

2020 Annual Report

30 March 2021

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

BY ELECTRONIC LODGEMENT

2020 Annual Report

Please find attached the Company's 2020 Annual Report for release to the market.

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About Xanadu Mines Ltd:

Xanadu is an ASX and TSX listed Exploration company operating in Mongolia. We give investors exposure to globally significant, large scale copper-gold discoveries and low-cost inventory growth. Xanadu maintains a portfolio of exploration projects and remains one of the few junior explorers on the ASX or TSX who control an emerging Tier 1 copper-gold deposit in our flagship Kharmagtai project. For information on Xanadu visit: www.xanadumines.com

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

XANADU MINES



Xanadu Mines Ltd (ASX: XAM)

ABN 92 114 249 026

Annual Report - 31 December 2020

Corporate Directory

Directors	Colin Moorhead - Independent Non-Executive Chairman Andrew Stewart - Chief Executive Officer Ganbayar Lkhagvasuren - Executive Director Michele Muscillo - Independent Non-Executive Director
Company secretary	Phil Mackey
Registered Office - Australia	c/o Company Matters Pty Limited Level 12, 680 George Street Sydney NSW 2000 Tel: +61 2 8280 7497 Fax: +61 2 9287 0350
Registered Office - Mongolia	Suite 23, Building 9B Olympic Street, Khoroo 1, Sukhbaatar District Ulaanbaatar 14240 Tel: +976 11 7012 0211
Share register	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street Sydney NSW 2000 Tel: +61 1300 855 080
Auditor	Ernst and Young 200 George Street Sydney NSW 2000
Stock exchange listing	Xanadu Mines Ltd shares are listed on the Australian Securities Exchange and Toronto Stock Exchange (ASX and TSX code: XAM)
Website	www.xanadumines.com
ABN	92 114 249 026
Corporate Governance Statement	The Company's Corporate Governance Statement can be found on the Company's website at: www.xanadumines.com/site/about/corporate-governance

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Letter from the Chairman

Dear Shareholder

Looking back on 2020, it has been a year we will never forget as COVID-19 disrupted the global economy, businesses, and personal lives everywhere in the world. Perhaps counter intuitively, the copper market embarked on an unprecedented run of growth, led by anticipated global economic recovery and the shift towards a low carbon economy.

With this backdrop, Xanadu benefited in 2020 both from growing interest in copper and from its location in Mongolia, where the pandemic is being managed effectively. We took advantage of this to complete a transformational year, with a renewed Executive Team, and a refreshed and clear strategy to discover and define globally significant, porphyry copper-gold deposits in Mongolia.

The company was recapitalized during 2020 with a \$12 million placement, announced in August, to fund Kharmagtai exploration, and a joint venture earn-in with JOGMEC to fund early-stage exploration at Red Mountain. This recapitalization also strengthened our register with participation by high quality Australian resource funds.

Now well-funded and with clarity of purpose, Xanadu launched a significant 23,000-meter drilling program at Kharmagtai, aimed at establishing a minimum Resource of 1 billion tonnes at 0.5% CuEq, including a high-grade block of at least 100 million tonnes at 0.8% CuEq. These minimum targets do not define the potential at Kharmagtai, which is far greater, but they do set a target for what we view as a global, development ready, Tier 1 resource.

The outcome of this exploration was confirmation that Kharmagtai hosts both scale and grade, significantly expanding mineralisation and identifying higher grade bornite zones at depth, which draws clear parallels to both Hugo Dummett and Ridgeway, which were the high-grade engine rooms to develop the giant Oyu Tolgoi and Cadia provinces.

Moving into 2021, Xanadu will focus efforts at Kharmagtai to surgically define the high-grade core that enables a move to Pre-Feasibility stage. We see the copper market continuing to strength and our timing at Kharmagtai well aligned to this cycle.

At Red Mountain, we deployed geophysics to define target anomalies, and the drilling program is now ramping up in early 2021, with some promising high grade results in the first quarter. We see great potential for a globally significant copper-gold porphyry discovery, working closely with JOGMEC as our partner.

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

I would like to personally thank you for your support over the past 12 months. We look forward to unlocking more value from Kharmagtai and our other Mongolian exploration projects over the course of 2021.

Yours faithfully,



Colin Moorhead
Non-Executive Chairman
30 March 2021

Management Discussion and Analysis

General

This Management Discussion and Analysis (**MD&A**) is current to 30 March 2021 and is Management's assessment of the operations and the financial results together with prospects of Xanadu Mines. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended 31 December 2020 and 2019 and notes thereto, prepared in accordance with International Financial Reporting Standards (**IFRS**). Management is responsible for the preparation of the financial statements and this MD&A.

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

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

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

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

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

Forward-looking statements

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

Description of Business

Xanadu is an Australian incorporated public company with its shares listed on the ASX and TSX under the code XAM. The principal activity of the Company (and its subsidiaries) is copper-gold exploration in Mongolia. During 2020, the Company held interests in three tenements: (a) the Kharmagtai copper-gold project; (b) the Red Mountain copper-gold project; and (c) the Yellow Mountain copper-gold project (**Figure 1**). The lease expired in May 2020 for the early stage project at Yellow Mountain.

Management Discussion and Analysis

Review of Operations

The 12 months ended 31 December 2020 comprised a year of renewal and refocus for Xanadu Mines. The Company controls one of the most promising porphyry copper and gold projects in Asia with Kharmagtai and has an advanced district-scale exploration project at Red Mountain (**Figure 1**).

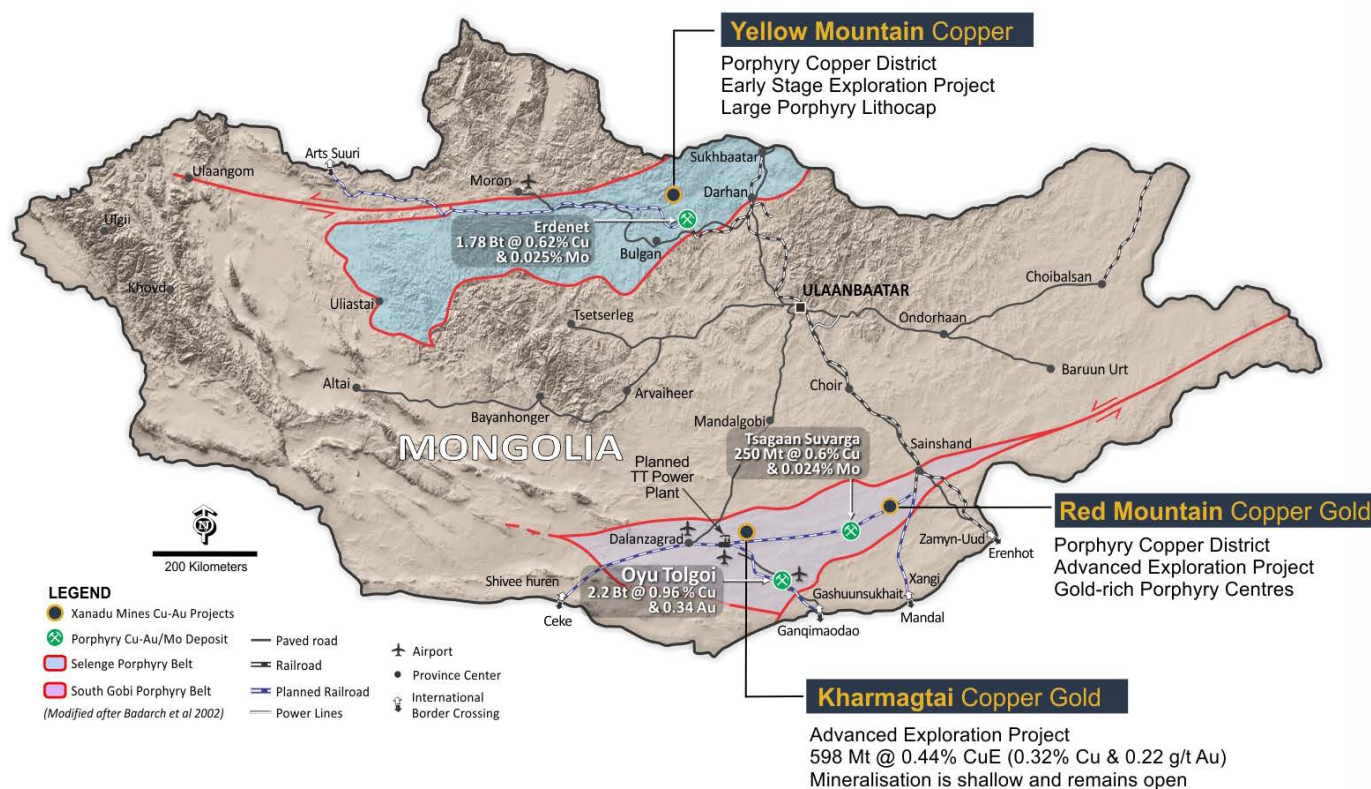


FIGURE 1: Location of Xanadu's copper-gold projects, within Mongolia's highly mineralised and vastly underexplored mineral belts. The resource figure above (598 million tonnes (**Mt**)) includes both indicated (129.3Mt) and inferred (468.9Mt) resource categories. Both at the same 0.3eCu cut-off grade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

Exploration drilling targeted the discovery of additional copper-gold deposits on the Company's South Gobi porphyry projects at Kharmagtai and Red Mountain, where a total of 32,779 metres (**m**) of diamond drilling were completed during the calendar year (**Figure 2**).

Kharmagtai Copper-gold Project (Xanadu 76.5%)

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

Exploration during 2020 focused on growing and defining significant porphyry gold-copper project. The oxide gold study was completed and determined to be uneconomic as an independent project and better used to compliment to a larger copper project.

Exploration at Kharmagtai during 2020 focused on extensions to high-grade mineralisation at Stockwork Hill and expanding the known mineralisation at White Hill, Zaraa and numerous other exploration targets across the Mining Lease with a total of 27,950m of diamond drilling was conducted during 2020. A large-scale controlled source audiomagnetotellurics "CSAMT"

Management Discussion and Analysis

survey was conducted across the lease to assist in mapping the location and orientations of key structural features across the lease.

Drilling at Zaraa expanded mineralisation envelope by 200m to the north, 300m to the west and 300m to the south. Zaraa now represents a significant body of mineralisation 850m long, 550m across and 1000m high. Zaraa will be added to the global Mineral Resource Estimate during the next Mineral Resource update, planned in 2021.

Drilling at Stockwork Hill focused on expanding the high-grade zones of mineralisation within the tourmaline breccia zone and the high-grade bornite zone. These high-grade zones have been expanded by 100m to the east and 200m to the west. More importantly, the structural framework for the high-grade zones is being defined with sufficient confidence to target larger-scale offsets and drilling during 2021 is focused on these new, high-grade targets.

Regional exploration target drilling during 2020 has encountered broad zones of porphyry and tourmaline breccia mineralisation at Zephyr, Target 10, Pechko and Camarillo. These areas will be targeted during 2021 for additional higher-grade zones in 2021.

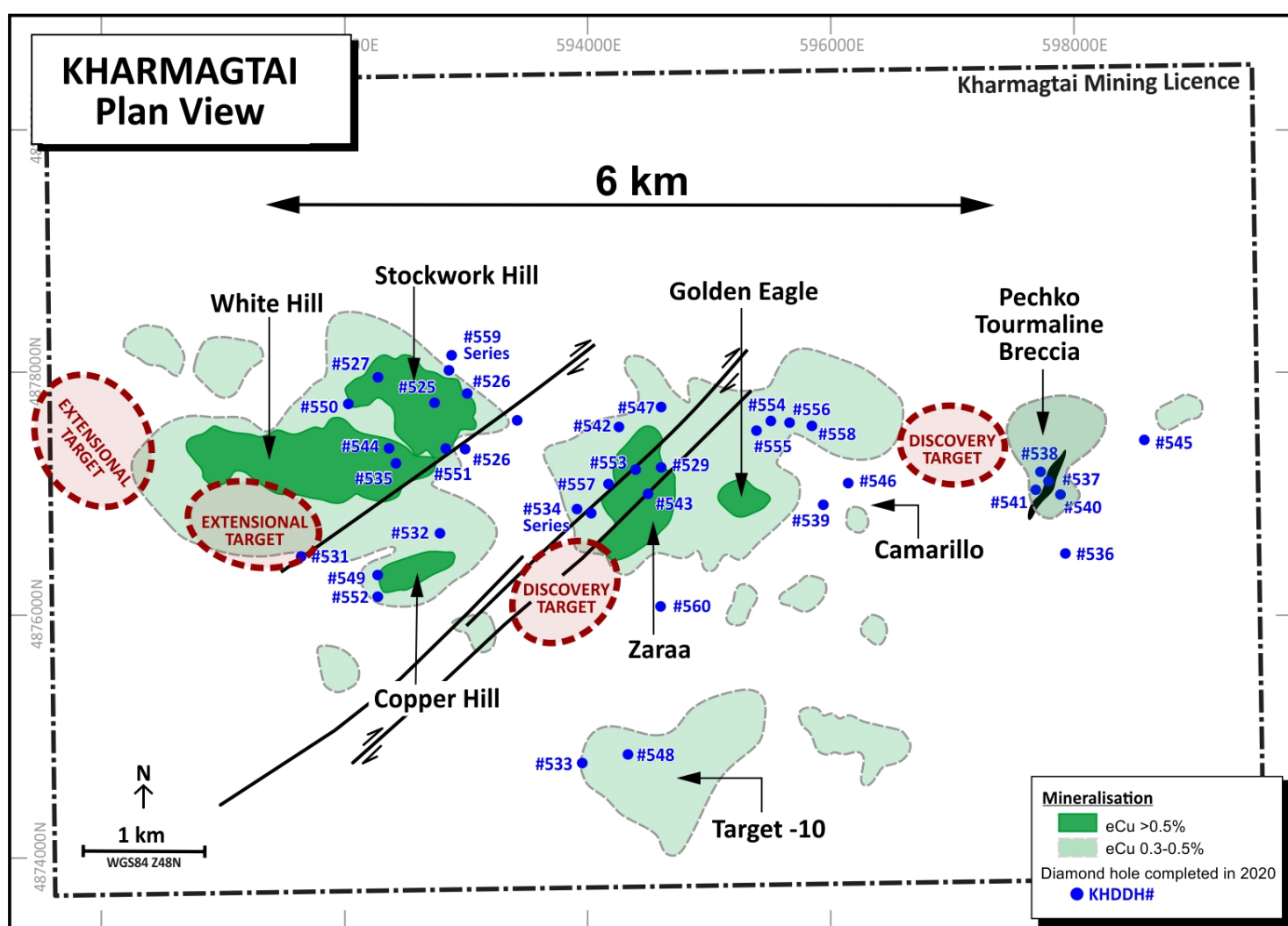


Figure 2 Drilling conducted at Kharmagtai during 2020

Management Discussion and Analysis

Red Mountain Project (Xanadu 90%)

The Red Mountain copper-gold project is located in the Dornogovi Province of southern Mongolia, approximately 70km west of the future industrial centre of Sainshand. Red Mountain is a highly prospective porphyry copper-gold project. The project comprises a large and underexplored porphyry district (covering approximately 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 (**Figure 3**).

In March 2020, Xanadu and Japan Oil, Gas and Metals National Corporation (JOGMEC) commenced an exploration earn-in agreement over Xanadu's Red Mountain project, located in the south Gobi region of Mongolia. Exploration objectives are discovery of a Tier-1 porphyry copper-gold discovery. The key terms of the earn-in and joint venture agreement are as follows:

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

Exploration during 2020 at Red Mountain, continued to define the project's potential through a combination of mapping, geophysics, surface whole-rock geochemistry and drilling. A large-scale Induced Polarisation (IP) survey was conducted at Red Mountain to complement the existing ground magnetics and gravity data. A total of 4,829m of diamond drilling was conducted at Red Mountain targeting large-scale porphyry targets at Diorite, Bavuu, Target 10 and Stairy.

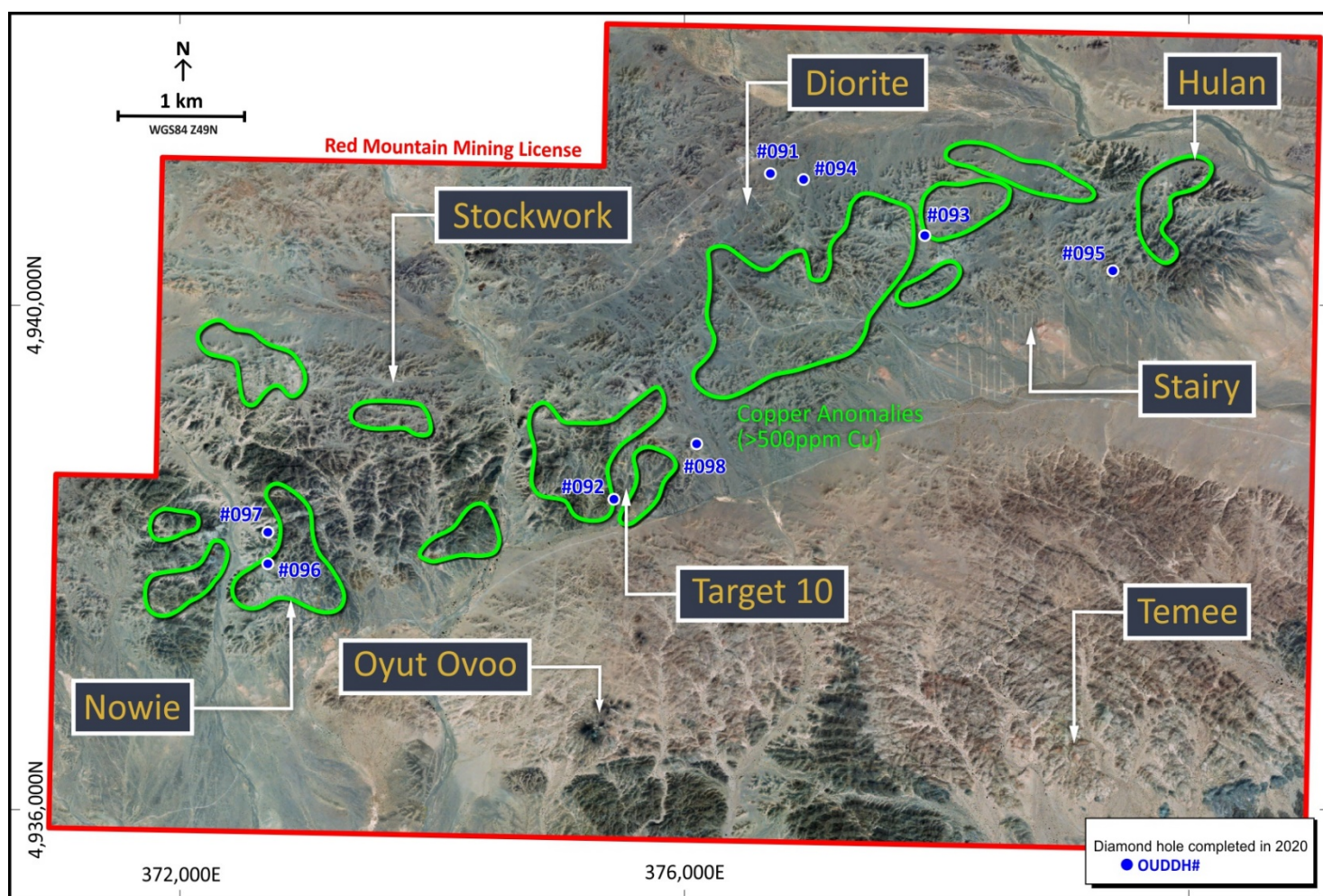


Figure 3 Drilling conducted at Red Mountain during 2020

Management Discussion and Analysis

Yellow Mountain Project (Xanadu 100%)

Sharchuluut Uul (Yellow Mountain) was an inactive project in 2020 due to its overlap with environmentally protected areas. The lease expired without renewal in May 2020, and discussions are underway with the Government of Mongolia regarding compensation for the loss of this lease.

Competent Person's Statements

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

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

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

The information in this MD&A that relates to metallurgical test work is based on a summary of results compiled by Andrew Holloway who is responsible for metallurgical and process engineering aspects of the project. Mr. Holloway, who is a principal of AGP and is a Professional Engineer in Ontario, Canada, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the Competent Person as defined in JORC Code 2012 and NI 43-101. Mr Holloway consents to the inclusion in the Scoping Study report of the matters based on this information in the form and context in which it appears.

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

Resource reporting governance arrangements

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

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

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

Management Discussion and Analysis

Results of Operations

Selected annual information

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000	Year ended 31 Dec 2017 \$'000
Gross exploration expenditure				
Kharmagtai	5,097	2,896	8,000	6,199
Red Mountain	1,337*	229	196	792
Yellow Mountain	-	94	94	95
Exploration expenditures capitalised	5,028	3,219	8,290	7,086
Impairment of deferred exploration expenditure	-	4,425	-	-
Corporate general and administration	3,330	3,720	4,630	3,208
Share-based payments	-	(215)	1,696	326
Depreciation and amortisation	55	60	81	91
Loss after income tax attributable to owners of XAM	2,932	7,920	6,181	3,842
Basic loss per share	0.33	1.17	1.01	0.72
Diluted loss per share	0.33	1.17	1.01	0.72

* Red Mountain exploration in 2020 was primarily funded by JOGMEC Joint Venture and not capitalised.

	Year ended 31 Dec 2020 metres	Year ended 31 Dec 2019 metres	Year ended 31 Dec 2018 metres	Year ended 31 Dec 2017 metres
Kharmagtai drilling	26,650	5,434	40,445	32,718
Red Mountain drilling	4,321	-	199	4,299
Yellow Mountain drilling	-	-	-	-

	As at 31 Dec 2020 \$'000	As at 31 Dec 2019 \$'000	As at 31 Dec 2018 \$'000	As at 31 Dec 2017 \$'000
Deferred exploration expenditures	43,317	43,352	45,903	37,157
Total assets	51,716	44,995	52,076	47,213
Total liabilities	1,010	161	814	1,421
Net assets	50,706	44,834	51,262	45,792

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

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

The 2019 impairment of deferred exploration expenditure relates to the following deferred exploration expenditure assets ('000): Yellow Mountain \$3,442 and Red Mountain \$983.

Corporate general and administration expenses decreased with measures taken to cut expenses. Share-based payments were zero following the expiry and forfeiture of all share performance rights.

Management Discussion and Analysis

Selected quarterly information

	Quarter ended 31 Dec 2020 \$'000	Quarter ended 30 Sep 2020 \$'000	Quarter ended 30 Jun 2020 \$'000	Quarter ended 31 Mar 2020 \$'000
Gross Exploration Expenditure				
Kharmagtai	2,457	1,534	538	568
Red Mountain *	242	832	233	30
Yellow Mountain	-	-	-	-
Exploration expenditures capitalised	2,345	1,545	540	598
Impairment of deferred exploration expenditure	-	-	-	-
Corporate general and administration	939	937	766	688
Share-based payments	-	-	-	-
Depreciation and amortisation	15	12	14	14
Loss after income tax attributable to owners of XAM	931	642	653	706
Basic loss per share	0.09	0.07	0.08	0.09
Diluted loss per share	0.09	0.07	0.08	0.09

* Red Mountain exploration in 2020 was funded by JOGMEC Joint Venture and not capitalised

	Quarter ended 31 Dec 2020 metres	Quarter ended 30 Sep 2020 metres	Quarter ended 30 Jun 2020 metres	Quarter ended 31 Mar 2020 metres
Kharmagtai Drilling	14,380	7,209	2,598	2,463
Red Mountain Drilling	393	3,627	301	-
Yellow Mountain Drilling	-	-	-	-

	Quarter ended 31 Dec 2019 \$'000	Quarter ended 30 Sep 2019 \$'000	Quarter ended 30 Jun 2019 \$'000	Quarter ended 31 Mar 2019 \$'000
Exploration expenditures	554	1,393	283	989
Impairment of deferred exploration expenditure	4,425	-	-	-
Corporate general and administration	833	725	1,272	890
Share-based payments	-	7	(293)	71
Depreciation and amortisation	15	19	13	13
Loss after income tax attributable to owners of XAM	5,226	739	1,046	909
Basic loss per share	0.76	0.11	0.17	0.14
Diluted loss per share	0.76	0.11	0.17	0.14

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

Management Discussion and Analysis

Capital Management

The Company had \$7.7 million cash on hand as at 31 December 2020 (31 December 2019: \$1.2 million).

On 18 January 2020 the Company closed a non-brokered placement of 78,326,311 New Shares, raising \$2.6 million, for a price of \$0.033 per share. On 21 May 2020, the Company closed a brokered placement of 34,000,000 New Shares, raising \$1.1 million, for a price of \$0.033 per share. On 10 August 2020, the Company announced a two-tranche placement to raise \$12.0 million. The first tranche, completed 18 August 2020, included the issue of 123,776,228 New Shares, raising \$5.6 million at \$0.045 per share. The second tranche, completed 9 October 2020, included the issue of 142,890,439 New Shares, raising \$6.4 million at \$0.045 per share.

The primary use of funds over 2021 will be the continuation of exploration activities at the Company's Kharmagtai copper-gold project and for working capital purposes. The Company may need to raise additional capital for its exploration activities or seek joint venture partners. There is a risk that capital or joint venture partners may not be available or available on acceptable terms. Capital management is a priority of Management and the Company retains the flexibility to reduce its cost base while preserving its exploration projects if required.

Financial Instruments and Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

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

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

Market risk

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

Foreign currency risk

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

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

	Assets		Liabilities	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Consolidated	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents denominated in US\$	3,403	391	-	-
Cash and cash equivalents denominated in MNT	14	9	-	-
Other financial assets denominated in MNT	39	43	-	-
Financial liabilities denominated in MNT	-	-	286	3
	<u>3,456</u>	<u>443</u>	<u>286</u>	<u>3</u>

Management Discussion and Analysis

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

Consolidated - 31 Dec 2020		% change	A\$ strengthened Effect on profit before tax	Effect on equity	% change	A\$ weakened Effect on profit before tax	Effect on equity
A\$/US\$	'000	10%	340	340	(10%)	(340)	(340)
A\$/MNT	'000	10%	1	1	(10%)	(1)	(1)
			<u>341</u>	<u>341</u>		<u>(341)</u>	<u>(341)</u>
Consolidated - 31 Dec 2019		% change	A\$ strengthened Effect on profit before tax	Effect on equity	% change	A\$ weakened Effect on profit before tax	Effect on equity
A\$/US\$	'000	10%	39	39	(10%)	(39)	(39)
A\$/MNT	'000	10%	1	1	(10%)	(1)	(1)
			<u>40</u>	<u>40</u>		<u>(40)</u>	<u>(40)</u>

Commodity price risk

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

Equity price risk

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

Interest rate risk

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

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

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

Consolidated	31 Dec 2020		31 Dec 2019	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	0.04%	<u>7,687</u>	0.20%	<u>1,209</u>
Net exposure to cash flow interest rate risk		<u>7,687</u>		<u>1,209</u>

Management Discussion and Analysis

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

Consolidated - 31 Dec 2020	Basis points change	Basis points increase Effect on		Basis points change	Basis points decrease Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
Net interest rate risk exposure	100	<u>77</u>	<u>77</u>	(100)	<u>(77)</u>	<u>(77)</u>

Consolidated - 31 Dec 2019	Basis points change	Basis points increase Effect on		Basis points change	Basis points decrease Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
Net interest rate risk exposure	100	<u>12</u>	<u>12</u>	(100)	<u>(12)</u>	<u>(12)</u>

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

Credit risk

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

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$7,687,000 (31 December 2019 \$1,209,000).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The primary source of funds available to the Company is from equity financing. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis, to support its exploration plans, and to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions. The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfil its obligations under any applicable agreements.

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

Other business risks

Political and legal risks

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

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

Management Discussion and Analysis

License risks

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

Yellow Mountain License

As reported previously, on 16 July 2009, the Mongolian Parliament enacted legislation to Prohibit Mineral Exploration and Mining Operations in Headwaters of Rivers, Protected Zones of Water Reservoirs and *Forested Areas* (the **Long Name Law**) which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the *Mongolian Law on Forest* and areas adjacent to rivers and lakes as defined in the *Law of Mongolia on Water*. New exploration licenses and mining licenses overlapping with the defined prohibited areas will not be granted, and previously granted licenses that overlap with the defined prohibited areas, will be terminated within five months following the adoption of the Long Name Law. The Company's license for the Yellow Mountain project overlaps with the border zone of a forested area and zones allocated to the protection of water basins/reservoirs under the Long Name Law. Pursuant to the *Law of Mongolia on Minerals* (the **Minerals Law**) and the Long Name Law, minerals licenses which overlap with restricted areas will be revoked by the mineral's authority only if, and when, compensation is paid in full to the holder of the relevant license.

Yellow Mountain was fully impaired on 31 December 2019 due to an inability to explore on the tenement as a result of overlap with protected areas. During 2020, the Company sought confirmation from the Government of Mongolia that it could either renew the license to commence exploration or receive compensation. The license has since expired without renewal, and discussions regarding compensation are ongoing.

Mineral resource assumptions risk

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

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

Environmental risk

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

Operational risk

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

Management Discussion and Analysis

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization, and during 2020 this had a significant impact on the global economy and the mining industry. Despite this and due to a cautious approach by the Government of Mongolia, exploration and mining activities in the South Gobi were minimally impacted during 2020. The ongoing scale and duration of the pandemic remains uncertain as at the date of this report and may yet have an impact on our forecast cash flow and financial condition.

Contractual risk

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

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

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

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

Director's 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 year ended 31 December 2020.

Directors

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

Colin Moorhead	Independent Non-Executive Chairman
Andrew Stewart	Chief Executive Officer
Ganbayar Lkhagvasuren	Executive Director
Michele Muscillo	Independent Non-Executive Director
Stephen Motteram (resigned 30 June 2020)	Non-Executive Director

Principal activities

Xanadu Mines Ltd is an Australian incorporated public company with its shares listed on the ASX and TSX under the code XAM. The principal activity of the Company (and its subsidiaries) is copper-gold exploration in Mongolia. During 2020, the Company held interest in three tenements:

- (a) the Kharmagtai copper-gold project;
- (b) the Red Mountain copper-gold project; and
- (c) the Yellow Mountain copper project.

Dividends

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

Review of operations

The loss for the Group after providing for income tax and non-controlling interest amounted to \$2,932,000 (31 December 2019: \$7,920,000).

A more detailed 'review of operations' and 'results of operations' is included in the Management Discussion and Analysis ('MD&A').

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

Subsequent to the financial year ending 31 December 2020, Xanadu announced high-grade drilling intercepts at both its Kharmagtai and Red Mountain project. These results are described in ASX announcements dated 15 February 2021, 23 March 2021 and 24 March 2021, and they are available on the Xanadu Mines website.

During the first quarter of 2021, Mongolia embarked on an aggressive vaccination campaign against COVID-19, supported by the World Health Organisation, with execution of over 10,000 vaccinations a day and targeting full coverage of the population by July 2021. Xanadu operations were minimally impacted by COVID-19 in 2020, and this is positive news for the future.

No other matter or circumstance has arisen since 31 December 2020 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 Company and the expected results of operations have been included in the MD&A. Xanadu intends to continue to invest and explore the projects described in this MD&A.

Director's Report

Off balance sheet arrangements

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

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 Sustainability Policy that guides all field operations in which the Company engages.

Information on directors

Name:	Colin Moorhead
Title:	Independent Non-Executive Chairman
Qualifications:	B.Sc (Hons) FAusIMM (CP) GAICD
Experience and expertise:	Mr Moorhead is an experienced industry executive with a demonstrated track record of over three decades building value in mining companies through innovation, discovery, project development and safe, efficient operations. Mr Moorhead has extensive experience in development and financing significant mining projects internationally. He also has experience with global mining operations as well as experience in successful mergers and acquisitions.

A geologist by training, Mr Moorhead is known for strong leadership, strategy and execution that saw him rise through the ranks from a graduate with BHP in 1987 to an executive level manager responsible for global exploration and resource development at Newcrest Mining from 2008 to 2015, a period of significant growth for the company. Mr Moorhead has significant relevant experience as CEO of emerging Indonesian listed producer PT Merdeka Copper Gold Tbk from 2016 to 2018, where he built and led the team that constructed and commissioned the highly successful Tuhuh Bukit Gold Mine.

Mr Moorhead is a Fellow, Chartered Professional and a Past President of AusIMM, a graduate of AICD and Harvard Business School Advanced Management Program (AMP).

Other current directorships:	Aeris Resources (ASX:AIS) Coda Minerals Limited (ASX:COD) Sihayo Gold Limited (ASX:SIH)
Former directorships (last 3 years):	Merdeka Copper Gold (IDX:MDKA) (from January 2016 to July 2020) Finders Resources Limited (ASX:FND) (from August 2018 to October 2019)
Special responsibilities:	Member of the Audit and Risk Committee, Nomination and Remuneration Committee and Safety, Health and Environment Committee
Interests in shares:	1,000,000
Interests in rights:	None

Name:	Dr Andrew Stewart
Title:	Chief Executive Officer
Qualifications:	BSc, PhD, MAIG, MSEG, MAICD
Experience and expertise:	Dr Stewart 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. Dr Stewart has particular expertise in porphyry copper and epithermal gold deposits and 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.

Director's Report

During his time at Ivanhoe Mines and Vale, Dr Stewart held various technical and management positions in Mongolia and Indonesia and has been involved in several green field discoveries. After providing technical and program management for Vale in Indonesia and Mongolia, Dr Stewart joined Xanadu Mines as Chief Geologist leading the gold and base metals project generation and evaluation team in Mongolia.

Other current directorships: Bastion Minerals (ASX:BMO)
Former directorships (last 3 years): Godolphin Resources Limited (ASX:GRL) (October 2019 to April 2020)
Special responsibilities: Chief Executive Officer, Chair of the Safety, Health and Environment Committee
Interests in shares: 4,931,292
Interests in rights: None

Name: **Ganbayar Lkhagvasuren**
Title: Executive Director
Qualifications: M.IBL
Experience and expertise: Mr Lkhagvasuren 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.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Safety, Health and Environment Committee
Interests in shares: 16,558,329
Interests in rights: None

Name: **Michele Muscillo**
Title: Independent Non-Executive Director
Qualifications: LL.B
Experience and expertise: Mr Muscillo is a Partner with HopgoodGanim Lawyers in Brisbane. He has practised exclusively in corporate law for the duration of his legal career and has extensive experience in mergers and acquisitions and capital markets transactions, including the negotiation of significant commercial contracts and agreements. Mr Muscillo has significant experience as a Non-Executive Director of resources companies, including taking junior exploration companies through the full life cycle from listing to major discovery to sale. His key areas of practice include Corporate Advisory and Governance, Mergers and Acquisitions, Capital Markets and Resources and Energy.

Other current directorships: Cardinal Resources Limited (ASX:CDV)
Aeris Resources Limited (ASX:AIS)
Mako Gold Limited (ASX:MKG)
Former directorships (last 3 years): None
Special responsibilities: Chairman of the Audit and Risk Committee and Nomination and Remuneration Committee
Interests in shares: 59,441
Interests in rights: None

Name: **Stephen Motteram (resigned 30 June 2020)**
Title: Non-Executive Director
Qualifications: B.Ag Sci (Hons), MBA, GAICD, CPA
Experience and expertise: Mr Motteram has over 20 years' experience in financial institutions and trading houses, specialising in commodities trading, project & structured finance, equity and equity-linked investments. He has originated, executed and managed natural resource, energy and infrastructure transactions in Australia, Indonesia, Africa, India, Brazil and China.

Mr Motteram has worked for Noble since January 2011 and prior to that, worked with National Austral Bank in Hong Kong and Australia for approximately 10 years, and previously was a trader with Louis Dreyfus.

Director's Report

Mr Motteram holds a B. Agricultural Science (Honours) from the University of Melbourne and an MBA from the Melbourne Business School. He is a Certified Practising Accountant and a Graduate of the Australian Institute of Company Directors.

Other current directorships: None
Former directorships (last 3 years): Cockatoo Coal Limited (ASX: COK) (March 2015 to August 2017)
Special responsibilities: Member of the Audit and Risk Committee
Interests in shares: 59,441 (as at date ceased to be a director)
Interests in rights: None

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

'Former directorships (last 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

Phil Mackey, B Bus

Mr Mackey was appointed Company Secretary of Xanadu in May 2017. He has over four decades of listed and unlisted company secretarial and commercial experience, including multi-jurisdictional board practice as both a company secretary and a director.

Previously, Mr Mackey served as Company Secretary of ASX and SGX dual listed Australand Group Limited (a quadruple stapled group) and Deputy Company Secretary of AMP Limited (ASX:AMP). His commercial experience includes appointment as Chief Operating Officer (Specialised Funds) at Babcock & Brown.

Mr Mackey is a Fellow of the Governance Institute Australia and a Graduate Member of the Australian Institute of Company Directors.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the period ended 31 December 2020, and the number of meetings attended by each director were:

	Full Board		Audit & Risk Committee		Nomination & Remuneration Committee		Safety, Health and Environment Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Colin Moorhead	15	15	2	2	1	1	1	1
Andrew Stewart	15	15	2	2	-	-	-	-
Ganbayar								
Lkhagvasuren	13	15	-	-	-	-	1	1
Michele Muscillo	15	15	2	2	1	1	-	-
Stephen Motteram	8	9	1	1	1	1	-	-

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

As at the date of this report the Company has a Safety, Health and Environment Committee, an Audit and Risk Committee and a Nomination and Remuneration Committee. Further details are set out in the Corporate Governance Statement on the Company's website at www.xanadumines.com/site/about/corporate-governance

Director's Report

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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

Executive Remuneration

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

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

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

Total Fixed Remuneration

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

Director's Report

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

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

Variable or At-Risk Incentive Remuneration

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

The Plan was initially approved by shareholders at the 2020 Annual General Meeting, reapproved at the 23 December 2020 Extraordinary General Meeting and permits and permits the award of a number of styles of awards including Options and Share Rights to employees. The issue of securities under the Plan is subject to the Xanadu Securities Trading Policy. Shares issued may be acquired on-market, transferred or issued from the capital of the Company.

Short Term Incentive ('STI')

Xanadu has established the STI to achieve the following objectives:

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

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

STI payments were zero in 2020 due to non-achievement of objectives in the 2019 program and corresponded to a restructure of the Board and Executive team.

Long Term Incentive ('LTI')

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

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

The current LTI program was approved by Shareholders at the Annual General Meeting on 30 July 2020, with modifications approved by Shareholders at an Extraordinary General Meeting on 23 December 2020.

Director's Report

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
CEO	100	50	-
CEO's Direct Reports	100	30	-

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

Xanadu executive remuneration includes an LTI component, however this is not measured on an annual basis. The Xanadu executive LTI program is a defined and deferred award based on specific technical and commercial strategic hurdles.

Non-Executive Remuneration

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

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers fees paid and securities issued to Non-Executive Directors of comparable companies when undertaking the annual review as well as the time commitment of directors in discharging duties at Board, Committee work and additional assistance provided to the Company. Currently, the Non-Executive Director base fee is \$52,000 per annum and a Committee Chairman receives \$4,000 per annum per committee. The Non-Executive Chairman receives fee of \$120,000 per annum plus per diem costs of \$2,500 per day for assisting on roadshows if requested by the Chief Executive Officer.

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 following directors of Xanadu Mines Ltd:

- Colin Moorhead
- Andrew Stewart
- Ganbayar Lkhagvasuren
- Michele Muscillo
- Stephen Motteram (resigned 30 June 2020)

And the following persons:

- Munkhsaikhan Dambiinyam (Chief Operating Officer, appointed 1 June 2020; formerly Chief Financial Officer)
- Spencer Cole (Chief Financial Officer, appointed 1 June 2020)
- Mat Brown (Chief Geologist)

Director's Report

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Year Ended	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
31 Dec 2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Colin Moorhead	129,589	-	-	10,411	-	-	140,000
Michele Muscillo	60,000	-	-	-	-	-	60,000
Stephen Motteram *	-	-	-	-	-	-	-
<i>Executive Directors:</i>							
Andrew Stewart	345,025	-	-	19,975	-	-	365,000
Ganbayar Lkhagvasuren	384,847	-	-	-	-	-	384,847
<i>Other Key Management Personnel:</i>							
Munkhsaikhan Dambiinyam	242,526	-	-	-	-	-	242,526
Spencer Cole **	161,984	-	-	13,016	-	-	175,000
Mat Brown	267,696	-	-	-	-	-	267,696
	1,591,667	-	-	43,402	-	-	1,635,069

* resigned 30 June 2020 and did not receive remuneration

** appointed 1 June 2020

	Short-term benefits			Post-employment benefits	Share-based payments	
Year Ended	Cash salary and fee	Cash Bonus	Non-monetary	Super-annuation	Equity-settled	Total
31 Dec 2019	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
Colin Moorhead *	9,132	-	-	868	-	10,000
Michele Muscillo	60,000	-	-	-	11,205	71,205
Stephen Motteram ⁽ⁱ⁾	-	-	-	-	-	-
Kevin Tomlinson **	40,000	-	-	-	(342,330)	(302,330)
Marcus Engelbrecht **	15,830	-	-	1,504	-	17,334
Hannah Badenach ⁽ⁱ⁾	-	-	-	-	-	-
Darryl Clark ***	46,880	-	-	4,454	11,205	62,539
<i>Executive Directors:</i>						
Andrew Stewart	394,265	122,358	58,628	4,564	51,730	631,545
Ganbayar Lkhagvasuren	381,217	78,489	-	-	36,934	496,640
<i>Other Key Management Personnel:</i>						
Munkhsaikhan Dambiinyam	240,239	50,528	-	-	7,989	298,756
Mat Brown	155,454	-	-	-	-	155,454
	1,343,017	251,375	58,628	11,390	(223,267)	1,441,143

* appointed 28 November 2019

** ceased 30 April 2019 and forfeited share-based payments

*** ceased 28 November 2019

(i) Hannah Badenach and Stephen Motteram did not receive remuneration

Director's Report

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
<i>Non-Executive Directors:</i>						
Colin Moorhead	100%	100%	-	-	-	-
Michele Muscillo	100%	84%	-	-	-	16%
Stephen Motteram ⁽ⁱ⁾	-	-	-	-	-	-
Kevin Tomlinson *	-	100%	-	-	-	-
Marcus Engelbrecht *	-	100%	-	-	-	-
Hannah Badenach ⁽ⁱ⁾	-	-	-	-	-	-
Darryl Clark **	-	82%	-	-	-	18%
<i>Executive Directors:</i>						
Andrew Stewart	100%	73%	-	19%	-	8%
Ganbayar Lkhagvasuren	100%	77%	-	16%	-	7%
<i>Other Key Management Personnel:</i>						
Munkhsaikhan Dambiinyam	100%	80%	-	17%	-	3%
Spencer Cole ***	100%	-	-	-	-	-
Mat Brown	100%	100%	-	-	-	-

* ceased 30 April 2019

** ceased 28 November 2019

*** appointed 1 June 2020

(i) Hannah Badenach and Stephen Motteram did not receive remuneration

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: Ganbayar Lkhagvasuren
Title: Executive Director
Details: Mr Lkhagvasuren's fixed remuneration is an annual salary package of US\$265,000 including compulsory taxes and social insurance applicable as an employee in Mongolia. In the event of Mr Lkhagvasuren's employment being terminated other than in the case of misconduct, Mr Lkhagvasuren must give a minimum of 6 months' notice prior to termination, and the Company must give 9 months' notice prior to termination. 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: Munkhsaikhan Dambiinyam
Title: Chief Operating Officer (appointed 1 June 2020, formerly Chief Financial Officer)
Details: Mr Dambiinyam's fixed remuneration is an annual salary package of US\$167,000 including compulsory taxes and social insurance applicable as an employee in Mongolia. In the event of termination of Mr Dambiinyam's employment other than in the case of misconduct, Mr Dambiinyam must give a minimum of 6 months' notice prior to termination, and the Company must give 6 months' notice prior to termination. 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 Mr Dambiinyam any right to receive such a payment.

Director's Report

Name: Spencer Cole
Title: Chief Financial Officer (appointed 1 June 2020)
Details: Mr Cole's fixed remuneration is an annual salary package of A\$300,000 including superannuation and any applicable taxes withheld. In the event of termination of Mr Cole'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 Cole 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 Cole any right to receive such a payment.

Name: Mat Brown
Title: Chief Geologist
Details: Mr Brown's remuneration is based on a daily contract rate of A\$1,000, excluding GST, paid exclusively for days worked. In the event of termination of Mr Brown's contract other than in the case of misconduct, the executive must give 30 days' notice prior to termination, and the Company must give 30 days' notice prior to termination. Mr Brown is eligible to participate in incentive plans at the discretion of the Board.

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

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2020.

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 2020.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 31 December 2020.

The Xanadu Long Term Incentive ('LTI') plan was approved by Shareholders during the 30 June 2020 Annual General Meeting (AGM), with additional vesting conditions approved by shareholders during the 21 December 2020 Extraordinary General Meeting (EGM). The Company expects to grant options under this LTI plan in the second quarter of 2021.

Share rights

There were no share rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2020.

There were no share rights over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 31 December 2020.

Director's Report

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:

	2016	2017	2018	2019	2020
Share price at financial year end (\$)	0.210	0.280	0.105	0.030	0.038
Basic loss per share (cents per share)	(0.47)	(0.72)	(1.00)	(1.17)	(0.33)
Diluted loss per share (cents per share)	(0.47)	(0.72)	(1.00)	(1.17)	(0.33)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year 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 year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Colin Moorhead	-	-	1,000,000	-	1,000,000
Andrew Stewart	4,721,292	-	210,000	-	4,931,292
Ganbayar Lkhagvasuren	16,558,329	-	-	-	16,558,329
Michele Muscillo	59,441	-	-	-	59,441
Stephen Motteram (resigned 30 June 2020)	-	-	-	-	-
Munkhsaikhan Dambiinyam	1,478,578	-	-	-	1,478,578
Spencer Cole (appointed 1 June 2020)	-	-	375,000	-	375,000
Mat Brown	-	-	1,232,821	-	1,232,821
	22,817,640	-	2,817,821	-	25,635,461

This concludes the remuneration report, which has been audited.

Shares under option

There were no unissued ordinary shares of Xanadu Mines Ltd under option outstanding at the date of this report.

Shares under share rights

There were no unissued ordinary shares of Xanadu Mines Ltd under share rights outstanding at the date of this report.

Shares issued on the exercise of options

There were no ordinary shares of Xanadu Mines Ltd issued on the exercise of options during the year ended 31 December 2020 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

Director's Report

During the financial year, 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

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, 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 year by the auditor are outlined in note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

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

Director's Report

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

On behalf of the directors

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

Colin Moorhead
Chairman

30 March 2021

Auditor's Independence Declaration



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

As lead auditor for the audit of the financial report of Xanadu Mines Limited for the financial year ended 31 December 2020, 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


Siobhan Hughes
Partner
30 March 2021

Financial Statements

General information

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 March 2021.

Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Consolidated	
	Note	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Other income			
Other income	4	102	5
Expenses			
Other expenses	5	(3,330)	(3,505)
Depreciation and amortisation expense		(55)	(60)
Impairment of exploration and evaluation assets	12	-	(4,425)
Finance costs		(26)	(25)
Revaluation loss on financial assets at fair value through profit or loss		-	(30)
Loss before income tax expense		(3,309)	(8,040)
Income tax expense	6	-	-
Loss after income tax expense for the year		(3,309)	(8,040)
Other comprehensive income loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(5,915)	(1,232)
Other comprehensive income loss for the year, net of tax		(5,915)	(1,232)
Total comprehensive income loss for the year		<u>(9,224)</u>	<u>(9,272)</u>
Loss for the year is attributable to:			
Non-controlling interest		(377)	(120)
Owners of Xanadu Mines Ltd	19	(2,932)	(7,920)
		<u>(3,309)</u>	<u>(8,040)</u>
Total comprehensive income loss for the year is attributable to:			
Non-controlling interest		(882)	(205)
Owners of Xanadu Mines Ltd		(8,342)	(9,067)
		<u>(9,224)</u>	<u>(9,272)</u>
		Cents	Cents
Basic earnings per share	32	(0.33)	(1.17)
Diluted earnings per share	32	(0.33)	(1.17)

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

Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	Consolidated 31 Dec 2020 \$'000	31 Dec 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	7,687	1,209
Other receivables	8	145	99
Prepayments and other assets	9	201	47
Total current assets		8,033	1,355
Non-current assets			
Property, plant and equipment	10	128	141
Right-of-use assets	11	238	147
Deferred exploration and evaluation expenditure	12	43,317	43,352
Total non-current assets		43,683	43,640
Total assets		51,716	44,995
Liabilities			
Current liabilities			
Trade and other payables	13	547	58
Contract liabilities	14	306	-
Employee benefits		5	2
Lease liabilities	15	64	35
Total current liabilities		922	95
Non-current liabilities			
Lease liabilities	16	88	66
Total non-current liabilities		88	66
Total liabilities		1,010	161
Net assets		50,706	44,834
Equity			
Issued capital	17	136,005	120,909
Reserves	18	(6,774)	(1,364)
Accumulated losses	19	(82,197)	(79,265)
Equity attributable to the owners of Xanadu Mines Ltd		47,034	40,280
Non-controlling interest	20	3,672	4,554
Total equity		50,706	44,834

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

Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Consolidated	Issued capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Transactions with owners reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2019	117,850	10,231	(9,695)	(537)	(71,345)	4,758	51,262
Loss after income tax expense for the year	-	-	-	-	(7,920)	(120)	(8,040)
Other comprehensive income loss for the year, net of tax	-	-	(1,148)	-	-	(84)	(1,232)
Total comprehensive income loss for the year	-	-	(1,148)	-	(7,920)	(204)	(9,272)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 17)	3,059	-	-	-	-	-	3,059
Share-based payments (note 33)	-	(215)	-	-	-	-	(215)
Balance at 31 December 2019	<u>120,909</u>	<u>10,016</u>	<u>(10,843)</u>	<u>(537)</u>	<u>(79,265)</u>	<u>4,554</u>	<u>44,834</u>

Consolidated	Issued capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Transactions with owners reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2020	120,909	10,016	(10,843)	(537)	(79,265)	4,554	44,834
Loss after income tax expense for the year	-	-	-	-	(2,932)	(377)	(3,309)
Other comprehensive income loss for the year, net of tax	-	-	(5,410)	-	-	(505)	(5,915)
Total comprehensive income loss for the year	-	-	(5,410)	-	(2,932)	(882)	(9,224)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 17)	15,096	-	-	-	-	-	15,096
Balance at 31 December 2020	<u>136,005</u>	<u>10,016</u>	<u>(16,253)</u>	<u>(537)</u>	<u>(82,197)</u>	<u>3,672</u>	<u>50,706</u>

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

Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Consolidated	
	Note	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash flows from operating activities			
Payments to suppliers and employees		(3,295)	(4,084)
Interest received		2	5
Government incentives received		100	-
Net cash used in operating activities	31	(3,193)	(4,079)
Cash flows from investing activities			
Payments for property, plant and equipment	10	(61)	-
Payments for exploration and evaluation expenditure	12	(4,844)	(3,431)
Payments for exploration and evaluation on behalf of JOGMEC	12	(1,337)	-
Proceeds from JOGMEC Red Mtn earn-in payments	12	1,406	-
Proceeds from JOGMEC Red Mtn option payments	12	115	-
Proceeds from JOGMEC Red Mtn earn-in payments received in advanced	14	306	-
Proceeds from disposal of investments		-	130
Net cash used in investing activities		(4,415)	(3,301)
Cash flows from financing activities			
Proceeds from issue of shares	17	15,707	3,370
Transaction costs on issue of shares	17	(611)	(311)
Repayment of lease liabilities	15	(72)	(33)
Interest and other finance costs paid		(26)	(25)
Net cash from financing activities		14,998	3,001
Net increase/(decrease) in cash and cash equivalents		7,390	(4,379)
Cash and cash equivalents at the beginning of the financial year		1,209	5,225
Effects of exchange rate changes on cash and cash equivalents		(912)	363
Cash and cash equivalents at the end of the financial year	7	7,687	1,209

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

Notes to the Financial Statements

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

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

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

Conceptual Framework for Financial Reporting (Conceptual Framework)

The Group has adopted the revised Conceptual Framework from 1 January 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the Group's financial statements.

Going concern

The Group has incurred net losses after tax of \$3,309,000 (2019: \$8,040,000) and net cash outflows from operations of \$3,193,000 (2019: \$4,079,000) for the year ended 31 December 2020. At year end, cash and cash equivalents were \$7,687,000 (2019: \$1,209,000). As the Group is in the exploration stage and does not generate operating cash inflows, the Group is dependent on further capital raises or external financing to maintain operations, which results in a material uncertainty on whether the Group can continue as a going concern.

During the period ended 31 December 2020, the Company raised \$15.1 million through equity issuances to fund the ongoing exploration program at Kharmagtai. While the Company has the ability to reduce costs, this would be at the expense of the exploration program, and as a result this is not the current intention of the Group.

The Company has assessed that the Group is and will remain a going concern and believes that the going concern basis of preparation of the accounts is appropriate, based upon the following potential actions:

- scale back or defer exploration expenditure if required;
- defer discretionary operating and capital expenditures;
- raise equity funds in capital markets, based on a history of successful equity raisings;
- raise debt funding if required; and
- enter into farm-out, sell down or joint venture agreements, such as the Red Mountain earn-in agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) announced on 24 March 2020.

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

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 financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Notes to the Financial Statements

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Xanadu's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

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 28.

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 2020 and the results of all subsidiaries for the year 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.

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.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

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 Company's foreign subsidiaries are Mongolian Tughrig ('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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Notes to the Financial Statements

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

Interest income

Interest income 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.

Government grants

Government grant income 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.

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.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

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

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

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

Notes to the Financial Statements

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Property, plant and equipment

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.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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.

Deferred exploration and evaluation assets

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.

Notes to the Financial Statements

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.

Treatment of JOGMEC receipts and capital expenditure

The Group entered into a Joint Exploration Agreement with JOGMEC to share costs and risks associated with exploration activities in Red Mountain. Under this agreement, JOGMEC will contribute US\$7.2 million to fund 100% of exploration for approximately 4 years in return for 51% working interest in the project. Xanadu remains the operator during the earn-in period. Following the earn-in period, a Joint Venture will be created to progress the project.

The Group does not record any exploration expenditure made by JOGMEC on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangement, and it redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmer as a gain on disposal.

Impairment of deferred exploration and evaluation assets

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has significant uncertainty regarding its value, the uncertain recoverability is impaired in the year in which the decision is made.

Impairment of non-financial assets

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

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Notes to the Financial Statements

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

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 interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

Issued capital

Ordinary shares are classified as equity.

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

Earnings per share

Basic earnings per share

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 year, adjusted for bonus elements in ordinary shares issued during the financial year.

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.

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.

Notes to the Financial Statements

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

Rounding of amounts

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

Note 2. 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.

Exploration and evaluation costs

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

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses indicators of impairment for non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. Methods of assessment include recent transaction value, benchmarking of comparable transactions and value multiples, market capitalisation versus book value. These also consider fair value less costs of disposal or value-in-use calculations. If an indicator of impairment exists, the recoverable amount of the asset is determined.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

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

Notes to the Financial Statements

Note 3. Operating segments

Xanadu operates predominantly in the minerals exploration sector. The principle activity of the Company is exploration for copper and gold. Xanadu classifies these activities under a single operating segment, the Mongolian exploration projects. Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in note 12 'Deferred exploration and evaluation expenditure'. No segment revenues are disclosed, as all segment expenditure is capitalised, with the exception of expenditure written off. The non-current assets of Xanadu, attributable to the parent entity, are located in Mongolia.

Note 4. Other income

	Consolidated 31 Dec 2020 \$'000	31 Dec 2019 \$'000
Interest income	2	5
COVID-19 government incentive	100	-
Other income	102	5

Note 5. Other expenses

	Consolidated 31 Dec 2020 \$'000	31 Dec 2019 \$'000
Administration expenses	1,136	1,136
Wages and management fees	1,341	1,904
Consulting fees	855	681
Share-based payments expense (write-back)*	-	(215)
Net foreign currency (gains) / loss	(2)	(1)
Other expenses	3,330	3,505

* During the year ended 31 December 2019, Kevin Tomlinson stood down from the Board and his performance rights were forfeited.

Note 6. Income tax expense

	Consolidated 31 Dec 2020 \$'000	31 Dec 2019 \$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(3,309)	(8,040)
Tax at the statutory tax rate of 27.5%	(910)	(2,211)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax effect of expenses not allowed for tax purposes	(28)	(59)
	(938)	(2,270)
Current year tax losses not recognised	916	2,204
Difference in overseas tax rates - Mongolia at 25% (2019: 25%)	20	22
Difference in overseas tax rates - Singapore at 17% (2019: 17%)	2	44
Income tax expense	-	-

Notes to the Financial Statements

At the reporting date, the Group has estimated tax losses of \$39,400,000 (31 December 2019: \$32,960,000) in Australia. A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available in the foreseeable future to use against such losses.

Note 7. Current assets - Cash and cash equivalents

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Cash at bank	7,687	1,209

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

Note 8. Current assets - Other receivables

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Sundry debtors	60	64
GST recoverable	85	35
	145	99

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 9. Current assets - Prepayments and other assets

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Prepayments	201	47

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

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Plant and equipment - at cost	418	432
Less: Accumulated depreciation	(321)	(327)
	97	105
Motor vehicles - at cost	132	149
Less: Accumulated depreciation	(101)	(113)
	31	36
	128	141

Notes to the Financial Statements

Reconciliations

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

Consolidated	Plant & Equipment \$'000	Motor Vehicles \$'000	Total \$'000
Balance at 1 January 2019	138	222	360
Exchange differences	(8)	(4)	(12)
Transfer to right-of-use asset (1 January 2019)	-	(195)	(195)
Transfer accumulated depreciation on right-of-use asset	-	48	48
Depreciation expense	(25)	(35)	(60)
Balance at 31 December 2019	105	36	141
Additions	27	34	61
Exchange differences	(17)	(27)	(44)
Depreciation expense	(18)	(12)	(30)
Balance at 31 December 2020	<u>97</u>	<u>31</u>	<u>128</u>

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

Note 11. Non-current assets - Right-of-use assets

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Motor vehicles - right-of-use	310	195
Less: Accumulated depreciation	(72)	(48)
	<u>238</u>	<u>147</u>

Reconciliations

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

Consolidated	Motor vehicles - right-of-use \$'000
Balance at 1 January 2019	-
Transfer in from Property, plant and equipment - motor vehicles (1 January 2019)	195
Depreciation expense	(48)
Balance at 31 December 2019	147
Additions	123
Exchange differences	(7)
Depreciation expense	(25)
Balance at 31 December 2020	<u>238</u>

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

Notes to the Financial Statements

As allowed by the standard, there is no change to the recognition of short term leases, which are those leases with terms equal to or less than 12 months. During the period, the Group made the following lease payments which have been capitalised to deferred exploration expenditure:

- office lease rental payments of \$84,917 (2019: \$86,480) in respect of the short term office lease in Mongolia; and
- equipment lease rental payments \$479,541 (2019: \$77,080) in respect of leases on various equipment for 90 day periods.

The Group also made lease payments which have not been capitalised as follows:

- office lease rental payments of \$31,130 (2019: \$0) in respect of the short term office lease in Melbourne; and
- office lease rental payments of \$1,500 (2019: \$0) in respect of the short term office lease in Sydney.

Note 12. Non-current assets - Deferred exploration and evaluation expenditure

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Deferred exploration and evaluation expenditure	47,475	47,777
Less: Accumulated impairment	(4,158)	(4,425)
	<u>43,317</u>	<u>43,352</u>

Reconciliations

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

Consolidated	Exploration and evaluation \$'000
Balance at 1 January 2019	45,903
Additions ⁽ⁱ⁾	3,015
Exchange differences	(1,141)
Impairment of assets *	(4,425)
Balance at 31 December 2019	43,352
Additions ^{(i) (ii)}	5,028
Red Mountain Options Payment **	(115)
Exchange differences	(4,948)
Balance at 31 December 2020	<u>43,317</u>

* The 31 December 2019 impairment relates to the following deferred exploration expenditure assets ('000): Yellow Mountain \$3,442 and Red Mountain \$983. Yellow Mountain has been fully impaired due to the Company's inability to explore on the tenement following implementation of forestry regulations. The Yellow Mountain license expired in May 2020 and the Company is seeking compensation, however no amount has been recognised for this potential future compensation. In relation to Red Mountain, the company continues to assess options to fund further exploration and the asset has been written down based on the expected recoverable amount.

** The March 2020 Joint Exploration Agreement requires JOGMEC to spend US\$7.2M over approximately 4 years to earn 51% of Red Mountain. Xanadu is the operator during the earn-in period, and exploration expenditure is funded by JOGMEC. Options payments are made in addition to exploration expenditure. Following completion of the earn-in, a Joint Venture will be formed in which JOGMEC owns 51%, Xanadu owns 44.1% and Enkh owns 4.9%.

Notes to the Financial Statements

- (i) Amounts capitalised to deferred exploration expenditure include:
- office lease rental payments of \$84,917 (2019: \$86,480) in respect of the office lease in Mongolia; and
 - equipment lease rental payments \$479,541 (2019: \$77,080) in respect of leases on various equipment for 90 day periods.

- (ii) Made up of :

\$4,844,000	cashflow payments for exploration and evaluation expenditure (see Statement of cashflow investing activities);
\$1,337,000	cashflow payments for exploration and evaluation on behalf of JOGMEC (see Statement of cashflow investing activities);
(\$1,406,000)	proceeds from JOGMEC Red Mtn earn-in payments (see Statement of cash flows investing activities)
\$ 253,000	amounts in accounts payable relating to exploration and evaluation expenditure

\$5,028,000	

The Company held interests in three tenements during 2020:

- (a) the Kharmagtai copper-gold project;
 (b) the Red Mountain copper-gold project; and
 (c) the Yellow Mountain copper project.

Kharmagtai Copper-Gold Project

The Kharmagtai copper-gold Project is located within the South Gobi porphyry copper province of Mongolia, approximately 440 kilometres (km) south-southwest of the capital, Ulaanbaatar and 120km north of Turquoise Hill's Oyu Tolgoi copper-gold mine. Access from Ulaanbaatar to Kharmagtai is via sealed highway for 450km and then along a well-used gravel road for 70km. The project holds a 30-year mining license and Xanadu owns 76.5% with two minority partners. Exploration during 2020 consisted of geophysics and 26,650 metres drilling, with up to two rigs stepping out from known higher grade zones and up to two testing new undercover porphyry targets in the east.

Red Mountain Copper-Gold Project

Xanadu's Red Mountain porphyry copper-gold Project is located within the Dornogovi Province of southern Mongolia, approximately 420km southeast of Ulaanbaatar, and 70km west from the provincial centre of Sainshand. The project holds a 30-year mining licence and Xanadu owns 90% with its minority partner. The project is subject to a Joint Exploration Agreement with JOGMEC, dated March 2020, in which JOGMEC may earn 51% interest by sole funding US\$7.2 million of expenditure over four years. Exploration during 2020 consisted of geophysics and 4,321 metres drilling. As at 31 December 2020, JOGMEC contributed \$1.827 million (US\$1.320 million) on behalf of Red Mountain exploration, including \$306 thousand recognised as a prepayment for exploration yet to be executed, and \$115 thousand received as option payments.

Yellow Mountain Copper-Gold Project

There was no exploration activity at Xanadu's Yellow Mountain copper-gold Project during the year ended 31 December 2020. The lease expired on Yellow Mountain in May 2020.

Note 13. Current liabilities - Trade and other payables

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Trade payables	501	58
Accrued expenses and other payables	46	-
	<u>547</u>	<u>58</u>

Refer to note 22 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.

Notes to the Financial Statements

Note 14. Current liabilities - Contract liabilities

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Contract liabilities	306	-

These represent prepayments by JOGMEC for the Red Mountain exploration to be undertaken after 31 December 2020.

Note 15. Current liabilities - Lease liabilities

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Lease liability - motor vehicles	64	35

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Current lease liabilities	64	35
Non-current lease liabilities (refer note 16)	88	66
	152	101
Opening balance	101	134
Additions to lease borrowings	109	-
Repayment of lease liabilities	(58)	(33)
	152	101

Refer to note 22 for further information on financial risk management objectives and policies.

Note 16. Non-current liabilities - Lease liabilities

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Lease liability - motor vehicles	88	66

Refer to note 15 for reconciliation of movement in lease liabilities.

Refer to note 22 for further information on financial risk management objectives and policies.

Note 17. Equity - Issued capital

	Consolidated			
	31 Dec 2020 Shares	31 Dec 2019 Shares	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Ordinary shares - fully paid (net of transaction costs)	1,091,841,522	712,848,544	136,005	120,909

Notes to the Financial Statements

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 January 2019	648,044,131	117,850
Shares issued - Rights issue	15 July 2019	40,393,314	2,101
Share issued - Rights issue	28 August 2019	24,411,099	1,269
Transaction costs		-	(311)
Balance	31 December 2019	712,848,544	120,909
Shares issued - placement	20 January 2020	78,326,311	2,585
Share issued - placement	28 May 2020	34,000,000	1,122
Share issued - placement	18 August 2020	123,776,228	5,570
Share issued - placement	8 October 2020	142,890,439	6,430
Transaction costs		-	(611)
Balance	31 December 2020	<u>1,091,841,522</u>	<u>136,005</u>

Ordinary shares

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

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

Share buy-back

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

Capital risk management

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

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

Management effectively Xanadu's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. The capital risk management policy remains unchanged from the 31 December 2019 Annual Report.

Note 18. Equity - Reserves

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Foreign currency translation reserve	(16,253)	(10,843)
Share-based payments reserve	10,016	10,016
Transactions with owners reserve	(537)	(537)
	<u>(6,774)</u>	<u>(1,364)</u>

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.

Notes to the Financial Statements

Share-based payments reserve

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

Movements in reserves

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

Consolidated	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Transactions with owners reserve \$'000	Total \$'000
Balance at 1 January 2019	(9,695)	10,231	(537)	(1)
Share-based payments - employee benefits	-	(215)	-	(215)
Foreign currency translation	(1,148)	-	-	(1,148)
Balance at 31 December 2019	(10,843)	10,016	(537)	(1,364)
Foreign currency translation	(5,410)	-	-	(5,410)
Balance at 31 December 2020	<u>(16,253)</u>	<u>10,016</u>	<u>(537)</u>	<u>(6,774)</u>

Note 19. Equity - Accumulated losses

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Accumulated losses at the beginning of the financial year	(79,265)	(71,345)
Loss after income tax expense for the year	<u>(2,932)</u>	<u>(7,920)</u>
Accumulated losses at the end of the financial year	<u>(82,197)</u>	<u>(79,265)</u>

Note 20. Equity - Non-controlling interest

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Non-controlling interest	<u>3,672</u>	<u>4,554</u>

Note 21. Equity - Dividends

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

Note 22. Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

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

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

Notes to the Financial Statements

Market risk

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

Foreign currency risk

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

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

	Assets		Liabilities	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Consolidated	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents denominated in US\$	3,403	391	-	-
Cash and cash equivalents denominated in MNT	14	9	-	-
Other financial assets denominated in MNT	39	43	-	-
Financial liabilities denominated in MNT	-	-	286	3
	<u>3,456</u>	<u>443</u>	<u>286</u>	<u>3</u>

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

Consolidated - 31 Dec 2020		% change	A\$ strengthened		% change	A\$ weakened	
			Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
A\$/US\$	'000	10%	340	340	(10%)	(340)	(340)
A\$/MNT	'000	10%	1	1	(10%)	(1)	(1)
			<u>341</u>	<u>341</u>		<u>(341)</u>	<u>(341)</u>

Consolidated - 31 Dec 2019		% change	A\$ strengthened		% change	A\$ weakened	
			Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
A\$/US\$	'000	10%	39	39	(10%)	(39)	(39)
A\$/MNT	'000	10%	1	1	(10%)	(1)	(1)
			<u>40</u>	<u>40</u>		<u>(40)</u>	<u>(40)</u>

Notes to the Financial Statements

Commodity price risk

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

Equity price risk

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

Interest rate risk

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

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

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

	31 Dec 2020		31 Dec 2019	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Cash and cash equivalents	0.04%	7,687	0.20%	1,209
Net exposure to cash flow interest rate risk		<u>7,687</u>		<u>1,209</u>

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

	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Consolidated - 31 Dec 2020						
Net interest rate risk exposure	100	<u>77</u>	<u>77</u>	(100)	<u>(77)</u>	<u>(77)</u>
	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Consolidated - 31 Dec 2019						
Net interest rate risk exposure	100	<u>12</u>	<u>12</u>	(100)	<u>(12)</u>	<u>(12)</u>

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

Credit risk

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

Notes to the Financial Statements

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$7,687,000 (31 December 2019 \$1,209,000).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The primary source of funds available to the Company is from equity financing. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis, to support its exploration plans, and to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions. The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfil its obligations under any applicable agreements.

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

Other business risks

Political and legal risks

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

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

License risks

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

Yellow Mountain License

As reported previously, on 16 July 2009, the Mongolian Parliament enacted legislation to Prohibit Mineral Exploration and Mining Operations in Headwaters of Rivers, Protected Zones of Water Reservoirs and *Forested Areas* (the **Long Name Law**) which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the *Mongolian Law on Forest* and areas adjacent to rivers and lakes as defined in the *Law of Mongolia on Water*. New exploration licenses and mining licenses overlapping with the defined prohibited areas will not be granted, and previously granted licenses that overlap with the defined prohibited areas, will be terminated within five months following the adoption of the Long Name Law. The Company's license for the Yellow Mountain project overlaps with the border zone of a forested area and zones allocated to the protection of water basins/reservoirs under the Long Name Law. Pursuant to the *Law of Mongolia on Minerals* (the **Minerals Law**) and the Long Name Law, minerals licenses which overlap with restricted areas will be revoked by the mineral's authority only if, and when, compensation is paid in full to the holder of the relevant license.

Notes to the Financial Statements

Yellow Mountain was fully impaired on 31 December 2019 due to an inability to explore on the tenement as a result of overlap with protected areas. During 2020, the Company sought confirmation from the Government of Mongolia that it could either renew the license to commence exploration or receive compensation. The license has since expired without renewal, and discussions regarding compensation are ongoing.

Mineral resource assumptions risk

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

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

Environmental risk

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

Operational risk

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

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization, and during 2020 this had a significant impact on the global economy and the mining industry. Despite this and due to a cautious approach by the Government of Mongolia, exploration and mining activities in the South Gobi were minimally impacted during 2020. The ongoing scale and duration of the pandemic remains uncertain as at the date of this report and may yet have an impact on our forecast cash flow and financial condition.

Contractual risk

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

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

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

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

Notes to the Financial Statements

Note 23. Key management personnel disclosures

Directors

The following persons were directors of Xanadu Mines Ltd during the financial year:

Colin Moorhead	Independent Non-Executive Chairman
Andrew Stewart	Chief Executive Officer
Ganbayar Lkhagvasuren	Executive Director
Michele Muscillo	Independent Non-Executive Director

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 year:

Munkhsaikhan Dambiinyam	Chief Operating Officer (appointed 1 June 2020, formerly Chief Financial Officer)
Spencer Cole	Chief Financial Officer (appointed 1 June 2020)
Mat Brown	Chief Geologist

Compensation

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

	Consolidated 31 Dec 2020 \$	31 Dec 2019 \$
Short-term employee benefits	1,591,667	1,653,020
Post-employment benefits	43,402	11,390
Share-based payments	-	(223,267)
	<u>1,635,069</u>	<u>1,441,143</u>

Note 24. Remuneration of auditors

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

	Consolidated 31 Dec 2020 \$	31 Dec 2019 \$
<i>Audit services - Ernst & Young</i>		
Audit or review of the financial statements	<u>122,810</u>	<u>93,762</u>
<i>Other services - Ernst & Young</i>		
Tax services	<u>-</u>	<u>1,500</u>
	<u>122,810</u>	<u>95,262</u>

Note 25. Contingent liabilities

There are no material contingent liabilities relating to the Company.

Notes to the Financial Statements

Note 26. Commitments

Commitments in relation to exploration licences contracted at the reporting date, including regulatory charges such as license fees and corporate administrations, but not recognised as liabilities within one year are \$0.2 million (31 December 2019: \$0.2 million).

As the future exploration activity is in most cases dependent upon reserves being found, it is not possible to set out the funds due to be contributed in more than one year's time. No other commitments or contingencies existed at 31 December 2020.

Commitments in relation to vehicles lease liabilities is \$0.1 million (31 December 2019: \$0.2 million).

Note 27. Related party transactions

Parent entity

Xanadu Mines Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$	\$
Payment for goods and services:		
Office rent, paid to Ganbayar Lkhagvasuren ⁽ⁱ⁾	84,917	86,480
Legal fees, paid to HopgoodGanim Lawyers ⁽ⁱⁱ⁾	50,980	44,612
Melbourne office rent and operations support paid to Colin Moorhead and Associates ⁽ⁱⁱⁱ⁾	31,130	-
Sydney office rent paid to Bastion Minerals ^(iv)	1,500	-

- (i) The Company maintains a rental agreement for its Ulaanbaatar office with Ganbayar Lkhagvasuren, an Executive Director of the Company. The transaction between these related parties is on normal commercial terms and conditions no more or less favourable than those available to other parties that are arm's length.
- (ii) The Company sources legal services from HopgoodGanim Lawyers, where Non-Executive Director Michele Muscillo is a partner.
- (iii) The Company maintains a rental and executive support agreement related to a Melbourne office with Colin Moorhead & Associates, a company associated with Colin Moorhead, a Non-Executive Chairman of the Company.
- (iv) The Company maintains a rental agreement related to a Sydney office with Bastion Minerals, a company at which Dr. Andrew Stewart, CEO and Executive Director of the Company, is a Non-Executive Director. The transactions between these parties are on normal commercial terms and conditions, no more or less favourable than those available to other parties that are at arm's length.

Please refer to the Remuneration Report for salaries and compensation paid to Company Directors.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Notes to the Financial Statements

Terms and conditions

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

Note 28. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Loss after income tax	(2,586)	(15,615)
Total comprehensive income loss	(2,586)	(15,615)

Statement of financial position

	Parent	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Total current assets	7,202	1,114
Total assets	50,776	44,856
Total current liabilities	70	22
Total liabilities	70	22
Equity		
Issued capital	136,005	120,909
Share-based payments reserve	10,016	10,016
Other reserves	(10,035)	(3,397)
Accumulated losses	(85,280)	(82,694)
Total equity	50,706	44,834

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 31 December 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 1, except for the following:

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

Notes to the Financial Statements

Note 29. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 Dec 2020 %	31 Dec 2019 %
Xanadu Exploration Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Metals Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Copper Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Mines Singapore Pte Ltd	Singapore	100.00%	100.00%
Khuiten Metals Pte Ltd	Singapore	100.00%	100.00%
Mongol Metals LLC	Mongolia	85.00%	85.00%
Vantage LLC	Mongolia	90.00%	90.00%
Oyut Ulaan LLC	Mongolia	90.00%	90.00%

Note 30. Events after the reporting period

Subsequent to the financial year ending 31 December 2020, Xanadu announced high-grade drilling intercepts at both its Kharmagtai and Red Mountain project. These results are described in ASX announcements dated 15 February 2021, 23 March 2021, and 24 March 2021, and they are available on the Xanadu Mines website.

During the first quarter of 2021, Mongolia embarked on an aggressive vaccination campaign against COVID-19, supported by the World Health Organisation, with execution of over 10,000 vaccinations a day and targeting full coverage of the population by July 2021. Xanadu operations were minimally impacted by COVID-19 in 2020, and this is positive news for the future.

No other matter or circumstance has arisen since 31 December 2020 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 31. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Loss after income tax expense for the year	(3,309)	(8,040)
Adjustments for:		
Depreciation and amortisation	55	60
Net fair value loss on financial assets	-	30
Share-based payments	-	(215)
Foreign exchange differences	23	4
Impairment of deferred exploration and evaluation assets	-	4,425
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(46)	276
Increase in prepayments	(154)	-
Increase/(decrease) in trade and other payables from operating activities	235	(619)
Increase in employee benefits	3	-
Net cash used in operating activities	<u>(3,193)</u>	<u>(4,079)</u>

Notes to the Financial Statements

Note 32. Earnings per share

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Loss after income tax	(3,309)	(8,040)
Non-controlling interest	377	120
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>(2,932)</u>	<u>(7,920)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	886,538,392	676,886,896
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>886,538,392</u>	<u>676,886,896</u>
	Cents	Cents
Basic earnings per share	(0.33)	(1.17)
Diluted earnings per share	(0.33)	(1.17)

Note 33. Share-based payments

	Number of options 31 Dec 2020	Weighted average exercise price 31 Dec 2020	Number of options 31 Dec 2019	Weighted average exercise price 31 Dec 2019
Outstanding at the beginning of the financial year	-	\$0.000	20,000,000	\$0.000
Expired	-	\$0.000	(20,000,000)	\$0.000
Outstanding at the end of the financial year	<u>-</u>	<u>\$0.000</u>	<u>-</u>	<u>\$0.000</u>

31 Dec 2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Vested and awarded	Expired/ forfeited/ other	Balance at the end of the year
26/07/2017	26/07/2019	\$0.000	4,000,000	-	-	(4,000,000)	-
16/11/2017	26/05/2019	\$0.000	10,000,000	-	-	(10,000,000)	-
16/11/2017	26/07/2019	\$0.000	4,000,000	-	-	(4,000,000)	-
16/11/2017	11/10/2019	\$0.000	2,000,000	-	-	(2,000,000)	-
			<u>20,000,000</u>	<u>-</u>	<u>-</u>	<u>(20,000,000)</u>	<u>-</u>

All share-based payment Plan awards expired/were forfeited in the prior year. There are no active awards at 31 December 2020.

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 1 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 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Colin Moorhead
Chairman

30 March 2021



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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Xanadu Mines Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Material Uncertainty Related to Going Concern

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



Key Audit Matters

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

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

Carrying value of deferred exploration and evaluation expenditure

Why significant	How our audit addressed the key audit matter
<p>At 31 December 2020, the Group had capitalised \$43,317,000 in deferred exploration and evaluation expenditure ("E&E") relating to projects in Mongolia.</p> <p>E&E assets are initially recognised at cost and any additional expenditure is capitalised to the E&E asset in accordance with the Group's accounting policy as outlined in Note 2.</p> <p>At each reporting date, the Group assesses its E&E assets for indicators of impairment in accordance with AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i> including:</p> <ul style="list-style-type: none">- whether the rights to tenure are current;- the Group's ability and intention to continue to evaluate and develop the areas of interest; and- whether the result of the Group's exploration work to date are sufficiently progressed for a decision to be made as to the commercial viability or otherwise of the area of interest. <p>Given the size of the E&E asset balance and the judgment involved in the assessment of indicators of impairment, we consider this to be a key audit matter.</p> <p>At 31 December 2020, the Group did not identify any indicators of impairment.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">- Testing the Group's right to explore in the relevant exploration areas by obtaining and assessing relevant documentation such as license agreements;- Evaluating the Group's ability and intent to carry out significant exploration and evaluation activity in the relevant exploration areas which included assessment of the Group's short term cash-flow forecast models, review of the Group's exploration budgets, and enquiries of senior management as to their intentions and strategy of the Group;- With involvement of our valuation specialists, comparing the carrying amount of E&E assets expressed as an amount per resource tonne, to resource multiples from comparable market transactions and resource multiples from comparable companies;- Comparing the resource data used by the Group to its most recent National Instrument 43-101 reserve and resource statement;- Examining the Group's analysis of exploration and evaluation results relating to activities carried out in the relevant license areas, including an evaluation of drilling results;

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- Considering third party data regarding implied valuations for the Group's areas of interest and comparing this to the carrying value;
- Cross checking the net asset balance against the market capitalisation of the Group;
- Assessing the adequacy of the associated disclosures in the financial report.

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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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



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

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied

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



Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included the directors' report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Xanadu Mines Limited for the year ended 31 December 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

A stylized signature of the Ernst & Young logo, featuring the words 'Ernst & Young' in a cursive script.

Ernst & Young

A stylized signature of Siobhan Hughes, featuring the name 'Siobhan Hughes' in a cursive script.

Siobhan Hughes
Partner
Sydney
30 March 2021

Shareholder and Additional Information

The shareholder information set out below was applicable as at 26 February 2021.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares		Options over ordinary shares		Share rights over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	59	-	-	-	-	-
1,001 to 5,000	139	0.04	-	-	-	-
5,001 to 10,000	144	0.11	-	-	-	-
10,001 to 100,000	611	2.24	-	-	-	-
100,001 and over	483	97.61	-	-	-	-
	1,436	100.00	-	-	-	-
Holding less than a marketable parcel	354	-	-	-	-	-

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	204,629,351	18.74
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	112,671,337	10.32
ASIA CAPITAL AND ADVISORS PTE LTD [COPPER PLATE SUCCESS LTD A/C]	97,162,387	8.90
BNP PARIBAS NOMINEES PTY LTD [IB AU NOMS RETAILCLIENT DRP]	74,680,685	6.84
CITICORP NOMINEES PTY LTD	31,735,086	2.91
FAST LANE AUSTRALIA PTY LTD	30,000,000	2.75
SAKARI ENERGY TRADING PTE LTD	24,642,332	2.26
HARBIG NOMINEES PROPRIETARY LIMITED [THE HARBIG CUNNINGHAM A/C]	20,633,911	1.89
TWYNAM INVESTMENTS PTY LTD	20,344,605	1.86
BELLARINE GOLD PTY LTD [RIBBLESDALE SUPER FUND A/C]	19,815,036	1.81
CM SUPER FUND PTY LTD [CAROL MCCOLL SUPER FUND A/C]	19,811,000	1.81
MR GANBAYAR LKHAGVASUREN	16,558,329	1.52
UBS NOMINEES PTY LTD	12,010,936	1.10
BELL POTTER NOMINEES LTD [BB NOMINEES A/C]	11,369,431	1.04
ROJO NERO CAPITAL PTY LTD	8,345,858	0.76
A N SUPERANNUATION PTY LTD [ANNE NEATE SUPER FUND A/C]	8,127,319	0.74
MR BRIAN MCCUBBING + MRS ADRIANA MCCUBBING [B MCCUBBING SUPER FUND A/C]	8,000,000	0.73
TREASURY SERVICES GROUP PTY LTD + ATF NERO RESOURCE FUND [NERO RESOURCE FUND A/C]	7,650,000	0.70
CANADIAN REGISTER CONTROL\C	7,318,946	0.67
NEWFOUND INVESTMENTS PTY LTD [NEWFOUND SUPER FUND A/C]	7,000,000	0.64
	742,506,549	67.99

Unquoted equity securities

There are no unquoted equity securities.

Shareholder and Additional Information

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	204,629,351	18.74
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	112,671,337	10.32
ASIA CAPITAL AND ADVISORS PTE LTD [COPPER PLATE SUCCESS LTD A/C]	97,162,387	8.90
BNP PARIBAS NOMINEES PTY LTD [IB AU NOMS RETAILCLIENT DRP]	74,680,685	6.84

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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.

There are no other classes of equity securities.

Licenses and Projects Held by Xanadu

Description	Tenement Name	Tenement number	Interest owned %	Location
Kharmagtai	Kharmagtai	MV17387A	76.50	Mongolia, Umnugobi province, Tsogttsetsii soum
Red Mountain	Ed Mountain	MV017129	90.00	Mongolia, Dornogobi province, Saikhandulaan soum
Yellow Mountain *	Kholboo	13670x	100.00	Mongolia, Bulgan province, Selenge and Bugat soums

* Expired in May 2020