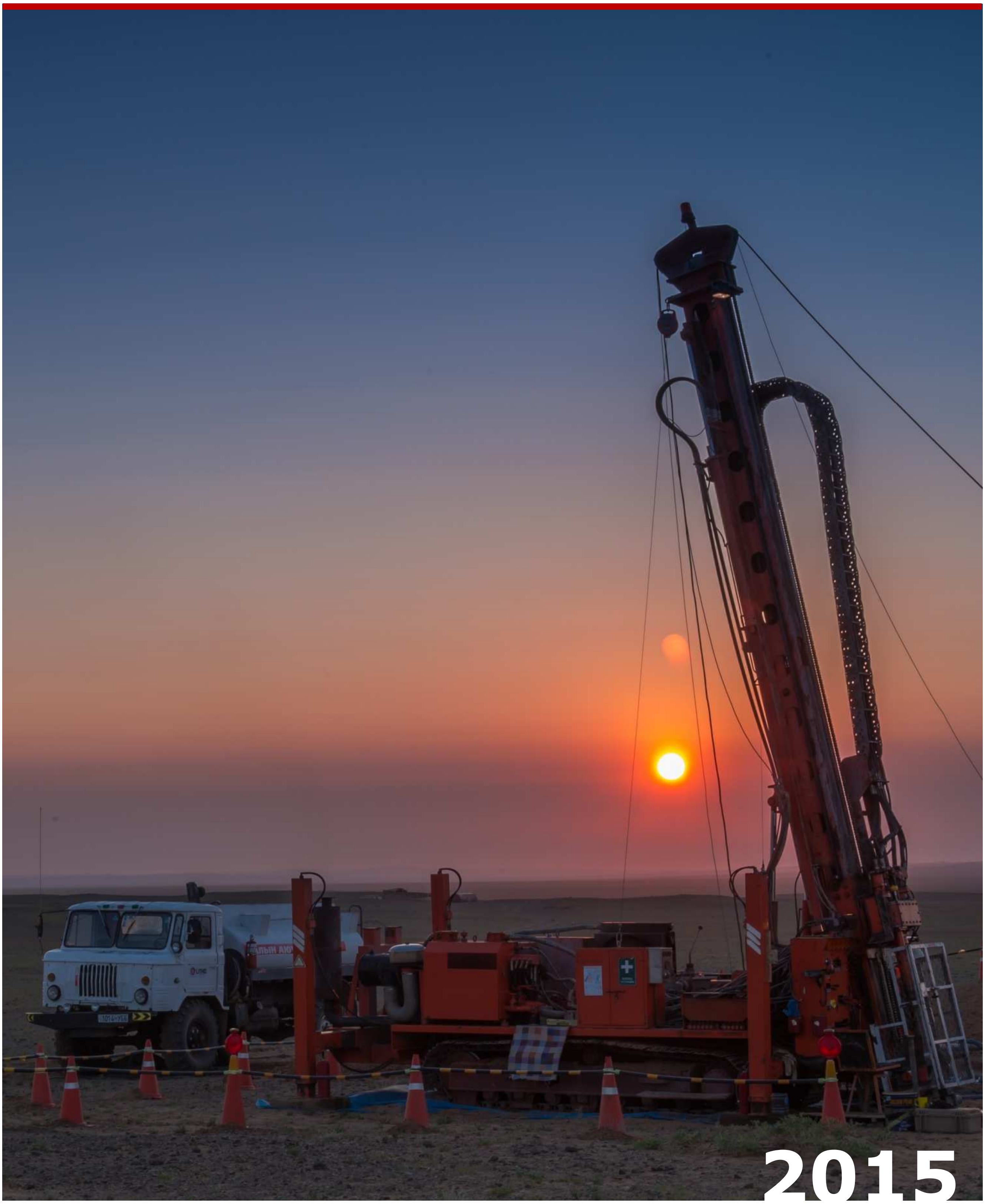
XANADU MINES



2015 ANNUAL REPORT

Xanadu Mines Limited ASX:XAM

For the year ended 31 December 2015

Contents

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

Letter from the Chairman

Dear Shareholder

Xanadu's safety performance during this busy drilling year was outstanding, and congratulations to the Management team for a well-recognised effort. Pleasing progress was also made in advancing the Company's strategy of converting our South Gobi, Mongolia copper, gold and gold exploration projects into mineable deposits in what was another very difficult year for commodities. Your Company is well placed to continue to add value to its projects during 2016.

Following the acquisition of our flagship Kharmagtai project in 2014 and exploration that year, the Company was able to publish a maiden resource for the project in the first quarter of 2015. This maiden resource is over a very small part of the Kharmagtai intrusive complex and the Management team is confident that exploration will increase the size and grade of this resource.

Dr Andrew Stewart was appointed as our new Chief Executive Officer in March of 2015 and recently to the Board; and the Board is pleased with the progress Andrew has made in his new role. Andrew has increased the profile of the Company through busy programs of technical and corporate conferences, investor lunches and one on one meetings throughout the year. The Company also hosted a number of successful site visits to the Kharmagtai project during the year and all visitors left impressed with the project, its facilities, our people and the infrastructure nearby. Xanadu is now firmly on the radar with investors and the large corporate operators.

During 2015, the Company was able to pursue exploration programs at two of its three projects allowing positive news flow and progress during the year.

The focus of our exploration and drilling for the year was at our flagship Kharmagtai project where 10,460 metres and 5.6 kilometres of trenching were completed. Our work continues to add metal and grade to the system and the highlights for the year were the trenching on the western edge of the Tsagaan Sudal resource and the discover of very high- grade mineralisation east of Altan Tolgoi within the tourmaline breccia at approximately only 300 metres depth. The aim for 2016 drilling is to discover a 4th shallow high-grade porphyry center and move the project into early stage scoping and prefeasibility work.

At Oyut Ulaan, 2,050 metres of diamond drilling delivered encouraging results across several different prospects and increased the scale and potential of project. The next phase of exploration will focus on identifying the engine room to this large system. More recently and post year end, bonanza grade rock chips were discovered south of known porphyry mineralisation highlighting the scope for a significant gold discovery in this area. Follow up trenching and detailed channel sampling are underway.

The early stage Sharchuluut project is on hold as exploration is currently restricted under the Forests and Rivers Law.

Marcus Engelbrecht joined the Board as a Non-Executive Director during the year as a nominee of our largest shareholder, Singapore based Asia Capital and Advisers Pte Ltd (ACA). Marcus is a well-rounded senior mining executive with 20 years at BHP Billiton and more recently was MD and CEO of London listed Archipelago Gold operating in Indonesia. All shareholders will benefit from Marcus' involvement with the Company.

Another important development for Xanadu during the year was that an equity award scheme was introduced for key middle management executives where share rights will vest over time based on achievement of key performance indicators that are derived from those for Executive Management, further aligning Management incentives with those of shareholders.

The Company is also pleased to receive further confirmation that Mongolia has emerged as a significant natural resource province when Turquoise Hill Resources (THR) signed off on a $US4.4 billion project finance facility for the giant Oyu Tolgoi project in December 2015. This facility provided by a syndicate of international financial institutions and export credit agencies representing governments of Canada, US, and Australia, along with 15 commercial banks is a real vote of confidence in Mongolia.

The year ended on a high with completion of a $8.8 million capital raise followed by a renegotiation of the deferred acquisition consideration for the Kharmagtai project reducing the payment required by $US1 million with only US$2.8 million (approx A$4 million) left to be paid by the end of March 2016. The full repayment of the deferred acquisition consideration is a significant milestone for Xanadu.

To finish, may I thank the Board, Management team and all staff for their efforts. Our commitment to the Company and Mongolia is as strong as ever and we will continue to strive to create shareholder value in 2016 through cost effective exploration at our world class projects.

Mark Wheatley

Mark Wheatley
Executive Chairman
18 March 2016

Review of Operations

The Company continued to make significant advances in its Mongolian copper-gold strategy over the twelve months ended 31 December 2015. The Company achieved several significant milestones, including completing a maiden Mineral Resource Estimate in accordance with the JORC 2012 Code for the Kharmagtai copper-gold project within 12 months since acquisition. The Mineral Resource Estimate amounts to 203Mt @ 0.34% Cu and 0.33g/t Au (0.55% CuEq) for a contained metal content of 1,500Mlb Cu and 2.2Moz Au. The Resource Estimate also includes a higher grade core of 56Mt @ 0.47% Cu and 0.59g/t Au (0.85% CuEq) for a contained metal content of 580Mlb Cu and 1.1Moz Au. The higher grade core is reported at a 0.6% CuEq cut-off and split between open pit within a Whittle optimised pit shell and underground outside of the pit shell. The quality of this project continues to be demonstrated by positive exploration results reinforcing the view that the Kharmagtai project is one of the most promising copper-gold exploration projects globally; and reaffirms our belief in the potential for this mineral system to host a large scale high-grade copper-gold deposit.

The excellent exploration results achieved in 2015 by the Company at our south Gobi projects in Mongolia, which build on previous results, were strongly endorsed by the support the Company received in a capital raising late in 2015. Despite the tough times being experienced in the resources sector generally and the weakness in commodity prices, the Company raised A$8.8 million by a placement at $0.125 per share to new and existing sophisticated and institutional shareholders including two of our longstanding major shareholders. The Company also reached agreement with Turquoise Hill Resources Ltd (TSX: TRQ) to reduce the balance of the Deferred Acquisition Consideration for the advanced Kharmagtai copper-gold project by over US$1 million and following a successful capital raise, we were able to complete the acquisition of the Kharmagtai project. Xanadu is now able to enter 2016 with its flagship asset fully secured and an improved balance sheet. The Company is well funded to carry out an accelerated program of extensional and exploration drilling at its two advanced gold-rich porphyry copper projects, Kharmagtai and Oyut Ulaan, in the renowned South Gobi porphyry region of Mongolia.

The recent agreement between the Mongolian Government and Rio Tinto regarding financial arrangements for Rio Tinto's huge investment (US$4.4 billion) in the underground component of the giant Oyu Tolgoi copper-gold mine is recognition that Mongolia is serious about being a pro-mining and development jurisdiction.

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

Xanadu and its joint venture partner, Mongol Metals LLC, announced the acquisition of a 90% interest in the Kharmagtai porphyry copper-gold project from Turquoise Hill Resources in February 2014. Under the Mongol Metals LLC joint venture terms, Xanadu has the right to earn an 85% interest in the Kharmagtai project, equivalent to a 76.5% effective interest, by funding acquisition and exploration costs. During the first Quarter 2016, the Company has subscribed for shares in Mongol Metals LLC to increase its shareholding to 79.8% (71.8% effective interest).

The Kharmagtai project is located within the Omnogovi Province, approximately 420km southeast of Ulaanbaatar and 120km north of the Rio Tinto-controlled Oyu Tolgoi deposit. The Kharmagtai project is an advanced exploration project consisting of multiple co-genetic gold-rich porphyry copper centres and tourmaline breccia pipes occurring within the Lower Carboniferous Kharmagtai Igneous Complex. Exploration has identified significant shallow high-grade porphyry copper gold mineralisation in the central part of Mining Licence 17387A. A majority of the mineralised porphyry complex lies under un-explored shallow sediments. The large licence area has only been partially explored and the potential for further discoveries remains high.

Exploration in 2015 produced excellent results with recent drilling intersecting some of the longest continuous zone of mineralisation and the highest grade mineralisation to date, showing our increased understanding of the deposit (refer to ASX release of 22 June 2015). The discovery of the high-grade tourmaline breccia mineralisation superimposed on an earlier major porphyry copper-gold system has transformed what is a potential mid-scale project into one of the most prospective copper-gold projects globally. Tourmaline breccia deposits are a major host of copper mineralisation, and comprise some of the world's largest single most endowed porphyry copper deposit, as exemplified by >5 Gt of ore-grade breccia at Los Bronces-Río Blanco in Chile. The size of the hydrothermal footprint at Kharmagtai is an excellent indicator of the district potential, with porphyry intrusions and tourmaline-cemented breccia's extending over an 8 by 2 kilometre area.

Continued exploration success here is evidence of our evolving and increasing understanding of the mineral system and reinforces the view that the district has strong potential to host large scale high-grade copper-gold mineralisation and potentially shallow high-grade epithermal gold mineralisation (refer to ASX release of 17 December 2015).

The tendency for porphyry copper deposits to constitute clusters or alignments is clearly exemplified by the mineralised centres at Kharmagtai. Overall, Kharmagtai has sufficient prospects with exciting geology that it could easily develop into a district comparable to other porphyry districts in the in south Gobi region such as Oyu Tolgoi (located 120 kilometres to the south). Exploration drilling continues to test a combination of targets which includes high level gold-rich porphyry mineralisation and deeper tourmaline breccia mineralisation within the highly prospective 25 km² area of interest which has yielded outstanding results to date.

Oyut Ulaan Project (Xanadu 90%)

The Oyut Ulaan copper-gold project is located in the Dornogovi Province of southern Mongolia, approximately 70 kilometres west of the future industrial centre of Sainshand. Oyut Ulaan is a highly prospective porphyry copper-gold project. The project comprises a large and underexplored porphyry district (covering approximately 40km²) and consists of multiple co-genetic porphyry copper-gold centres, mineralised tourmaline breccia pipes and copper-gold/base metal magnetite skarns, which occur within the central part of Mining Licence 17129A. 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. Exploration work indicates that outcropping mineralisation may represent the shallow part of a deeper, more continuous porphyry system. A tourmaline breccia complex is also present at Oyut Ulaan with similarities to the mineralised tourmaline breccia dike complex at Kharmagtai. The Company will continue its systematic and low-cost exploration program at Oyut Ulaan. The next phase of exploration will focus on delineating potential shallow, high-grade gold mineralisation by exploring along strike from existing intersections and testing the many geophysical and geochemical anomalies which remain within the Oyut Ulaan licence area.

Sharchuluut Project (Xanadu 100%)

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

Exploration Expenditure

The Company invested $3.8 million (6 months to 31 December 2014: $2.8 million) in exploration activities, primarily at the Kharmagtai copper-gold project. A total of 12,510 metres of diamond drilling and 5.6 kilometres of trenching were completed at the Kharmagtai and Oyut Ulaan projects.

Capital Management

The Company's cash position increased over the reporting period by $1.1 million to $8.6 million as at 31 December 2015 (31 December 2014: $7.5 million). The Company realised $9.2 million (31 December 2014: $14.7 million) in financing cash flows, primarily from the $8.8 million share placement that was approved by shareholders in December 2015. The primary use of funds over 2016 will be the continuation of exploration activities at the Company's Kharmagtai and Oyut Ulaan copper-gold projects, full payment of the Kharmagtai deferred acquisition considerations, 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 reduce its cost base while preserving its exploration projects if required.

Political & Regulatory Risks

The Company's operations are subject to various levels of government controls and regulations in the countries where it operates, including Australia and Mongolia. These laws and regulations include matters relating to land tenure, drilling, production practices, environmental protection, royalties, various taxes and levies including income tax, foreign trade and investment and government approval of 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. As changes in government policy or laws and regulations could adversely affect the Company's results of operations and financial condition, the Company actively monitors any risk relating to Mongolia's regulatory and political environment.

While there have been several changes and disruptions to business conditions in Mongolia over the past three years as a result of changes to the foreign investment rules, the new government that was formed in late November 2014 has shown that it is firmly committed to foreign mining investment and development as evidenced by its embracing of the new streamlined petroleum law and achieving a successful resolution of the financial dispute over the underground phase of the Oyu Tolgoi mine.

Exchange Rate & Commodity Price Risks

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

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

Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Xanadu Mines Ltd (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the period ended 31 December 2015.

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
Ganbayar Lkhagvasuren
Hannah Badenach
Darryl Clark
Barry Lavin
Marcus Engelbrecht (appointed on 16 June 2015)
Dr Andrew Stewart (appointed 8 March 2016)
George Lloyd (ceased on 17 March 2015)

Principal activities

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

Dividends

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

Review of operations

The Company realised a loss of $4.3 million for the period ending 31 December 2015 (6 months to 31 December 2014: $3.1 million) and recognised total net assets of $34.4 million (6 months to 31 December 2014: $29.3 million). The Company had other operating expenses of $3.8 million before net foreign currency losses (6 months to 31 December 2014: $2.3million) including wages expense of $2.1 million (6 months to 31 December 2014: $1.0 million).

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 18 January 2016, the Company announced a reduction and full repayment of the Kharmagtai deferred consideration. The deferred consideration was reduced by over US$1 million (A$1.4 million) subject to the remaining balance of US$2.8 million (A$4 million) being paid by 31 March 2016. On 20 January 2016, the Company paid US$1.8 million (A$2.6 million) with the balance to be paid before 31 March 2016.

On 8 March 2016, the Company announced the appointment of Dr Andrew Stewart as an Executive Director of the Company, in addition to his role as Chief Executive Officer.

On 9 March 2016, the shareholders of Mongol Metals JV resolved that the Company to subscribe for shares in Mongol Metals to increase its shareholding from 71.2% to 79.8% in the JV.

No other matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

Information on Directors

Name:	Mark Wheatley
Title:	Executive Chairman
Qualifications:	BE (Chem Eng Hons 1), MBA
Experience and expertise:	Mark is an experienced resources Company director with a career spanning more than 30 years in mining and related industries. He is currently serving as non-executive director of US and ASX listed Uranium Resources, Inc. His other independent non-executive board roles have included former Chair of Gold One International Limited, Norton Goldfields Limited and Goliath Gold Mining Limited as well as directorships of St Barbara Mines Limited and Uranium One Inc.
Other current directorships:	Uranium Resources Inc.
Former directorships (last 3 years):	Goliath Gold Mining Limited (JSE listed) (appointed 23 March 2011 – ceased 30 April 2013)
Special responsibilities:	Member of the Audit Committee and Safety, Health and Environment Committee
Interests in shares:	2,350,000

Name:	Ganbayar Lkhagvasuren
Title:	Executive Director
Qualifications:	M.IBL
Experience and expertise:	Ganbayar is a co-founder of Xanadu and has been a Director since 2006. He is the joint venture partner in Mongol Metals LLC and brings a vital Mongolian perspective to the Board of Directors. He works closely with the Executive Chairman and Chief Executive Officer in corporate development and managing the day-to-day operations in Mongolia.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and Safety, Health and Environment Committee
Interests in shares:	15,589,565
Interests in rights:	600,000

Name:	Hannah Badenach
Title:	Non-Executive Director
Qualifications:	B. Laws (Hons), B. Arts
Experience and expertise:	Hannah is a director in Mongolia at Noble Resources International Pte Ltd (Noble) and a lawyer having practiced for several years, including 2 years in Mongolia with Lynch & Mahoney. Hannah has extensive Mongolian, commercial and business development experience, having managed QGX LLC until the company was sold in 2008 and now developing and running Noble's business in Mongolia.
Other current directorships:	Aspire Mining Limited (ASX listed) (appointed 18 April 2013 - current)
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Governance Committee
Interests in shares:	1,057,738

Name:	Darryl Clark
Title:	Independent Non-Executive Director
Qualifications:	B.Sc (Honours), Phd (Economic Geology), FAusIMM
Experience and expertise:	Darryl is an exploration geologist whose career has taken him throughout Australia, Central Asia and South East Asia for over 20 years. His responsibilities over the last 10 years have involved him in a diverse range of technological, political and cultural environments with unique challenges. During previous corporate roles with both Vale and BHP Billiton, and in consulting roles including SRK, he has been responsible for business development strategies, designing multi-commodity exploration programs and the co-ordination of exploration teams to deliver discovery events. Currently, Darryl is General Director for the Inkai Joint Venture mining operation in Kazakhstan owned by Cameco Corporation and Kazatomprom.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Safety, Health and Environment Committee and Governance Committee
Interests in shares:	1,456,000

Name:	Barry Lavin
Title:	Independent Non-Executive Director
Qualifications:	BSc (Hons) (Mining Engineering), MBA, C Eng, MIMM
Experience and expertise:	Barry is an accomplished senior mining executive who spent 18 years with the Rio Tinto Group until 2009, where his most recent executive role was in its Copper Group having the responsibility for identifying and evaluating acquisitions. Barry is a mining engineer and while at Rio Tinto was the Managing Director of the Northparkes Mines JV where he helped position the operation as a highly productive, profitable and safe underground block caving operation. At Rio Tinto, Barry also held the role of Managing Director of Rio Tinto Technical Services. Barry is currently a non-executive director of Barminco Ltd, an Australian underground mining contractor with international operations, a non-executive director of Ferrum Americas Inc., a listed Canadian junior and is Managing Director of Teviot Resources Pty Ltd., a diversified junior. Barry also served on the Board of Oz Minerals from 2011 to 2013.
Other current directorships:	None
Former directorships (last 3 years):	Oz Minerals Limited (ASX listed) (appointed 1 July 2011 - ceased 8 March 2013) Ferrum Americas Inc (TSX listed) (appointed 30 Jan 2011 - ceased 15 October 2015)
Special responsibilities:	Chairman of the Safety, Health and Environment Committee, Chairman of the Governance Committee and member of the Audit Committee
Interests in shares:	65,700
Interests in rights:	1,000,000

Name:	Marcus Engelbrecht (appointed 16 June 2015)
Title:	Non-Executive Director
Qualifications:	MAICD, H Compt
Experience and expertise:	Marcus is a well-rounded senior mining executive with considerable experience in the international mining industry. He has worked in various emerging markets across the globe, including Indonesia and the Philippines in South East Asia, and brings a good network and reputation across the international institutional investment community. Marcus has worked in the mining industry since 1985 and spent 20 years at BHP Billiton through to 2005 where he served as Chief Financial Officer for their Diamonds and Specialty Products business. From 2009 to 2011, he served as Chief Financial Officer of ASX/TSX/NZX listed OceanaGold Corporation and from 2011 to 2013, he served as Managing Director and Chief Executive Officer of London AIM listed and Singapore based Archipelago Resources Plc, a gold producer in Indonesia.
Other current directorships:	None
Former directorships (last 3 years):	Archipelago Resources Plc (AIM listed) (resigned June 2013)
Special responsibilities:	Chairman of the Audit Committee and member of the Governance Committee
Interests in shares:	100,000
Interests in rights:	1,000,000

Name:	Dr Andrew Stewart (appointed 8 March 2016)
Title:	Chief Executive Officer & Executive Director
Qualifications:	BSc, PhD, MAIG & MSEG
Experience and expertise:	Andrew is a geologist with over 15 years' experience in mineral exploration; primarily focussed on project generation, project evaluation and exploration strategy development throughout Asia and Eastern Europe. Andrew has particular expertise in porphyry copper and epithermal gold deposits, but has worked across a diverse range of commodities. He holds a BSc (Hons) from Macquarie University and a PhD from the Centre of Ore Deposits and Exploration Studies at the University of Tasmania. During his time Ivanhoe Mines and Vale Andrew held various technical and management positions in Mongolia and Indonesia and has been involved in several green fields discoveries. After providing technical and program management for Vale in Indonesia and Mongolia, Andrew joined Xanadu Mines as Chief Geologist leading the gold and base metals project generation and evaluation team in Mongolia. In 2015 Andrew became the Chief Executive Officer of Xanadu Mines.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	2,736,743
Interests in rights:	600,000
Interests in options:	3,000,000

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

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

Company Secretary

Janine Rolfe, BEc LLB (Hons)

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

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the period ended 31 December 2015, and the number of meetings attended by each Director were:

	Full Board		Audit Committee		Governance Committee		Safety, Health and Environment Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
M Wheatley	15	15	2	2	–	–	1	2
G Lloyd	5	5	–	–	–	–	–	–
G Lkhagvasuren	12	15	1	2	–	–	–	–
H Badenach	13	15	–	–	7	7	–	–
D Clark	12	15	–	–	7	7	2	2
B Lavin	14	15	2	2	7	7	2	2
M Engelbrecht	8	8	–	–	–	–	–	–

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

Since the period ended 31 December 2014, the Company has restructured its committees. As at the date of this report the Company has a Safety, Health and Environment Committee, Audit Committee and a Governance Committee. Further details are set out in the Corporate Governance Statement on the Company's website.

Remuneration Report (audited)

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

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

The remuneration report is set out under the following main headings:

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

Principles used to determine the nature and amount of remuneration

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

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

Important attributes that impact on Xanadu's success are:

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

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

Executive Remuneration

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

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

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

Total Fixed Remuneration

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

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

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

Variable or At-Risk Incentive Remuneration

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

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

The Plan was approved by shareholders at the 2013 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). KPIs for the Executive Chairman, Chief Executive Officer (CEO) and CEO direct reports are approved by the Board upon recommendation from the Governance 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 at the discretion of the Board.

Long Term Incentive (LTI)

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

The Board's policy is to design equity style awards as LTIs.

The vesting of an LTI award is dependent on the achievement of longer term objectives, at least including share price growth over a three-year performance period.

Total Reward Mix - Executives

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

The target total reward mix on average is as follows:

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

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

Non-Executive Remuneration

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

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

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

Details of remuneration

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

The key management personnel of the Group consisted of the Directors of Xanadu Mines Ltd and the following persons:
- A Stewart - Chief Executive Officer
- M Dambiinyam - Chief Financial Officer

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

1 Appointed 16 June 2015

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

3 Ceased 17 March 2015

H Badenach did not receive any remuneration.

6 months to 31 December 2014	Short-term benefits Cash salary and fees $	Bonus $	Others/ Non-monetary $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments Equity-settled $	Total $
Non-Executive Directors:							
M Wheatley	25,000	-	-	17,500	-	20,299	62,799
D Clark	26,000	-	-	-	-	13,533	39,533
B Lavin[1]	12,645	-	-	1,201	-	4,031	17,877
Executive Directors:							
G Lloyd	160,000	-	-	-	-	44,455	204,455
G Lkhagvasuren	72,548	-	-	-	-	6,415	78,963
Other KMP:							
M Langan[2]	80,501	-	-	7,648	-	75,000	163,149
A Stewart[4]	161,594	-	16,326	-	-	4,998	182,918
M Dambiinyam[3,4]	24,388	-	-	-	-	6,305	30,693
	562,676	-	16,326	26,349	-	175,036	780,387

1 Appointed 22 September 2014

2 Ceased 3 November 2014

3 Appointed 3 November 2014

4 The Group reported $17,665 and $2,683 of superannuation for Andrew Stewart and M Dambiinyam. This has been removed as the amounts relate to social security tax paid by the company to the Mongolian government and does not reflect post-employment benefits to the KMPs.

H Badenach did not receive any remuneration in the December 2014 Transitional Financial Year.

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

Name	Fixed remuneration Year ended 31 December 2015	Fixed remuneration 6 months ended 31 December 2014	At risk - STI Year ended 31 December 2015	At risk - STI 6 months ended 31 December 2014	At risk - LTI Year ended 31 December 2015	At risk - LTI 6 months ended 31 December 2014
Non-Executive Directors:						
D Clark	92%	66%	-	-	8%	34%
B Lavin	65%	77%	-	-	35%	23%
M Engelbrecht[1]	92%	-	-	-	8%	-
Executive Directors:						
M Wheatley[2]	97%	68%	-	-	3%	32%
G Lkhagvasuren	97%	93%	-	-	3%	7%
G Lloyd[3]	67%	78%	29%	-	4%	22%
Other KMP:						
M Dambiinyam	91%	79%	-	-	9%	21%
M Langan	-	54%	-	-	-	46%
A Stewart	84%	97%	-	-	16%	3%

1 Appointed 16 June 2015

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

3 Ceased 17 March 2015

Service agreements

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

Name:	Mark Wheatley
Title:	Executive Chairman
Details:	Mr Wheatley's fixed remuneration is an annual salary package of A$200,000 including any applicable taxes required to be withheld. In the event of termination of Mr Wheatley's employment other than in the case of misconduct, the executive must give a minimum of 6 months' notice prior to termination, and the Company must give 6 months' notice prior to termination. The Company may, at its discretion, provide Mr Wheatley 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 Mr Wheatley any right to receive such a payment.
Name:	Ganbayar Lkhagvasuren
Title:	Executive Director in Mongolia
Details:	Mr Lkhagvasuren's fixed remuneration is an annual salary package of MNT360 million (A$236,000) 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 3 months' notice prior to termination, and the Company must give 3 months' notice prior to termination. The Company may, at its discretion, provide Mr Lkhagvasuren 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 Mr Lkhagvasuren any right to receive such a payment.
Name:	Dr Andrew Stewart
Title:	Chief Executive Officer
Details:	Dr Stewart's fixed remuneration is an annual salary package of US$260,000 plus compulsory taxes and social insurance applicable as an employee in Mongolia. Dr Stewart also receives a rental allowance of US$30,000 per annum, travel and health care entitlements. In the event of termination of Dr Stewart's employment other than in the case of misconduct, the executive must give a minimum of 6 months' notice prior to termination, and the Company must give 9 months' notice prior to termination. The Company may, at its discretion, provide Dr Stewart with payment of fixed remuneration in whole or in part in lieu of notice. For the avoidance of doubt, the Company's right to make such a payment does not give Dr Stewart any right to receive such a payment.
Name:	Mr Munkhsaikhan Dambiinyam
Title:	Chief Financial Officer
Details:	Mr Dambiinyam's fixed remuneration is an annual salary package of MNT216 million (A$145,750) plus the 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 3 months' notice prior to termination, and the Company must give 3 months' notice prior to termination. The Company may, at its discretion, provide Mr Dambiinyam 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 the executive any right to receive such a payment.

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

Share-based compensation

Issue of shares

Details of shares issued to Directors and other key management personnel as part of compensation during the period ended 31 December 2015 are set out below:

Name	Date	Shares	Issue price	$
G Lkhagvasuren*	26 May 2015	1,200,000	$0.00	-
A Stewart**	19 March 2015	657,978	$0.12	78,957
A Stewart*	26 May 2015	1,200,000	$0.00	-
M Dambiinyam**	19 March 2015	118,284	$0.12	14,194
M Dambiinyam	26 May 2015	300,000	$0.00	-
G Lloyd***	19 March 2015	2,300,000	$0.00	-

* Vesting of share rights

** Short-term incentive

*** Vesting of share rights (ceased 17 March 2015)

Options

There were no options over ordinary shares issued to Directors and other key management personnel as part of compensation that were outstanding as at 31 December 2015.

There were no options over ordinary shares granted to or vested by Directors and other key management personnel as part of compensation during the period ended 31 December 2015.

Share rights

Details of share rights over ordinary shares granted, vested and lapsed for Directors and other key management personnel as part of compensation during the period ended 31 December 2015 are set out below:

Name	Grant date	Expiry date	Number of rights	Value of rights granted $	Value of rights vested $	Number of rights lapsed	Value of rights lapsed $
M Engelbrecht	23 December 2015	16 June 2018	1,000,000	84,000	-	-	-
G Lkhagvasuren	22 November 2013	23 May 2016	1,200,000	-	172,440	-	-
A Stewart	22 May 2013	23 May 2016	1,200,000	-	172,440	-	-
M Dambiinyam	1 December 2014	1 June 2017	300,000	-	33,150	-	-
G Lloyd	22 November 2013	23 May 2016	-	-	-	1,700,000	308,210

Additional information

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

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

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

* 12 months period

** 6 months period

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the period	Received as part of remuneration	Additions*	Vesting of share rights	Balance at the end of the period
Ordinary shares					
M Wheatley	2,248,666	-	101,334	-	2,350,000
G Lloyd	4,858,333	-	-	-	4,858,333
G Lkhagvasuren	14,389,565	-	-	1,200,000	15,589,565
H Badenach	1,017,738	-	40,000	-	1,057,738
D Clark	1,315,000	-	141,000	-	1,456,000
M Engelbrecht	-	-	100,000	-	100,000
B Lavin	-	-	65,700	-	65,700
A Stewart	633,565	657,978	245,200	1,200,000	2,736,743
M Dambiinyam	-	118,284	120,000	300,000	538,284
	24,462,867	776,262	813,234	2,700,000	28,752,363

* On-market purchases and exercise of share rights

Option holding

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

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

	Vested and exercisable	Vested and unexercisable	Balance at the end of the period
Options over ordinary shares			
A Stewart	3,000,000	-	3,000,000
	3,000,000	-	3,000,000

Share rights holding

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

	Balance at the start of the period	Granted **	Vested and exercised	Expired/ forfeited/ Other*	Balance at the end of the period
Performance rights over ordinary shares					
A Stewart	1,800,000	-	(1,200,000)	-	600,000
M Wheatley	750,000	-	-	-	750,000
G Lloyd	4,000,000	-	(2,300,000)	(1,700,000)	-
G Lkhagvasuren	1,800,000	-	(1,200,000)	-	600,000
D Clark	500,000	-	-	-	500,000
M Engelbrecht	-	1,000,000	-	-	1,000,000
M Dambiinyam	1,000,000	-	(300,000)	-	700,000
B Lavin	1,000,000	-	-	-	1,000,000
	10,850,000	1,000,000	(5,000,000)	(1,700,000)	5,150,000

* Lapsed on cessation of service
** Granted under Equity Incentive Plan

<u>This concludes the remuneration report, which has been audited.</u>

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
1 July 2011	30 June 2016	$0.60	1,000,000
1 July 2011	30 June 2016	$1.20	1,000,000
1 July 2011	30 June 2016	$1.80	1,000,000
21 January 2014*	14 January 2019	$0.00	35,000,000
			38,000,000

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

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

Shares under share rights

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

Grant date	Expiry date (vesting price)	Exercise price	Number under rights
22 May 2013	21 May 2016 (vesting price**: $0.1870)	$0.00	600,000
22 November 2013	21 May 2016 (vesting price**: $0.1870)	$0.00	600,000
28 November 2014	18 September 2017 (vesting price* range: $0.2401 - $0.3121)	$0.00	1,000,000
1 December 2014	1 July 2017 (vesting price range**: $0.1437 - $0.1870)	$0.00	700,000
19 June 2015	1 February 2018 (vesting price**: individual KPIs)	$0.00	1,350,000
23 December 2015	16 June 2018 (vesting range*: $0.1350-$0.2281)	$0.00	1,000,000
			5,250,000

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

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

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

Shares issued on the exercise of options

There were no ordinary shares of Xanadu Mines Ltd issued on the vesting and exercise of options during the period ended 31 December 2015 and up to the date of this report.

Shares issued on the exercise of share rights

There were no ordinary shares of Xanadu Mines Ltd issued on the exercise of performance rights during the period ended 31 December 2015 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify the auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit. No payment has been made to indemnify the auditors during the financial year.

During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

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

Non-audit services

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

Other services in relation to tax advice were provided by Ernst & Young during the financial year. The fees, excluding GST, were $5,124 (Dec 2014: $1,250) for those services. Therefore, the Directors are satisfied that given the total quantum paid for the non-audit services provided during the financial year by Ernst & Young as the external auditor, the general standard of independence for auditors imposed by the Corporations Act was not compromised.

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

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

Rounding of amounts

The Company is of a kind referred to in 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.

Auditor

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

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

On behalf of the Directors

Mark Wheatley

Mark Wheatley
Executive Chairman
18 March 2016

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

As lead auditor for the audit of Xanadu Mines Limited for the financial year ended 31 December 2015, 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
18 March 2016

Statement of Profit or Loss and Other Comprehensive Income

For the period ended 31 December 2015

	Note	Consolidated Year ended 31 December 2015 $'000	Consolidated 6 months ended 31 December 2014 $'000
Revenue	5	37	36
Expenses			
Depreciation and amortisation expense		(150)	(45)
Deferred exploration and evaluation costs written off		-	(279)
Other expenses	6	(3,909)	(2,725)
Finance costs		(351)	(133)
Loss before income tax expense		(4,373)	(3,146)
Income tax expense	7	-	-
Loss after income tax expense for the period		(4,373)	(3,146)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		128	(477)
Other comprehensive income for the period, net of tax		128	(477)
Total comprehensive income for the period		(4,245)	(3,623)
Loss for the period is attributable to:			
Non-controlling interest		(35)	(72)
Owners of Xanadu Mines Ltd	16	(4,338)	(3,074)
		(4,373)	(3,146)
Total comprehensive income for the period is attributable to:			
Non-controlling interest		351	245
Owners of Xanadu Mines Ltd		(4,596)	(3,868)
		(4,245)	(3,623)
Basic earnings per share attributable to the owners of Xanadu Mines Ltd		Cents	Cents
Basic earnings per share	29	(1.15)	(1.21)
Diluted earnings per share	29	(1.15)	(1.21)

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

Statement of Financial Position

As at 31 December 2015

	Note	Consolidated 31 December 2015 $'000	Consolidated 31 December 2014 $'000
Assets			
Current assets			
Cash and cash equivalents	8	8,639	7,508
Prepayment and other assets		-	120
Other receivables	9	497	361
Total current assets		9,136	7,989
Non-current assets			
Property, plant and equipment	10	363	435
Deferred exploration expenditure	11	34,049	29,864
Total non-current assets		34,412	30,299
Total assets		43,548	38,288
Liabilities			
Current liabilities			
Trade and other payables	12	177	446
Deferred acquisition consideration	13	5,185	5,520
Total current liabilities		5,362	5,966
Non-current liabilities			
Term loan - related party	24	3,782	3,064
Total non-current liabilities		3,782	3,064
Total liabilities		9,144	9,030
Net assets		34,404	29,258
Equity			
Issued capital	14	82,108	71,843
Reserves	15	7,083	8,215
Accumulated losses	16	(59,067)	(54,729)
Equity attributable to the owners of Xanadu Mines Ltd		30,124	25,329
Non-controlling interest	17	4,280	3,929
Total equity		34,404	29,258

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

Statement of Changes in Equity

For the period ended 31 December 2015

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 (note 30)	75	(90)	-	-	-	(15)
Share issued during the year, net of transaction costs	13,139	-	-	-	-	13,139
Allotment of shares relating to post-year end issue	-	787	-	-	-	787
Balance at 31 December 2014	71,843	9,009	(794)	(54,729)	3,929	29,258

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

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

Statement of Cash Flows

For the period ended 31 December 2015

	Note	Consolidated Year ended 31 December 2015 $'000	6 months ended 31 December 2014 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(3,919)	(2,587)
Interest received	5	37	36
Interest and other finance costs paid		(81)	(2)
Net cash used in operating activities	28	(3,963)	(2,553)
Cash flows from investing activities			
Payments for property, plant and equipment	10	(48)	(116)
Payments for exploration and evaluation	11	(3,757)	(2,788)
Payments for security deposits		-	(5)
Payments of deferred consideration		(838)	(6,568)
Proceeds from disposal of subsidiaries		-	1
Net cash used in investing activities		(4,643)	(9,476)
Cash flows from financing activities			
Proceeds from issue of shares	14	9,733	14,423
Proceeds of term loan from related party		-	798
Transaction costs on issue of shares	14	(532)	(497)
Net cash from financing activities		9,201	14,724
Net increase in cash and cash equivalents		595	2,695
Cash and cash equivalents at the beginning of the financial period		7,508	4,427
Effects of exchange rate changes on cash and cash equivalents		536	386
Cash and cash equivalents at the end of the financial period	8	8,639	7,508

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 twelve months period ended 31 December 2015. The nature of the operations and principal activities of the Group are described in the Directors’ Report.

Comparatives - change in financial year end

In the year ended 31 December 2014, the Company obtained approval from the Australian Securities and Investments Commission (“ASIC”) to change its financial year end from 30 June to 31 December. The change was 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 comparatives disclosed in the current year financial statements reflect a six month period from 1 July 2014 to 31 December 2014. Consequently, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity of December 2014 are for six month ended 31 December 2014 and therefore not entirely comparable. Effective 1 January 2015, the financial years of the Company are for twelve months ending 31 December.

Note 2. Significant accounting policies

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

New, 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.

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

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

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 25.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Xanadu Mines Ltd ('Company' or 'Parent Entity') as at 31 December 2015 and the results of all subsidiaries for the period then ended. Xanadu Mines Ltd and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

Other taxes

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

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

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

Cash flows are included in the Statement of Cash Flows 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 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 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.

Note 2. Significant accounting policies (continued)

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 Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

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

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

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

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

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

Impairment losses are recognised in the profit or loss.

Investment in Joint Venture

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The consolidated entity’s investments in its associate and joint venture are accounted for using the equity method.

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

The statement of profit or loss reflects the consolidated entity’s share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the consolidated entity’s Other Comprehensive Income (OCI). In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the consolidated entity recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the consolidated entity and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the consolidated entity’s share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the consolidated entity. When necessary, adjustments are made to bring the accounting policies in line with those of the consolidated entity.

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

Note 2. Significant accounting policies (continued)

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

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

- uncertainty as to the remaining life of existing operating sites; and

- the impact of changes in environmental legislation.

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

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

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

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

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.

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

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

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

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

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

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

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

Earnings per share

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

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

Rounding of amounts
The Company is of a kind referred to in 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.

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

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

Note 4. Operating segments

The Group operates predominantly in the minerals exploration sector. The principal 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 5. Revenue

	Consolidated	
	Year ended 31 December 2015 $'000	6 months ended 31 December 2014 $'000
Interest	37	36

Note 6. Other expenses

	Consolidated	
	Year ended 31 December 2015 $'000	6 months ended 31 December 2014 $'000
Other expenses		
Administration and other expenses	1,568	1,086
Net foreign currency loss	87	463
Loss on disposal of subsidiaries	-	38
Wages and management fees	2,064	985
Share-based payments	190	153
	3,909	2,725

Note 7. Income tax benefit

	Consolidated	
	Year ended 31 December 2015 $'000	6 months ended 31 December 2014 $'000
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax expense	(4,373)	(3,146)
Tax at the statutory tax rate of 30%	(1,312)	(944)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax effect of expenses not allowed for tax purposes	93	18
	(1,219)	(926)
Current period tax losses not recognised	1,006	663
Difference in overseas tax rates - Mongolia at 25% (Dec 2014: 25%)	119	203
Difference in overseas tax rates - Singapore at 17% (Dec 2014: 17%)	94	60
Income tax benefit	-	-

At the reporting date, the Group has estimated tax losses of $20,210,000 (Dec 2014: $16,856,000). A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available to use against such losses.

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	31 December 2015 $'000	31 December 2014 $'000
Cash at bank and on hand	8,639	7,508

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

Note 9. Current assets - Other receivables

	Consolidated	
	31 December 2015 $'000	31 December 2014 $'000
Sundry debtors	72	118
GST recoverable	425	243
	497	361

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

Note 10. Non-current assets - property, plant and equipment

	Consolidated	
	31 December 2015 $'000	31 December 2014 $'000
Plant and equipment - at cost	367	339
Less: Accumulated depreciation	(231)	(153)
	136	186
Motor vehicles - at cost	374	353
Less: Accumulated depreciation	(147)	(104)
	227	249
	363	435

Note 10. Non-current assets - property, plant and equipment (continued)

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

Consolidated	Plant & Equipment $'000	Motor Vehicles $'000	Total $'000
Balance at 1 July 2014	217	194	411
Additions	61	55	116
Exchange differences	(65)	14	(51)
Depreciation expense	(27)	(14)	(41)
Balance at 31 December 2014	186	249	435
Additions	27	21	48
Exchange differences	(6)	(6)	(12)
Depreciation expense	(71)	(37)	(108)
Balance at 31 December 2015	136	227	363

Note 11. Non-current assets - Deferred exploration expenditure

	Consolidated	
	31 December 2015 $'000	31 December 2014 $'000
Deferred exploration expenditure	34,049	29,864

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 and evaluation $'000	Total $'000
Balance at 1 July 2014	27,075	27,075
Expenditure during the period	2,788	2,788
Exchange differences	280	280
Impairment of assets*	(279)	(279)
Balance at 31 December 2014	29,864	29,864
Expenditure during the period	3,757	3,757
Exchange differences	428	428
Balance at 31 December 2015	34,049	34,049

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

Note 12. Current liabilities - trade and other payables

	Consolidated	
	31 December 2015 $'000	31 December 2014 $'000
Trade payables	85	100
Accrued expenses	92	346
	177	446

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

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

Note 13. Current liabilities - Deferred acquisition consideration

	Consolidated	
	31 December 2015 $'000	31 December 2014 $'000
Deferred acquisition consideration	5,185	5,520

During the 30 June 2014 financial year, Xanadu and Ganbayar Lkhagvasuren, a Director of the Company, 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 had 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 initial payment. 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 $10,595,000 (US$10,000,000), Xanadu paid $6,568,000 (US$5,500,000) during the period, funded through its private placement and rights issue, leaving the balance owing of $5,500,000 (US$4,500,000) after allowing for foreign exchange differences as at 31 December 2014.

On 5 January 2015 and 13 March 2015, the Company made further payments of $505,138 (US$408,151) and $332,873 (US$254,667), respectively.

On 18 January 2016, the Company announced a reduction and full repayment of Kharmagtai deferred consideration. The deferred consideration was reduced by over US$1 million (A$1.4 million) subject to the remaining balance of US$2.8 million (A$3.8 million) being paid by March 2016. Subsequently, on 20 January 2016, the Company paid US$1.8 million (A$2.6 million) and the balance to be paid in March 2016.

Note 14. Equity - issued capital

	Consolidated			
	31 December 2015 Shares	31 December 2014 Shares	31 December 2015 $'000	31 December 2014 $'000
Ordinary shares - fully paid (net of transaction cost)	445,285,489	354,763,294	82,108	71,843

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 July 2014	241,536,839	58,629
Vesting 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
Share issue - Rights issue	2 January 2015	8,590,785	1,031
Share issue - Shortfall	19 March 2015	5,547,885	666
Share issue - Short Term Incentive	19 March 2015	776,262	93
Share issue - Equity Incentive Plan	19 March 2015	2,300,000	180
Share issue - Equity Incentive Plan	26 May 2015	2,700,000	-
Share issue - Placement	19 November 2015	56,200,000	7,025
Share issue - Share purchase plan	10 December 2015	4,138,074	518
Share issue - Placement	31 December 2015	10,269,189	1,284
Transaction costs		-	(532)
Balance	31 December 2015	445,285,489	82,108

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

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

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

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

Management effectively manages the Group’s capital by assessing the Group’s financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues.

The Capital Risk Management Policy remains unchanged from the June 2014 Annual Report.

Note 15. Equity - reserves

	Consolidated 31 December 2015 $'000	Consolidated 31 December 2014 $'000
Foreign currency reserve	(1,052)	(794)
Share-based payments reserve	8,135	8,222
Other reserves	-	787
	7,083	8,215

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

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

Consolidated	Share - based payments $'000	Foreign currency translation $'000	Other $'000	Total $'000
Balance at 1 July 2014	8,312	-	-	8,312
Share based payment - employee benefits	(90)	-	-	(90)
Foreign currency translation	-	(794)	-	(794)
Rights issue allotted post year end *	-	-	787	787
Balance at 31 December 2014	8,222	(794)	787	8,215
Share-based payments - employee benefits	(87)	-	-	(87)
Foreign currency translation	-	(258)	-	(258)
Rights issue allotted during the year	-	-	(787)	(787)
Balance at 31 December 2015	8,135	(1,052)	-	7,083

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

Note 16. Equity - accumulated losses

	Consolidated	
	31 December 2015 $'000	31 December 2014 $'000
Accumulated losses at the beginning of the financial period	(54,729)	(51,655)
Loss after income tax expense for the period	(4,338)	(3,074)
Accumulated losses at the end of the financial period	(59,067)	(54,729)

Note 17. Equity - non-controlling interest

	Consolidated	
	31 December 2015 $'000	31 December 2014 $'000
Retained profits	4,280	3,929

Note 18. Equity - dividends

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

Note 19. Financial risk management objectives and policies

Financial risk management

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

The Group manages its exposure to key financial risks in accordance with its risk management policy with the objective to ensure that the financial risks inherent in exploration activities are identified and managed accordingly.

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

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

Market risk

Foreign currency risk

The Company's foreign currency requirements include Australian Dollar, Mongolian Tugrug, and US Dollar and will vary from time to time based on, among other things, the relevant aspect of the Company's expenditure program. The Company raises funds in Australian Dollars while a substantial portion of the Company's exploration and remuneration costs are denominated in Mongolian Tugrug in addition to the US Dollar denominated debt the company holds. These factors expose the Company to the fluctuations and volatility of the rates of exchange as determined in international markets. To mitigate the exchange rate risks, the Company has adopted a treasury policy. The Policy mandates the Company to hold certain ratios of Australian and US dollars while avoiding currency speculation and adopting a natural hedging approach based on cost budgets. The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

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

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
Consolidated	31 December 2015 $'000	31 December 2014 $'000	31 December 2015 $'000	31 December 2014 $'000
Cash and cash equivalents	319	428	-	-
Term loan - related party	-	-	3,782	3,064
Deferred acquisition consideration	-	-	3,842	5,520
	319	428	7,624	8,584

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

	AUD strengthened			AUD weakened		
Consolidated - 31 December 2015	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
AUD/USD	10%	731	731	(10%)	(731)	(731)

	AUD strengthened			AUD weakened		
Consolidated - 31 December 2014	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
AUD/USD	10%	816	816	(10%)	(816)	(816)

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

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

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

	31 December 2015		31 December 2014	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash and cash equivalents	2.40%	8,639	2.40%	7,508
Interest bearing loans and borrowings	10.23	(3,782)	10.25%	(3,064)
Net exposure to cash flow interest rate risk		4,857		4,444

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

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

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

	Basis points increase			Basis points decrease		
Consolidated - 31 December 2015	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Net interest rate risk exposure	100	49	49	(100)	(49)	(49)

	Basis points increase			Basis points decrease		
Consolidated - 31 December 2014	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Net interest rate risk exposure	100	44	44	(100)	(44)	(44)

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

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

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

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

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

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

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

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

Note 20. Key management personnel disclosures

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

Mark Wheatley	Executive Chairman
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Barry Lavin	Independent Non-Executive Director
Marcus Engelbrecht (Appointed 16 June 2015)	Non-Executive Director
George Lloyd (Ceased 17 March 2015)	Managing Director and Chief Executive Officer

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

Andrew Stewart	Chief Executive Officer
Munkhsaikhan Dambiinyam	Chief Financial Officer

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

	Consolidated	
	Year ended 31 December 2015 $	6 months ended 31 December 2014 $
Short-term employee benefits	1,456,458	579,002
Post-employment benefits	42,649	26,349
Share-based payments	168,390	175,036
	1,667,497	780,387

Transactions with key management personnel - prior period
On 2 April 2014, the Company announced it had sold its 64% interest in the Ulaanbaatar office building to Ganbayar Lkhagvasuren a Director of the Company. The sale was for cash and a rent free period amounting to $677,636. The sale price was supported by an independent valuation. The rent free period expired on 30 November 2015. The Company paid $12,938 for December 2015 rent.

Note 21. Remuneration of auditors

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

	Consolidated	
	Year ended 31 December 2015 $	6 months ended 31 December 2014 $
Audit services - Ernst & Young		
Audit or review of the financial statements	66,700	64,000
Other services - Ernst & Young		
Tax services	5,124	1,250
	71,824	65,250

Note 22. Contingent liabilities

Under the Mongolian tax laws, any amounts paid to acquire or associated with the transfer of an exploration or mining licence are considered to be a sale of mineral rights and the acquirer of the licence 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. On 7 August 2015, the Mongolian parliament passed the ‘Law on Supporting Economic Transparency’ the Tax Amnesty Program. The law permitted companies to file a one-off disclosure tax returns by 31 December 2015 to grant amnesty on taxes specified in the law, which in Xanadu's case removes its exposure to tax on proceeds arising from transfers of exploration or mining licences. The law also prohibits government authorities from disclosing information on companies submitted disclosure returns for confidentiality and conduct any legal or criminal actions subsequently. The Group had filed the required tax return by 31 December 2015 and therefore the potential exposure was waived.There are no other material contingent liabilities relating to the Company and/or the Group.

Note 23. Commitments

Commitments in relation to exploration licences contracted at the reporting date, including regulatory charges such as licence fees, but not recognised as liabilities within one year are $2,071,882 (31 December 2014: $1,212,620). 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.

During the June 2014 financial year, the Company completed the acquisition of 90% of the Oyut Ulaan copper-gold project. The terms of which include a minimum spend obligation on the project of $1,059,400 (US$ 1,000,000) before 14 July 2015, and $3,178,200 (US$3,000,000) inclusive of the above commitment before 14 July 2016.

No other commitments or contingencies existed at 31 December 2015.

Note 24. Related party transactions

Parent entity
Xanadu Mines Ltd is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 26.

Key management personnel
Disclosures relating to key management personnel are set out in Note 20 and the Remuneration Report in the Directors' Report.

Note 24. Related party transactions (continued)

Transactions with related parties
There were no transactions with related parties during the current and previous financial period.

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

Loans to/from related parties
In the prior year, Noble Resources International Pte Ltd made a variable rate loan to Xanadu at LIBOR +10%. At 31 December 2015 the amount drawn down is $3,782,000 (31 December 2014: $3,064,000). The loan is due for repayment on 1 July 2017.

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

Note 25. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	Year ended 31 December 2015 $'000	6 months ended 31 December 2014 $'000
Loss after income tax	(1,593)	(1,812)
Total comprehensive income	(1,593)	(1,812)

Statement of financial position

	Parent	
	31 December 2015 $'000	31 December 2014 $'000
Total current assets	8,332	7,138
Total assets	32,898	26,427
Total current liabilities	6	144
Total liabilities	6	144
Equity		
Issued capital	82,108	71,843
Share-based payments reserve	8,135	8,222
Other reserves	256	2,232
Accumulated losses	(57,607)	(56,014)
Total equity	32,892	26,283

Note 25. Parent entity information (continued)

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

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2015.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 31 December 2015.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 26. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2:

Name	Principal place of business / Country of incorporation	Ownership interest 31 December 2015 %	Ownership interest 31 December 2014 %
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	71.20%	67.50%
Vantage LLC	Mongolia	90.00%	90.00%
Oyut Ulaan LLC	Mongolia	90.00%	90.00%

In December 2014, the Group completed the disposals of Xanadu Mines Mongolia LLC, Altan Xanadu LLC and Xanadu South Gobi Copper LLC. In consideration for the shares of Xanadu Mines Mongolia LLC, the Group will receive 3.0% gross production royalty over any production from Altan Xanadu LLC's licences, Elgen Uul and Zost Uul. Consideration of cash of $1,200 (MNT2,000,000) was received in relation to Altan Xanadu LLC and Xanadu South Gobi Copper LLC. The Group incurred a combined loss of $38,000 on disposal of these subsidiaries.

Note 27. Events after the reporting period

On 18 January 2016, the Company announced a reduction and full repayment of the Kharmagtai deferred consideration. The deferred consideration was reduced by over US$1 million (A$1.4 million) subject to the remaining balance of US$2.8 million (A$4 million) being paid by 31 March 2016. On 20 January 2016, the Company paid US$1.8 million (A$2.6 million) with the balance to be paid before 31 March 2016.

On 8 March 2016, the Company announced the appointment of Dr Andrew Stewart as an Executive Director of the Company, in addition to his role as Chief Executive Officer.

On 9 March 2016, the shareholders of Mongol Metals JV resolved that the Company to subscribe for shares in Mongol Metals to increase its shareholding from 71.2% to 79.8% in the JV.

No other matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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

	Consolidated	
	Year ended 31 December 2015 $'000	6 months ended 31 December 2014 $'000
Loss after income tax expense for the period	(4,373)	(3,146)
Adjustments for:		
Depreciation and amortisation	150	45
Share-based payments	190	153
Foreign exchange differences	87	463
Interest on loan capitalised	351	131
Loss on disposal of subsidiaries	-	38
Other non-cash transactions	150	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(168)	(143)
Decrease in trade and other payables	(350)	(94)
Net cash used in operating activities	(3,963)	(2,553)

Note 29. Earnings per share

	Consolidated	
	Year ended 31 December 2015 $'000	6 months ended 31 December 2014 $'000
Loss after income tax	(4,373)	(3,146)
Non-controlling interest	35	72
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(4,338)	(3,074)

Note 29. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	378,472,099	255,098,626
Weighted average number of ordinary shares used in calculating diluted earnings per share	378,472,099	255,098,626

	Cents	Cents
Loss per share	(1.15)	(1.21)
Diluted loss per share	(1.15)	(1.21)

Note 30. Share-based payments

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

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

31 December 2015

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

* Lapsed during the period.

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

31 December 2014

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other *	Balance at the end of the period
27/05/2007	31/12/2014	$0.50	14,000,000	-	-	(14,000,000)	-
19/12/2007	19/12/2014	$0.50	5,240,000	-	-	(5,240,000)	-
01/07/2011	30/06/2016	$0.60	1,000,000	-	-	-	1,000,000
01/07/2011	30/06/2016	$1.20	1,000,000	-	-	-	1,000,000
01/07/2011	30/06/2016	$1.80	1,000,000	-	-	-	1,000,000
11/11/2011	31/12/2014	$0.70	1,000,000	-	-	(1,000,000)	-
11/11/2011	31/12/2014	$1.00	1,000,000	-	-	(1,000,000)	-
			24,240,000	-	-	(21,240,000)	3,000,000

* Lapsed during the period.

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

Note 30. Share-based payments (continued)

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

31 December 2015

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

* Lapsed during the period.

31 December 2014

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Vested and awarded	Expired/ forfeited/ other *	Balance at the end of the period
22/05/2013	23/05/2016	$0.00	3,300,000	-	-	(1,500,000)	1,800,000
22/11/2013	23/05/2016	$0.00	1,800,000	-	-	-	1,800,000
22/11/2013	26/02/2016	$0.00	4,000,000	-	-	-	4,000,000
16/05/2014	28/02/2016	$0.00	2,500,000	-	(1,250,000)	-	1,250,000
28/11/2014	18/09/2017	$0.00	-	1,000,000	-	-	1,000,000
01/12/2014	01/06/2017	$0.00	-	1,000,000	-	-	1,000,000
			11,600,000	2,000,000	(1,250,000)	(1,500,000)	10,850,000

* Lapsed during the period.

Note 30. Share-based payments (continued)

Should the KMP remain employed with Xanadu at the date of vesting, the share rights will vest where the closing price or share price of Xanadu shares (as the case may be depending on the terms of issue) any 3 consecutive trading days during the period exceeds the hurdle price. If hurdle price is not met, share rights get accumulated to a future vesting date until the expiry date where all unvested share rights lapse. Vesting conditions are as follows:

- 1,200,000 share rights which may vest on 21 May 2016 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1870;
- 1,250,000 share rights that may vest on 9 November 2015 should the share price meet or exceed $0.18 as traded on the ASX for 3 consecutive trading days between 1 March 2015 up to and including 28 February 2016;
- 350,000 share rights which may vest on 1 June 2016 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1437;
- 350,000 share rights which may vest on 1 June 2017 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1870;
- 666,666 share rights which may vest on 18 September 2016 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.2401;
- 333,334 share rights which may vest on 18 September 2017 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.3121.
- 333,333 share rights which may vest on 16 June 2016 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1350;
- 333,333 share rights which may vest on 16 June 2017 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1755; and
- 333,334 share rights which may vest on 16 June 2018 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.2281.

For the share rights granted during the December 2015 financial periods, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Vesting date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
23/12/2015	16/06/2016	$0.12	$0.00	95.00%	-	2.75%	$0.120
23/12/2015	16/06/2017	$0.12	$0.00	95.00%	-	2.75%	$0.078
23/12/2015	16/06/2018	$0.12	$0.00	95.00%	-	2.75%	$0.054

The expected life of the share rights is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2015 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, under delegated authority, pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Mark Wheatley

Mark Wheatley
Executive Chairman
18 March 2016

EY
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

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

Report on the financial report

We have audited the accompanying financial report of Xanadu Mines Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, 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 period's end or from time to time during the financial period.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit 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.

Building a better working world

Page 2

Opinion

In our opinion:

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

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in directors' report for the financial year ended 31 December 2015. 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.

Opinion

In our opinion, the Remuneration Report of Xanadu Mines Limited for the year ended 31 December 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Scott Jarrett
Partner
Sydney
18 March 2016

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 4 March 2016.

(a) Substantial shareholders

The number of securities held by substantial shareholders and their associates are set out below:

	Fully Paid Ordinary Shares	
	Number of Shares	Percentage of Shares
CAAF Limited	101,957,584	27.21% [1]
Copper Plate Success Limited	101,957,584	27.21% [1]
Sakari Energy Trading Pte Ltd	24,642,332	5.72% [2]
Noble Resources International Pte. Ltd.	33,478,041	7.77% [3]
Fast Lane Australia Pty Ltd	25,495,829	5.73% [4]

1 As notified to Xanadu on 2 September 2015. CAAF Limited and Copper Plate Success Limited are associates as defined in the Corporations Act 2001 (Cth).
2 As notified to Xanadu on 20 November 2015.
3 As notified to Xanadu on 23 November 2015.
4 As notified to Xanadu on 5 January 2016.

(b) Number of security holders and securities on issue

Quoted securities

Xanadu has on issue 445,285,489 fully paid ordinary shares held by 905 shareholders.

Unquoted securities

Share rights

Xanadu has on issue 5,250,000 unquoted share rights with various vesting prices held by 11 right holders. For the purposes of ASX Listing Rule 4.10.7, each right holder holds more than 100,001 rights.

Options

Xanadu has on issue:

- 3,000,000 unquoted options with various exercise prices held by 1 option holder;
- 15,000,000 unquoted Series A options held by 1 option holder (Temujin Mining Corp). The issue of these options were approved by shareholders at Xanadu's 2013 Annual General Meeting; and
- 20,000,000 unquoted Series B options held by 1 option holder (Temujin Mining Corp). The issue of these options were approved by shareholders at Xanadu's 2013 Annual General Meeting.

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

(c) Voting rights

Ordinary shares

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

Share rights

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

Options

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

(d) Distribution of security holders

Quoted securities

	Fully paid ordinary shares		
	Number of Holders	Number of Shares	Percentage of Shares
1 - 1,000	30	11,263	0%
1,001 - 5,000	156	505,218	0.11%
5,001 - 10,000	129	1,080,391	0.24%
10,001 - 100,000	397	15,241,474	3.42%
100,001 and over	193	428,447,143	96.22%
	905	445,285,489	100%

(e) Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 104. 3,449 shares comprise a marketable parcel at Xanadu’s closing share price of $0.1450.

(f) Twenty largest shareholders of quoted equity securities

Details of the 20 largest shareholders by registered shareholding are:

		Fully paid ordinary shares	
		Number of Shares	Percentage of Shares
1.	HSBC Custody Nominees (Australia) Limited	64,653,877	14.52%
2.	Asia Capital and Advisors Pte Ltd <Copper Plate Success Ltd A/C>	60,017,292	13.48%
3.	Noble Resources International Pte Ltd	35,270,228	7.92%
4.	Fast Lane Australia Pty Ltd	25,312,820	5.68%
5.	Sakari Energy Trading Pte Ltd	24,642,332	5.53%
6.	J P Morgan Nominees Australia Limited	20,340,241	4.57%
7.	Mr Ganbayar Lkhagvasuren	15,589,565	3.50%
8.	CM Super Fund Pty Ltd <Carol McColl Super Fund A/C>	12,500,000	2.81%
9.	Belfort Investment Advisors Limited	11,369,431	2.55%
10.	Emsdale Holdings Pty Ltd	8,031,500	1.80%
11.	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	7,416,040	1.67%
12.	Bikini Atoll Investments Pty Ltd	7,260,000	1.63%
13.	Farrington Corporate Services Pty Ltd <Farrington Super Fund A/C>	6,826,100	1.53%
14.	Merrill Lynch (Australia) Nominees Pty Limited	5,951,600	1.34%
15.	Ms Jan Meek	5,900,000	1.32%
16.	Bellarine Gold Pty Ltd <Ribblesdale Super Fund A/C>	5,711,041	1.28%
17.	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	3,956,700	0.89%
18.	Rojo Nero Capital Pty Ltd	3,620,000	0.81%
19.	Dwyper Consulting Pty Ltd	3,368,000	0.76%
20.	Norvale Pty Ltd <Norvale Employees S/F A/C>	3,357,143	0.75%
		331,093,910	**74.34%**

(g) On market buy-back

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

(h) Tenements held as at 31 December 2015

Area of Interest	Tenements	Location	Interest
Kharmagtai	MV17387A[1]	Omnogovi Province	64%
Oyut Ulaan	MV017129	Dornogovi Province	90%
Sharchuluut	13670x	Bulgan Province	100%

[1] The Kharmagtai project has been funded through Xanadu's interest in Mongol Metals LLC by a combination of equity and shareholder advances converted to equity periodically. Xanadu's interest in Mongol Metals LLC is equivalent to approximately 71.3% as at 31 December 2015 (an effective 64.2% interest in the Kharmagtai project).

Corporate Directory

Directors

Mark Wheatley	Executive Chairman
Andrew Stewart	Chief Executive Officer & Executive Director
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Marcus Engelbrecht	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Barry Lavin	Independent Non-Executive Director

Company Secretary
Janine Rolfe

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
2nd Khoroo, AOS Street
Khorshoolol Town, Bayanzurkh District
Ulaanbaatar 13361
Tel: +976 11 7012 0211

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

Auditor
Ernst & Young
680 George Street
Sydney, NSW 2000

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

ABN 92 114 249 026