

Xanadu Mines Ltd

ABN 92 114 249 026

Interim Report - 30 June 2015

Directors	Mark Wheatley - Executive Chairman Ganbayar Lkhagvasuren - Executive Director Hannah Badenach - Non-Executive Director Darryl Clark - Independent Non-Executive Director Barry Lavin - Independent Non-Executive Director Marcus Engelbrecht - Non-Executive Director
Company secretary	Janine Rolfe
Registered office	c/o Company Matters Pty Ltd Level 12, 680 George Street Sydney NSW 2000 Tel: +61 2 8280 7497 Fax: +61 2 9287 0350
Share register	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney, NSW 2000 Tel: +61 1300 855 080
Auditor	Ernst and Young 680 George Street Sydney, NSW 2000
Stock exchange listing	Xanadu Mines Limited shares are listed on the Australian Securities Exchange (ASX code: XAM)
Website	www.xanadumines.com
Email	info@xanadumines.com
Registered office - Mongolia	2nd Khoroo, AOS Street Military Town, Bavanzurkh District Ulaanbaatar, Mongolia Tel: +976 11 7012 0211

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 2015.

Directors

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

Mark Wheatley
Ganbayar Lkhagvasuren
Hannah Badenach
Darryl Clark
Barry Lavin
George Lloyd (resigned 17 March 2015)
Marcus Engelbrecht (appointed 16 June 2015)

On 17 March 2015, Mark Wheatley was appointed Executive Chairman and Dr Andrew Stewart stepped into the role of Chief Executive Officer. A new Non-Executive Director, Marcus Engelbrecht, joined the Board on 16 June 2015.

Principal activities

The principal activity of the entities within the group during the half-year was continued exploration on its various mineral exploration projects in Mongolia.

The company changed its financial year end from 30 June to 31 December. The change is in order to align the Company's financial year with its Mongolian statutory reporting obligations and the seasonality of operations. As a result of the change, the Company's financial year commenced 1 January 2015. This is the Company's first interim financial report for the half-year ended 30 June 2015.

Review of operations

The Company continued to make significant advances at its copper-gold projects located across Mongolia's underexplored copper belts over the six months ending 30 June 2015. Both the Kharmagtai and Oyut Ulaan projects are located within the South Gobi porphyry copper province, which hosts most of the known porphyry deposits in Mongolia, including the giant Oyu Tolgoi copper-gold operations and the Tsagaan Suvarga porphyry copper-molybdenum development, while the Sharchuluut Uul project is strategically located 30 to 40 kilometres northwest, and along strike, from the world-class Erdenet porphyry copper-molybdenum deposit in northern Mongolia. At its flagship Kharmagtai copper-gold project the Company achieved a significant milestone by completing a maiden Mineral Resource Estimate in accordance with the JORC 2012 Code within 12 months of acquisition. This Resource occupies only a small portion of the much larger mineralised Kharmagtai Intrusive Complex (KIC) which was first identified from surface outcrops and has already been partly extended under shallow cover using geophysics and drill testing. Exploration drilling since announcing the Resource continues to reinforce the potential of the project to host high grade mineralisation on a potentially large scale and confirms the Kharmagtai project is one of the most prospective copper-gold projects in northern Asia. Recent exploration drilling at the Oyut Ulaan project continues to extend known near-surface high-grade mineralisation and uncover new zones of shallow high-grade skarn mineralisation and related porphyry mineralisation. The Company is well positioned to increase the potential viability of its projects through focused and low-cost exploration.

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

Kharmagtai Project (Xanadu earning up to 76.5%, current ownership 64.2%)

The Kharmagtai project is located within the South Gobi porphyry copper province of Mongolia, approximately 420km south-southwest of Ulaanbaatar, and is one of the most prospective porphyry copper-gold projects in Asia and continues to be Xanadu's top exploration priority in 2015.

Xanadu announced on a Maiden JORC Mineral Resource Estimate on 19 March 2015. The Mineral Resource Estimate amounts to 203 Mt @ 0.34% Cu and 0.33 g/t Au (0.55% CuEq) for a contained metal content of 1,500 Mlb Cu and 2.2 Moz Au. This Mineral Resource, based on a total of 108,130 metres of drilling (83,577 metres of diamond and 24,553 metres of Reverse Circulation) and includes indicated resource categories as well as inferred classified material, is reported at a 0.3% CuEq cut-off constrained within Whittle optimised pit shells and CuEq cut-off 0.5% CuEq applied to the underground resources.

The Resource Estimate also includes a higher grade core of 56 Mt @ 0.47% Cu and 0.59 g/t Au (0.85% Cu equivalent) for a contained metal content of 580 Mlb Cu and 1.1 Moz Au. The higher grade core is reported at a 0.6% CuEq cut-off and split between open pit within a Whittle optimised pit shell and underground outside of the pit shell.

Xanadu is very proud to be delivering a maiden Mineral Resource estimate within a year of its acquisition. Recent exploration and the rapid conversion to a maiden Mineral Resource estimate is the result of a great team effort. Exploration at Kharmagtai over the past decade has delineated numerous shallow gold-rich Cu-Au porphyry systems and the project is presently growing towards a moderate-size porphyry deposit, with relatively high Au (ppm) to Cu (%) ratios.

Exploration drilling at the Kharmagtai project is currently focused on continuing to define near-surface strike extensions of current Resources and investigating several high-priority targets laying under shallow cover that have the same geophysical response and geometry as existing deposits within the Kharmagtai project. Recent exploration success adjacent to one of the main porphyry deposits, Altan Tolgoi, is an exciting development in the growth of Kharmagtai into a multi-deposit copper-gold project. Intercepts recently reported represent a significant breakthrough in terms of discovery in close proximity to current resources. Importantly this style of breccia mineralisation has significant implications for the growth potential of Kharmagtai as it is a bulk-style of mineralisation with multi-high grade zones not previously identified at the project. The addition of mineralisation and any further porphyry style discoveries will potentially underpin substantial increases to the Kharmagtai Mineral Resources.

A detailed infill ground magnetic survey was completed over the central Kharmagtai area and allowed development of a new structural interpretation. Generative efforts have identified several large-scale untested copper porphyry targets that have the same structural setting, geophysical response and geometry as existing deposits within the Kharmagtai project. Each target has a variety of different geological and geophysical features suggestive of alteration associated with hydrothermal porphyry mineralisation. Follow-up is scheduled to test the best targets in the second half of the 2015 drill program.

Xanadu geologists continue to review future exploration strategy to target any near-surface, large scale porphyry copper potential within the Kharmagtai district.

Oyut Ulaan Project (Xanadu 90%)

The Oyut Ulaan copper-gold project is located in Dornogovi Province of southern Mongolia, approximately 420km southeast of Ulaanbaatar. It is strategically located within the South Gobi Copper Belt 260km east of Xanadu's flagship Kharmagtai copper-gold project. Oyut Ulaan is a large and underexplored porphyry district (covering approximately 40km²) and consists of multiple co-genetic porphyry copper-gold centres, mineralised tourmaline breccia pipes and copper-gold/base metal magnetite skarns, which occur within the central part of the Mining License.

Xanadu completed 9 drill holes for approximately 2,049.60m of diamond drilling and other exploration activities at the Oyut Ulaan project in the first half of 2015. The drilling extended known near-surface high-grade mineralisation at Diorite Hill, discovered shallow high-grade skarn mineralisation at Hulan and discovered new porphyry centre at Temee.

- Three diamond drill holes targeted outcropping quartz-sulphide and coincident geophysical anomalies at Diorit Hill Prospect;
- Three diamond drill holes targeted outcropping magnetite skarn mineralisation and coincident geophysical anomalies at Golden Skarn and Hulan Prospects;
- Two diamond drill holes target outcropping tourmaline breccia mineralisation associated with a large (2,000m long by 200m wide) buried geophysical anomaly at the Temee Prospect; and
- One diamond drill hole targeted outcropping quartz-sulphide and coincident geophysical anomalies at Stockwork Hill Prospect.

The results of this program are extremely encouraging and indicate Oyut Ulaan is developing into one of the most prospective districts in the South Gobi with a series of prospects at different stages of exploration. Xanadu will continue its systematic, low cost exploration at Oyut Ulaan. Current drill holes are mostly shallow and widely spaced, and the existing licence is large and relatively unexplored. The exploration upside for discovering additional porphyry systems within the large underexplored licence is exciting and the next phase of exploration will focus on identifying the 'engine room' to this large system.

Corporate Activities

During the period Marcus Engelbrecht was appointed to the Company's Board of Directors as a Non-Executive Director. Mr. Engelbrecht is a well-rounded senior mining executive with exploration and mining management experience with a strong finance background. He has worked in various emerging markets including Indonesia and the Philippines and brings a good network and reputation across the international institutional investment community. Mr. Engelbrecht spent 20 years at BHP Billiton through to 2005 where he rose to become Chief Financial Officer of the diamonds and specialty products business. He then served as Chief Financial Officer of ASX, TSX and NZX listed Oceania Gold during 2009 to 2011 and oversaw a period of restructuring, recapitalisation and success, including a thirteen-fold increase in market capitalisation. Marcus then served as Managing Director and Chief Executive Officer of Singapore based and London AIM listed Archipelago Resources Plc in 2011 to 2013 delivering 150,000 ounces of gold production in 2012 from its Indonesian operations.

Mr. Engelbrecht will serve as the nominee of Asia Capital Advisors Pte Ltd (ACA) pursuant to the \$13.6 million Placement Agreement dated 6 October 2014 as approved by shareholders on 28 November 2014. The ACA associated group of shareholders' current combined ownership is approximately 27.2%. This appointment is an important step for Xanadu as the Company focuses on its Mongolian copper-gold strategy and continued exploration success.

Financial Performance

The Company's cash position decreased over the 6 month period by \$3.4 to \$4.1 million as at 30 June 2015 (31 December 2014: \$7.5 million). The Company realised a loss of \$1.4 million for the 6 month period ending 30 June 2015 (30 June 2014: \$1.9 million) and invested \$1.6 million in exploration activities (30 June 2014: \$0.4 million), primarily at the Kharmagtai copper-gold project. The Company recognised total net assets of \$27.6 million (31 December 2014: \$29.3 million).

Share Capital

As at 30 June 2015, the Company had 374,678,226 fully paid shares, 5,500,000 share rights and 38,000,000 unlisted options on issue, of which 35,000,000 options issued pursuant to the restructure of the Oyut Ulaan Acquisition terms.

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 7 August 2015, the Mongolian parliament passed the 'Law on Supporting Economic Transparency' under the Tax Amnesty Program. The law permits companies to file a one-off disclosure tax returns by 31 December 2015 to grant amnesty on taxes specified in the law, which in Xanadu's case removes its exposure to tax on proceeds arising from transfers of exploration or mining licences. The law also prohibits government authorities to disclose information on companies submitted disclosure returns for confidentiality and conduct any legal or criminal actions subsequently. The group expects that upon filing the required tax return by 31 December 2015, the potential exposure noted in Note 12 will be waived.

No other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors

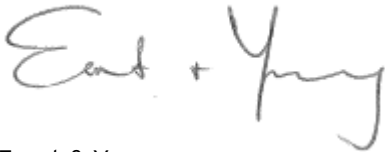


Mark Wheatley
Executive Chairman

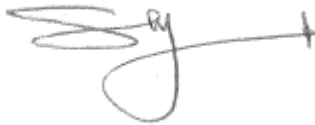
11 September 2015

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

In relation to our audit of the financial report of Xanadu Mines Limited for the financial period ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Scott Jarrett
Partner
Sydney
11 September 2015

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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 11 September 2015.

Xanadu Mines Ltd
Statement of profit or loss and other comprehensive income
For the period ended 30 June 2015



	Note	Consolidated 30/06/2015 \$'000	30/06/2014 \$'000
Revenue	4	94	20
Expenses			
Depreciation and amortisation expense		(59)	(83)
Deferred exploration and evaluation costs written off		-	(604)
Other expenses	5	(1,819)	(1,431)
Finance costs		(168)	-
Loss before income tax expense		(1,952)	(2,098)
Income tax expense		-	-
Loss after income tax expense for the period		(1,952)	(2,098)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		564	212
Other comprehensive income for the period, net of tax		564	212
Total comprehensive income for the period		<u>(1,388)</u>	<u>(1,886)</u>
Loss for the period is attributable to:			
Non-controlling interest		(52)	(250)
Owners of Xanadu Mines Ltd		(1,900)	(1,848)
		<u>(1,952)</u>	<u>(2,098)</u>
Total comprehensive income for the period is attributable to:			
Non-controlling interest		316	-
Owners of Xanadu Mines Ltd		(1,704)	(1,886)
		<u>(1,388)</u>	<u>(1,886)</u>
		Cents	Cents
Basic earnings per share	14	(0.52)	(0.87)
Diluted earnings per share	14	(0.52)	(0.87)

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

Xanadu Mines Ltd
Statement of financial position
As at 30 June 2015



	Note	Consolidated 30/06/2015 \$'000	31/12/2014 \$'000
Assets			
Current assets			
Cash and cash equivalents		4,144	7,508
Prepayment and other assets		49	120
Other receivables		431	361
Total current assets		4,624	7,989
Non-current assets			
Property, plant and equipment		408	435
Deferred exploration expenditure	6	31,452	29,864
Total non-current assets		31,860	30,299
Total assets		36,484	38,288
Liabilities			
Current liabilities			
Trade and other payables		611	446
Deferred acquisition consideration	7	-	5,520
Total current liabilities		611	5,966
Non-current liabilities			
Deferred acquisition consideration	8	5,010	-
Term loan - related party		3,265	3,064
Total non-current liabilities		8,275	3,064
Total liabilities		8,886	9,030
Net assets		27,598	29,258
Equity			
Issued capital	9	73,610	71,843
Reserves		8,066	8,215
Accumulated losses		(56,629)	(54,729)
Equity attributable to the owners of Xanadu Mines Ltd		25,047	25,329
Non-controlling interest		2,551	3,929
Total equity		27,598	29,258

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

Xanadu Mines Ltd
Statement of changes in equity
For the period ended 30 June 2015



Consolidated	Issued capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2014	56,651	6,413	(212)	(49,807)	389	13,434
Loss after income tax expense for the period	-	-	-	(1,848)	(250)	(2,098)
Other comprehensive income for the period, net of tax	-	-	212	-	-	212
Total comprehensive income for the period	-	-	212	(1,848)	(250)	(1,886)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	84	1,899	-	-	-	1,983
Share issued during the period	1,983	-	-	-	-	1,983
Transaction costs	(89)	-	-	-	-	(89)
Recognition of non-controlling interest	-	-	-	-	3,545	3,545
Balance at 30 June 2014	<u>58,629</u>	<u>8,312</u>	<u>-</u>	<u>(51,655)</u>	<u>3,684</u>	<u>18,970</u>

Consolidated	Issued capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2015	71,843	9,009	(794)	(54,729)	3,929	29,258
Loss after income tax expense for the period	-	-	-	(1,900)	(52)	(1,952)
Other comprehensive income for the period, net of tax	-	-	564	-	-	564
Total comprehensive income for the period	-	-	564	(1,900)	(52)	(1,388)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	93	74	-	-	-	167
Shares issued during the year	910	-	-	-	-	910
Transaction costs	(23)	-	-	-	-	(23)
Allotment of shares relating to pre year end issue	787	(787)	-	-	-	-
Recognition of non-controlling interest	-	-	-	-	(1,326)	(1,326)
Balance at 30 June 2015	<u>73,610</u>	<u>8,296</u>	<u>(230)</u>	<u>(56,629)</u>	<u>2,551</u>	<u>27,598</u>

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

Xanadu Mines Ltd
Statement of cash flows
For the period ended 30 June 2015



	Consolidated	
	30/06/2015	30/06/2014
	\$'000	\$'000
Cash flows from operating activities		
Payments to suppliers and employees	(2,061)	(1,316)
Interest received	94	22
	<hr/>	<hr/>
Net cash used in operating activities	(1,967)	(1,294)
Cash flows from investing activities		
Payments for property, plant and equipment	(30)	(58)
Payments for security deposits	(4)	-
Payments of deferred consideration for Kharmagtai license acquisition	(838)	-
Proceeds from disposal of property, plant and equipment	-	466
Acquisition of exploration and evaluation assets	-	(4,891)
Payment for exploration and evaluation expenditure	(1,628)	(383)
	<hr/>	<hr/>
Net cash used in investing activities	(2,500)	(4,866)
Cash flows from financing activities		
Funds contributed by related party	-	4,293
Proceeds from issue of shares	910	1,718
Proceeds of term loan from related party	-	2,134
Transaction costs on issue of shares	(23)	(89)
	<hr/>	<hr/>
Net cash from financing activities	887	8,056
Net increase/(decrease) in cash and cash equivalents	(3,580)	1,896
Cash and cash equivalents at the beginning of the financial period	7,508	2,841
Effects of exchange rate changes on cash and cash equivalents	216	(310)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the financial period	<u>4,144</u>	<u>4,427</u>

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

Note 1. Corporate information

Xanadu Mines Ltd ("the Company") was incorporated on 12 May 2005 and is the ultimate holding company for the Xanadu group ("group"). The financial report of the Company and its controlled entities are for the half-year period ended 30 June 2015. The nature of the operations and principal activities of the group are described in the directors' report.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2015 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 2014 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

Going concern

As at 30 June 2015, the Group had cash reserves of \$4.1 million (31 December \$7.5 million) and an undrawn facility of US\$1.5m (\$1.9 million). The balance of these cash reserves may not be sufficient to meet the Group's commitment to pay deferred consideration for the acquisition of Kharmagtai project US\$3.8 million (\$5.0 million) due 31 July 2016 while funding operating and administrative expenditure for the next 12 months.

To continue as a going concern, the Group requires additional funding or further deferral of the 31 July 2016 payment. The Company is currently assessing a number of options for additional funding.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding, the Group's ability to effectively manage their expenditures and cash flows from operations and the likelihood of deferring the deferred considerations further, the Directors believe that there is reasonable basis to prepare the financial statements on a going concern basis.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, there is significant uncertainty whether the Group will continue to operate as a going concern. If the Group is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern.

Note 3. Operating segments

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

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

Note 4. Revenue

	Consolidated	
	30/06/2015	30/06/2014
	\$'000	\$'000
Interest	94	20

Note 5. Other expenses

	Consolidated	
	30/06/2015	30/06/2014
	\$'000	\$'000
Other expenses		
Administration expenses *	974	460
Bad debt written off	-	31
Net foreign currency gains	(580)	(96)
Office rental expenses (non-cash)	73	-
Wages and management fees	1,185	867
Share-based payments	167	90
Loss on sale of property, plant and equipment	-	79
	<u>1,819</u>	<u>1,431</u>

* Increase due to Kharmagtai project consulting \$134,890, corporate legal expenses \$60,163, full year audit and AGM due to change in financial year \$59,000, and headhunting for CEO and NED \$54,255.

Note 6. Non-current assets - Deferred exploration expenditure

	Consolidated	
	30/06/2015	31/12/2014
	\$'000	\$'000
Deferred exploration expenditure	<u>31,452</u>	<u>29,864</u>

Note 6. Non-current assets - Deferred exploration expenditure (continued)

Reconciliations

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

Consolidated	Exploration and evaluation	Total
	\$'000	\$'000
Balance at 1 January 2015	29,864	29,864
Additions	36	36
Expenditure during the period	1,612	1,612
Exchange differences	(60)	(60)
	<u>31,452</u>	<u>31,452</u>

Note 7. Current liabilities - Deferred acquisition consideration

	Consolidated	
	30/06/2015	31/12/2014
	\$'000	\$'000
Deferred acquisition consideration	-	5,520
	<u>-</u>	<u>5,520</u>

The Company made further repayments of its deferred consideration in the amounts of US\$0.40 million (\$0.50 million) and US\$0.25 million (\$0.33 million) on 5 January 2015 and on 13 March 2015 respectively. On 16 February 2015, the repayment date was extended to 31 July 2016, hence, classified as a non-current liability (note 8).

Note 8. Non-current liabilities - Deferred acquisition consideration

	Consolidated	
	30/06/2015	31/12/2014
	\$'000	\$'000
Deferred acquisition consideration	5,010	-
	<u>5,010</u>	<u>-</u>

The balance outstanding is US\$3.85 million which equates to \$5.0m at 30 June 2015. On 16 February 2015, the repayment date was extended to 31 July 2016. Refer to note above for further details.

Note 9. Equity - issued capital

	Consolidated			
	30/06/2015	31/12/2014	30/06/2015	31/12/2014
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>374,678,226</u>	<u>354,763,294</u>	<u>73,610</u>	<u>71,843</u>

Note 9. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 January 2015	354,763,294	71,843
Exercise of share rights	2 January 2015	8,590,785	1,031
Exercise of share rights	27 March 2015	5,547,885	666
Share issue - Short Term Incentive	27 March 2015	776,262	93
Share issue - Equity Incentive Plan	27 March 2015	2,300,000	-
Share issue - Equity Incentive Plan	26 May 2015	2,700,000	-
Transaction costs		-	(23)
Balance	30 June 2015	<u>374,678,226</u>	<u>73,610</u>

Ordinary shares

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

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

Included in the rights issue of 2 January 2015 is \$786,947 in relation to prepaid subscription money received in the prior period for which new shares were allotted on 2 January 2015.

Share buy-back

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

Note 10. Equity - dividends

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

Note 11. Net fair values

Fair value estimation

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

The fair values have been determined based on the following methodologies:

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

Note 12. Contingent liabilities

As at 30 June 2015, the group has exposure under Mongolian tax laws whereby any amounts paid to acquire or associated with the transfer of an exploration or mining licence are considered to be a sale of mineral rights and the acquirer of the licence can be liable to tax at 30% of the gross proceeds. Projects in which the Company has an interest in have been acquired under purchase of shares in companies. As discussed below in note 13, the group expects that upon filing the required tax return by December 2015, the potential exposure on acquisition of mineral rights will be waived. There are no other material contingent liabilities relating to the Company and/or the group.

Note 13. Events after the reporting period

On 7 August 2015, the Mongolian parliament passed the 'Law on Supporting Economic Transparency' under the Tax Amnesty Program. The law permits companies to file a one-off disclosure tax returns by 31 December 2015 to grant amnesty on taxes specified in the law, which in Xanadu's case removes its exposure to tax on proceeds arising from transfers of exploration or mining licences. The law also prohibits government authorities to disclose information on companies submitted disclosure returns for confidentiality and conduct any legal or criminal actions subsequently. The group expects that upon filing the required tax return by 31 December 2015, the potential exposure noted in Note 12 will be waived.

No other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 14. Earnings per share

	Consolidated	
	30/06/2015	30/06/2014
	\$'000	\$'000
Loss after income tax	(1,952)	(2,098)
Non-controlling interest	<u>52</u>	<u>250</u>
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>(1,900)</u>	<u>(1,848)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>368,417,766</u>	<u>212,838,808</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>368,417,766</u>	<u>212,838,808</u>
	Cents	Cents
Basic earnings per share	(0.52)	(0.87)
Diluted earnings per share	(0.52)	(0.87)

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 2015 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Mark Wheatley
Executive Chairman

11 September 2015

To the members of Xanadu Mines Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Xanadu Mines Ltd, which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Xanadu Mines Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

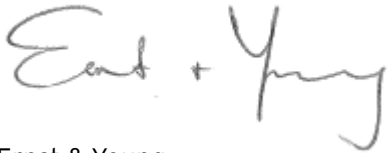
Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. In the event that the consolidated entity is unable to raise additional funding from the sources as described in Note 2 to the financial report, and based on the current exploration commitments and planned expenditure, there is material uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will 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 any adjustments relating to recoverability and classification of recorded assets amounts, or to the amounts and classifications of liabilities, that might be necessary should the consolidated entity not continue as a going concern.



Ernst & Young



Scott Jarrett
Partner
Sydney
11 September 2015