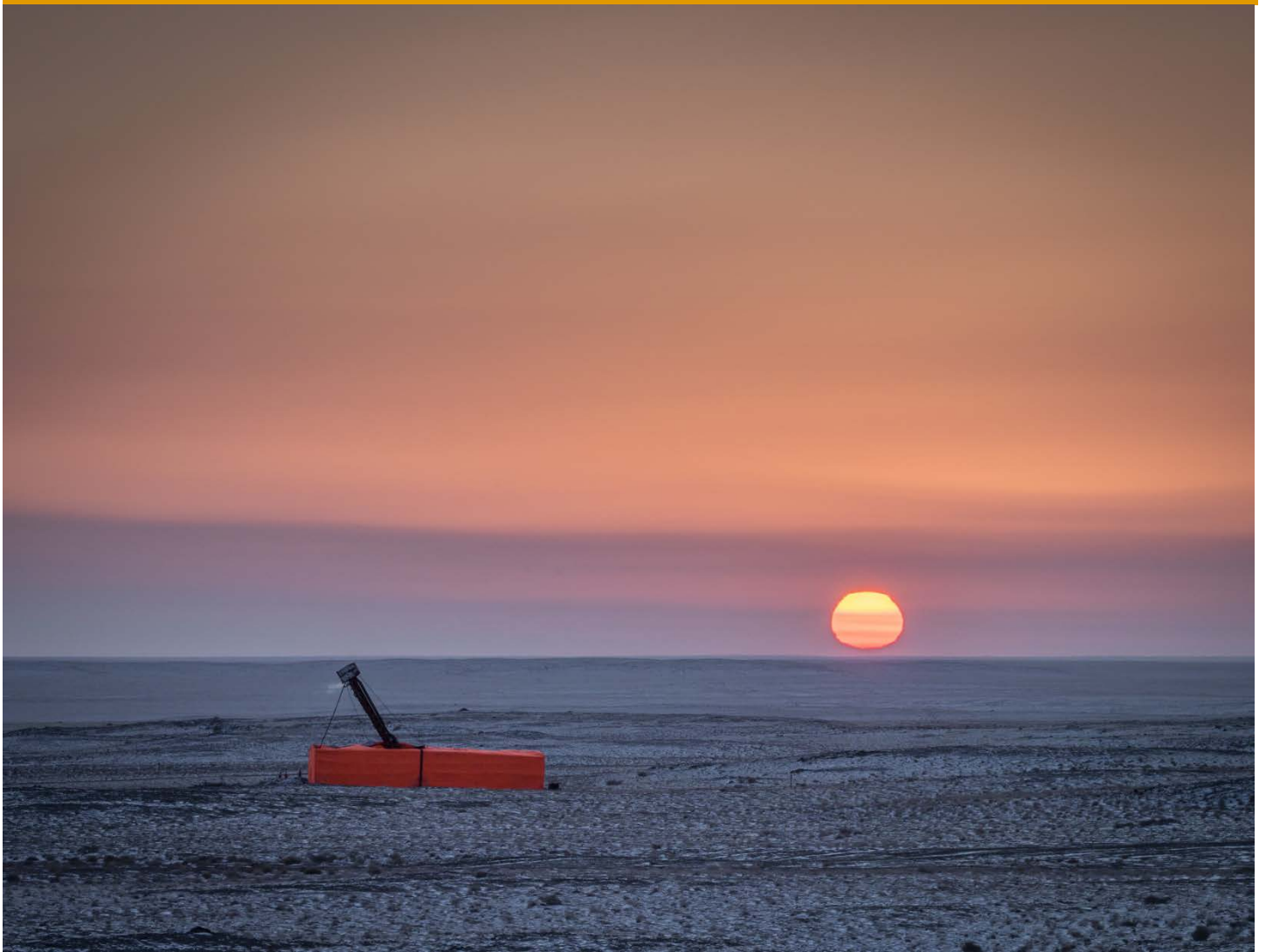


# XANADU MINES



**Xanadu Mines Ltd (ASX: XAM)**

ABN 92 114 249 026

Interim Report - 30 June 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  
Stephen Motteram - Non-Executive Director (resigned 30 June 2020)

## 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](http://www.xanadumines.com)

# Directors' Report

---

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Xanadu Mines Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 30 June 2020.

## 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	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 is an Australian and Canadian listed public company with its shares traded on the Australian Securities Exchange ('ASX') and Toronto Stock Exchange ('TSX') under the symbol 'XAM'. Xanadu controls one of the most promising porphyry copper and gold projects in Asia with the Kharmagtai project, and has a portfolio of advanced district-scale exploration projects including Red Mountain and Yellow Mountain located in Mongolia. The principal activity of Xanadu and its subsidiaries during the period was the continued exploration on its mineral project, Kharmagtai.

## Review of Operations

### HIGHLIGHTS DURING THE PERIOD

#### Exploration Activities

- Significant drill intercept at Kharmagtai demonstrates that higher grade Stockwork Hill Zone extends to the East and remains open in that direction
- Drilling at Kharmagtai (Zaraa) extends the higher-grade zone and is open at depth
- Exploration commenced at Red Mountain Joint Venture Project (**JV**) with successful completion of a geophysics program and generating encouraging results. Drilling also commenced at Red Mountain.

#### Corporate Activities

- Xanadu and Japan Oil, Gas and Metals National Corporation (JOGMEC) entered a US\$7.2M earn-in agreement at the Red Mountain Project, which will fund exploration over four years
- Corporate Strategy updated and released to the market followed via a webcast presentation and Q&A
- The Company completed a non-brokered institutional placement raising A\$2.58M
- The Company completed a brokered placement with existing shareholders raising A\$1.12M
- Executive Changes with a Mongolia based Chief Operating Officer and Australia based Chief Financial Officer
- Board Changes with the resignation of Noble Resources International Pte. Ltd's representative, Stephen Motteram
- 30 June 2020 Closing Cash Balance \$2.9M

# Directors' Report

---

## Kharmagtai Copper-Gold Project

Exploration during the first half of 2020 consisted of six drill holes for approximately 5,100 metres. These drill holes targeted extensions to higher-grade mineralisation at the Stockwork Hill and Zaraa prospects. A geophysical survey was conducted over Copper Hill deposit using controlled source audio-magnetotellurics, a geophysical method that maps the flow of electricity through the earth's crust. Two targets from this survey are currently being drilled (**Figure 1**).

## Zaraa Drilling

A single diamond drill hole was completed at Zaraa targeting the up and down dip extensions of mineralisation (**Figures 1 and 2**) following detailed 3D geological, geochemical, and geophysical modelling. Drill Hole KHDDH529 encountered contiguous mineralisation from 298m and remained in mineralisation until 1,325m when the depth capacity of the drill rig was reached. As at June 30, 2020, assay results had been returned for the first 1,052m of the drill hole and a partial intercept has been generated.

Drill Hole KHDDH529 has returned 754m @ 0.23% Cu and 0.21g/t Au (0.34% eCu) from 298m (open at depth) including 117m @ 0.43% Cu and 0.33g/t Au (0.59% eCu) from 661m

Mineralised tourmaline breccia was encountered below the porphyry mineralisation, (**Figure 3**) suggesting that Zaraa has strong similarities to Stockwork Hill, opening potential for a significant body of higher-grade tourmaline breccia mineralisation beneath and along strike of the known porphyry stockwork.

The current 3D geological interpretations of Zaraa suggest mineralisation is hosted within a sub-vertical dyke like body starting around 250m depth and extending to well below 1,300m vertical depth. However, the existing drilling has only tested approximately 200m of strike of this body, where geophysical signatures suggest mineralisation may be open for over 1 kilometre (km) of strike extent (**Figure 4**). Follow up drilling has been planned to begin testing the extent of Zaraa to the northeast and southwest.

## Extending the Higher-Grade Tourmaline Breccia at Stockwork Hill

As previously reported, drilling along strike of Stockwork Hill in March identified higher-grade tourmaline breccia mineralisation well east of Stockwork Hill. Follow up drilling to this was planned to define the 1 to 2km strike length of the target tourmaline breccia to understand the mineral zonation and provide vectors for further drill targeting.

Two diamond drill holes were drilled as step outs along strike of Stockwork Hill (**Figures 1 and 5**). Both holes encountered broad zones of tourmaline breccia with pyrite-chlorite infill and minor chalcopyrite indicating they crossed the tourmaline breccia above the mineralised chalcopyrite zone. Assays have been returned for one of these holes (KHDDH528) with assays pending for KHDDH530.

## Geophysical Survey at Copper Hill

A Controlled Source Audio-Magnetotelluric (**CSAMT**) survey has been conducted over the Copper Hill deposit. CSAMT records conductivity, or the ability for electricity to pass through the earth's surface. High conductivity is sometimes indicative of sulphide mineralisation. The survey consisted of one line of CSAMT over the known mineralisation to confirm it is indeed conductive with four lines along strike from Copper Hill to identify potential extensions. This survey (**Figures 6 and 7**) has returned two significant targets for the down plunge extensions and an offset zone at Copper Hill. Two drill holes are currently being drilled and results from these will be released once they are complete.

## Red Mountain Copper-Gold Project

During the second quarter, Xanadu and Japan Oil, Gas and Metals National Corporation (**JOGMEC**) commenced exploration under the new exploration earn-in agreement over Xanadu's Red Mountain project. The exploration objective is discovery of a globally significant 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;

# Directors' Report

---

- 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.

A significant exploration program commenced during the quarter. Phase one of this program consists of background geological mapping, a trial geophysics survey testing Pole-Dipole IP, Controlled Source Audio-magnetotellurics and Natural Source Audio-magnetotellurics. A single drill hole was collared during the quarter targeting anomalies defined by the trail geophysical survey. This drill hole encountered some low grade mineralisation related to faulting off the Diorite Deposit. Drilling is currently underway on other targets and will be reported in the September Quarter Report.

## Corporate Activities

Xanadu updated its Corporate Strategy consistent with the following:

- Xanadu is an exploration company, focused in Mongolia, that discovers, defines, and grows globally significant copper gold porphyry deposits;
- Xanadu's primary focus is Kharmagtai exploration drill out to define a Tier 1 copper gold deposit; and
- Xanadu's second focus is the Red Mountain discovery exploration program.

This revised strategy is outlined in greater detail in the Corporate Update Webcast presented on 10 June 2020 and in the Corporate Presentation released on July 8, 2020, both of which are available on Xanadu's website.

During the first quarter, Xanadu successfully completed its cost reduction program targeting approximately 35% reduction in full year 2020 administrative expenses compared to 2019.

The Xanadu Executive team was restructured on June 1, 2020. Munkhsaikhan Dambiinyam, previously Chief Financial Officer (**CFO**) took on a newly created role of Chief Operating Officer (**COO**) to lead operational activities in Mongolia. Spencer Cole joined the team as the new CFO based in Australia.

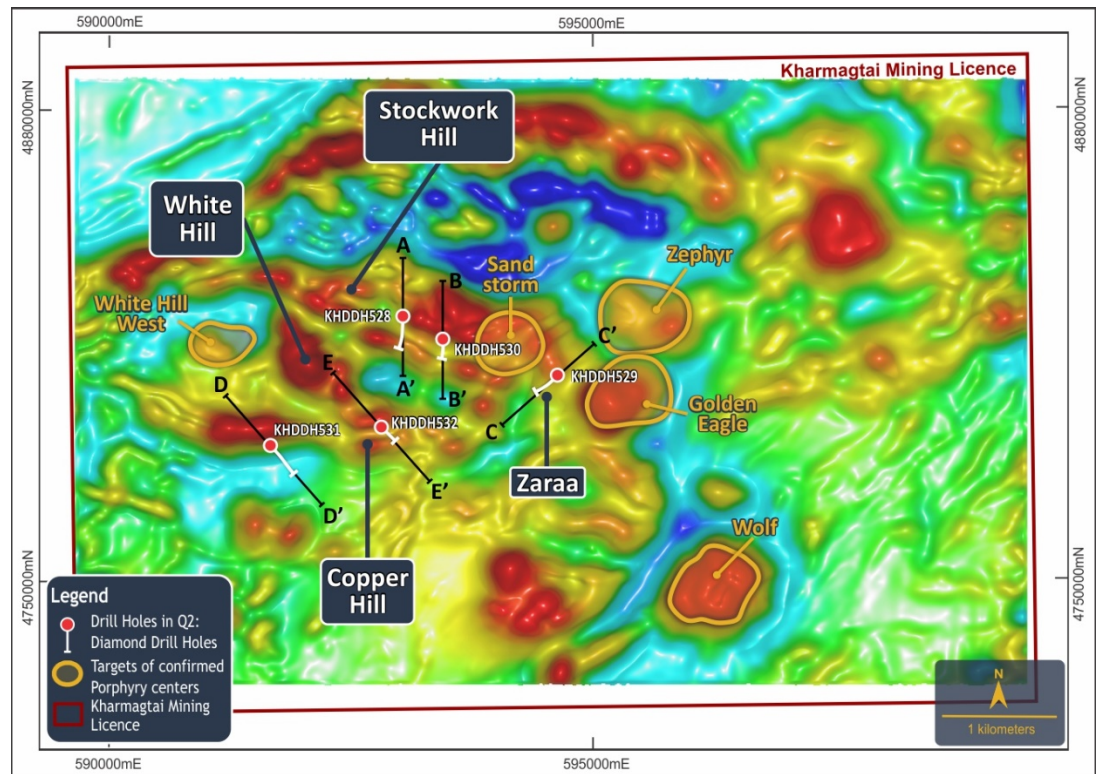
On June 30, 2020, Noble's representative Mr Stephen Motteram resigned from the Board of Directors, resulting in a smaller Board with two Non-Executive and two Executive Directors.

On January 16, 2020, Xanadu completed a non-brokered placement raising \$2.58M at \$0.033 per share to Precious Capital Gold Mining & Metals Fund, managed by SSI Asset Management AG, a Zurich based fund. During the second quarter, Xanadu raised a further \$1.12M at \$0.033 per share to existing shareholders, with Bell Potter Securities Limited acting as Lead Manager and Bookrunner to the placement.

COVID-19 continues to be a significant impact on the mining industry however, Mongolia has experienced a relatively smaller impact due to Mongolia's sparse population and early closure of borders. Xanadu operations in Mongolia have been largely unaffected, with experienced in-country Executives and well-trained Geology teams, working in coordination with the Chief Geologist and Chief Executive Officer (**CEO**) in Australia.

The Xanadu AGM took place on July 30, 2020 as a virtual online meeting. Meeting materials and instructions were made available on the Xanadu website at <https://www.xanadumines.com/site/investor-centre>.

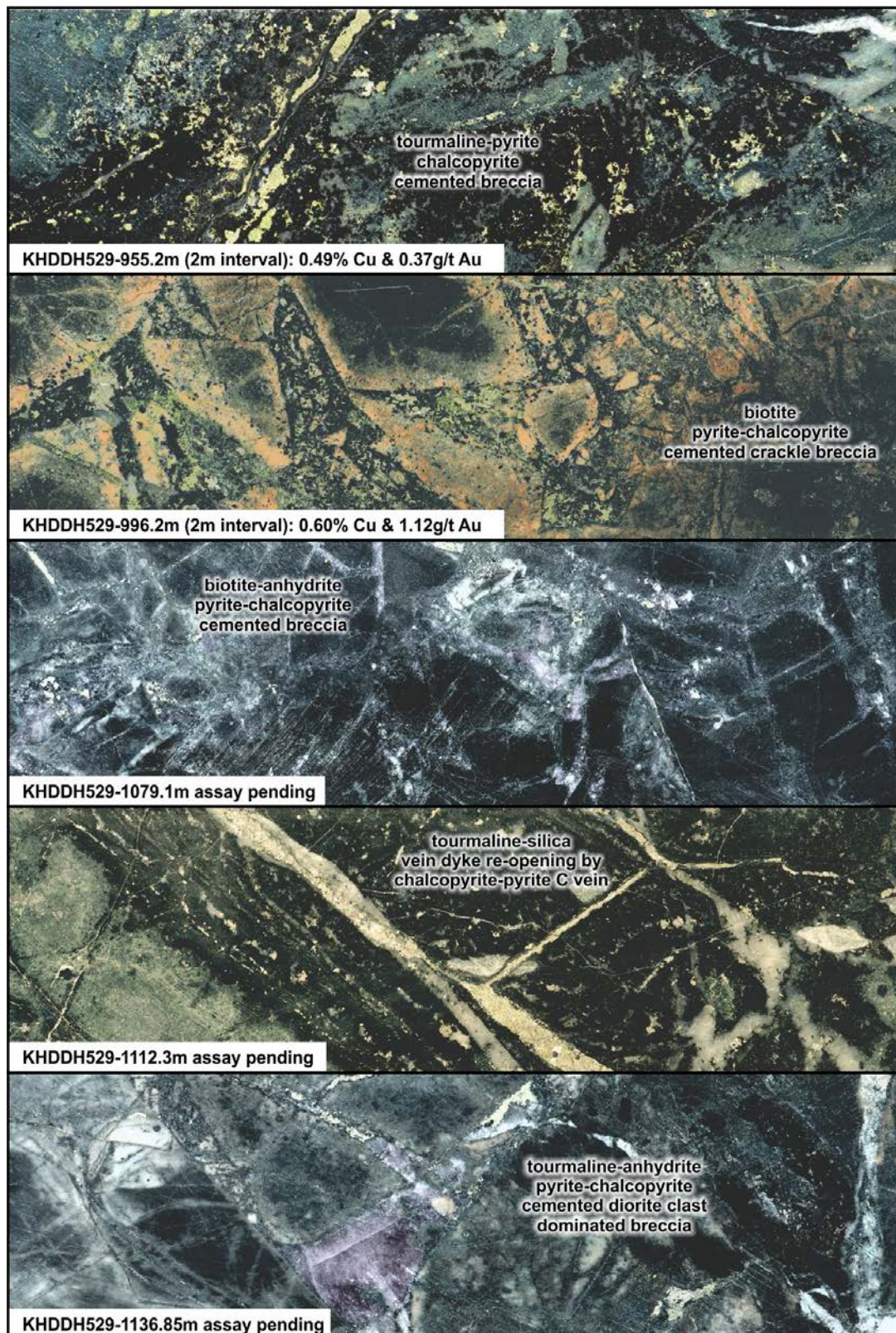
FIGURES AND TABLES



**FIGURE 1:** The Kharmagtai Mining Lease showing ground magnetics, deposit and prospect locations and the location of drilling conducted during Q2 2020.

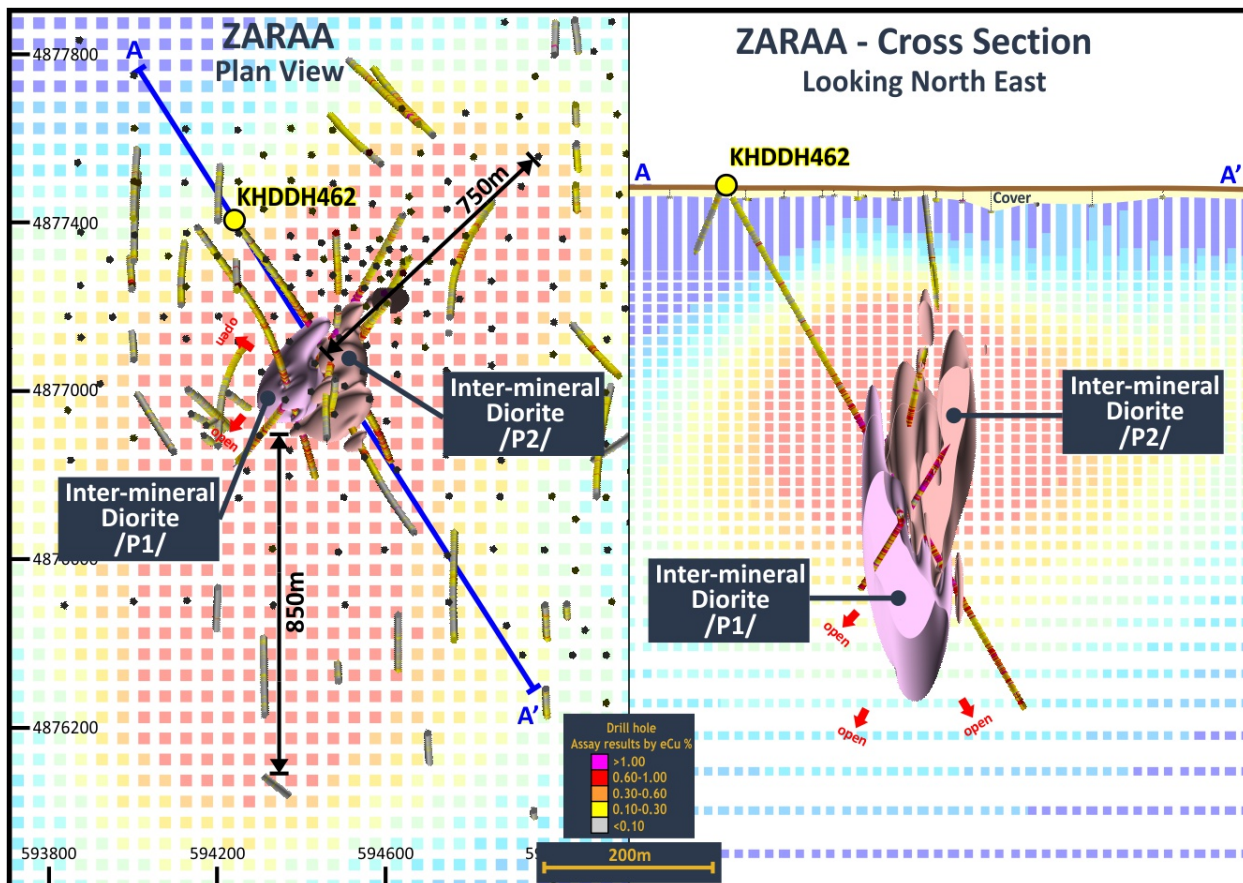




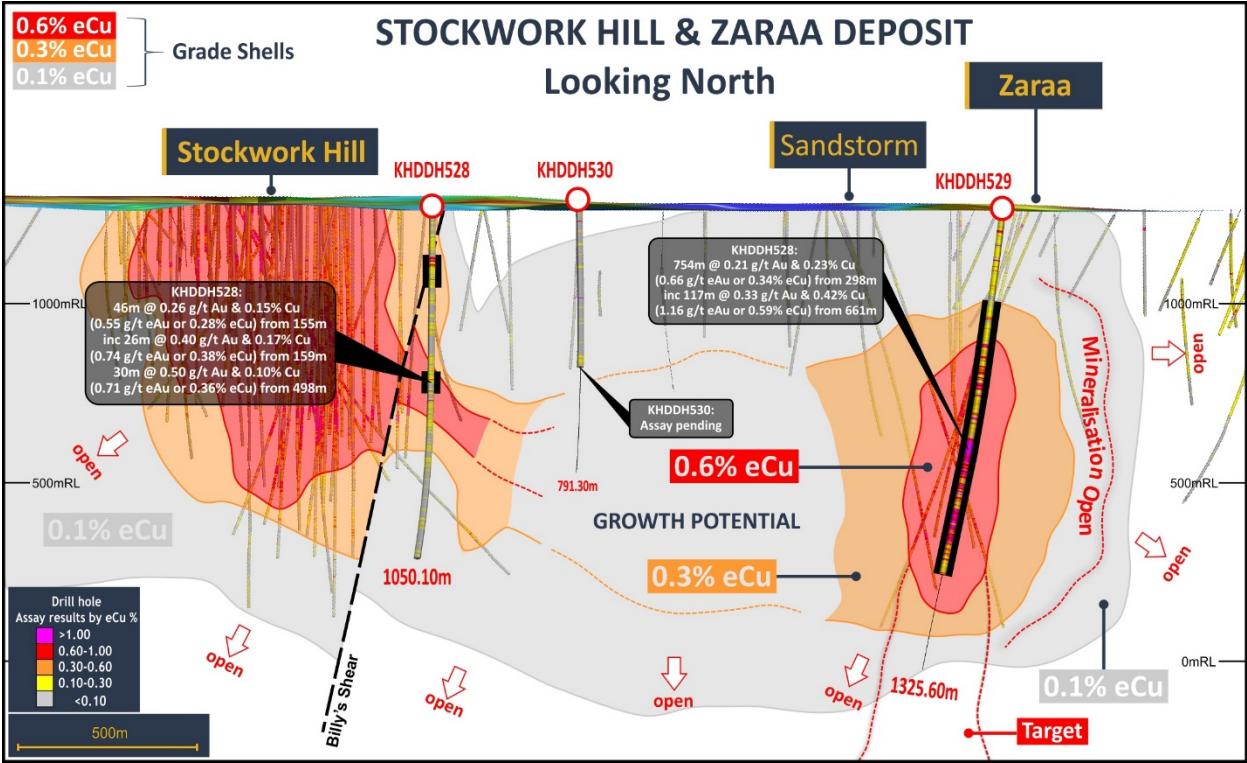


**FIGURE 3:** Slab images of tourmaline breccia mineralisation from the Zaraa drill hole KHDDH529. Each image is half HQ core and is 6.35cm tall.





**FIGURE 4:** Plan and cross section of ZARAA showing the IP chargeability high, drilling, and potential strike of the deposit. The IP chargeability high is imaging the large phyllic alteration halo around the deposit rather than mineralisation itself and is only capable of imaging the top of the deposit rather than the depth potential. The phyllic alteration halo to a porphyry deposit consists of disseminated pyrite which sits above the zone of copper and gold mineralisation. Mineralisation will and does extend well below this zone.



**FIGURE 5:** Long-Section showing Stockwork Hill and the targeted extensions for High-grade tourmaline breccia mineralisation. Drill Holes KHDDH529 (Zaraa), KHDDH528 and KHDDH531 are shown with assay intervals returned to date.

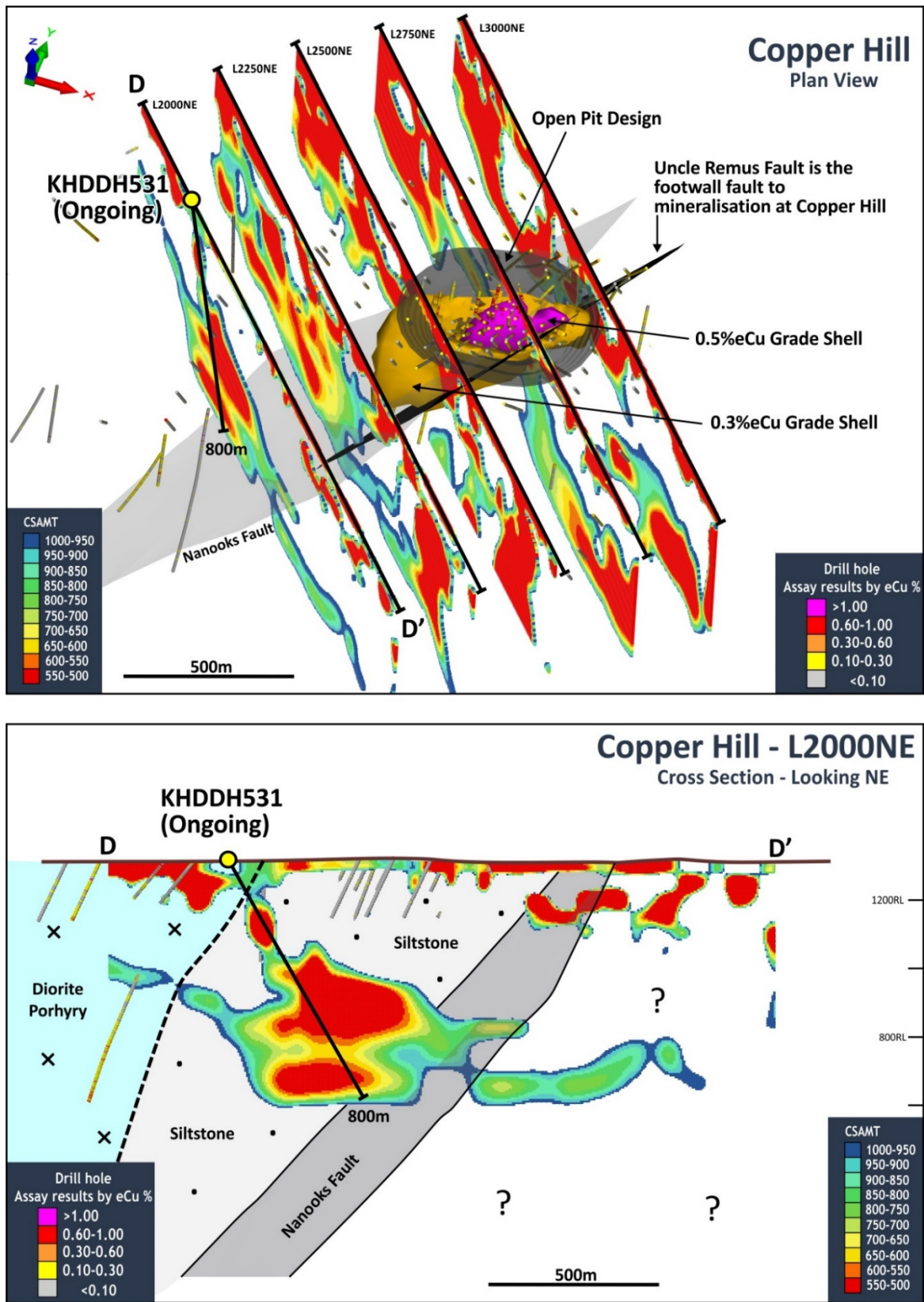
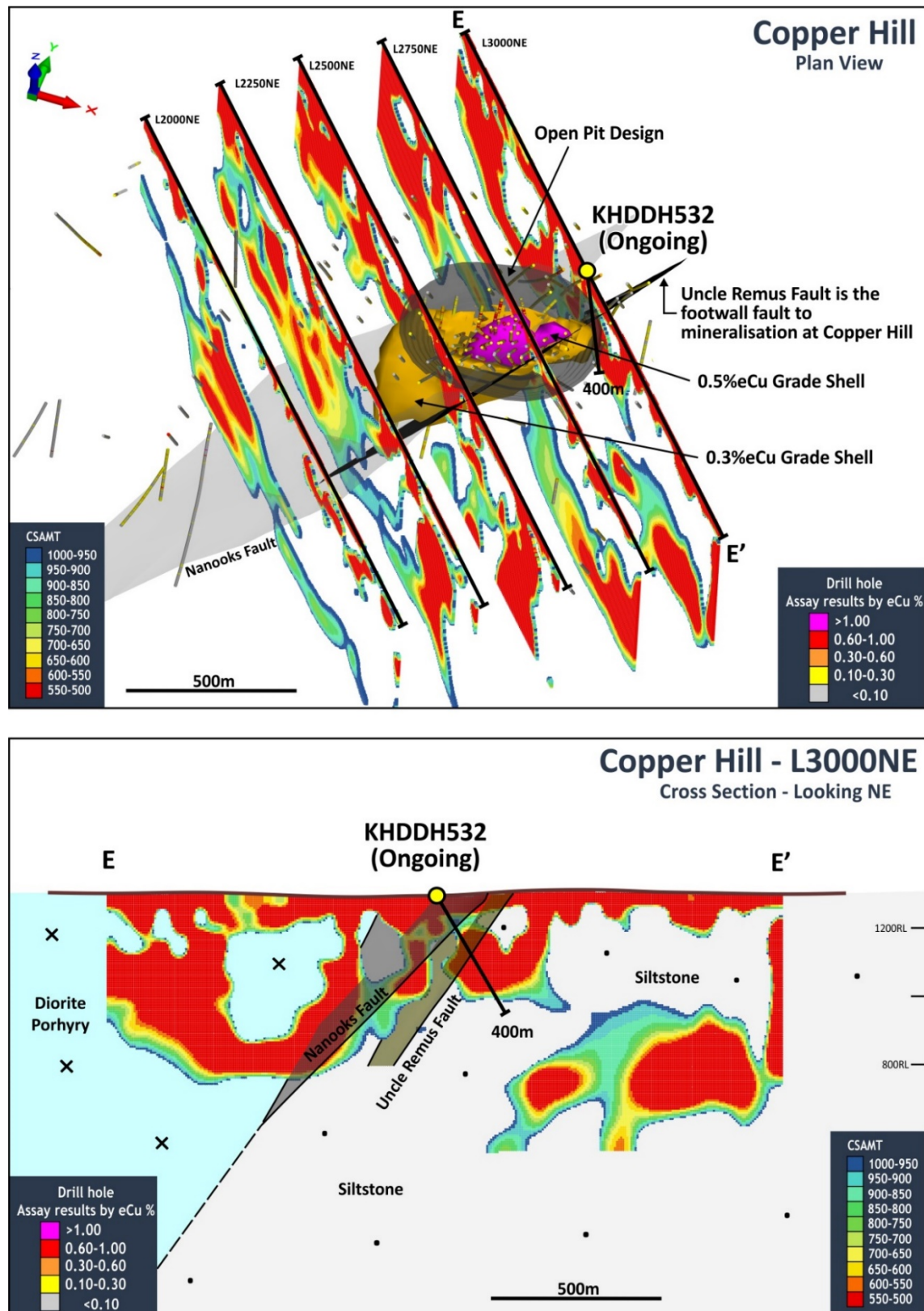


FIGURE 6: Oblique view and section through the down plunge extension target at Copper Hill showing drill hole KHDDH531 which is currently underway.





**FIGURE 7:** Long-Section showing Stockwork Hill and the targeted extensions for High-grade tourmaline breccia mineralisation. Drill Holes KHDDH529 (Zaraa), KHDDH528 and KHDDH531 are shown with assay intervals returned to date.



# Directors' Report

## RESULTS OF OPERATIONS

The loss for the Group after providing for income tax and non-controlling interest amounted to \$1,359,000 (30 June 2019: \$1,955,000).

### Six months ended June 30, 2020 compared to the six months ended June 30, 2019

The Company reported a loss after income tax expense of \$1.44 million during the six-month period ended June 30, 2020 as compared to a loss after income tax of \$2.0 million during the comparative six-month period ended June 30, 2019. This represents a reduction in administrative expenses of \$0.5 million.

### Summary of quarterly results

The following table sets out selected three and six-month unaudited interim condensed consolidated financial information of the Company and is derived from unaudited interim condensed consolidated financial statements prepared by the Company's management.

	Quarter Ended			
	June 30, 2020 \$'000	March 31, 2020 \$'000	Dec 31, 2019 \$'000	Sep 30, 2019 \$'000
Exploration expenditures	533	724	554	1,393
Impairment of deferred exploration expenditure	-	-	4,425	-
Corporate general and administration	766	688	833	725
Share-based payments	-	-	-	7
Depreciation and amortisation	14	14	15	19
Loss after income taxes	735	706	5,285	750
Basic (gain)/loss per share	0.09	0.09	0.76	0.11
Diluted loss per share	0.09	0.09	0.76	0.11

	Quarter Ended			
	June 30, 2019 \$'000	March 31, 2019 \$'000	Dec 31, 2018 \$'000	Sep 30, 2018 \$'000
Exploration expenditures	283	989	762	2,109
Corporate general and administration	1,272	890	1,615	996
Share-based payments	(293)	71	164	164
Depreciation and amortisation	13	13	18	19
Loss after income taxes	1,096	909	1,828	1,176
Basic (gain)/loss per share	0.17	0.14	0.24	0.16
Diluted loss per share	0.17	0.14	0.24	0.16

	Balance as at			
	June 30, 2020 \$'000	March 31, 2020 \$'000	Dec 31, 2019 \$'000	Sep 30, 2019 \$'000
Cash & cash equivalents	2,896	2,614	1,209	2,607
Deferred exploration expenditures	43,923	49,427	43,352	50,202
Total assets	47,215	52,471	44,995	53,210
Total liabilities	844	343	161	408
Shareholders' Equity	46,371	52,128	44,834	52,802

	Balance as at			
	June 30, 2019 \$'000	March 31, 2019 \$'000	Dec 31, 2018 \$'000	Sep 30, 2018 \$'000
Cash & cash equivalents	1,099	3,085	5,225	7,827
Deferred exploration expenditures	47,587	46,857	45,903	45,326
Total assets	49,278	50,947	52,076	54,229
Total liabilities	233	568	814	683
Shareholders' Equity	49,045	50,379	51,262	53,546

# Directors' Report

---

## Liquidity and capital resources

On June 30, 2020, the Company had cash and cash equivalents on hand of \$2.9 million (December 31, 2019: \$1.2 million).

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

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.

## Outstanding Share Capital

The Company has an unlimited number of ordinary shares authorized, with 825,174,855 fully paid shares outstanding on June 30, 2020.

In August 2020, the Group announced a \$12 million, 2 tranche equity raising, which will increase outstanding shares by 267,666,667 shares to 1,092,841,522 upon approval of the second tranche by shareholders in September 2020.

## Unlisted options

The June 2018 Private Placement Options expired on June 26, 2020. As at June 30, 2020, there were no unlisted options outstanding.

## Off balance sheet arrangements

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

## Operating segment

Xanadu operates in the minerals exploration sector. The Company's principal activity is exploration for copper and gold. Xanadu classifies these activities under a single operating segment - the Mongolian exploration projects. Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in deferred exploration expenditure note of the financial report. No segment revenues are disclosed as all segment expenditures are capitalised, with the exception of expenditures that have been written off. The non-current assets of the Company are located in Mongolia.

## Contractual commitments

The following summarizes the Company's contractual obligations at June 30, 2020 (\$'000):

- Trade payables \$372 due in 30 days
- Ulaanbaatar office rent \$44 to the end of the year
- Vehicle leases \$83 due over 25 months

## Critical accounting estimates

The preparation of the interim financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses for the reporting period. Refer to the Company's audited annual financial statements for the years ended December 31, 2018 and December 31, 2019 and the notes thereto for information on the Company's significant judgements in applying accounting policies as well as significant accounting estimates and assumptions.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

# Directors' Report

---

## Market risk

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

- *Foreign currency risk:* The Company is exposed to foreign exchange fluctuations with respect to Australian Dollars (A\$), United States 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.
- *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.
- *Commodity Price Risk:* Even if commercial quantities of mineral deposits are discovered, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any minerals discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including, among other things, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The Company is particularly exposed to the risk of movement in the price of copper and gold.
- *Equity Price Risk:* Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings.

## Credit Risk

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

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$2.9 million at June 30, 2020 (December 31, 2019: \$1.2 million).

## Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The primary source of funds available to the Company is from equity financing. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis, to support its exploration plans, and to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions.

The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfill its obligations under any applicable agreements.

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

## Other business risks

A summary of the business risks is highlighted below and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2019.

### 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,

# Directors' Report

---

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's most significant licenses are the license covering the Kharmagtai project and the license covering the 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 covering the Kharmagtai project or the Red Mountain project by the Government of Mongolia could materially and adversely affect the Company's reputation, business, prospects, financial conditions and results of operations. In addition, the Company would require additional licenses or permits to conduct the Company's mining or exploration operations in Mongolia. There can be no assurance that the Company will be able to obtain and maintain such licenses or permits on terms favorable to it, or at all, for the Company's future intended mining or exploration targets in Mongolia, or that such terms would not be subject to various changes.

## *Mineral Resource Assumptions Risk*

The Company's mineral resource and mineral reserve estimates 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.



# Directors' Report

---

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.

## *Health Pandemic*

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. It is not yet possible to estimate the impact to the Company of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses.

## TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are disclosed in Note 25 of the Company's audited annual financial statements for the period ended December 31, 2019. The following updates are disclosed to the period ended June 30, 2020.

On January 2, 2017, the Company relocated its Ulaanbaatar office and entered into a rental agreement with Ganbayar Lkhagvasuren, a Director of the Company. The transaction between related parties is on normal commercial terms and conditions no more favourable than those available to other parties that are arm's length. The Company paid rent totalling \$45,191 for the 6 months ended June 30, 2020.

For the six months ended June 30, 2020, the Company sourced legal services for total \$13,276 from HopgoodGanim Lawyers where Michele Muscillo, an Independent Non-Executive Director of the Company, is a partner.

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

## Dividends

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

## Significant changes in the state of affairs

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

## Matters subsequent to the end of the financial period

On 10 August 2020, the Company announced a two-tranche equity placement to raise \$12.0 million at an issue price of \$0.045 per share. Tranche 1 of the Placement raised approximately \$5.6 million via the issue of approximately 123.8 million fully paid ordinary shares pursuant to the Company's placement capacity under ASX Listing Rule 7.1. Tranche 2 of the Placement will raise approximately \$6.4 million via the issue of approximately 142.9 million fully paid ordinary shares, subject to shareholder approval to be sought at a Xanadu General Meeting, which is expected to be held in the first week of October 2020.

No other matter or circumstance has arisen since 30 June 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.

## Rounding of amounts

The Company is of a kind referred to in the Corporations Instrument 2016/191, issued by the Australian Securities and Investment 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.

# Directors' Report

---

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

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

Colin Moorhead  
Chairman

11 September 2020

# Auditor's Independence Declaration

---



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 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ryan Fisk  
Partner  
11 September 2020

# Interim Financial Statements

---

## Table of Contents

Statement of profit or loss and other comprehensive income	21
Statement of financial position	22
Statement of changes in equity	23
Statement of cash flows	24
Notes to the financial statements	25
Directors' declaration	32
Independent auditor's review report to the members of Xanadu Mines Ltd	33

## 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 22 September 2020.



# Interim Financial Statements

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		<b>Consolidated</b>	
	<b>Note</b>	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>			
Other income	5	51	4
<b>Expenses</b>			
Depreciation and amortisation expense		(28)	(26)
Other expenses	6	(1,454)	(1,940)
Finance costs		(10)	(13)
Revaluation gain on financial assets at fair value through profit or loss		-	(30)
<b>Loss before income tax expense</b>		<b>(1,441)</b>	<b>(2,005)</b>
Income tax expense		-	-
<b>Loss after income tax expense for the period</b>		<b>(1,441)</b>	<b>(2,005)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(660)	10
Total other comprehensive income		(660)	10
Other comprehensive income for the period, net of tax		(660)	10
<b>Total comprehensive income for the period</b>		<b>(2,101)</b>	<b>(1,995)</b>
Loss for the period is attributable to:			
Non-controlling interest		(82)	(50)
Owners of Xanadu Mines Ltd	12	(1,359)	(1,955)
		<b>(1,441)</b>	<b>(2,005)</b>
Total comprehensive income for the period is attributable to:			
Non-controlling interest		(124)	(50)
Owners of Xanadu Mines Ltd		(1,977)	(1,945)
		<b>(2,101)</b>	<b>(1,995)</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	16	(0.17)	(0.30)
Diluted earnings per share	16	(0.17)	(0.30)

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

# Interim Financial Statements

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		Consolidated	
	Note	30 Jun 2020 \$'000	31 Dec 2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,896	1,209
Other receivables	7	90	99
Other	8	47	47
Total current assets		<u>3,033</u>	<u>1,355</u>
<b>Non-current assets</b>			
Property, plant and equipment		122	141
Right-of-use assets		137	147
Deferred exploration expenditure	9	43,923	43,352
Total non-current assets		<u>44,182</u>	<u>43,640</u>
<b>Total assets</b>		<u>47,215</u>	<u>44,995</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		403	58
Lease liabilities		58	35
Employee benefits		2	2
Advance payments		356	-
Total current liabilities		<u>819</u>	<u>95</u>
<b>Non-current liabilities</b>			
Lease liabilities		25	66
Total non-current liabilities		<u>25</u>	<u>66</u>
<b>Total liabilities</b>		<u>844</u>	<u>161</u>
<b>Net assets</b>		<u>46,371</u>	<u>44,834</u>
<b>Equity</b>			
Issued capital	10	124,547	120,909
Reserves	11	(1,982)	(1,364)
Accumulated losses	12	(80,624)	(79,265)
Equity attributable to the owners of Xanadu Mines Ltd		41,941	40,280
Non-controlling interest		4,430	4,554
<b>Total equity</b>		<u>46,371</u>	<u>44,834</u>

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

# Interim Financial Statements

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Share-based payments reserve \$'000</b>	<b>Transactions with owners reserve \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 January 2019	117,850	10,231	(537)	(9,695)	(71,345)	4,758	51,262
Loss after income tax expense for the period	-	-	-	-	(1,955)	(50)	(2,005)
Other comprehensive income for the period, net of tax	-	-	-	10	-	-	10
Total comprehensive income for the period	-	-	-	10	(1,955)	(50)	(1,995)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	(222)	-	-	-	-	(222)
Balance at 30 June 2019	<u>117,850</u>	<u>10,009</u>	<u>(537)</u>	<u>(9,685)</u>	<u>(73,300)</u>	<u>4,708</u>	<u>49,045</u>
<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Share-based payments reserve \$'000</b>	<b>Transactions with owners reserve \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 January 2020	120,909	10,016	(537)	(10,843)	(79,265)	4,554	44,834
Loss after income tax expense for the period	-	-	-	-	(1,359)	(82)	(1,441)
Other comprehensive income for the period, net of tax	-	-	-	(618)	-	(42)	(660)
Total comprehensive income for the period	-	-	-	(618)	(1,359)	(124)	(2,101)
<i>Transactions with owners in their capacity as owners:</i>							
Shares issued during the year	3,707	-	-	-	-	-	3,707
Transaction costs	(69)	-	-	-	-	-	(69)
Balance at 30 June 2020	<u>124,547</u>	<u>10,016</u>	<u>(537)</u>	<u>(11,461)</u>	<u>(80,624)</u>	<u>4,430</u>	<u>46,371</u>

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

# Interim Financial Statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Consolidated 30 Jun 2020 \$'000	30 Jun 2019 \$'000
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(1,411)	(2,193)
Interest received		1	4
Government incentives received		50	-
Net cash used in operating activities		(1,360)	(2,189)
<b>Cash flows from investing activities</b>			
Payment for exploration and evaluation expenditure		(1,257)	(1,934)
Proceeds from JOGMEC Red Mtn earn-in payments		793	-
Net cash used in investing activities		(464)	(1,934)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	10	3,707	-
Transaction costs on issue of shares		(74)	-
Repayment of lease liabilities		(19)	-
Interest and other finance costs paid		(10)	(13)
Net cash from/(used in) financing activities		3,604	(13)
Net increase/(decrease) in cash and cash equivalents		1,780	(4,136)
Cash and cash equivalents at the beginning of the financial period		1,209	5,225
Effects of exchange rate changes on cash and cash equivalents		(93)	10
Cash and cash equivalents at the end of the financial period		2,896	1,099

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



# Notes to Interim Financial Statements

---

## Note 1. Corporate Information

Xanadu Mines Ltd ("the Company") was incorporated on 12 May 2005 and is the ultimate holding company for the Xanadu group ("Group"). The unaudited financial report of the Company and its controlled entities are for the period ended 30 June 2020. The nature of the operations and principal activities of the group are described in the review of operations.

## Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2020 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 2019 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.

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:

### *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.

### **Going concern basis of accounting**

For the period ended 30 June 2020, the Group incurred a loss after tax of \$1.4 million and operating cash outflows of \$1.4 million, with \$2.9 million cash and cash equivalent at period end. Subsequent to the period, the Group announced additional funding via a \$12 million, two-tranche placement. As the Group is in the exploration stage and does not generate operating cash inflows, the Group requires capital raises or external financing to maintain operations.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. It is not yet possible to estimate the impact on the Group of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses.

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

- the Group can defer certain discretionary operating and capital expenditures to proactively manage cash flow requirements to ensure that funds are available when required;
- the Group has the potential to enter farm-out or joint venture agreements to fund future exploration expenditure, such as the Red Mountain earn-in agreement with JOGMEC announced on 24 March 2020; and
- the Group has a history of successfully obtaining funding through equity markets and has been able to raise \$3.6 million during the period ended 30 June 2020. The Group was able to raise another \$12 million subsequent to the period, with \$5.6 million received in August 2020 and \$6.4 million to close in October 2020 subject to shareholder approval.

# Notes to Interim Financial Statements

## 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.

### *Carrying value of exploration assets*

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

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

## Note 5. Other income

	<b>Consolidated</b>	
	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest income	1	4
COVID-19 government incentive	50	-
Other income	51	4

# Notes to Interim Financial Statements

## Note 6. Other expenses

	<b>Consolidated</b>	
	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Other expenses</b>		
Administration expenses	447	728
Wages and management fees	689	1,007
Consulting fees	318	427
Share-based payments*	-	(222)
	<u>1,454</u>	<u>1,940</u>

\* During the period ended 30 June 2019, Kevin Tomlinson stood down from the Board and his performance rights were forfeited.

## Note 7. Current assets - Other receivables

	<b>Consolidated</b>	
	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Sundry debtors	85	64
GST recoverable	5	35
	<u>90</u>	<u>99</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. Current assets - Other

	<b>Consolidated</b>	
	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	<u>47</u>	<u>47</u>

# Notes to Interim Financial Statements

## Note 9. Non-current assets - Deferred exploration expenditure

	<b>Consolidated</b>	
	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Deferred exploration expenditure	48,348	47,777
Less: Impairment	(4,425)	(4,425)
	<u>43,923</u>	<u>43,352</u>

The impairment relates to the following deferred exploration expenditure assets ('000): Yellow Mountain \$3,442 and Red Mountain \$983. Yellow Mountain was fully impaired as the licence expires in May 2020 and is not expected to be renewed. The company is seeking compensation for this licence as exploration has been restricted for forestry regulations. No amount has been recognised for any compensation. In relation to Red Mountain, the asset was written down to be consistent with implied value of the March 2020 Joint Exploration Agreement with JOGMEC.

### Reconciliations

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

	<b>Consolidated</b>
	<b>\$'000</b>
Balance at 1 January 2020	43,352
Additions	1,574
Expenditures funded by Earn-In Agreement *	(322)
Red Mountain Options Payment *	(115)
Exchange differences	(566)
Balance at 30 June 2020	<u>43,923</u>

\* 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%.

## Note 10. Equity - issued capital

	<b>Consolidated</b>			
	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	<u>825,174,855</u>	<u>712,848,544</u>	<u>124,547</u>	<u>120,909</u>

### Movements in ordinary share capital

<b>Details</b>	<b>Date</b>	<b>Shares</b>	<b>\$'000</b>
Balance	1 January 2020	712,848,544	120,909
Shares issued - placement	20 January 2020	78,326,311	2,585
Shares issued - placement	28 May 2020	34,000,000	1,122
Transaction costs		-	(69)
Balance	30 June 2020	<u>825,174,855</u>	<u>124,547</u>

# Notes to Interim Financial Statements

## Note 10. Equity - issued capital (continued)

### *Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The 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. During the period ending 30 June 2020, the capital risk management policy was updated to clarify a minimum liquidity target of 5% of market capitalisation and otherwise remains unchanged from the Annual Report 2019.

## Note 11. Equity - reserves

	<b>Consolidated</b>	
	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency translation reserve	(11,461)	(10,843)
Share-based payments reserve	10,016	10,016
Transactions with owners reserve	(537)	(537)
	<u>(1,982)</u>	<u>(1,364)</u>

### *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).

### *Foreign currency translation reserve*

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

### *Movements in reserves*

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



# Notes to Interim Financial Statements

## Note 11. Equity - reserves (continued)

Consolidated	Share-based payments reserve \$'000	Transactions with owners reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 January 2020	10,016	(537)	(10,843)	(1,364)
Foreign currency translation	-	-	(618)	(618)
Balance at 30 June 2020	<u>10,016</u>	<u>(537)</u>	<u>(11,461)</u>	<u>(1,982)</u>

## Note 12. Equity - accumulated losses

	Consolidated 30 Jun 2020 \$'000	31 Dec 2019 \$'000
Accumulated losses at the beginning of the financial period	(79,265)	(71,345)
Loss after income tax expense for the period	<u>(1,359)</u>	<u>(7,920)</u>
Accumulated losses at the end of the financial period	<u>(80,624)</u>	<u>(79,265)</u>

## Note 13. Equity - dividends

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

## Note 14. Related party transactions

The following transactions occurred with related parties.

	Consolidated 30 Jun 2020 \$	30 Jun 2019 \$
<i>Payment for goods and services:</i>		
Office rent, paid to Ganbayar Lkhagvasuren *	45,191	44,214
Legal fees, paid to HopgoodGanim Lawyers **	13,276	9,900

\* The Company maintains a rental agreement for its Ulaanbaatar office with Ganbayar Lkhagvasuren, a Director of the Company. The transaction between related parties is on normal commercial terms and conditions no more favourable than those available to other parties that are arm's length. The Company paid rent totalling \$45,191 for the period end June 30, 2020.

\*\* For the six months ended June 30, 2020, the Company sourced legal services for total \$13,276 from HopgoodGanim Lawyers where Michele Muscillo, an Independent Non-Executive Director of the Company, is a partner.

# Notes to Interim Financial Statements

## Note 14. Related party transactions (continued)

### *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.

### *Terms and conditions*

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

## Note 15. Events after the reporting period

On 10 August 2020, the Company announced a two-tranche equity placement to raise \$12.0 million at an issue price of \$0.045 per share. Tranche 1 of the Placement will raise approximately \$5.6 million via the issue of approximately 123.8 million fully paid ordinary shares pursuant to the Company's placement capacity under ASX Listing Rule 7.1. Tranche 2 of the Placement will raise approximately \$6.4 million via the issue of approximately 142.9 million fully paid ordinary shares, subject to shareholder approval to be sought at a Xanadu General Meeting, which is expected to be held in the first week of October 2020.

No other matter or circumstance has arisen since 30 June 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 16. Earnings per share

	<b>Consolidated</b> <b>30 Jun 2020</b> <b>\$'000</b>	<b>30 Jun 2019</b> <b>\$'000</b>
Loss after income tax	(1,441)	(2,005)
Non-controlling interest	82	50
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>(1,359)</u>	<u>(1,955)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	795,298,035	657,173,584
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>795,298,035</u>	<u>657,173,584</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(0.17)	(0.30)
Diluted earnings per share	(0.17)	(0.30)

## Directors' Declaration

---

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 given a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the 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  
Chairman

11 September 2020

# Independent Auditor's Review Report

---



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

### Report on the Half-Year Financial Report

#### 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 statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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 Company is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Company's financial position as at 30 June 2020 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*.

#### Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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 Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to 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 consolidated financial position as at 30 June 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

# Independent Auditor's Review Report

---



## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive, stylized font.

Ernst & Young

A handwritten signature in black ink that reads 'R. Fisk' in a cursive, stylized font.

Ryan Fisk  
Partner  
Sydney  
11 September 2020