market risk for changes in interest rates relates primarily to its cash held in variable interest accounts.

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

|                                              | 2019                           |              | 2018                           |              |
|----------------------------------------------|--------------------------------|--------------|--------------------------------|--------------|
|                                              | Weighted average interest rate | Balance      | Weighted average interest rate | Balance      |
| Consolidated                                 | %                              | \$'000       | %                              | \$'000       |
| Cash and cash equivalents                    | 2.40%                          | 1,209        | 2.40%                          | 5,225        |
| Net exposure to cash flow interest rate risk |                                | <u>1,209</u> |                                | <u>5,225</u> |

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

|                                 | Basis points increase |                             |                  | Basis points decrease |                             |                  |
|---------------------------------|-----------------------|-----------------------------|------------------|-----------------------|-----------------------------|------------------|
|                                 | Basis points change   | Effect on profit before tax | Effect on equity | Basis points change   | Effect on profit before tax | Effect on equity |
| Consolidated - 2019             |                       |                             |                  |                       |                             |                  |
| Net interest rate risk exposure | 100                   | <u>12</u>                   | <u>12</u>        | (100)                 | <u>(12)</u>                 | <u>(12)</u>      |
|                                 | Basis points increase |                             |                  | Basis points decrease |                             |                  |
|                                 | Basis points change   | Effect on profit before tax | Effect on equity | Basis points change   | Effect on profit before tax | Effect on equity |
| Consolidated - 2018             |                       |                             |                  |                       |                             |                  |
| Net interest rate risk exposure | 100                   | <u>52</u>                   | <u>52</u>        | (100)                 | <u>(52)</u>                 | <u>(52)</u>      |

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

## Credit risk

Xanadu has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of Xanadu based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than one year.

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

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

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

## Liquidity risk

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

# Notes to the Financial Statements

continued

Xanadu's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least 12 months.

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

## *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.

## *Other business risks*

The other business risks including political and legal risks, license risks, mineral resource assumption risks, environmental risks, operational risks and contractual risks are detailed in the Management's Discussion and Analysis.

## *Fair value*

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

## **Note 20. Fair value measurement**

### *Fair value hierarchy*

The following tables detail Xanadu'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; and
- Level 3: Unobservable inputs for the asset or liability.

|                                                   | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|---------------------------------------------------|-------------------|-------------------|-------------------|-----------------|
| Consolidated - 2019                               |                   |                   |                   |                 |
| <i>Assets</i>                                     |                   |                   |                   |                 |
| Ordinary shares - Aspire Mining Limited (ASX:AKM) | -                 | -                 | -                 | -               |
| Total assets                                      | -                 | -                 | -                 | -               |
| Consolidated - 2018                               |                   |                   |                   |                 |
| <i>Assets</i>                                     |                   |                   |                   |                 |
| Ordinary shares - Aspire Mining Limited (ASX:AKM) | 190               | -                 | -                 | 190             |
| Total assets                                      | 190               | -                 | -                 | 190             |

There were no transfers between levels during the financial period.

# Notes to the Financial Statements

continued

## Note 21. Key management personnel disclosures

### Directors

The following individuals were directors of Xanadu during the financial period:

|                                               |                                    |
|-----------------------------------------------|------------------------------------|
| Colin Moorhead (appointed November 28, 2019)  | Independent Non-Executive Chairman |
| Andrew Stewart                                | Chief Executive Officer            |
| Ganbayar Lkhagvasuren                         | Executive Director                 |
| Michele Muscillo                              | Independent Non-Executive Director |
| Stephen Motteram (appointed October 18, 2019) | Non-Executive Director             |
| Kevin Tomlinson (ceased April 30, 2019)       | Independent Non-Executive Chairman |
| Marcus Engelbrecht (ceased April 30, 2019)    | Non-Executive Director             |
| Hannah Badenach (ceased October 18, 2019)     | Non-Executive Director             |
| Darryl Clark (ceased November 28, 2019)       | Independent Non-Executive Chairman |

### Other key management personnel

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

|                         |                         |
|-------------------------|-------------------------|
| Munkhsaikhan Dambiinyam | Chief Financial Officer |
|-------------------------|-------------------------|

### Compensation

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

|                              | Consolidated     |                  |
|------------------------------|------------------|------------------|
|                              | 2019             | 2018             |
|                              | \$               | \$               |
| Short-term employee benefits | 1,497,566        | 1,686,574        |
| Post-employment benefits     | 11,390           | 6,188            |
| Share-based payments         | (223,267)        | 1,697,233        |
|                              | <u>1,285,689</u> | <u>3,389,995</u> |

## Note 22. Remuneration of auditors

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

|                                                         | Consolidated  |                |
|---------------------------------------------------------|---------------|----------------|
|                                                         | 2019          | 2018           |
|                                                         | \$            | \$             |
| <i>Audit services - Ernst &amp; Young</i>               |               |                |
| Audit or review of the financial statements - Australia | 93,762        | 118,284        |
| <i>Other services - Ernst &amp; Young</i>               |               |                |
| Tax services                                            | 1,500         | 1,500          |
| TSX prospectus reviews                                  | -             | 85,660         |
|                                                         | <u>95,262</u> | <u>205,444</u> |

## Note 23. Contingent liabilities

There are no material contingent liabilities relating to the Company.

## Note 24. Commitments

Commitments in relation to exploration licences contracted at the reporting date, including regulatory charges such as license fees, but not recognised as liabilities within one year are \$0.2 million (December 31, 2018: \$0.7 million). Commitments in relation to lease liability is \$0.1 million (December 31, 2018: \$0.1 million). As the future exploration activity is in most cases dependent upon reserves being found, it is not possible to set out the funds due to be contributed in more than one year's time. No other commitments or contingencies existed at December 31, 2019.

# Notes to the Financial Statements

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## Note 25. Related party transactions

### Parent entity

Xanadu Mines Ltd is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in Note 27 to the financial statements.

### Key management personnel

Disclosures relating to key management personnel are set out in Note 21 to the financial statements and the Remuneration Report included in the Directors' Report.

### Transactions with related parties

On January 2, 2017, the Company relocated its Ulaanbaatar office and entered into a rental agreement with Mr Ganbayar Lkhagvasuren, an Executive Director of the Company. The transaction between these 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 rental totalling \$86,480 (December 31, 2018: \$89,438) for the year ended December 31, 2019.

For the year ended December 31, 2019, the Company sourced legal services for total \$44,612 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 as at December 31, 2019.

### Terms and conditions

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

## Note 26. Parent entity information

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

### Statement of profit or loss and other comprehensive income

|                            | Parent   |         |
|----------------------------|----------|---------|
|                            | 2019     | 2018    |
|                            | \$'000   | \$'000  |
| Loss after income tax      | (15,615) | (4,288) |
| Total comprehensive income | (15,615) | (4,288) |

### Statement of financial position

|                              | Parent   |          |
|------------------------------|----------|----------|
|                              | 2019     | 2018     |
|                              | \$'000   | \$'000   |
| Total current assets         | 1,114    | 5,325    |
| Total assets                 | 44,856   | 51,356   |
| Total current liabilities    | 22       | 94       |
| Total liabilities            | 22       | 94       |
| Equity                       |          |          |
| Issued capital               | 120,909  | 117,850  |
| Share-based payments reserve | 10,016   | 10,655   |
| Other reserves               | (3,397)  | 256      |
| Accumulated losses           | (82,694) | (77,499) |
| Total equity                 | 44,834   | 51,262   |

# Notes to the Financial Statements

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## Contingent liabilities

The parent entity had no contingent liabilities as at December 31, 2019.

## Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as December 31, 2019.

## Significant accounting policies

The accounting policies of Xanadu are consistent with those of the Company's subsidiaries, as disclosed in Note 1 to the financial statements, except for the following:

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

## Note 27. Interests in subsidiaries

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

| Name                            | Principal place of business /<br>Country of incorporation | Ownership interest |           |
|---------------------------------|-----------------------------------------------------------|--------------------|-----------|
|                                 |                                                           | 2019<br>%          | 2018<br>% |
| Xanadu Exploration Mongolia LLC | Mongolia                                                  | 100.00%            | 100.00%   |
| Xanadu Metals Mongolia LLC      | Mongolia                                                  | 100.00%            | 100.00%   |
| Xanadu Copper Mongolia LLC      | Mongolia                                                  | 100.00%            | 100.00%   |
| Xanadu Mines Singapore Pte Ltd  | Singapore                                                 | 100.00%            | 100.00%   |
| Khuiten Metals Pte Ltd          | Singapore                                                 | 100.00%            | 100.00%   |
| Mongol Metals LLC               | Mongolia                                                  | 85.00%             | 85.00%    |
| Vantage LLC                     | Mongolia                                                  | 90.00%             | 90.00%    |
| Oyut Ulaan LLC                  | Mongolia                                                  | 90.00%             | 90.00%    |

## Note 28. Events after the reporting period

On January 16, 2020, the Company completed a non-brokered placement raising \$2.58 million (**Placement**). The Placement was conducted at \$0.033 per share and it resulted in 78,326,311 new ordinary shares being issued. Shareholder approval was not required for the Placement, which was undertaken under Xanadu's Listing Rule 7.1, 15% placement capacity. The New Shares were issued to Precious Capital Gold Mining & Metals Fund (**PCG**), managed by SSI Asset Management AG (**SSI**), a Zurich based fund. Following completion of the raising, PCG holds approximately 9.9% of Xanadu.

On March 24, 2020, the Company announced that it entered into an earn-in agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) to sole fund up to \$USD7.2 million in exploration expenditure at the Company's Red Mountain copper-gold Project in Mongolia. The key terms of the earn-in and joint venture agreement are as follows:

- JOGMEC may earn a 51% interest in the project by sole funding \$USD7.2 million of expenditure over four years;
- during the earn-in, Xanadu will be the Manager of the Project;
- upon JOGMEC completing the earn-in, a joint venture will be formed, and the parties must contribute funds based on their percentage interest to maintain their respective interests; and
- standard dilution clauses will apply to the parties' interests. Should a party's interest dilute to below 10%, it shall automatically convert to a net smelter royalty.

Subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. In March 2020, Mongolia reported its first transported case of COVID-19. As a response, the country closed its borders and halted all international flights. As at date of this report, Mongolia had reported six cases of COVID-19.

We have not seen a significant impact on our business to date. However, although there are currently no restrictions on transportation locally, any further deterioration of the situation may result in quarantines and affect the Company's ability to undertake exploration activities in the South Gobi. Therefore, the outbreak and the response of Governments in dealing with the pandemic may interfere with general activity levels within the community, the economy and the operations of our business. The scale and duration of these

# Notes to the Financial Statements

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developments remain uncertain as at the date of this report however they will have an impact on our forecast cash flow and financial condition.

It is not possible to estimate the impact of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the Group at this time.

The financial statements have been prepared based upon conditions existing at 31 December 2019 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of COVID-19 occurred after 31 December 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at 31 December 2019 for the impacts of COVID-19.

No other matter or circumstance has arisen since December 31, 2019 that has significantly affected, or may significantly affect Xanadu's operations, the results of those operations, or the Company's state of affairs in future financial years.

## Note 29. Reconciliation of loss after income tax to net cash used in operating activities

|                                                    | Consolidated   |                |
|----------------------------------------------------|----------------|----------------|
|                                                    | 2019           | 2018           |
|                                                    | \$'000         | \$'000         |
| Loss after income tax expense for the period       | (8,040)        | (6,327)        |
| <i>Adjustments for:</i>                            |                |                |
| Depreciation and amortisation                      | 60             | 81             |
| Net fair value loss/(gain) on financial assets     | 30             | (90)           |
| Share-based payments                               | (215)          | 1,697          |
| Foreign exchange differences                       | 4              | (1)            |
| Impairment of exploration and evaluation assets    | 4,425          | -              |
| <i>Change in operating assets and liabilities:</i> |                |                |
| Decrease in trade and other receivables            | 251            | 105            |
| Increase in trade and other payables               | (619)          | 15             |
| Net cash used in operating activities              | <u>(4,104)</u> | <u>(4,520)</u> |

## Note 30. Earnings per share

|                                                                                           | Consolidated       |                    |
|-------------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                           | 2019               | 2018               |
|                                                                                           | \$'000             | \$'000             |
| Loss after income tax                                                                     | (8,040)            | (6,327)            |
| Non-controlling interest                                                                  | 120                | 146                |
| Loss after income tax attributable to the owners of Xanadu Mines Ltd                      | <u>(7,920)</u>     | <u>(6,181)</u>     |
|                                                                                           | Number             | Number             |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 676,886,896        | 621,745,405        |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>676,886,896</u> | <u>621,745,405</u> |
|                                                                                           | Cents              | Cents              |
| Basic earnings per share                                                                  | (1.18)             | (1.01)             |
| Diluted earnings per share                                                                | (1.18)             | (1.01)             |

## Note 31. Share-based payments

The Xanadu Equity Incentive Plan (**Plan**) was approved by shareholders at the Company's 2013 Annual Greeting Meeting. Under the Plan, the Board may grant options and share rights over ordinary shares in the Company to certain key management personnel of the

# Notes to the Financial Statements

continued

Company and its subsidiaries. The share rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Board. No options have been granted under this Plan during the current financial year.

The vesting of awards under the Plan is subject to attainment of performance conditions as described in the Plan. No performance conditions as per the plan have yet been met hence no options are available to be exercised yet.

## December 31, 2019

| Grant date | Expiry date | Exercise price | Balance at the start of the period | Granted | Vested and awarded | Expired/ forfeited/ other | Balance at the end of the period |
|------------|-------------|----------------|------------------------------------|---------|--------------------|---------------------------|----------------------------------|
| 26/07/2017 | 26/07/2019  | \$0.00         | 4,000,000                          | -       | -                  | (4,000,000)               | -                                |
| 16/11/2017 | 26/05/2019  | \$0.00         | 10,000,000                         | -       | -                  | (10,000,000)              | -                                |
| 16/11/2017 | 26/07/2019  | \$0.00         | 4,000,000                          | -       | -                  | (4,000,000)               | -                                |
| 16/11/2017 | 11/10/2019  | \$0.00         | 2,000,000                          | -       | -                  | (2,000,000)               | -                                |
|            |             |                | 20,000,000                         | -       | -                  | (20,000,000)              | -                                |

## December 31, 2018

| Grant date | Expiry date | Exercise price | Balance at the start of the period | Granted | Vested and awarded | Expired/ forfeited/ other | Balance at the end of the period |
|------------|-------------|----------------|------------------------------------|---------|--------------------|---------------------------|----------------------------------|
| 23/12/2015 | 16/06/2018  | \$0.00         | 333,334                            | -       | (333,334)          | -                         | -                                |
| 26/07/2017 | 26/07/2019  | \$0.00         | 4,000,000                          | -       | -                  | -                         | 4,000,000                        |
| 16/11/2017 | 26/05/2019  | \$0.00         | 10,000,000                         | -       | -                  | -                         | 10,000,000                       |
| 16/11/2017 | 26/07/2019  | \$0.00         | 4,000,000                          | -       | -                  | -                         | 4,000,000                        |
| 16/11/2017 | 11/10/2019  | \$0.00         | 2,000,000                          | -       | -                  | -                         | 2,000,000                        |
|            |             |                | 20,333,334                         | -       | (333,334)          | -                         | 20,000,000                       |

Share-based payments expense increased due to the Plan awards granted to the Key Management Personnel in 2017. Share-based payments are measured by reference to the fair value at the date at which they are granted. The fair value of the options is determined by an independent written valuation. Share-based payments expense is amortised over the vesting period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

## Directors' Declaration

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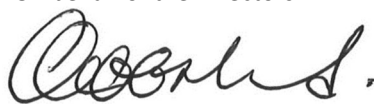
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of Xanadu's financial position as at December 31, 2019 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors



**Colin Moorhead**

Chairman

March 31, 2020

# Independent Auditor's Report to the Members of Xanadu Mines Ltd

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Ernst & Young  
200 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
ey.com/au

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

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Xanadu Mines Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 31 December 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report which describes the principal conditions that raise doubts about the entity's ability to continue as a going concern. These conditions along with other matters disclosed in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

# Independent Auditor's Report to the Members of Xanadu Mines Ltd



## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

## Carrying value of deferred exploration expenditure

### Why significant

At 31 December 2019, the Group had capitalised \$43,352,000 in deferred exploration expenditure ("E&E") relating to projects in Mongolia. The net assets of the Group were higher than the market capitalisation at this date.

The carrying value of the E&E asset is impacted by the Group's ability and intention, to continue to explore their E&E assets. The results of exploration work also determines to what extent the mineral reserves and resources may or may not be commercially viable for extraction. The Group is required at the end of each reporting period to assess whether any indicators of impairment are present.

At 31 December 2019, the Group identified indicators of impairment and recognised an impairment charge of \$4,425,000. Refer to Note 11 of the financial report for further details.

Given the value of the balance, the judgment required in assessing impairment indicators and the amount of impairment, we considered this a key audit matter.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessed relevant documentation such as license agreements and relevant correspondence with the Mineral Resource Authority of Mongolia that support the Group's right to explore in the relevant exploration area;
- Evaluated the Group's ability and intent to carry out significant exploration and evaluation activity in the relevant exploration area which included assessment of the Group's cash-flow forecast models, review of the Group's exploration budgets, and enquiries of senior management and Directors as to their intentions and strategy of the Group;
- We compared the carrying value of assets with comparable market transaction resource multiples, with the involvement of our valuation specialists;
- Considered third party data regarding implied valuations for the Group's areas of interest and compared this to the carrying value;



- With the assistance of our valuation specialists, we cross checked the market capitalisation of the Group to the carrying value of the net assets and considered whether the market capitalisation was an indicator of impairment taking into account the liquidity of the Group's shares;
- When impairment indicators were identified, we assessed the value of the impairment charge recognised by the Group, by comparing the carrying value of assets with the recoverable amounts.
- Assessed the adequacy of the associated disclosures in the financial report.

## Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

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

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

# Independent Auditor's Report to the Members of Xanadu Mines Ltd

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## Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

# Independent Auditor's Report to the Members of Xanadu Mines Ltd

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matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 26 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Xanadu Mines Limited for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Scott Jarrett  
Partner  
Sydney  
31 March 2020

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## ASX Additional Information

Additional information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below. The information is current as at **12 March 2020**.

### (a) Substantial shareholders

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

|                                                                        | Fully Paid Ordinary Shares |                      |
|------------------------------------------------------------------------|----------------------------|----------------------|
|                                                                        | Number of Shares           | Percentage of Shares |
| CAAF Limited                                                           | 170,190,851                | 23.87% <sup>1</sup>  |
| Copper Plate Success Limited                                           | 170,190,851                | 23.87% <sup>1</sup>  |
| LLB Swiss Investment AG <Precious Capital Global Mining & Metals Fund> | 78,326,311                 | 9.90% <sup>2</sup>   |
| Noble Resources International Pte. Ltd.                                | 56,980,946                 | 7.20% <sup>3</sup>   |
| Fast Lane Australia Pty Ltd                                            | 30,600,000                 | 3.79% <sup>4</sup>   |

<sup>1</sup> As notified to Xanadu on 23 January 2020. CAAF Limited and Copper Plate Success Limited are associates as defined in the Corporations Act 2001 (Cth).

<sup>2</sup> As notified to Xanadu on 22 January 2020.

<sup>3</sup> As notified to Xanadu on 24 December 2018, adjusted for subsequent share issues.

<sup>4</sup> As notified to Xanadu on 5 January 2016, adjusted for subsequent share issues

### (b) Number of security holders and securities on issue

#### Quoted securities

Xanadu has on issue 791,174,855 fully paid ordinary shares held by 1,271 shareholders.

#### Unquoted securities

##### **Options**

Xanadu has on issue 29,411,759 unquoted options with an exercise price of \$0.25 with an exercise date of 26 June 2020, held by 35 option holders.

For the purposes of ASX Listing Rule 4.10.7, 25 option holders hold more than 100,001 options.

### (c) Voting rights

#### Ordinary shares

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

#### Share rights

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

#### Options

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

## ASX Additional Information

### (d) Distribution of security holders

|                  | Fully paid ordinary shares |                    |                      |
|------------------|----------------------------|--------------------|----------------------|
|                  | Number of Holders          | Number of Shares   | Percentage of Shares |
| 1 - 1,000        | 52                         | 10,949             | 0%                   |
| 1,001 - 5,000    | 147                        | 491,460            | 0.06%                |
| 5,001 - 10,000   | 154                        | 1,264,559          | 0.16%                |
| 10,001 - 100,000 | 547                        | 23,748,039         | 3.00%                |
| 100,001 and over | 371                        | 765,659,848        | 96.78%               |
|                  | <b>1,271</b>               | <b>791,174,855</b> | <b>100.00%</b>       |

### (e) Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 480.

20,000 shares comprise a marketable parcel at Xanadu's closing share price of \$0.025 on 12 March 2020.

### (f) Twenty largest shareholders of quoted equity securities

|                                                                            | Fully paid ordinary shares |                      |
|----------------------------------------------------------------------------|----------------------------|----------------------|
|                                                                            | Number of Shares           | Percentage of Shares |
| 1 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                                | 122,986,564                | 15.54                |
| 2 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED                                | 81,568,161                 | 10.31                |
| 3 ASIA CAPITAL AND ADVISORS PTE LTD <COPPER PLATE SUCCESS LTD A/C>         | 73,431,865                 | 9.28                 |
| 4 NOBLE RESOURCES INTERNATIONAL PTE LTD                                    | 56,980,946                 | 7.20                 |
| 5 CITICORP NOMINEES PTY LTD                                                | 31,540,431                 | 3.99                 |
| 6 FAST LANE AUSTRALIA PTY LTD                                              | 30,000,000                 | 3.79                 |
| 7 SAKARI ENERGY TRADING PTE LTD                                            | 24,642,332                 | 3.11                 |
| 8 HARBIG NOMINEES PROPRIETARY LIMITED <THE HARBIG CUNNINGHAM A/C>          | 20,633,911                 | 2.61                 |
| 9 CM SUPER FUND PTY LTD <CAROL MCCOLL SUPER FUND A/C>                      | 18,700,000                 | 2.36                 |
| 10 MR GANBAYAR LKHAGVASUREN                                                | 16,558,329                 | 2.09                 |
| 11 BELLARINE GOLD PTY LTD <RIBBLES DALE SUPER FUND A/C>                    | 13,540,605                 | 1.71                 |
| 12 TWYNAM INVESTMENTS PTY LTD                                              | 13,122,384                 | 1.66                 |
| 13 BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>              | 11,461,744                 | 1.45                 |
| 14 BELL POTTER NOMINEES LTD <BB NOMINEES A/C>                              | 11,369,431                 | 1.44                 |
| 15 A N SUPERANNUATION PTY LTD <ANNE NEATE SUPER FUND A/C>                  | 8,127,319                  | 1.03                 |
| 16 FARRINGTON CORPORATE SERVICES PTY LTD <FARRINGTON SUPER FUND A/C>       | 6,325,000                  | 0.80                 |
| 17 MR BRIAN MCCUBBING + MRS ADRIANA MCCUBBING <B MCCUBBING SUPER FUND A/C> | 5,835,978                  | 0.74                 |
| 18 BIKINI ATOLL INVESTMENTS PTY LTD                                        | 5,456,000                  | 0.69                 |
| 19 ROJO NERO CAPITAL PTY LTD                                               | 5,345,858                  | 0.68                 |
| 20 NORVALE PTY LTD                                                         | 5,222,000                  | 0.66                 |
| <b>Top 20 Holders</b>                                                      | <b>562,848,858</b>         | <b>71.14</b>         |
| <b>Remaining Holders</b>                                                   | <b>228,325,997</b>         | <b>28.86</b>         |

### (g) On market buy-back

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

### (h) Tenements held as at 12 March 2020

| Area of Interest | Tenements | Location           | Interest |
|------------------|-----------|--------------------|----------|
| Kharmagtai       | MV17387A  | Omnogovi Province  | 76.5%    |
| Red Mountain     | MV017129  | Dornogovi Province | 90%      |
| Yellow Mountain  | 13670x    | Bulgan Province    | 100%     |