Xanadu Mines Ltd

ABN 92 114 249 026

Interim Report - 31 December 2014

Directors	Mark Wheatley - Independent Non-Executive Director and Chairman George Lloyd - Managing Director Ganbayar Lkhagvasuren - Executive Director Hannah Badenach - Non-Executive Director Darryl Clark - Independent Non-Executive Director Barry Lavin - Independent Non-Executive Director
Company secretary	Janine Rolfe
Registered office	c/o Company Matters Pty Ltd Level 12, 680 George Street Sydney NSW 2000 Tel: +61 2 8280 7497 Fax: +61 2 9287 0350
Share register	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney, NSW 2000 Tel: +61 1300 855 080
Auditor	Ernst and Young 680 George Street Sydney, NSW 2000
Stock exchange listing	Xanadu Mines Limited shares are listed on the Australian Securities Exchange (ASX code: XAM)
Website	www.xanadumines.com
Email	info@xanadumines.com
Registered office - Mongolia	2nd Khoroo, AOS Street Military Town, Bayanzurkh District Ulaanbaatar, Mongolia Tel: +976 11 5011 0211

The company continued to make significant advances in its Mongolian copper strategy over the six months to 31 December 2014 following the earlier restructuring activities and acquisitions of the prior 12 months. The company completed its first drilling campaign at the advanced Kharmagtai copper-gold project and realised outstanding results significantly expanding the project's potential. The company also raised $14.6 million of new equity funds by way of a private placement and rights issue.

The company is in a strong position to add value through exploration at its three copper projects: Kharmagtai, Oyut Ulaan and Sharchuluut Uul. The Kharmagtai and Oyut Ulaan projects are both located within the South Gobi porphyry copper province, which hosts most of the known porphyry deposits in Mongolia, including the giant Oyu Tolgoi copper-gold operations and the Tsagaan Suvarga porphyry copper-molybdenum development. The southern-Mongolia location of these projects and improving regional infrastructure will allow for operating synergies as the company manages dual exploration programs. The similarities in the copper-gold porphyry mineralisation will also allow for the transfer of knowledge generated by our exploration team between projects.

Information on the company's exploration results is sourced from information compiled by Dr. Andrew Stewart. Dr. Stewart is an employee of Xanadu Mines Ltd and is a Member of the Australasian Institute of Geoscientists and has sufficient experience in the areas being reported on to qualify as the "Competent Person" as defined in the 2012 Edition of the "Australasian Code for the Reporting of Mineral Resources and Reserves". Dr. Stewart consents to the information in the form and context in which it appears.

Kharmagtai Project (Xanadu Earning up to 76.5%)

Xanadu's joint venture company, Mongol Metals LLC, acquired a 90% interest in the advanced Kharmagtai copper-gold project from Turquoise Hill Resources Ltd for US$14.0 million, including US$10.0 million of deferred consideration in early 2014. The acquisition was approved by shareholders on 16 May 2014. Xanadu has the right to earn at least 85% of Mongol Metals LLC (currently 67.5%), equal to a 76.5% beneficial interest in the project.

The Kharmagtai copper-gold porphyry district is located within the Central Asian Porphyry copper province. Contained within this province is the South Gobi porphyry copper belt which is emerging as one of the most prospective regions in the world and has become the focus of extensive exploration for porphyry copper-gold deposits over the last decade following the discovery of the giant Oyu Tolgoi porphyry copper-gold deposit. The Kharmagtai project is strategically located only a 120 kilometres north of Oyu Tolgoi and 60 kilometres northeast of the operational Tavan Tolgoi coking coal deposit. The South Gobi region is developing rapidly with good access to infrastructure and the growth markets of north Asia.

Kharmagtai is an advanced stage porphyry copper-gold exploration project with significant defined mineralisation comprising of a cluster of gold-rich porphyry copper centres and mineralised tourmaline breccia pipes occurring within the central part of a mining licence which covers approximately 66 square kilometres. Exploration has identified significant shallow high-grade porphyry copper-gold mineralisation around the margin of a shallow 6 kilometre diameter basin within the Altan Tolgoi, Tsagaan Sudal and Zesen Uul prospects.

Xanadu completed approximately 12,500 metres of diamond drilling at Kharmagtai over June to November 2014. This drilling campaign delivered outstanding results and delineated numerous shallow gold-rich Cu-Au porphyry systems with relatively high gold (ppm) to copper (%) ratios. Mineralisation remains open at Altan Tolgoi and Tsagaan Sudal and there is good evidence that Zesen Uul may represent an off-faulted block from a larger system. The delineation of a mineralised tourmaline breccia unit was a major advance with similarities to the very strongly mineralised tourmaline breccia dyke complex in the world class Rio Blanco – Los Bronces district of Chile in that it appears to be a large (several kilometres long), variably mineralised breccia dyke unit. Xanadu's exploration continues to increase the size and grade of the project demonstrating that Kharmagtai is a large copper-gold system with multiple near-surface, gold-rich centres.

Geophysics indicates that some 70% of the mineralised porphyry complex lies under unexplored shallow sediments. The large licence area has only been partially explored and the potential for further discoveries remains high. The porphyry mineralisation intersected at the Pigeon prospect has demonstrated the excellent potential for the discovery of additional shallow porphyry centres under shallow sand cover. There are numerous other targets remaining in the Kharmagtai area and the potential for further discoveries remains high.

Oyut Ulaan Project (Xanadu 90%)

The Oyut Ulaan copper-gold project is located in the Dornogovi Province of southern Mongolia, approximately 70kilometres west of the future industrial centre of Sainshand. Oyut Ulaan is a highly prospective porphyry copper-gold project. Previous drilling by Xanadu has identified narrow zones of gold-rich porphyry style mineralisation. Xanadu has also continued to define the projects potential through a combination of mapping, geophysics and trenching identifying multiple drill-ready targets. The main near-surface potential is at Diorite Hill, where structurally controlled Au-Cu mineralisation in a monzonite body occurs. Exploration work indicates that outcropping mineralisation may represent the shallow part of a deeper, more continuous porphyry system. A tourmaline breccia complex is also present at Oyut Ulaan with similarities to the mineralised tourmaline breccia dike complex at Kharmagtai.

The company will continue its systematic exploration program at Oyut Ulaan. The next phase of exploration will focus on delineating potential shallow, high-grade mineralisation by exploring along strike from existing intersections and testing the many geophysical and geochemical anomalies which remain within the Oyut Ulaan licence area.

Sharchuluut Project (Xanadu 100%)

Sharchuluut Uul is an early stage project focused on what is an extensive advanced argillic (high-sulphidation 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.

Non-Core Assets

The company completed its exit from non-core assets during the period, with the sale of its 80% interest in the Elgen Zost gold project in exchange for a 3 percent gross revenue royalty.

Financial Performance

The company realised a loss of $3.6 million for the period ending 31 December 2014 (30 June 2014: $8.4 million). The company invested $2.8 million (30 June 2014: $3.5 million) in exploration activities, primarily at the Kharmagtai copper-gold project. The company recognised total net assets of $29.3 million (30 June 2014: $19.0 million). The company had other operating expenses of $3.0 million before net foreign currency losses (30 June 2014: $3.7million).

Political & Regulatory Risks

The company's operations are subject to various levels of government controls and regulations in the countries where it operates, including Australia and Mongolia. These laws and regulations include matters relating to land tenure, drilling, production practices, environmental protection, royalties, various taxes and levies including income tax, foreign trade and investment and government approval of licence transfers and other regulatory approvals that are subject to change from time to time. Current legislation is generally a matter of public record and the company cannot predict what additional legislation or amendments may be proposed that will affect the company's operations or when any such proposals, if enacted, might become effective. There is no certainty regarding obtaining government approvals. Changes in government policy or laws and regulations could adversely affect the company's results of operations and financial condition. The company will continue to actively monitor any risk relating to Mongolia's regulatory and political environment.

Capital Management

The company's cash position increased over the reporting period by $3.1 million to $7.5 million as at 31 December 2014 (30 June 2014: $4.4 million). The company realised $14.7 million (30 June 2014: $8.1 million) in financing cash flows, primarily from the $13.6 million share placement that was approved by shareholders in November 2014. This allowed the company to repay $6.6 million of the deferred consideration for the Kharmagtai project which simplified and strengthened the company's financial position. The primary use of funds over 2015 will be the continuation of exploration activities at the company's Kharmagtai and Oyut Ulaan copper-gold projects and for working capital. 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 costs base while preserving its exploration projects if required.

Exchange Rate & Commodity Price Risks

The company's foreign currency requirements include Mongolian Tugrik, US Dollar and Australian Dollar and will vary from time to time based on, among other things, the relevant aspect of the company's expenditure program. This exposes the company to the fluctuations and volatility of the rates of exchange between the Australian, US and Mongolian currencies as determined in international markets. In addition, the company has US Dollar deferred asset acquisition commitments and debt. A substantial portion of the company's remuneration costs is denominated in Australian Dollars. Fluctuations in exchange rates may have a negative impact on the company's financial results and could have a material adverse impact on the company's operations. Commodity prices are volatile and are subject to fluctuation. At this stage, the company's projects do not generate any operating revenues. However, commodity prices, and in particular the copper price, may impact the feasibility and valuation of the company's projects.

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Xanadu Mines Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2014.

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

Mark Wheatley
George Lloyd
Ganbayar Lkhagvasuren
Hannah Badenach
Darryl Clark
Barry Lavin (appointed 22 September 2014)

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

The company changed its financial year end from 30 June to 31 December. The change is in order to align the company's financial year with its Mongolian statutory reporting obligations and the seasonality of operations. As a result of the change, the current financial year is a six month period from 1 July 2014 to 31 December 2014. The company's subsequent financial year commences 1 January 2015 for a period of 12 months, ending on 31 December 2015.

Review of operations
The loss for the group after providing for income tax and non-controlling interest amounted to $3,074,000 (31 December 2013: $6,652,000).

A review of operations is presented before the directors' report.

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

Matters subsequent to the end of the financial period
On 2 January 2015, the company announced the issue of 8,590,785 shares at $0.12 per share, raising $1,030,894 in relation to the rights issue announced on 25 November 2014 which closed on 23 December 2014.

On 5 January 2015, the company made a further payment of $0.5 million of the deferred consideration for the Kharmagtai project. The current balance of deferred consideration is $5.5 million (US$4.1 million).

On 22 January 2015, the company announced that Managing Director and CEO, George Lloyd, will step down from his role with effect from 1 July 2015.

On 16 February 2015, the repayment date of the deferred consideration for the Kharmagtai project has been extended by eight months to 31 July 2016. On the basis that a future capital raising occurs, 50% of the funds raised will go towards repayment of the deferred consideration.

On 5 March 2015, the company announced that Noble Resources International Pte Ltd ('Noble') has further subscribed for 5,547,885 shares at 12 cents per share raising $665,746 in relation to the rights issue shortfall placement made pursuant to the offer document dated 4 December 2014. This brings the balance of the deferred consideration down to approximately $5.2 million (US$3.8 million).

No other matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Rounding of amounts
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

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

On behalf of the directors

Mark Wheatley

Mark Wheatley
Non-Executive Chairman

13 March 2015

Building a better working world

Ernst & Young
680 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

In relation to our audit of the financial report of Xanadu Mines Limited for the financial period ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Ryan Fisk
Partner
Sydney
13 March 2015

Contents

General information

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

Xanadu Mines Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 12, 680 George Street
Sydney NSW 2000
Tel: +61 2 8280 7497
Fax: +61 2 9287 0350

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 13 March 2015.

Xanadu Mines Ltd
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2014

	Note	Consolidated 31 December 2014 $'000	Consolidated 31 December 2013 $'000
Revenue	4	36	74
Expenses			
Depreciation and amortisation expense		(45)	(66)
Deferred exploration and evaluation costs written off		(279)	(4,396)
Other expenses	5	(2,725)	(2,264)
Finance costs		(133)	-
Loss before income tax expense		(3,146)	(6,652)
Income tax expense		-	-
Loss after income tax expense for the period		(3,146)	(6,652)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(477)	122
Other comprehensive income for the period, net of tax		(477)	122
Total comprehensive income for the period		(3,623)	(6,530)
Loss for the period is attributable to:			
Non-controlling interest		(72)	-
Owners of Xanadu Mines Ltd		(3,074)	(6,652)
		(3,146)	(6,652)
Total comprehensive income for the period is attributable to:			
Non-controlling interest		245	-
Owners of Xanadu Mines Ltd		(3,868)	(6,530)
		(3,623)	(6,530)
		Cents	**Cents**
Basic earnings per share		(1.21)	(3.34)
Diluted earnings per share		(1.21)	(3.34)

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

Xanadu Mines Ltd
Statement of financial position
As at 31 December 2014

	Note	Consolidated 31 December 2014 $'000	30 June 2014 $'000
Assets			
Current assets			
Cash and cash equivalents		7,508	4,427
Prepayment and other assets		120	261
Other receivables		361	112
Total current assets		7,989	4,800
Non-current assets			
Property, plant and equipment		435	411
Deferred exploration expenditure	6	29,864	27,075
Total non-current assets		30,299	27,486
Total assets		38,288	32,286
Liabilities			
Current liabilities			
Trade and other payables		446	586
Deferred acquisition consideration	7	5,520	-
Total current liabilities		5,966	586
Non-current liabilities			
Deferred acquisition consideration	8	-	10,595
Term loan - related party		3,064	2,135
Total non-current liabilities		3,064	12,730
Total liabilities		9,030	13,316
Net assets		29,258	18,970
Equity			
Issued capital	9	71,843	58,629
Reserves	10	8,215	8,312
Accumulated losses		(54,729)	(51,655)
Equity attributable to the owners of Xanadu Mines Ltd		25,329	15,286
Non-controlling interest		3,929	3,684
Total equity		29,258	18,970

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

Xanadu Mines Ltd
Statement of changes in equity
For the period ended 31 December 2014

Consolidated	Issued capital $'000	Other reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2013	56,591	6,344	(334)	(43,155)	389	19,835
Loss after income tax expense for the period	-	-	-	(6,652)	-	(6,652)
Other comprehensive income for the period, net of tax	-	-	122	-	-	122
Total comprehensive income for the period	-	-	122	(6,652)	-	(6,530)
Transactions with owners in their capacity as owners:						
Share-based payments	-	69	-	-	-	69
Share issued during the period	60	-	-	-	-	60
Balance at 31 December 2013	56,651	6,413	(212)	(49,807)	389	13,434

Consolidated	Issued capital $'000	Other reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2014	58,629	8,312	-	(51,655)	3,684	18,970
Loss after income tax expense for the period	-	-	-	(3,074)	(72)	(3,146)
Other comprehensive income for the period, net of tax	-	-	(794)	-	317	(477)
Total comprehensive income for the period	-	-	(794)	(3,074)	245	(3,623)
Transactions with owners in their capacity as owners:						
Share-based payments	75	(90)	-	-	-	(15)
Shares issued during the year	13,636	-	-	-	-	13,636
Transaction costs	(497)	-	-	-	-	(497)
Recognition of share-based payments	-	787	-	-	-	787
Balance at 31 December 2014	71,843	9,009	(794)	(54,729)	3,929	29,258

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

	Note	Consolidated 31 December 2014 $'000	Consolidated 31 December 2013 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(2,587)	(1,304)
Interest received		36	105
Other revenue		-	9
Interest and other finance costs paid		(2)	-
Net cash used in operating activities		(2,553)	(1,190)
Cash flows from investing activities			
Payments for property, plant and equipment		(116)	-
Acquisition of exploration and evaluation assets		-	(690)
Payments for security deposits		(5)	-
Payments of deferred consideration		(6,568)	-
Proceeds from disposal of subsidiaries		1	-
Payment for exploration and evaluation expenditure		(2,788)	(757)
Net cash used in investing activities		(9,476)	(1,447)
Cash flows from financing activities			
Proceeds from issue of shares	9	14,423	-
Proceeds of term loan from related party		798	-
Transaction costs on issue of shares		(497)	-
Net cash from financing activities		14,724	-
Net increase/(decrease) in cash and cash equivalents		2,695	(2,637)
Cash and cash equivalents at the beginning of the financial period		4,427	5,642
Effects of exchange rate changes on cash and cash equivalents		386	(164)
Cash and cash equivalents at the end of the financial period		7,508	2,841

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

Note 1. Corporate information

Xanadu Mines Ltd (“the company”) was incorporated on 12 May 2005 and is the ultimate holding company for the Xanadu group (“group”). The financial report of the company and its controlled entities are for the six months period ended 31 December 2014. The nature of the operations and principal activities of the group are described in the directors’ report.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2014 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

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

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

Any significant impact on the accounting policies of the group from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group.

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

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities
The group has applied AASB 2012-3 from 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets
The group has applied AASB 2013-3 from 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting
The group has applied AASB 2013-4 from 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations.

AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities
The group has applied AASB 2013-5 from 1 January 2014. The amendments allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard.

Note 2. Significant accounting policies (continued)

AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (Part B)
The group has applied Part B of 2013-9 from 1 January 2014, which amends particular Australian Accounting Standards to delete references to AASB 1031 Materiality as part of the AASB's aim to eventually withdraw AASB 1031.

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)
The group has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

Note 3. Operating segments

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

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

Note 4. Revenue

	Consolidated	
	31 December 2014 $'000	31 December 2013 $'000
Other income	-	9
Interest	36	65
Revenue	36	74

Note 5. Other expenses

	Consolidated 31 December 2014 $'000	Consolidated 31 December 2013 $'000
Other expenses		
Administration expenses	1,086	489
Net foreign currency loss	463	758
Loss on disposal of subsidiaries	38	-
Wages and management fees	985	888
Share-based payments	153	129
	2,725	2,264

Note 6. Non-current assets - Deferred exploration expenditure

	Consolidated 31 December 2014 $'000	Consolidated 30 June 2014 $'000
Deferred exploration expenditure	29,864	27,075

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

Consolidated	Exploration and evaluation $'000	Total $'000
Balance at 1 July 2014	27,075	27,075
Expenditure during the period	2,788	2,788
Revaluation increments	280	280
Impairment of assets *	(279)	(279)
Balance at 31 December 2014	29,864	29,864

* Impairment relating exploration assets written off in South Gobi prior to disposal of subsidiary.

Note 7. Current liabilities - Deferred acquisition consideration

	Consolidated 31 December 2014 $'000	Consolidated 30 June 2014 $'000
Deferred acquisition consideration	5,520	-

XANADU MINES

Note 7. Current liabilities - Deferred acquisition consideration (continued)

On 5 March 2015, the company announced that Noble Resources International Pte Ltd ("Noble") has further subscribed for 5,547,885 shares at 12 cents per share raising $665,746 in relation to the rights issue shortfall placement made pursuant to the offer document dated 4 December 2014.

During the 30 June 2014 financial year, Xanadu and Ganbayar Lkhagvasuren formed a joint venture company Mongol Metals LLC for the purpose of acquiring the Kharmagtai Copper and Gold project. Mongol Metals LLC acquired the project through the acquisition of 90% of the shares in Oyut Ulaan LLC which owns the project. At 31 December 2014, Xanadu has a 67.5% shareholding in Mongol Metals LLC and effectively controls that entity.

The purchase price was $14,667,000 (US$14,000,000) of which $4,237,600 (US$4,000,000) was contributed by Ganbayar Lkhagvasuren to fund the payment of the deposit. The remaining $10,595,000 (US$10,000,000) is payable within 18 months of completion. Xanadu has guaranteed the payment of the deferred consideration. Xanadu has funded the joint venture to facilitate exploration activity since completion. Xanadu has an obligation to pay 50% of the net proceeds from any equity capital raised or asset sales towards the deferred acquisition consideration.

Of the $10.6 million, Xanadu paid $6.6 million (US$5.5 million) during the period funded through its private placement and rights issue, leaving the balance owing of $5.5 million (US$4.5 million) after allowing for foreign exchange differences as at 31 December 2014.

On 5 January 2015, the company made a further payment of $0.5 million (US$0.4 million). The current balance of deferred consideration is $5.2 million (US$4.1 million) as at the date of this report. On 16 February 2015, the repayment date has been extended by eight months to 31 July 2016.

Note 8. Non-current liabilities - Deferred acquisition consideration

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Deferred acquisition consideration	-	10,595

The deferred acquisition consideration has been reclassified to current liabilities as at the end of the reporting period. Refer to note 7 for further details.

Note 9. Equity - issued capital

	Consolidated			
	31 December 2014 Shares	30 June 2014 Shares	31 December 2014 $'000	30 June 2014 $'000
Ordinary shares - fully paid	354,763,294	241,536,839	71,843	58,629

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 July 2014	241,536,839	58,629
Exercise of share rights	10 November 2014	1,250,000	-
Issue of shares to KMP	10 November 2014	750,000	75
Share placement - tranche 1	5 December 2014	60,247,663	7,386
Share placement - tranche 2	17 December 2014	50,978,792	6,250
Transaction costs		-	(497)
Balance	31 December 2014	354,763,294	71,843

Note 9. Equity - issued capital (continued)

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.

Included is proceeds from the issue of shares of $14.423 million is $786,947 in relation to the rights issue offer announced on 25 November 2014, which closed on 23 December 2014. New shares were allotted on 2 January 2015. Given the shares were issued post year end this amount is disclosed in other reserves at year end.

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

Note 10. Equity - reserves

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Foreign currency reserve	(794)	-
Share-based payments reserve	8,222	8,312
Other reserve	787	-
	8,215	8,312

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

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

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

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

Note 10. Equity - reserves (continued)

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

Consolidated	Share - based payments $'000	Foreign curency translation $'000	Other $'000	Total $'000
Balance at 1 July 2014	8,312	-	-	8,312
Share-based payments - employee benefits	(90)	-	-	(90)
Foreign currency translation	-	(794)	-	(794)
Rights issue alloted post year end *	-	-	787	787
Balance at 31 December 2014	8,222	(794)	787	8,215

* Allotment of shares in relation to rights issue announced on 25 November 2014 which closed on 23 December 2014.

Note 11. Equity - dividends

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

Note 12. Net fair values

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

The fair values have been determined based on the following methodologies:
(i) Other receivables, trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for relating to annual leave which is not considered a financial instrument.
(ii) Term loan and deferred acquisition consideration are valued at cost.

Note 13. Contingent liabilities

Under the Mongolian tax laws, any amounts paid to acquire or associated with the transfer of an exploration or mining license are considered to be a sale of mineral rights and the acquirer of the license can be liable to tax at 30% of the gross proceeds. Projects in which the company has an interest in have been acquired under purchase of shares in companies. The company is in the process of assessing whether there is an exposure under the tax rules in light of recent developments.

There are no other material contingent liabilities relating to the company and/or the group.

Note 14. Events after the reporting period

On 2 January 2015, the company announced the issue of 8,590,785 shares at $0.12 per share, raising $1,030,894 in relation to the rights issue announced on 25 November 2014 which closed on 23 December 2014.

On 5 January 2015, the company made a further payment of $0.5 million of the deferred consideration for the Kharmagtai project. The current balance of deferred consideration is $5.5 million (US$4.1 million).

On 22 January 2015, the company announced that Managing Director and CEO, George Lloyd, will step down from his role with effect from 1 July 2015.

Note 14. Events after the reporting period (continued)

On 16 February 2015, the repayment date of the deferred consideration for the Kharmagtai project has been extended by eight months to 31 July 2016. On the basis that a future capital raising occurs, 50% of the funds raised will go towards repayment of the deferred consideration.

On 5 March 2015, the company announced that Noble Resources International Pte Ltd ('Noble') has further subscribed for 5,547,885 shares at 12 cents per share raising $665,746 in relation to the rights issue shortfall placement made pursuant to the offer document dated 4 December 2014. This brings the balance of the deferred consideration down to approximately $5.2 million (US$3.8 million).

No other matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

In the directors' opinion:

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

- the attached financial statements and notes thereto give a true and fair view of the group's financial position as at 31 December 2014 and of its performance for the financial period ended on that date; and

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

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

On behalf of the directors

Mark Wheatley

Mark Wheatley
Non-Executive Chairman

13 March 2015

Ernst & Young
680 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

To the members of Xanadu Mines Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Xanadu Mines Ltd, which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Xanadu Mines Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Xanadu Mines Ltd is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

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

Ernst & Young

Ryan Fisk
Partner
Sydney
13 March 2015