

Interim Report - 30 June 2022

5 September 2022

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

BY ELECTRONIC LODGEMENT

Interim Report - 30 June 2022

Please find attached for release to the market, the Xanadu Mines Ltd's *Interim Report for the six months ended 30 June 2022*.

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For further information, please contact:

Colin Moorhead
Executive Chairman & Managing Director
P: +61 2 8280 7497
E: colin.moorhead@xanadumines.com
W: www.xanadumines.com

Spencer Cole
Chief Financial Officer
P: +61 2 8280 7497
E: spencer.cole@xanadumines.com

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 a globally significant 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.

AUSTRALIA

c/o Company Matters Pty Limited
Level 12, 680 George Street
Sydney NSW 2000
T: +612 8280 7497

MONGOLIA

Suite 23, Building 9B
Olympic St, Sukhbaatar District
Ulaanbaatar, Mongolia
T: +967 7012 0211

Xanadu Mines Ltd ACN 114 249 026

www.xanadumines.com



XANADU MINES

Interim Report

30 June 2022

ASX:XAM
XANADUMINES.COM

ABN 92 114 249 026

Directors	Colin Moorhead Andrew Stewart (resigned as Director 31 March 2022) Ganbayar Lkhagvasuren Michele Muscillo Tony Pearson
Company secretary	Phil Mackey
Registered Office and principal place of business - 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 and principal place of business - 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: www.xanadumines.com/corporate-governance/

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General

This Management Discussion and Analysis (**MD&A**) is current to 30 June 2022 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 2021 and 2020 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 *NI43-101 Preliminary Economic Assessment Technical Report* prepared by Andrew Stewart of Xanadu Mines and Robert Spiers of Spiers Geological Consultants, dated 20 June 2022.

Forward-looking Statements

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

Description of Business

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

Review of Operations

During the six months to 30 June 2022, Xanadu Mines Ltd (**Xanadu** or the **Company**) focused on progressing the Company's flagship Kharmagtai Copper-Gold Project (**Kharmagtai**). This included completion and publication of a Scoping Study and National Instrument 43-101 Technical Reports for the December Mineral Resource Upgrade and a Preliminary Economic Assessment (**PEA**). In parallel with this work, the Executive and Board were transitioned to align skills to the development of Kharmagtai, and key terms of a strategic partnership with announced with Zijin Mining Group Co., Ltd (**Zijin**).

The Kharmagtai Scoping Study and PEA demonstrate a long-life, low-cost project that can be developed in the near term. Strong economics are driven by scale and gold by-product credits, low risk, proven technologies and favourable environmental, social and governance (ESG) parameters. The Scoping Study used a conservative approach and has identified significant upside optimisation opportunities which are now being evaluated.

The Strategic Partnership with Zijin, a global top-10 copper producer and developer, validates the quality of Kharmagtai and accelerates the project towards construction. Subject to required approvals, this will fund Kharmagtai through Pre-Feasibility Study (PFS) to a final decision to construct, and it will also fund continued exploration at both Kharmagtai and Xanadu's Red Mountain Project.

Highlights During the Period

Kharmagtai District

- Completed and filed National Instrument 43-101 Technical Report for its Mineral Resource Estimate.¹
- Scoping Study completed, with 20% internal rate of return (**IRR**) (range 16-25%), US\$630 million net present value (**NPV**) @ 8% (range US\$ 405-850 million), first quartile all-in sustaining cost over initial 5 years, and 4-year payback (range 4-7 years) over 30-year mine life.²
- Published a National Instrument 43-101 PEA Technical Report.³
- Completed exploration planning subject to funding under Zijin Kharmagtai Joint Venture (**JV**).
- Developed Study Execution Plan for Pre-Feasibility Study under the Zijin Strategic Partnership.

Corporate

- Board and Management were reconfigured to progress Kharmagtai into the development phase, including Mr. Colin Moorhead becoming Executive Chairman and Managing Director and Dr. Andrew Stewart becoming Vice President Exploration.
- Announced strategic partnership with Zijin providing funding and technical expertise to progress the Kharmagtai through PFS to a decision to construct.⁴
- Progressed negotiations to finalise JV Shareholders Agreement with Zijin and submitted regulatory approval requests.
- Subject to approvals, the Zijin partnership includes a staged investment to inject approximately A\$11 million for a 19.99% stake in Xanadu and a further US\$35 million into the Kharmagtai project for a 50% stake in Khuiten Metals Pte Ltd., equivalent to a 38.25% stake in Kharmagtai.³
- Published 2021 Sustainability Report outlining the Company's commitment to sustainable exploration and mining.⁵
- Closing Cash at 30 June 2022 of **\$4.1 million**.

¹ ASX/TSX Announcement 28 February 2022 – Technical Report to Support Kharmagtai Mineral Resource Upgrade

² ASX/TSX Announcement 6 April 2022 – Scoping Study – Kharmagtai Copper-Gold Project

³ ASX/TSX Announcement 20 June 2022 – NI 43-101 Preliminary Economic Assessment Technical Report.

⁴ ASX/TSX Announcement 19 April 2022 – Strategic Partnership with Zijin Mining and Placement

⁵ ASX/TSX Announcement 9 June 2022 – Sustainability Report 2021

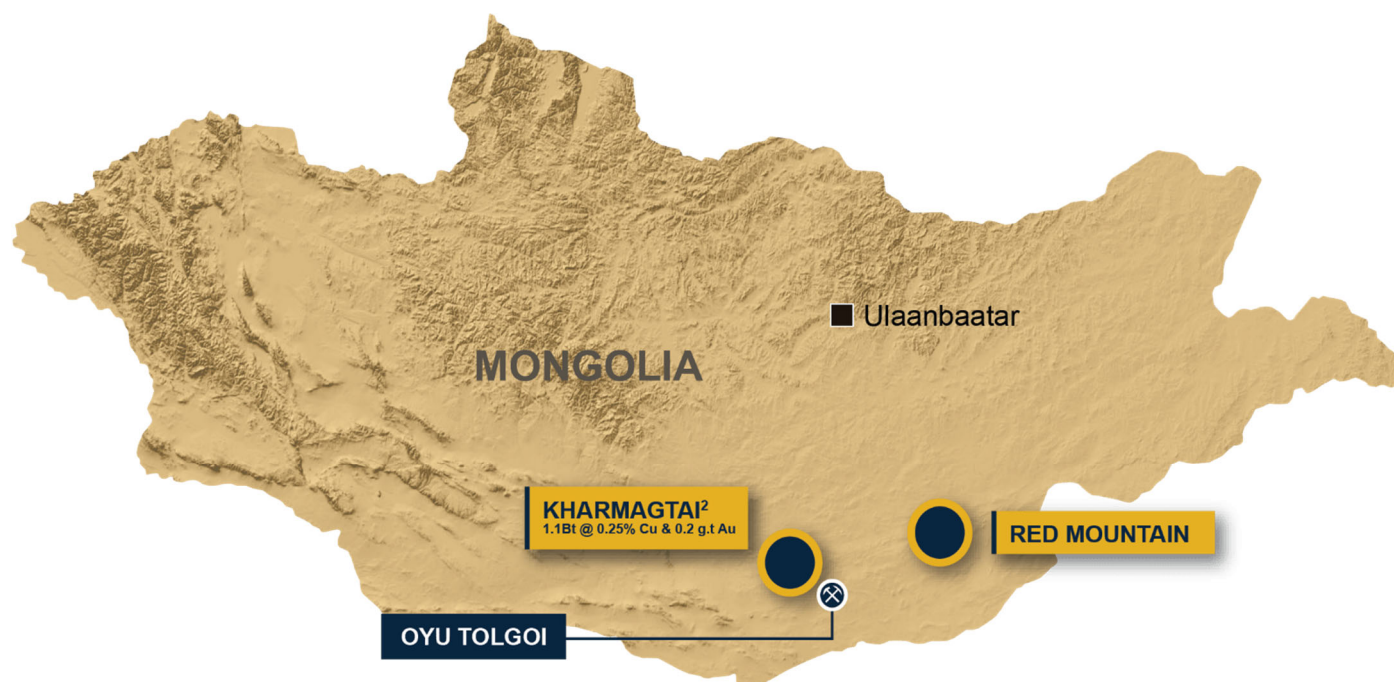


FIGURE 1: Location of Xanadu's copper-gold projects

Operations Update

Kharmagtai Copper-Gold Project

Independent National Instrument 43-101 Technical Report

During the March quarter, the Company filed an Independent National Instrument 43-101 Technical report (**NI 43-101 Technical Report**)⁶ titled Mineral Resource Estimation, Kharmagtai Project, Omnogovi Province, Mongolia, in support of the Company's ASX/TSX Announcement dated 8 December 2021⁷ and as required by Canadian Securities Administrators (CSA) and the Toronto Stock Exchange (TSX).

The NI 43-101 Technical Report⁸ was authored by Independent Qualified Person, Mr. Robert Spiers of Spiers Geological Consultants Pty Ltd (SGC) who is a Qualified Person as defined by NI 43-101. The Mineral Resource Estimate has been classified in accordance with the Canadian Institute of Mining Metallurgy and Petroleum (CIM) Definition Standards - Standards for Disclosure for Mineral Projects (May 9, 2016) and with the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code 2012).

The updated Mineral Resource Estimate for Kharmagtai has an effective date of 8 December 2021 and is supported by information from 120 diamond drill holes for 69,479 metres between 2018 and 2021.

- The Indicated Mineral Resources for Kharmagtai total 455 million tonnes grading 0.3% copper and 0.2g/t gold.
- The Inferred Mineral Resources for Kharmagtai total 664 million tonnes grading 0.3% copper and 0.2g/t gold.

The NI 43-101 Technical Report, dated 28 February 2022, may be found under the Company's profile on SEDAR at <https://www.sedar.com> and on the Xanadu Mines website: <https://www.xanadumines.com/technical-reports/>

⁶ ASX/TSX Announcement 28 February 2022 - Technical Report to Support Kharmagtai Mineral Resource Upgrade

⁷ ASX/TSX Announcement 8 December 2021 - Kharmagtai Resource Grows to 1.1 billion tonnes

⁸ This NI 43-101 Technical Report updates the ASX/TSX Announcement 8 December 2021 - Kharmagtai Resource Grows to 1.1 billion Tonnes, including amendments to the resource classified as Indicated within the smaller Zephyr deposit.

Kharmagtai Copper-Gold Project, Scoping Study and PEA

During the June Quarter, the Company released its Scoping Study⁹ and PEA¹⁰ for its flagship Kharmagtai Copper-Gold Project, based on an updated 2021 Mineral Resource Estimate¹¹.

The summary of findings is presented below in 100% terms (Xanadu share 76.5%):

Large Scale, Low-Cost Copper and Gold Production, in an Established Mining Jurisdiction

- Total ore processed of 760Mt, producing 1.5Mt of copper and 3.3Moz of gold
- Average annual production of 50kt copper and 110koz gold over the Life of Mine (LOM)
- Average annual production of 37kt copper and 110koz of gold for first five years
- First quartile all-in sustaining (C1) cost of US\$1.02/lb Cu for the first five years

Strong Investment Returns

- Estimated initial capital expenditure of approximately US\$690 million for pit development, process plant and infrastructure
- IRR of 20%, after tax (range 16% to 25%)
- Payback of 4 years (range 4 to 7 years)
- 30-year mine life at an initial mill throughput of 15Mtpa, expanding to 30Mtpa
- NPV of US\$630 million (range US\$405 million to US\$850 million)

Low Technical Complexity

- Open pit mine, with low 0.9:1 strip ratio for first 5 years and 1.1:1 over LOM
- Limited (25-30Mt) pre-strip of oxidised material required
- Conventional gravity and flotation process plant
- Flat terrain enabling low risk tailings solution
- Grid power and rail links already in place near the tenement

Globally Competitive Time to Production

- Relatively low ESG risk due to sparse population and flat terrain permitting and approvals process established and achievable
- Established road, rail, power and water infrastructure
- Mining is an important part of the Mongolian economy, with well-educated population and access to required skills

Significant Upside Opportunities

- Processing oxide ore types using glycine leach technology has potential to reduce stripping and generate additional cash
- Application of new technologies such as in pit crush and convey, beneficiation, ore sorting, coarse particle separation and flotation, and electric mining equipment to increase size of pits and extend mine life
- Exploration Upside with mineralisation open in all directions, potential to grow the resource and extend higher-grade zones
- Potential for future mass underground mining to access deeper higher-grade zones

The Scoping Study underpins Xanadu's Board decision to gate the project to PFS. Parallel studies are underway to assess further upside at depth, considering high grade found in deeper drill holes outside the current Mineral Resource Estimate, and the potential for new discoveries across the district. Similar to other large porphyry copper districts, Xanadu expects there to be significant opportunity for future growth and value creation over the mine life.

The next major project milestone will be the Kharmagtai PFS, planned to commence in Q4 2022 and expected to complete in Q1 of 2024, subject to approvals for funding.

The full Scoping Study report is available on the Xanadu Mines website at: <https://www.xanadumines.com/asx-announcements/>

The NI 43-101 Preliminary Economic Assessment Technical Report, dated 20 June 2022, may be found under the Company's profile on SEDAR at <https://www.sedar.com> and on the Xanadu Mines website: <https://www.xanadumines.com/technical-reports/>

⁹ ASX/TSX Announcement 6 April 2022 – Scoping Study – Kharmagtai Copper-Gold Project

¹⁰ ASX/TSX Announcement 20 June 2022 – NI 43-101 Preliminary Economic Assessment Technical Report.

¹¹ ASX/TSX Announcement 28 February 2022 – Technical Report to Support Kharmagtai Mineral Resource Estimate

Red Mountain Copper-Gold Project

A review of prior drilling was undertaken during the first half of 2022 to develop an exploration plan for the second half that follows up the successful 2021 drilling program, targeting high-grade, shallow discovery. This exploration plan will be implemented in the third quarter of 2022, following receipt of Phase 2 funding from the Zijin strategic partnership.

Corporate

Management Changes

The Company announced an internal restructure of its Board and leadership teams as it progresses its flagship Kharmagtai project into the development phase¹². Changes took effect from 31 March 2022.

- Former Non-Executive Chairman Colin Moorhead became Executive Chairman and Managing Director.
- Former Chief Executive Officer (**CEO**) Andrew Stewart transitioned into a newly created role of Vice President (**VP**) Exploration, leading Xanadu's continuing exploration for new deposits at both Red Mountain and Kharmagtai.
- Chief Financial Officer (**CFO**) Spencer Cole gained additional duties, with an expanded title of Chief Development Officer (**CDO**) and CFO.

Strategic Partnership with Zijin Mining Group

On 19 April 2022, the Company announced it had agreed a strategic partnership (Agreement) with Zijin to progress the Company's flagship Kharmagtai Copper-Gold Project through its next phase of project evaluation and decision on future development.¹³

Under the Agreement, Zijin will invest at both the Xanadu corporate level and the Kharmagtai project level through a series of transactions commencing with the subscription of 139 million fully paid ordinary shares in Xanadu (New Shares) to provide Zijin with a 9.9% shareholding in the Company (Phase 1 Placement). The Phase 1 Placement was conducted at an issue price of A\$0.04 per share, representing approximately 38% premium to Xanadu's last traded price of A\$0.029 prior to the Announcement, and raised A\$5.56 million. The 139,000,000 shares were issued on 27 April 2022.

Two subsequent phases are then proposed (subject to formal documentation) including a second placement of ordinary shares at A\$0.04 per share to increase Zijin's total shareholding in the Company up to 19.99% (Phase 2 Placement) and the creation of a 50/50 Joint Venture in Khuiten Metals Pte. Ltd., the entity currently 100% owned by Xanadu that holds a 76.5% effective interest in Kharmagtai (Phase 3 JV)¹⁴, for a cash payment of US\$35 million.¹⁵

The proceeds of the Phase 1 Placement, together with the Company's existing cash resources, will be applied towards working capital during the exclusive negotiation period prior to commencement of the PFS at the Kharmagtai copper-gold project. Funds from the Phase 2 Placement, along with remaining funds from Phase 1, will be used to fund Red Mountain exploration and Xanadu corporate operating costs.

Proceeds from the Phase 3 JV will be used to fund the Kharmagtai PFS and continued discovery exploration at Kharmagtai.

Sustainability

During the June Quarter, Xanadu issued its second Sustainability Report for 2021, demonstrating our commitment to ESG and our goal to be a leader in sustainable exploration.¹⁶ This sets the stage for further evolution in Xanadu's sustainability framework, as we evolve from a pure explorer into the development of Kharmagtai.

Mongolia Foreign Direct Investment

In January 2022, a comprehensive agreement¹⁷ was reached between Rio Tinto and the Government of Mongolia to progress the US\$7 billion underground mine expansion at Oyu Tolgoi, located approximately 100km south of Kharmagtai in the South Gobi Desert. This included a waiver of US\$2.4 billion in debt owed by the Mongolian Government, alignment on requirements for power generation, and agreement to progress the undercut for the block cave at Oyu Tolgoi. Rio Tinto

¹² ASX/TSX Announcement 23 March 2022 – Xanadu enters exciting new phase

¹³ ASX/TSX Announcement 19 April 2022 - Strategic partnership with Zijin Mining Group

¹⁴ The Phase 1 Placement Agreement provides that the parties will negotiate in good faith formal documentation for the Phase 2 Placement and Phase 3 JV. These further transactions are subject to regulatory and shareholder approvals and the parties agreeing formal documentation.

¹⁵ Assuming AUD/YSD exchange rate of \$0.74

¹⁶ ASX/TSX Announcement 9 June 2022 – Sustainability Report 2021

¹⁷ Rio Tinto Media Release 25 Jan 2022 – Oyu Tolgoi partners reach comprehensive agreement and approve commencement of underground mining operations

subsequently expanded its potential investment in Mongolia through an offer to purchase all minority shares in Turquoise Hill.¹⁸

Xanadu believes this removes a major hurdle to new foreign investment in the Mongolian mining sector. The market had considered the dispute between Rio Tinto and the Government of Mongolia at Oyu Tolgoi as a key reason to discount other projects located in Mongolia. Resolution of this dispute removes a key driver for that discount.

Competent Person's Statements

The information in this MD&A that relates to Mineral Resources is based on information compiled by Mr Robert Spiers, who is responsible for the Mineral Resource estimate. Mr Spiers is a full time Principal Geologist employed by Spiers Geological Consultants (**SGC**) and is a Member of the Australian Institute of Geoscientists. He 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 *National Instrument 43-101* and as a Competent Person under JORC Code, 2012. Mr Spiers consents to the inclusion in the 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 and to the Scoping Study 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 the 2012 Edition of the JORC Code 2012 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.

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.

¹⁸ Rio Tinto Media Release 14 March 2022 - Rio Tinto Makes All-Cash Proposal to Acquire Full Ownership of Turquoise Hill

Management Discussion and Analysis

30 June 2022

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Results of Operations

Selected quarterly information

	Quarter ended 30 Jun 2022 \$'000	Quarter ended 31 Mar 2022 \$'000	Quarter ended 31 Dec 2021 \$'000	Quarter ended 30 Sep 2021 \$'000
Gross Exploration Expenditure				
Kharmagtai	1,140	802	2,028	2,756
Red Mountain	117	242	435	1,090
Exploration expenditures capitalised	1,257	1,044	2,178	3,092
Impairment of deferred exploration expenditure	-	-	4,637	-
Corporate general and administration	1,641	861	854	929
Share-based payments	147	145	815	-
Depreciation and amortisation	17	16	17	11
Loss after income tax attributable to owners of XAM	1,917	732	6,320	1,098
Basic loss per share	0.14	0.06	0.50	0.09
Diluted loss per share	0.14	0.06	0.50	0.09
	Quarter ended 30 Jun 2022 metres	Quarter ended 31 Mar 2022 metres	Quarter ended 31 Dec 2021 metres	Quarter ended 30 Sep 2021 metres
Kharmagtai Drilling	-	-	5,716	11,146
Red Mountain Drilling	-	-	-	2,948
	Quarter ended 30 Jun 2021 \$'000	Quarter ended 31 Mar 2021 \$'000	Quarter ended 31 Dec 2020 \$'000	Quarter ended 30 Sep 2020 \$'000
Gross Exploration Expenditure				
Kharmagtai	2,297	1,640	2,457	1,534
Red Mountain	480	885	242	832
Exploration expenditures capitalised	2,457	1,640	2,345	1,545
Impairment of deferred exploration expenditure	-	-	-	-
Corporate general and administration	606	1,188	939	937
Share-based payments	-	-	-	-
Depreciation and amortisation	13	14	15	12
Loss after income tax attributable to owners of XAM	666	1,221	931	642
Basic loss per share	0.06	0.11	0.09	0.07
Diluted loss per share	0.06	0.11	0.09	0.07
	Quarter ended 30 Jun 2021 metres	Quarter ended 31 Mar 2021 metres	Quarter ended 31 Dec 2020 metres	Quarter ended 30 Sep 2020 metres
Kharmagtai Drilling	8,670	7,984	14,380	7,209
Red Mountain Drilling	-	4,039	393	3,627

Notes:

- The Company is in the exploration stage and does not generate operating revenue.
- Red Mountain exploration in 2020 and 2021 was funded by JOGMEC Joint Venture and not capitalised.
- The Dec 2021 impairment of deferred exploration expenditure of \$4,637 ('000) relates to the Red Mountain
- 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.
- 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.

Capital Management

The Company had \$4.1 million cash on hand on 30 June 2022 (31 December 2020: \$3.3 million).

On 27 April 2022, the Company closed an unbrokered placement of 139,000,000 New Shares to a subsidiary of Zijin Mining, raising \$5.6 million, for a price of \$0.04 per share.

This represented the Phase 1 Placement of the strategic partnership with Zijin, with Phase 2 Placement and Phase 3 JV pending shareholder and regulatory approvals. The primary use of funds from Phase 1 will be applied towards working capital during the exclusive negotiation period prior to commencement of the Pre-Feasibility Study (PFS) at the Kharmagtai copper-gold project. Following Phase 2 and Phase 3, Xanadu will recommence exploration and will begin the Kharmagtai Pre-Feasibility Study.

There is a risk that the Phase 2 Placement and Phase 3 JV will not be approved by regulators or Xanadu Shareholders and a secondary risk that if that happens, capital or other JV 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.

The Company has an unlimited number of ordinary shares authorized, with 1,412,260,215 fully paid ordinary shares and 46,950,000 options over ordinary shares on issue on June 30, 2022.

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

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.

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'), Canadian Dollars ('C\$'), and Singapore Dollars ('SGD'). The Company's financial results are reported in A\$. Salaries for certain local employees in Mongolia may be paid in MNT or US\$. 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, C\$ and SGD. Such fluctuations may materially affect the Company's financial position and results.

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.

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 \$4.1 million (31 December 2021 \$3.3 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The primary source of funds available to the Company is from equity financing and from its pending Joint Venture with Zijin Mining for the Kharmagtai copper-gold project. 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 and development 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.

Licence risks

The Company has licenses covering the Kharmagtai and Red Mountain projects. The Government of Mongolia could revoke either of these licenses if the Company fails to satisfy its obligations, including payment of royalties and taxes 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.

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.

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.

Directors' Report

30 June 2022

XANADU MINES

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 half-year ended 30 June 2022.

Directors

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

Colin Moorhead	Executive Chairman and Managing Director (formerly Independent Non-Executive Chairman up to 31 March 2022)
Andrew Stewart	Vice President Exploration (formerly Chief Executive Officer up to 31 March 2022, resigned from Board on 31 March 2022)
Ganbayar Lkhagvasuren	Executive Director
Michele Muscillo	Independent Non-Executive Director
Tony Pearson	Independent Non-Executive Director

Principal activities

Xanadu Mines Ltd is an Australian incorporated public company with its shares listed on the Australian Securities Exchange (**ASX**) and Toronto Stock Exchange (**TSX**) under the code XAM. The principal activity of the Company (and its subsidiaries) is copper-gold exploration in Mongolia. The Company held interests in two tenements:

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

Dividends

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

Review of operations

The loss for the Group after providing for income tax and non-controlling interest amounted to \$2,649,000 (30 June 2021: \$1,887,000). A more detailed 'review of operations' and 'results of operations' is included in the 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 half-year.

Matters subsequent to the end of the financial half-year

After the end of the financial year, Zijin informed Xanadu that it received a no objection notification from the Australian Foreign Investment Review Board (**FIRB**) sufficient to complete its planned investment in Xanadu Mines.¹⁹ The FIRB approval clears one of the three levels of approval required to progress the strategic partnership between Xanadu and Zijin, the other two being regulatory approvals in the Peoples' Republic of China (**PRC**) and Xanadu shareholder approval via an extraordinary general meeting.

No other matter or circumstance has arisen since 30 June 2022 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.

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.

¹⁹ ASX/TSX Announcement 22 August 2022 – Foreign Investment Review Board Approves Zijin Investment in Xanadu

Director's Report

30 June 2022

XANADU MINES

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

On behalf of the directors



Colin Moorhead
Executive Chairman and Managing Director

5 September 2022



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

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

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

As lead auditor for the review of the half-year financial report of Xanadu Mines Limited for the half-year ended 30 June 2022, 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;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene 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 period.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature of 'Siobhan Hughes' in black ink.

Siobhan Hughes
Partner
5 September 2022

Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 30 June 2022

XANADU MINES

		Consolidated	
	Note	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Revenue			
Other income	5	14	-
Expenses			
Other expenses	6	(2,502)	(1,794)
Share-based payments expense	20	(292)	-
Depreciation and amortisation expense		(33)	(27)
Finance costs		(18)	(15)
Loss before income tax expense		(2,831)	(1,836)
Income tax expense		-	-
Loss after income tax expense for the half-year		(2,831)	(1,836)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(1,843)	975
Other comprehensive income for the half-year, net of tax		(1,843)	975
Total comprehensive income for the half-year		<u>(4,674)</u>	<u>(861)</u>
Loss for the half-year is attributable to:			
Non-controlling interest		(182)	51
Owners of Xanadu Mines Ltd		(2,649)	(1,887)
		<u>(2,831)</u>	<u>(1,836)</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		(293)	123
Owners of Xanadu Mines Ltd		(4,381)	(984)
		<u>(4,674)</u>	<u>(861)</u>
		Cents	Cents
Basic earnings per share	19	(0.20)	(0.16)
Diluted earnings per share	19	(0.20)	(0.16)

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

Statement of Financial Position

As at 30 June 2022

XANADU MINES

	Note	Consolidated 30 Jun 2022 \$'000	31 Dec 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		4,105	3,321
Other receivables	7	122	86
Prepayments and other assets		5	15
Total current assets		4,232	3,422
Non-current assets			
Property, plant and equipment	8	508	559
Right-of-use assets	9	463	323
Deferred exploration and evaluation expenditure	10	50,804	50,328
Total non-current assets		51,775	51,210
Total assets		56,007	54,632
Liabilities			
Current liabilities			
Trade and other payables		78	253
Employee benefits		12	9
Lease liabilities	11	68	40
Total current liabilities		158	302
Non-current liabilities			
Lease liabilities	11	250	192
Total non-current liabilities		250	192
Total liabilities		408	494
Net assets		55,599	54,138
Equity			
Issued capital	12	151,671	145,659
Reserves	13	(5,189)	(3,580)
Accumulated losses		(94,654)	(92,005)
Equity attributable to the owners of Xanadu Mines Ltd		51,828	50,074
Non-controlling interest		3,771	4,064
Total equity		55,599	54,138

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

Statement of Changes in Equity

For the half-year ended 30 June 2022

XANADU MINES

	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Transactions with owners reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Consolidated							
Balance at 1 January 2021	136,005	(16,253)	10,016	(537)	(82,197)	3,672	50,706
Profit/(loss) after income tax expense for the half-year	-	-	-	-	(1,887)	51	(1,836)
Other comprehensive income for the half-year, net of tax	-	903	-	-	-	72	975
Total comprehensive income for the half-year	-	903	-	-	(1,887)	123	(861)
<i>Transactions with owners in their capacity as owners:</i>							
Shares issued during the year	10,154	-	-	-	-	-	10,154
Transaction costs	(623)	-	-	-	-	-	(623)
Balance at 30 June 2021	<u>145,536</u>	<u>(15,350)</u>	<u>10,016</u>	<u>(537)</u>	<u>(84,084)</u>	<u>3,795</u>	<u>59,376</u>
	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Transactions with owners reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Consolidated							
Balance at 1 January 2022	145,659	(13,751)	10,708	(537)	(92,005)	4,064	54,138
Loss after income tax expense for the half-year	-	-	-	-	(2,649)	(182)	(2,831)
Other comprehensive income for the half-year, net of tax	-	(1,732)	-	-	-	(111)	(1,843)
Total comprehensive income for the half-year	-	(1,732)	-	-	(2,649)	(293)	(4,674)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 12)	5,843	-	-	-	-	-	5,843
Share-based payments expensed (note 20)	-	-	292	-	-	-	292
Options exercised (note 12)	169	-	(169)	-	-	-	-
Balance at 30 June 2022	<u>151,671</u>	<u>(15,483)</u>	<u>10,831</u>	<u>(537)</u>	<u>(94,654)</u>	<u>3,771</u>	<u>55,599</u>

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

Statement of Cash Flows

For the half-year ended 30 June 2022

XANADU MINES

		Consolidated	
	Note	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Cash flows from operating activities			
Payments to suppliers and employees		(2,710)	(1,856)
Interest and other finance costs paid		(18)	(15)
Net cash used in operating activities	18	(2,728)	(1,871)
Cash flows from investing activities			
Payments for property, plant and equipment	8	(9)	(160)
Payment for exploration and evaluation expenditure	10	(2,018)	(4,233)
Payments for exploration and evaluation on behalf of JOGMEC		-	(1,069)
Proceeds from JOGMEC Red Mtn earn-in payments capitalised		-	662
Proceeds from JOGMEC Red Mtn options payments capitalised		-	162
Proceeds from disposal of property, plant and equipment	5	28	-
Net cash used in investing activities		(1,999)	(4,638)
Cash flows from financing activities			
Proceeds from issue of shares	12	5,560	10,154
Transaction costs on issue of shares		-	(623)
Repayment of lease liabilities		(34)	(19)
Net cash from financing activities		5,526	9,512
Net increase in cash and cash equivalents		799	3,003
Cash and cash equivalents at the beginning of the financial half-year		3,321	7,687
Effects of exchange rate changes on cash and cash equivalents		(15)	113
Cash and cash equivalents at the end of the financial half-year		4,105	10,803

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

Note 1. Corporate 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 half-year. The financial statements are presented in Australian dollars, which is Xanadu Mines Ltd's functional and presentation currency. The functional currency of the Company's Mongolian subsidiaries is the Mongolian Tughrík ('MNT').

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 13 September 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern basis of accounting

The Group has incurred net losses after tax of \$2,831,000 (30 June 2021: \$1,836,000) and net cash outflows from operations of \$2,728,000 (30 June 2021 \$1,871,000) for the period ended 30 June 2022. At period end, cash and cash equivalents were \$4,105,000.

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. 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 Directors have 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, however is subject to Group's ability to implement the following potential actions:

- raising equity funds in capital markets, based on a history of successful equity raisings and recent results from the ongoing Scoping Study at Kharmagtai;
- entering into farm-out, sell down or joint venture agreements at Kharmagtai in order to continue to advance the project through further exploration work including a pre-feasibility study;
- deferral of discretionary operating and capital expenditures; and
- raising of debt funding if required.

Note 2. Significant accounting policies (continued)

With Phase 2 Placement and Phase 3 JV funding under the Zijin Strategic Partnership subject to shareholder and regulatory approvals, Xanadu Directors will assess progress towards closing this deal and resulting cash flows closely over the next 12 months. If Phase 2 and Phase 3 funds are delayed, this may necessitate action to raise bridging funds via one of the methods noted above.

Should the Group not be successful in managing its cashflow through the above means, there may be material uncertainty that may cast significant doubt about the Group's ability to 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.

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 3. Critical accounting judgements, estimates and assumptions

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

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. Considerations include the results of exploration activities during the period, budgeted future expenditure, recent comparable transaction information (when available), resource multiples. 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.

Exploration and evaluation costs

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

Note 4. Operating segments

Xanadu operates predominantly in the minerals exploration sector. The principal 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 10 '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.

Notes to the Financial Statements

30 June 2022

XANADU MINES

Note 5. Other income

	Consolidated	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Net gain on disposal of property, plant and equipment	14	-

Note 6. Other expenses

	Consolidated	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Administration expenses	919	559
Wages and management fees	1,278	1,120
Consulting fees	312	114
Net foreign currency (gains) losses	(7)	1
	<u>2,502</u>	<u>1,794</u>

Note 7. Other receivables

	Consolidated	
	30 Jun 2022 \$'000	31 Dec 2021 \$'000
<i>Current assets</i>		
Sundry debtors	55	52
GST recoverable	67	34
	<u>122</u>	<u>86</u>

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 8. Property, plant and equipment

	Consolidated	
	30 Jun 2022 \$'000	31 Dec 2021 \$'000
<i>Non-current assets</i>		
Plant and equipment - at cost	853	876
Less: Accumulated depreciation	(381)	(370)
	<u>472</u>	<u>506</u>
Motor vehicles - at cost	95	178
Less: Accumulated depreciation	(59)	(125)
	<u>36</u>	<u>53</u>
	<u>508</u>	<u>559</u>

Notes to the Financial Statements

30 June 2022

XANADU MINES

Note 8. Property, plant and equipment (continued)

Reconciliations

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

Consolidated	Plant & Equipment \$'000	Motor Vehicles \$'000	Total \$'000
Balance at 1 January 2022	506	53	559
Additions	9	-	9
Disposals	-	(10)	(10)
Exchange differences	(36)	(4)	(40)
Depreciation expense	(7)	(3)	(10)
Balance at 30 June 2022	472	36	508

Note 9. Right-of-use assets

	Consolidated 30 Jun 2022 \$'000	31 Dec 2021 \$'000
<i>Non-current assets</i>		
Motor vehicles - right-of-use	586	427
Less: Accumulated depreciation	(123)	(104)
	463	323

Reconciliations

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

Consolidated	Motor vehicles right-of-use \$'000	Total \$'000
Balance at 1 January 2022	323	323
Additions	177	177
Exchange differences	(14)	(14)
Depreciation expense	(23)	(23)
Balance at 30 June 2022	463	463

Note 10. Deferred exploration and evaluation expenditure

	Consolidated 30 Jun 2022 \$'000	31 Dec 2021 \$'000
<i>Non-current assets</i>		
Deferred exploration and evaluation expenditure	59,638	59,525
Less: Accumulated impairment	(8,834)	(9,197)
	50,804	50,328

The accumulated impairment relates to deferred exploration expenditure assets: Yellow Mountain \$3,442,000 and Red Mountain \$5,392,000.

Notes to the Financial Statements

30 June 2022

XANADU MINES

Note 10. Deferred exploration and evaluation expenditure (continued)

Yellow Mountain was fully impaired during 2019, and the licence expired in May 2020 without renewal. The company is seeking compensation for this licence as exploration was restricted due to forestry regulations. No amount has been recognised for any compensation.

During the year ended 31 December 2021, an impairment loss of \$4,637,000 was recognised at Red Mountain, triggered by the exit of Japan Oil Gas and Metals National Corporation ('JOGMEC') from a Joint Exploration Agreement. This impaired the asset down to its fair value less cost to dispose, which was determined by a Market Valuation Approach using the Comparable Transaction method, cross checked by Yardstick and Geoscientific Rating methods. Comparable Transaction compares the asset with transaction value of similar assets under similar time and circumstances on an open market.

Reconciliations

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

	Exploration and evaluation \$'000
Consolidated	
Balance at 1 January 2022	50,328
Additions ⁽ⁱ⁾	2,301
Exchange differences	(1,825)
Balance at 30 June 2022	<u>50,804</u>
⁽ⁱ⁾ Additions is made up of:	\$'000
Additions Funded by Xanadu:	
Cashflow payments for exploration and evaluation at Kharmagtai	1,659
Cashflow payments for exploration and evaluation at Red Mountain	359
Cashflow payments for exploration and evaluation expenditure ^(see Statement of cash flows investing activities)	<u>2,018</u>
Other additions:	
XAM shares issued to consultants for exploration and evaluation at Kharmagtai (see note 12)	<u>283</u>
Total additions to exploration and evaluation asset	<u>2,301</u>

The Company held interests in two tenements during the period to 30 June 2022:

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

Activities undertaken during the first half of 2022 included completion and publication of a Scoping Study and National Instrument 43-101 Technical Reports for the December Mineral Resource Upgrade and a Preliminary Economic Assessment (PEA). In parallel with this work, the Executive and Board were transitioned to align skills to the development of Kharmagtai, and key terms of a strategic partnership with announced with Zijin Mining Group Co., Ltd (Zijin). Xanadu did not complete any drilling at Kharmagtai during the first half of 2022.

Upon completion of the strategic partnership with Zijin Mining in the second half of 2022, a 50-50 JV will be formed that controls 76.5% of Kharmagtai, such that Zijin and Xanadu each have 38.25% effective ownership.

Notes to the Financial Statements

30 June 2022

XANADU MINES

Note 10. Deferred exploration and evaluation expenditure (continued)

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 is owned 100% by Xanadu.

A review of prior drilling was undertaken during the first half of 2022 to develop an exploration plan for the second half that follows up the successful 2021 drilling program, targeting high-grade, shallow discovery. This exploration plan will be implemented in the third quarter of 2022, following receipt of Phase 2 funding from the Zijin strategic partnership. Xanadu did not complete any drilling at Red Mountain during the first half of 2022.

Note 11. Lease liabilities

	Consolidated	
	30 Jun 2022 \$'000	31 Dec 2021 \$'000
<i>Current liabilities</i>		
Lease liability - motor vehicles	68	40
<i>Non-current liabilities</i>		
Lease liability - motor vehicles	250	192
	<u>318</u>	<u>232</u>

Note 12. Issued capital

	Consolidated			
	30 Jun 2022 Shares	31 Dec 2021 Shares	30 Jun 2022 \$'000	31 Dec 2021 \$'000
Ordinary shares - fully paid (net of transaction costs)	<u>1,412,260,215</u>	<u>1,259,037,750</u>	<u>151,671</u>	<u>145,659</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 January 2022	1,259,037,750		145,659
Fair value of options vested and exercised	7 January 2022	4,560,000	\$0.00	169
Shares issued as payment for E&E consulting services (note 10)	1 March 2022	1,473,606	\$0.029	43
Shares issued as payment for E&E consulting services (note 10)	20 April 2022	8,188,859	\$0.029	240
Shares issued - phase 1 placement to Zijin	27 April 2022	<u>139,000,000</u>	\$0.04	<u>5,560</u>
Balance	30 June 2022	<u>1,412,260,215</u>		<u>151,671</u>

Notes to the Financial Statements

30 June 2022

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Note 12. Issued capital (continued)

Movements in options

Details	Date	Options
Balance	1 January 2022	51,510,000
Unlisted options exercised	7 January 2022	<u>(4,560,000)</u>
Balance	30 June 2022	<u><u>46,950,000</u></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 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 manages Xanadu's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. The capital risk management policy remains unchanged from the 31 December 2021 Annual Report.

Note 13. Reserves

	Consolidated	
	30 Jun 2022	31 Dec 2021
	\$'000	\$'000
Foreign currency translation reserve	(15,483)	(13,751)
Share-based payments reserve	10,831	10,708
Transactions with owners reserve	<u>(537)</u>	<u>(537)</u>
	<u><u>(5,189)</u></u>	<u><u>(3,580)</u></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.

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).

Notes to the Financial Statements

30 June 2022

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Note 13. Reserves (continued)

Movements in reserves

Movements in each class of reserve during the current financial half-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 2022	(13,751)	10,708	(537)	(3,580)
Share-based payments	-	292	-	292
Foreign currency translation	(1,732)	-	-	(1,732)
Options exercised	-	(169)	-	(169)
Balance at 30 June 2022	(15,483)	10,831	(537)	(5,189)

Note 14. Dividends

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

Note 15. Contingent liabilities

There are no material contingent liabilities relating to the Group.

Note 16. Related party transactions

The following transactions occurred with related parties.

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$	\$
Payment for goods and services:		
Office rent, paid to Ganbayar Lkhagvasuren ⁽ⁱ⁾	38,535	37,712
Legal fees, paid to HopgoodGanim Lawyers ⁽ⁱⁱ⁾	76,102	48,541
Consultant fees paid to consultants employed through Colin Moorhead and Associates ⁽ⁱⁱⁱ⁾	1,320	-
Melbourne office rent and operations support paid to Colin Moorhead and Associates ^(iv)	31,197	58,252
Sydney office rent paid to Bastion Minerals ^(v)	18,000	9,000

- (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. A benchmarking assessment was completed by Xanadu in August 2021 to verify rates are consistent with the market in Ulaanbaatar.
- (ii) The Company sources legal services from HopgoodGanim Lawyers, where Non-Executive Director Michele Muscillo is a partner. These services are provided on normal commercial terms and conditions, no more or less favourable than those available to other parties.
- (iii) The consultants are employed through Colin Moorhead & Associates, a company associated with Colin Moorhead, the Non-Executive chairman of the Company, as arm's length, pass through costs.
- (iv) The Company maintains a rental and executive support agreement related to a Melbourne office with Colin Moorhead & Associates, as an arm's length, pass through cost arrangement.
- (v) The Company maintains a rental agreement related to a Sydney office with Bastion Minerals, a company at which Dr. Andrew Stewart, Vice President Exploration 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.

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.

Notes to the Financial Statements

30 June 2022

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Note 16. Related party transactions (continued)

Loans to/from related parties

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

Terms and conditions

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

Oyut Ulaan, Mongol Metals and Khuiten Metals

Kharmagtai exploration expenditure is funded by Oyut Ulaan, which is 90% owned by Khuiten Metals and 10% owned by QGX. Oyut Ulaan is funded by Mongol Metals, which is 85% owned by Xanadu and 15% owned by Ganbayar Lkhagvasuren, an Executive Director of Xanadu. All funding for Mongol Metals since completion of Khuiten Metals' earn-in to 85% in December 2017 has been provided by an operating loan from Khuiten Metals, a subsidiary of Xanadu Mines (\$26.5 million at 30 June 2022). All funding for Khuiten Metals since its creation in December 2013 has been provided by an operating loan from Xanadu Mines (\$58.8 million at 30 June 2022).

Note 17. Events after the reporting period

No matter or circumstance has arisen since 30 June 2022 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 18. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Loss after income tax expense for the half-year	(2,831)	(1,836)
Adjustments for:		
Depreciation and amortisation	33	27
Share-based payments	292	-
Foreign exchange differences	(8)	-
Net gain on disposal of property, plant & equipment	(16)	-
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(35)	7
Decrease in prepayments	10	5
Decrease in trade and other payables	(176)	(77)
Increase in employee benefits	3	3
Net cash used in operating activities	<u>(2,728)</u>	<u>(1,871)</u>

Note 19. Earnings per share

	Consolidated 30 Jun 2022 \$'000	30 Jun 2021 \$'000
Loss after income tax	(2,831)	(1,836)
Non-controlling interest	182	(51)
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>(2,649)</u>	<u>(1,887)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,298,810,623	1,145,227,143
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,298,810,623</u>	<u>1,145,227,143</u>

Notes to the Financial Statements

30 June 2022

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Note 19. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(0.20)	(0.16)
Diluted earnings per share	(0.20)	(0.16)

Note 20. Share-based payments

The Xanadu Equity Incentive Plan ('Plan') was approved by shareholders at the Company's 2020 Annual Greeting Meeting; with additional vesting conditions approved by shareholders during the 23 December 2020 Extraordinary General Meeting. Under the Plan, the Board may grant options and share rights over ordinary shares in the Company to certain key management personnel of the Company. The share rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Board. The options were granted during 2021

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

30 Jun 2022

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Expired/ forfeited/ other *	Balance at the end of the half-year
21/01/2021	30/06/2023	\$0.00	3,420,000	-	(3,420,000)	-	-
21/01/2021	30/06/2024	\$0.00	3,420,000	-	-	-	3,420,000
17/06/2021	30/06/2023	\$0.00	1,140,000	-	(1,140,000)	-	-
17/06/2021	30/06/2024	\$0.00	1,140,000	-	-	-	1,140,000
17/06/2021	30/06/2025	\$0.00	1,140,000	-	-	-	1,140,000
21/01/2021	31/12/2023	\$0.00	38,250,000	-	-	-	38,250,000
05/10/2021	05/10/2023	\$0.00	3,000,000	-	-	-	3,000,000
			51,510,000	-	(4,560,000)	-	46,950,000

Options outstanding at the end of the financial period have the following expiry date and exercise prices:

Option	Class	Exercise Price	Balance of options
Unlisted Non-Executive Director Options, issued as part of share-based compensation for remuneration	Vesting in two remaining tranches upon 18 months continuous employment condition: 4,560,000 vesting on 31 Dec 2022 and expiring on 30 Jun 2024; and 1,140,000 vesting on 31 Dec 2023 and expiring on 30 Jun 2025.	\$0.000	5,700,000
Unlisted Executive Director Options, issued as part of share-based compensation for performance	Vesting in five tranches upon attainment of performance criteria, two years continuous employment condition and share price hurdles: Performance measurement/vesting on 31 Dec 2023 and expiring on 21 Jan 2027.	\$0.000	21,250,000
Unlisted Management Options, issued as part of share-based compensation for performance	Vesting in five tranches upon attainment of performance criteria, two years continuous employment condition and share price hurdles: Performance measurement/vesting on 31 Dec 2023 and expiring on 21 Jan 2027.	\$0.000	17,000,000
Consultant Options	Vesting in three tranches upon attainment of share price hurdles: Vesting on 5 Oct 2023 and expiring on 5 Oct 2023.	\$0.000	3,000,000
			<u>46,950,000</u>

Notes to the Financial Statements

30 June 2022

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Note 20. Share-based payments (continued)

Management have assessed the probability of the Executive Director and Executive performance criteria options to be 100% as at 30 June 2022, based on the anticipated timing of Pre-Feasibility Study completion at Kharmagtai.

	Consolidated	
	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Share based payment expense		
Amortisation of share based payment options based on vesting conditions above	<u>292</u>	<u>-</u>

Directors' Declaration

30 June 2022

XANADU MINES

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Colin Moorhead
Executive Chairman and Managing Director

5 September 2022



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

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

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

Conclusion

We have reviewed the accompanying half-year financial report of Xanadu Mines Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated statement of financial position of the Group as at 30 June 2022 and of its financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty related to going concern

We draw attention to Note 2 of 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 may exist that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibilities for the half-year financial report

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



Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

A stylized, handwritten signature of Ernst & Young in black ink.

Ernst & Young

A handwritten signature of Siobhan Hughes in black ink.

Siobhan Hughes
Partner
Sydney
5 September 2022

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ASX: **XAM**

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