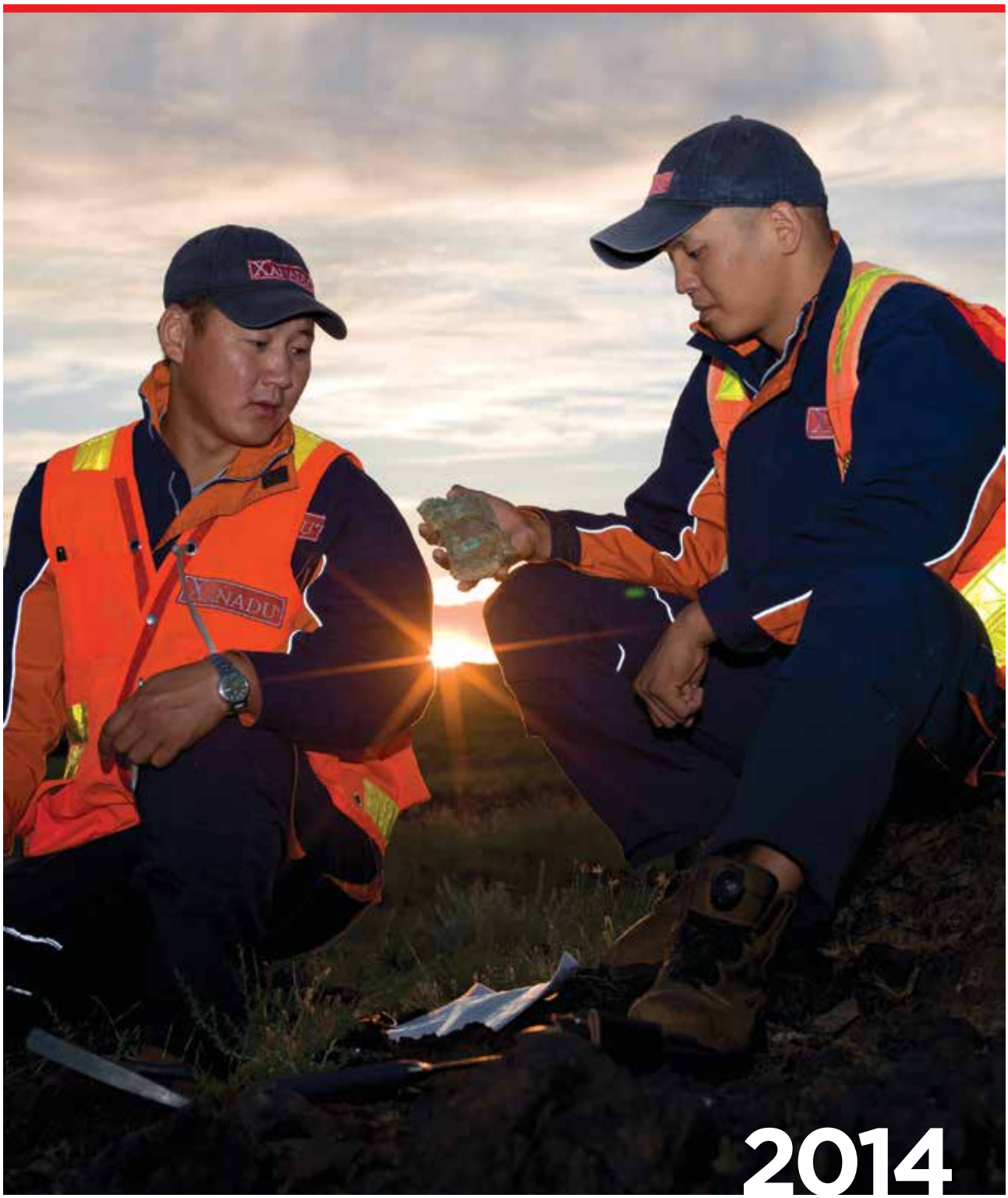
XANADU MINES



2014 ANNUAL REPORT

Xanadu Mines Limited ASX:XAM
For the year ended 31 December 2014

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Letter from the Chairman

Dear Shareholder

Xanadu's primary focus over this shortened financial year was adding value to our Kharmagtai copper-gold project through exploration drilling. This was a significant change to our activities in previous periods following a comprehensive restructuring including the Kharmagtai and Oyut Ulaan project acquisitions. Xanadu has completed its exit from coal and other non-core assets and now has a strong focus on its Mongolian copper-gold strategy. The transition to a 31 December year end is another step in this process as we align our Australian corporate reporting and full year audit with our Mongolian reporting obligations and field activities.

We are very excited by the results from our first drilling campaign at the Kharmagtai project. Our exploration team has made outstanding progress and there are many indications that we are defining a major copper-gold system. Xanadu completed around 12,500 metres of diamond drilling at Kharmagtai in the six months up to late November 2014. This drilling effectively extended the mineralisation around the three central outcropping prospects - Altan Tolgoi, Tsagaan Sudal and Zesen Uul – where the mineralisation remains open.

These drilling results significantly expanded the project's scale and increase its development potential. The delineation of a mineralised tourmaline breccia unit and also the addition of the Pigeon prospect under shallow cover in the eastern portion of the licence demonstrated that the licence area remains significantly under explored. The presence of the mineralised tourmaline breccia in particular is a major breakthrough for our exploration team and is analogous with the world class Rio Blanco – Los Bronces copper system. The potential for the discovery of additional porphyry centres remains high. The geophysical methods employed by Xanadu in areas under shallow cover have worked well to date and surface geochemistry and geology have highlighted additional new target areas.

The Oyut Ulaan and Sharchuluut copper projects add depth to the company's exploration portfolio. The Oyut Ulaan copper-gold project shares several common geological characteristics with the more advanced Kharmagtai project, only some 260 kilometres to the west. Xanadu encountered multiple significant intersections of shallow, gold-rich, copper stockwork mineralisation over its 2013 drilling campaign at Oyut Ulaan. Our geologists have also noted the presence of similar tourmaline breccia units to those encountered at Kharmagtai. Xanadu will continue its exploration program at Oyut Ulaan over 2015, potentially positioning your Company with two of the most exciting emerging copper exploration projects in North Asia.

We are encouraged by our success in attracting new capital to the Company in this reporting period. Xanadu raised around $15.3 million of new equity funds through a private placement approved by shareholders at the November AGM and a subsequent rights issue which recently closed. This has led to the significant reduction in the Kharmagtai deferred consideration payments from US$10.0 million to around US$3.8 million including the 5 March 2015 subscription funds and will allow the Company to fund exploration activities. The Company has also been successful in extending the repayment date for the Kharmagtai deferred consideration to 31 July 2016. We welcomed new cornerstone shareholders, the Singapore-based Asia Capital & Advisers Pte Ltd and its associates, to our register and major shareholder Noble Resources has again shown its strong support for the Company by contributing new funds.

We have a strong sense of conviction regarding Mongolia's potential as an emerging natural resources province and the prospectivity of the South Gobi copper belt. Mongolia and investors have faced a number of challenges as the country's mining sector and regulatory framework evolve. We acknowledge the sovereign risk related issues that are an intrinsic part of investing in Xanadu. Some recent events have negatively impacted investor confidence, not helped by a softening of commodity prices, yet we continue to see many signs of progress and our commitment to, and belief in, minerals exploration in Mongolia is as strong as ever.

Lastly, I would like to acknowledge the efforts of our Board, management and all staff. The team has been ambitious and worked relentlessly in repositioning the Company and implementing the Kharmagtai exploration program. We have remained positive in what has been a tough environment for junior miners. Our people have acted with a high level of conviction and professionalism as they work their way through the challenges of exploration. Xanadu's people also continued to place an emphasis on sustaining a strong safety and environmental performance. Our responsibility to our staff, communities and the environment are a priority for the Company and integral to our future success.

Xanadu has an exciting and challenging year ahead of it in 2015. We are starting in a strong position with the financial capacity to add value to the Kharmagtai and Oyut Ulaan copper-gold projects through exploration. The results from this work will help your Company stand out from its peers at a time when investors are seeking high quality assets.

Mark Wheatley
Non-Executive Chairman
13 March 2015

Review of Operations

The Company continued to make significant advances in its Mongolian copper strategy over the six months to 31 December 2014 following the earlier restructuring activities and acquisitions of the prior 12 months. The Company completed its first drilling campaign at the advanced Kharmagtai copper-gold project and realised outstanding results, significantly expanding the project's potential. The Company also raised around $15.3 million of new equity funds by way of a private placement and subsequent rights issue including funds raised after year end.

The Company is in a strong position to add value through exploration at its three copper projects: Kharmagtai, Oyut Ulaan and Sharchuluut Uul. The Kharmagtai and Oyut Ulaan projects are both 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. The southern-Mongolia location of these projects and improving regional infrastructure will allow for operating synergies as the Company manages dual exploration programs. The similarities in the copper-gold porphyry mineralisation will also allow for the transfer of knowledge generated by our exploration team between projects.

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%)

Xanadu's joint venture company, Mongol Metals LLC, acquired a 90% interest in the advanced Kharmagtai copper-gold project from Turquoise Hill Resources Ltd for US$14.0 million, including US$10.0 million of deferred consideration in early 2014. The acquisition was approved by shareholders on 16 May 2014. Xanadu has the right to earn up to 85% of Mongol Metals LLC (currently 67.5%), equal to a 76.5% beneficial interest in the project.

The Kharmagtai copper-gold porphyry district is located within the Central Asian Porphyry copper province. Contained within this province is the South Gobi porphyry copper belt which is emerging as one of the most prospective regions in the world and has become the focus of extensive exploration for porphyry copper-gold deposits over the last decade following the discovery of the giant Oyu Tolgoi porphyry copper-gold deposit.

The Kharmagtai project is strategically located only a 120 kilometres north of Oyu Tolgoi and 60 kilometres northeast of the operational Tavan Tolgoi coking coal deposit. The South Gobi region is developing rapidly with good access to infrastructure and the growth markets of north Asia.

Kharmagtai is an advanced stage porphyry copper-gold exploration project with significant defined mineralisation comprising of a cluster of gold-rich porphyry copper centres and mineralised tourmaline breccias occurring within the central part of a mining licence which covers approximately 66 square kilometres. Exploration has identified significant shallow high-grade porphyry copper-gold mineralisation around the margin of a 6 kilometre diameter basin within the Altan Tolgoi, Tsagaan Sudal and Zesen Uul prospects.

Xanadu completed approximately 12,500 metres of diamond drilling at Kharmagtai over June to November 2014. This drilling campaign delivered outstanding results and delineated numerous shallow gold-rich Cu-Au porphyry systems with relatively high gold (ppm) to copper (%) ratios. Mineralisation remains open at Altan Tolgoi and Tsagaan Sudal and there is good evidence that Zesen Uul may represent an off-faulted block from a larger system. The delineation of a mineralised tourmaline breccia unit was a major advance with similarities to the very strongly mineralised tourmaline breccia dyke complex in the world class Rio Blanco – Los Bronces district of Chile. Xanadu's exploration continues to increase the size and grade of the project demonstrating that Kharmagtai is a large copper-gold system with multiple near-surface, gold-rich centres.

Geophysics indicates that some 70% of the mineralised porphyry complex lies under unexplored shallow sediments. The large licence area has only been partially explored and the potential for further discoveries remains high. The porphyry mineralisation intersected at the Pigeon prospect has demonstrated the excellent potential for the discovery of additional porphyry centres under shallow sand cover. There are numerous other targets remaining in the Kharmagtai area and the potential for further discoveries remains high.

Oyut Ulaan Project (Xanadu 90%)

The Oyut Ulaan copper-gold project is located in the Dornogovi Province of southern Mongolia, approximately 70 kilometres west of the future industrial centre of Sainshand. Oyut Ulaan is a highly prospective porphyry copper-gold project. Previous drilling by Xanadu has identified narrow zones of gold-rich porphyry style mineralisation. Xanadu has also continued to define the projects potential through a combination of mapping, geophysics and trenching identifying multiple drill-ready targets. Exploration work indicates that outcropping mineralisation may represent the shallow part of a deeper, more continuous porphyry system.

A tourmaline breccia complex is also present at Oyut Ulaan with similarities to the mineralised tourmaline breccia dike complex at Kharmagtai.

The Company will continue its systematic exploration program at Oyut Ulaan. The next phase of exploration will focus on delineating potential shallow, high-grade mineralisation by exploring along strike from existing intersections and testing the many geophysical and geochemical anomalies which remain within the Oyut Ulaan licence area.

Sharchuluut Project (Xanadu 100%)

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

Non-Core Assets

The Company completed its exit from non-core assets during the period, with the sale of its 80% interest in the Elgen Zost gold project in exchange for a 3 percent gross production royalty.

Financial Performance

The Company realised a loss of $3.6 million for the period ending 31 December 2014 (30 June 2014: $8.4 million). The Company invested $2.8 million (30 June 2014: $3.5 million) in exploration activities, primarily at the Kharmagtai copper-gold project. The Company recognised total net assets of $29.3 million (30 June 2014: $19.0 million). The Company had other operating expenses of $3.0 million before net foreign currency losses (30 June 2014: $3.7million).

Political & Regulatory Risks

The Company's operations are subject to various levels of government controls and regulations in the countries where it operates, including Australia and Mongolia. These laws and regulations include matters relating to land tenure, drilling, production practices, environmental protection, royalties, various taxes and levies including income tax, foreign trade and investment and government approval of licence transfers and other regulatory approvals that are subject to change from time to time. Current legislation is generally a matter of public record and the Company cannot predict what additional legislation or amendments may be proposed that will affect the Company's operations or when any such proposals, if enacted, might become effective. There is no certainty regarding obtaining government approvals. Changes in government policy or laws and regulations could adversely affect the Company's results of operations and financial condition. The Company will continue to actively monitor any risk relating to Mongolia's regulatory and political environment.

Capital Management

The Company's cash position increased over the reporting period by $3.1 million to $7.5 million as at 31 December 2014 (30 June 2014: $4.4 million). The Company realised $14.7 million (30 June 2014: $8.1 million) in financing cash flows, primarily from the $13.6 million share placement that was approved by shareholders in November 2014. This allowed the Company to repay $6.6 million of the deferred consideration for the Kharmagtai project which simplified and strengthened the Company's financial position. The primary use of funds over 2015 will be the continuation of exploration activities at the Company's Kharmagtai and Oyut Ulaan copper-gold projects and for working capital. The Company may need to raise additional capital for its exploration activities or seek joint venture partners. There is a risk that capital or joint venture partners may not be available or available on acceptable terms. Capital management is a priority of management and the Company retains the flexibility to reduce its cost base while preserving its exploration projects if required.

Exchange Rate & Commodity Price Risks

The Company's foreign currency requirements include Mongolian Tugrik, US Dollar and Australian Dollar and will vary from time to time based on, among other things, the relevant aspect of the Company's expenditure program. This exposes the Company to the fluctuations and volatility of the rates of exchange between the Australian, US and Mongolian currencies as determined in international markets. In addition, the Company has US Dollar deferred asset acquisition commitments and debt. A substantial portion of the Company's remuneration costs is denominated in Australian Dollars. Fluctuations in exchange rates may have a negative impact on the Company's financial results and could have a material adverse impact on the Company's operations. Commodity prices are volatile and are subject to fluctuation. At this stage, the Company's projects do not generate any operating revenues. However, commodity prices, and in particular the copper price, may impact the feasibility and valuation of the Company's projects.

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 six months period ended 31 December 2014 (the 'December 2014 Transitional Financial Year').

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

George Lloyd

Ganbayar Lkhagvasuren

Hannah Badenach

Darryl Clark

Barry Lavin (appointed 22 September 2014)

Principal activities

The principal activities of the entities within the group during the December 2014 Transitional Financial Year were exploration and development of 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 current financial period is a six month period from 1 July 2014 to 31 December 2014. Consequently, the statement of profit or loss and other comprehensive income and statement of cash flows of the December 2014 Transitional Year are for six month ended 31 December 2014 and are not entirely comparable.

The company's subsequent financial year commences 1 January 2015 for a period of 12 months, ending on 31 December 2015.

Dividends

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

Review of operations

The loss for the group after providing for income tax and non-controlling interest amounted to $3,074,000 (30 June 2014: $8,500,000).

As at the date of signing this report, the company had 363,354,079 fully paid ordinary shares and a total of 3,000,000 employee options, 10,850,000 share rights over ordinary shares on issue and 35,000,000 options rights issued as contingent consideration in relation to the Oyut Ulaan project acquisition.

Details of the terms of the options and share rights are outlined in the Remuneration Report and Note 14 of the financial statements.

A review of operations is presented before the directors' report.

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 2 January 2015, the company announced the issue of 8,590,785 shares at $0.12 per share, raising $1,030,894 (of which $786,947 was received as at 31 December 2014) in relation to the rights issue made pursuant to the offer document dated 4 December 2014 and which closed on 23 December 2014.

On 5 January 2015, the company made a further payment of $0.5 million of the deferred consideration for the Kharmagtai project. The current balance of deferred consideration is $5.5 million (US$4.1 million).

On 22 January 2015, the company announced that Managing Director and CEO, George Lloyd, will step down from his role with effect from 1 July 2015.

On 16 February 2015, the repayment date of the deferred consideration for the Kharmagtai project has been extended by eight months to 31 July 2016. On the basis that a future capital raising occurs, 50% of the funds raised will go towards repayment of the deferred consideration.

On 5 March 2015, the company announced that Noble Resources International Pte Ltd ('Noble') has further subscribed for 5,547,885 shares at 12 cents per share raising $665,746 in relation to the rights issue shortfall placement made pursuant to the offer document dated 4 December 2014. This brings the balance of the deferred consideration down to approximately $5.2 million (US$3.8 million).

No other matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

Entities in the extractive industries incur rehabilitation obligations which are imposed under contractual or licensing arrangements, or by legislation, or

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

Information on directors

Name:	Mark Wheatley
Title:	Independent Non-Executive Director and Chairman
Qualifications:	BE (Chem Eng Hons 1), MBA
Experience and expertise:	Mark is an experienced resources company director with a career spanning more than 30 years in mining and related industries. He is currently serving as non-executive director of US listed Uranium Resources Inc. His other independent non-executive board roles have included former Chair of Gold One International, Norton Goldfields and Goliath Gold as well as directorships of St Barbara Mines Limited and Uranium One Inc.
Other current directorships:	Uranium Resources Inc.
Former directorships (last 3 years):	Gold One International Limited (ASX & JSE listed) (Appointed May 2009 - ceased December 2012), Norton Goldfields Limited (ASX listed) (Appointed March 2010 – ceased July 2011), Goliath Gold Mining Limited
Special responsibilities:	Chairman of the Audit and Risk Management Committee and member of Safety, Health and Environment Committee
Interests in shares:	2,248,666
Interests in rights:	750,000

Name:	George Lloyd
Title:	Managing Director and Chief Executive Officer
Qualifications:	B.E. (Hons), MBA
Experience and expertise:	George has a background in engineering, corporate finance and direct investment, primarily in the natural resources and related sectors. He has accumulated significant experience in Mongolia and been instrumental in funding and corporate transactions for coal, copper and mining services companies in Mongolia. His earlier roles include research and investments at a Singapore-based hedge fund, business development at Wesfarmers Limited and corporate finance with Grant Samuel & Associates. George has a B.E. (Honours) from the University of New South Wales, an M.B.A. from the Australian Graduate School of Management (UNSW) and he completed the NYU Stern School of Business International Management Program.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	4,858,333
Interests in rights:	4,000,000

Name:	Ganbayar Lkhagvasuren
Title:	Executive Director - Mongolia
Qualifications:	M.IBL
Experience and expertise:	Ganbayar is a co-founder of Xanadu and has been a Director since 2006. He is the joint venture partner in Mongol Metals LLC and brings a vital Mongolian perspective to the Board of Directors. He works closely with the Managing Director and Chief Geologist in corporate development and managing the day-to-day operations in Mongolia.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Management Committee
Interests in shares:	14,389,565
Interests in rights:	1,800,000

Name:	Hannah Badenach
Title:	Non-Executive Director
Qualifications:	B. Laws (Hons), B. Arts
Experience and expertise:	Hannah is a Director in Mongolia at Noble Resources International Pte Ltd (Noble) and a lawyer having practiced for several years, including 2 years in Mongolia with Lynch & Mahoney. Hannah has extensive Mongolian, commercial and business development experience, having managed QGX LLC until the company was sold in 2008 and now developing and running Noble's business in Mongolia.
Other current directorships:	Aspire Mining Limited (ASX listed) (appointed 18 April 2013 - current)
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Governance Committee
Interests in shares:	1,017,738

Name:	Darryl Clark
Title:	Independent Non-Executive Director
Qualifications:	B.Sc (Honours), Phd (Economic Geology), FAusIMM
Experience and expertise:	Darryl is an exploration geologist whose career has taken him throughout Australia, Central Asia and South East Asia for over 20 years. His responsibilities over the last 10 years have involved him in a diverse range of technological, political and cultural environments with unique challenges. During previous corporate roles with both Vale and BHP Billiton, and in consulting roles including SRK, he has been responsible for business development strategies, designing multi-commodity exploration programs and the co-ordination of exploration teams to deliver discovery events. Currently, Darryl is General Director for the Inkai Joint Venture mining operation in Kazakhstan owned by Cameco Corporation and Kazatomprom.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Safety, Health and Environment Committee and member of the Governance Committee.
Interests in shares:	1,315,000
Interests in rights:	500,000

Name:	Barry Lavin
Title:	Independent Non-Executive Director (Appointed 22 September 2014)
Qualifications:	BSc (Hons) (Mining Engineering), MBA, C Eng, MIMM
Experience and expertise:	Barry is an accomplished senior mining executive who spent 18 years with the Rio Tinto Group until 2009, where his most recent executive role was in its Copper Group having the responsibility for identifying and evaluating acquisitions. Barry is a mining engineer and while at Rio Tinto was the Managing Director of the Northparkes Mines JV where he helped position the operation as a highly productive, profitable and safe underground block caving operation. At Rio Tinto, Barry also held the role of Managing Director of Rio Tinto Technical Services. Barry is currently a non-executive director of Barminco Ltd, an Australian underground mining contractor with international operations, a non-executive director of Ferrum Americas Inc., a listed Canadian junior, and is Managing Director of Teviot Resources Pty Ltd., a diversified junior. Barry also served on the Board of Oz Minerals from 2011 to 2013.
Other current directorships:	Ferrum Americas Inc
Former directorships (last 3 years):	Oz Minerals Limited (ASX listed) (appointed 1 July 2011 - ceased 8 March 2013)
Special responsibilities:	Chairman of the Safety, Health and Environment Committee, Chairman of the Governance Committee and member of the Risk Management and Audit Committee.
Interests in shares:	None
Interests in rights:	1,000,000

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

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

Company secretary

Janine Rolfe BEc LLB (Hons)

Janine was appointed company secretary of Xanadu in November 2013. An experienced as a corporate lawyer and company secretary, Janine established the business now known as Company Matters in 2006. Previously, Janine was a Company Secretary at Qantas Airways Limited where she was responsible for the day-to-day management of all public company issues arising within the Qantas Group. Prior to that, Janine was a Solicitor at Mallesons Stephen Jaques, working in the mergers and acquisitions and corporate advisory teams.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the period ended 31 December 2014, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Management Committee		Utility Committee	
	Attended	Held	Attended	Held	Attended	Held
M Wheatley	16	16	2	2	–	–
G Lloyd	16	16	–	–	1	1
Ganbayar L	10	16	–	–	–	–
H Badenach	16	16	–	–	1	1
D Clark	14	16	2	2	1	1
B Lavin	13	13	–	–	–	–

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

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

Remuneration report (audited)

The remuneration report, which has been audited, outlines the Key Management Personnel ('KMP') remuneration arrangements for the group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

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

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

Principles used to determine the nature and amount of remuneration

It is the company's objective to provide maximum shareholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions.

The company's remuneration philosophy is to establish competitive remuneration (including performance incentives) consistent with long term development and success, to ensure remuneration is fair and reasonable (taking into account all relevant factors, and within appropriate controls or limits), that performance and remuneration are appropriately linked, that all remuneration packages are reviewed annually or on an ongoing basis in accordance with management's remuneration packages, and that retirement benefits or termination payments (other than notice periods) will not be provided or agreed other than in exceptional circumstances.

Currently, the remuneration of the company's KMP including any component of the remuneration that consists of securities in the company is not formally linked to the financial performance of the company. The rationale for this approach is that the company is in exploration and development phase, and it is currently not appropriate to link remuneration to factors such as profitability. It is anticipated that this will change once the company transitions into its operational phase.

In accordance with best practice corporate governance, the structure of Non-Executive director and executive remuneration is separate.

Non-executive directors' remuneration

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

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers fees paid and securities issued to Non-Executive directors of comparable companies when undertaking the annual review as well as additional time commitment of directors who serve on one or more committees and assistance to the company with new investment opportunities.

Non-Executive directors are encouraged by the Board to hold shares purchased on market in accordance with the Xanadu Securities Trading Policy. The Board considers that by holding shares in the company, the Non-Executive directors are aligning themselves with the best interests of the shareholders. The remuneration of Non-Executive directors for the period ended 31 December 2014 is detailed under the remuneration section of this report.

Executive remuneration

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company so as to:

- reward executives for company and individual performance;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and operational performance of the company; and
- ensure total remuneration is competitive by market standards.

Executive remuneration comprises both the following fixed and variable components:

- base pay and benefits;
- short term incentives; and
- long term incentives through equity based compensation.

The combination of these comprises the executive's total remuneration.

Fixed remuneration

Base pay is structured as a total employment cost package that may be delivered as a combination of cash and salary sacrifice superannuation at the executive's discretion.

Executives are offered a competitive base pay. Reference is made to industry benchmarks to ensure that the base pay is set to reflect the market for a comparable role. Base pay is reviewed annually, or upon promotion, to ensure the executive's pay is competitive with comparable positions of responsibility. There are no guaranteed base pay increases included in any executive contracts.

At risk remuneration - Short Term Incentives ("STIs") and Long Term Incentives ("LTIs")

Executive service contracts recognise the potential for the award of short term incentives linked to specific performance criteria. In addition, long term incentives include share rights with share price hurdles. The incentives issued during the period are set out below.

The combination of exercise price, vesting hurdles and long dated rights and options were designed as an incentive to perform for the longer term. Refer to the share-based payments note to the financial statements for further information on the vesting hurdles. Other than the above, the company has not issued any other long term incentives to executives. During the period, share rights and options were exercised by KMP of the company as disclosed in the notes to the financial statements.

A clawback provision has been introduced for STI and LTI awards from FY2015. In addition to applying clawback where an employee has acted fraudulently or dishonestly, or has breached their obligations to the company, the Board will have further discretion in the event there is a material misstatement or omission in Xanadu's financial statements or if the company is required or entitled to reclaim any overpaid incentive or other amount from an employee.

Voting and comments made at the company's 2014 Annual General Meeting ('AGM')

At the 2014 AGM, more than 75% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2014.

Details of remuneration

Amounts of remuneration

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

The key management personnel of the group consisted of the directors of Xanadu Mines Ltd and the following persons:

- A Stewart - Chief Geologist
- M Langan - Chief Financial Officer (ceased 3 November 2014)
- M Dambiinyam - (appointed as Chief Financial Officer and considered a key management personnel from 3 November 2014)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
6 months to 31 December 2014	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
M Wheatley	25,000	–	–	17,500	–	20,299	62,799
D Clark	26,000	–	–	–	–	13,533	39,533
B Lavin *	12,645	–	–	1,201	–	4,031	17,877
Executive Directors:							
G Lloyd	160,000	–	–	–	–	44,455	204,455
Ganbayar L	72,548	–	–	7,980	–	6,415	86,943
Other Key Management Personnel:							
M Langan **	80,501	–	–	7,648	–	75,000	163,149
A Stewart	161,594	–	16,326	17,665	–	4,998	200,583
M Dambiinyam ***	24,388	–	–	2,683	–	6,305	33,376
	562,676	–	16,326	54,677	–	175,036	808,715

* Appointed 22 September 2014
** Ceased 3 November 2014
*** Appointed as CFO and considered to be KMP from 3 November 2014

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

Subsequent to 31 December 2014, the company announced that Managing Director and CEO, George Lloyd, will step down from his role with effect from 1 July 2015.

12 months to 30 June 2014	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
D Gately*	30,511	–	–	2,822	–	–	33,333
B Thornton**	30,511	–	–	2,822	–	–	33,333
R Westphal*	22,121	–	–	2,046	–	–	24,167
M Wheatley***	47,917	–	–	25,000	–	25,138	98,055
D Clark	49,828	–	–	3,006	–	16,759	69,593
Executive Directors:							
Ganbayar L	141,546	–	–	17,944	–	23,249	182,739
G Lloyd	284,179	92,750	–	–	–	169,813	546,742
Other Key Management Personnel:							
M Langan	169,611	4,000	–	16,059	–	20,079	209,749
A Stewart	314,631	–	61,505	36,157	–	48,595	460,888
	1,090,855	96,750	61,505	105,856	–	303,633	1,658,599

* Resigned 22 November 2013

** Resigned 28 February 2014

*** Appointed 25 November 2013

H Badenach did not receive any remuneration in the year ended 30 June 2014.

G Lloyd's share-based payment includes the value of 1,000,000 ordinary shares issued pursuant to his employment contract valued at $60,000.

A Stewart's share-based payment includes the value of 500,000 ordinary shares issued under the Xanadu Equity Incentive Plan valued at $24,500.

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	31 December 2014	30 June 2014	31 December 2014	30 June 2014	31 December 2014	30 June 2014
Non-Executive Directors:						
M Wheatley	68%	74%	–%	–%	32%	26%
D Clark	66%	76%	–%	–%	34%	24%
D Gately*	–%	100%	–%	–%	–%	–%
B Thornton**	–%	100%	–%	–%	–%	–%
R Westphal*	–%	100%	–%	–%	–%	–%
Executive Directors:						
G Lloyd	78%	69%	–%	–%	22%	31%
Ganbayar L	93%	87%	–%	–%	7%	13%
Other Key Management Personnel:						
M Dambiinyam	81%	–%	–%	–%	19%	–%
M Langan	54%	90%	–%	–%	46%	10%
A Stewart	98%	89%	–%	–%	2%	11%

* Resigned 22 November 2013
** Resigned 28 February 2014

Service agreements

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

Name:	George Lloyd
Title:	Managing Director and Chief Executive Officer
Details:	Mr Lloyd's fixed remuneration is an annual salary package of $320,000. In the event of termination of Mr Lloyd's employment other than in the case of misconduct, the Company must give a minimum of 6 months' notice prior to termination up to the second anniversary of employment and the notice period will be 9 months thereafter. The company may, at its discretion, provide the Executive with payment of fixed remuneration in whole or in part in lieu of notice. For the avoidance of doubt, the company's right to make such a payment does not give the Executive any right to receive such a payment. As announced to the ASX on 22 January 2015, Mr Lloyd will stand down from his role as Managing Director and Chief Executive Officer with effect from 1 July 2015.
Name:	Ganbayar Lkhagvasuren
Title:	Executive Director in Mongolia
Details:	Mr Lkhagvasuren's fixed remuneration is an annual salary package of US$145,000 including compulsory taxes and social insurance applicable as an employee in Mongolia. In the event of Mr Lkhagvasuren's employment being terminated other than in the case of misconduct, Mr Lkhagvasuren must give a minimum of 3 months' notice prior to termination, and the company must give 3 months' notice prior to termination. The company may, at its discretion, provide Mr Lkhagvasuren with payment of fixed remuneration in whole or in part in lieu of notice. For the avoidance of doubt, the company's right to make such a payment does not give Mr Lkhagvasuren any right to receive such a payment.

Name:	Dr Andrew Stewart
Title:	Chief Geologist and Country Manager
Details:	Dr Stewart's fixed remuneration is an annual salary package of US$260,000 plus the compulsory taxes and social insurance applicable as an employee in Mongolia. Dr Stewart also receives a rental allowance of US$30,000 per annum, travel and health care entitlements. In the event of termination of Dr Stewart's employment other than in the case of misconduct, the executive must give a minimum of 6 months' notice prior to termination, and the company must give 9 months' notice prior to termination. The company may, at its discretion, provide Dr Stewart with payment of fixed remuneration in whole or in part in lieu of notice. For the avoidance of doubt, the company's right to make such a payment does not give Dr Stewart any right to receive such a payment.
Name:	Mr Munkhsaikhan Dambiinyam
Title:	Chief Financial Officer, appointed 3 November 2014
Details:	Mr Munkhsaikhan's fixed remuneration is an annual salary package of U$140,555 plus the compulsory taxes and social insurance applicable as an employee in Mongolia. In the event of termination of Mr Munkhsaikhan's employment other than in the case of misconduct, Mr Munkhsaikhan must give a minimum of 1 month's notice prior to termination, and the company must give 1 month's notice prior to termination. The company may, at its discretion, provide Mr Munkhsaikhan with payment of fixed remuneration in whole or in part in lieu of notice. For the avoidance of doubt, the company's right to make such a payment does not give the executive any right to receive such a payment.

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

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the period ended 31 December 2014 are set out below:

Name	Date	Shares	Issue price	$
M Wheatley *	10 November 2014	750,000	$0.00	–
D Clark *	10 November 2014	500,000	$0.00	–
M Langan **	10 November 2014	750,000	$0.10	75,000

* Exercise of share rights

** Ceased 3 November 2014

Options

Details of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the period ended 31 December 2014 are set out below:

Name	Grant date	Expiry date	Number of options granted	Value of options granted $	Value of options vested $	Number of options lapsed	Value of options lapsed $
Ganbayar L	27 May 2007	31 Dec 2014	–	–	–	2,000,000	–
Ganbayar L	19 Dec 2007	19 Dec 2014	–	–	–	1,000,000	–

Share rights

Details of share rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the period ended 31 December 2014 are set out below:

Name	Grant date	Expiry date	Number of rights	Value of rights granted $	Value of rights vested $	Number of rights lapsed	Value of rights lapsed $
M Wheatley	16 May 2014	28 Feb 2016	750,000	–	26,250	–	–
D Clark	16 May 2014	28 Feb 2016	500,000	–	17,500	–	–
M Langan	22 May 2013	26 Feb 2016	–	–	–	1,500,000	61,500
M Dambiinyam	28 Nov 2014	01 Jul 2017	1,000,000	15,060	–	–	–
B Lavin	01 Dec 2014	18 Sep 2017	1,000,000	46,666	–	–	–

Additional information

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

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

	2011*	2012*	2013*	Jun 2014*	Dec 2014**
Share price at financial year end ($)	0.50	0.19	0.03	0.04	0.10
Basic earnings per share (cents per share)	(2.75)	(3.73)	(9.41)	(4.09)	(1.21)
Diluted earnings per share (cents per share)	(2.75)	(3.73)	(9.41)	(4.09)	(1.21)

* 12 month period ending 30 June
** 6 month period ending 31 December

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the period	Received as part of remuneration	Additions*	Vesting of share rights	Balance at the end of the period
Ordinary shares					
M Wheatley	1,332,666	–	166,000	750,000	2,248,666
G Lloyd	4,733,333	–	125,000	–	4,858,333
Ganbayar L	14,389,565	–	–	–	14,389,565
H Badenach	625,000	–	392,738	–	1,017,738
D Clark	535,000	–	280,000	500,000	1,315,000
A Stewart	633,565	–	–	–	633,565
M Langan	–	750,000	–	–	750,000
	22,249,129	750,000	963,738	1,250,000	25,212,867

** On-market purchases and subscription under the company's non-renounceable rights issue.

B Lavin does not hold any shares in the company.

Option holding

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

	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other*	Balance at the end of the period
Options over ordinary shares					
Ganbayar L	3,000,000	–	–	(3,000,000)	–
B Thornton **	6,400,000	–	–	(6,400,000)	–
R Westphal ***	2,000,000	–	–	(2,000,000)	–
A Stewart	3,000,000	–	–	–	3,000,000
	14,400,000	–	–	(11,400,000)	3,000,000

* Options lapsed
** Resigned 28 February 2014
*** Resigned 22 November 2013

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

Share rights holding

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

	Balance at the start of the period	Granted**	Vested and exercised	Expired/ forfeited/ other	Balance at the end of the period
Share rights over ordinary shares					
A Stewart	1,800,000	–	–	–	1,800,000
M Langan*	1,500,000	–	–	(1,500,000)	–
M Wheatley	1,500,000	–	(750,000)	–	750,000
G Lloyd	4,000,000	–	–	–	4,000,000
Ganbayar L	1,800,000	–	–	–	1,800,000
D Clark	1,000,000	–	(500,000)	–	500,000
M Dambiinyam	–	1,000,000	–	–	1,000,000
B Lavin	–	1,000,000	–	–	1,000,000
	11,600,000	2,000,000	(1,250,000)	(1,500,000)	10,850,000

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

This concludes the remuneration report, which has been audited.

Shares under option

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

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

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

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

Shares under share rights

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

Grant date	Expiry date (vesting price)	Expiry price	Number under rights
22 May 2013	21 May 2016 (vesting price* $0.1870)	$0.00	1,800,000
22 November 2013	26 February 2016 (vesting price* range: $0.1393 - $0.1813)	$0.00	4,000,000
22 November 2013	21 May 2016 (vesting price range*: $0.1437 - $0.1870)	$0.00	1,800,000
16 May 2014	28 February 2016 (vesting price** $0.1800)	$0.00	1,250,000
28 November 2014	18 September 2017 (vesting price* range: $0.1847 - $0.3121)	$0.00	1,000,000
1 December 2014	1 July 2017 (vesting price range*: $0.1105 - $0.1870)	$0.00	1,000,000
			10,850,000

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

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

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

Shares issued on the exercise of options

There were no ordinary shares of Xanadu Mines Ltd issued on the vesting and exercise of options during the period ended 31 December 2014 and up to the date of this report.

Shares issued on the exercise of share rights

The following ordinary shares of Xanadu Mines Ltd were issued during the period ended 31 December 2014 and up to the date of this report on the vesting of share rights granted:

Date share rights granted	Expiry price	Number of shares issued
16 May 2014	$0.00	1,250,000

Directors' Report

continued

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

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

Non-audit services

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

Other services in relation to tax advice were provided by Ernst & Young during the financial year. The fees, excluding GST, were $1,250 (June 2014: $13,625) for those services. Therefore, the directors are satisfied that given the total quantum paid for the non-audit services provided during the financial year by Ernst & Young as the external auditor, the general standard of independence for auditors imposed by the Corporations Act was not comprised.

Officers of the company who are former audit partners of Ernst and Young

There are no officers of the company who are former audit partners of Ernst and Young.

Rounding of amounts

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

Auditor's independence declaration

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

Auditor

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

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

On behalf of the directors

Mark Wheatley
Non-Executive Chairman
13 March 2015

Auditor's Independence Declaration

Ernst & Young
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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 31 December 2014, 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

Ryan Fisk
Partner
Sydney
13 March 2015

Corporate Governance

1. Introduction

On 27 November 2014, Xanadu (or **the Company**) advised the change of its financial year end from 30 June to 31 December so that the Company could align its Australian and Mongolian statutory reporting obligations. As a result of this transition, the Company's full financial year period of six months was from 1 July 2014 to 31 December 2014, with the Company's subsequent financial year commencing 1 January 2015 for a period of 12 months which will end on 31 December 2015.

Prior to deciding to change its financial year end, for the period following the Company's 2014 AGM to February 2015, the Board had anticipated that it would take sufficient time to review its governance structure and adopt where practicable the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) (**3rd Edition ASX Principles**). A substantial restructure of the Company's governance framework and practices was carried out during this time, including:

- dissolution of the Utility Committee and establishment of the Governance Committee to assume remuneration and nomination related responsibilities as well as overall governance oversight;
- establishment of the Safety, Health and Environment Committee;
- redefining the role and responsibilities of the Audit Committee;
- charging the Board with the responsibility for risk oversight, in the absence of a dedicated 'risk committee'; and
- rearranging the membership of each Committee.

The dedicated review took place as scheduled, however it was not accelerated or boilerplate documents adopted prior to 31 December 2014 for the sole purpose that the Company could state it had adopted the 3rd Edition ASX Principles during the reporting period. Therefore, this Corporate Governance Statement:

- as required by ASX Listing Rule 4.10, reports within the framework of the 3rd Edition ASX Principles; however readers should acknowledge that the Company operated under the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition) (**2nd Edition ASX Principles**) during the reporting period and areas that Xanadu did not comply with the 3rd Edition ASX Principles have been highlighted as required; and
- provides relevant commentary concerning Xanadu's recent adoption of the 3rd Edition ASX Principles at its 6 March 2015 Meeting to indicate current and future intended compliance.

The Corporate Governance Statement is current as at 6 March 2015 and was approved by the Board on 6 March 2015. Xanadu's charters and policies are available on the Xanadu website under "About" then "Corporate" (refer http://www.xanadumines.com).

1.1. Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1:

The Board and Senior Management of the Company are committed to acting responsibly, ethically and with high standards of integrity as the Company strives to create shareholder value. The Board is responsible for the overall corporate governance of the Company and has developed and adopted corporate governance practices and policies appropriate for a Company of Xanadu's size and at its stage of development.

The Company has established functions reserved to the Board and some of these are set out in the Board Charter. The Board's primary role is the optimisation of Company performance and protection and enhancement of shareholder value. Its functions and responsibilities include:

- overseeing the Company's commitment to safe sustainable operations and the environment;
- setting strategic and policy direction;
- monitoring performance against strategy;
- identifying principal risks and opportunities and ensuring risk management systems are established and reviewed;
- approving and monitoring financial reports;
- capital management;
- regulatory compliance;
- significant business transactions;
- appointing Senior Management and monitoring performance, remuneration, development and succession;
- adopting procedures to ensure the business of the Company is consistent with Company values;
- continuous disclosure compliance;
- ensuring effective shareholder communication;
- ensuring the Board remains appropriately skilled;
- reviewing and approving corporate governance systems; and
- enhancing and protecting the Company's reputation.

The Board has delegated the authority and responsibility to its Managing Director to manage and administer the Company's general operations and to implement the strategic direction of the Company in accordance with instructions or directions issued by the Board.

Senior Executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

The functions delegated to each of the Managing Director and the Management team are set out in the Board Charter.

The composition of the Board has been formed on the basis of providing the Company with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. The names and further information regarding the skills, experience, qualifications, relevant expertise and term of office of the Directors are set out in the Directors' Report.

The Company's Non-Executive Directors have the right, at the Company's cost, to seek independent professional advice in carrying out of their duties as Directors. Any Director seeking independent advice must first discuss the request with the Chairman (or Committee Chairman as the case may be) who will facilitate obtaining such advice. The Chairman may determine that any advice received by a Director be circulated to the Board.

Following the recent review of Xanadu's governance practices, the Board adopted a new Board Charter. Under the Charter, the Board must consist of at least three members with a majority of Non-Executive Directors and the Chairman of the Board is to be an Independent Non-Executive Director. The newly adopted Board Charter is available on the Company's website under "About" then "Governance".

Recommendation 1.2:

When appointing new Directors, the Board and the Governance Committee consider the mix of skills and expertise required of Directors in order for the Board to contribute to the successful oversight and stewardship of the Company and to discharge its duties under the law diligently and efficiently.

Previously, the Utility Committee assisted the Board with nomination related tasks, including around the identification of a suitably qualified new Independent Non-Executive Director (Mr Barry Lavin, appointed 22 September 2014). Going forward, the Governance Committee will undertake work on behalf of the Board to identify qualified individuals for appointment to the Board. In identifying candidates, the Committee will have regard to the selection criteria set out in the Board appointment process, which include:

- skills, expertise and background that add to, and complement the range of skills, expertise and background of the existing Directors;
- diversity; and
- the extent to which the candidate would fill a present need on the Board.

At commencement of any Non-Executive Director selection process, the Company would undertake appropriate checks on potential candidates to consider their suitability to fill a casual vacancy on the Board or for election as a Non-Executive Director. Appropriate checks were undertaken for Mr Lavin prior to his appointment as an Independent Non-Executive Director.

Prior to appointment, candidates are required to provide the Chairman with details of other commitments and an indication of time involved, and to acknowledge that they will have adequate time to fulfil his or her responsibilities as a Non-Executive Director of Xanadu.

Directors available for re-election at a general meeting will be reviewed by the Governance Committee and recommended to the Board. Directors are re-elected in accordance with the Company's Constitution and the ASX Listing Rules. Shareholders will be provided with all material information for a Director's election in the Notice of Meeting that would be relevant for shareholders to make a decision on whether or not to elect or re-elect a Director, such as the Director's qualifications, experience and contribution to the Board.

Recommendation 1.3:

Newly appointed Non-Executive Directors receive formal letters of appointment setting out the key terms, conditions, responsibilities and expectations of their appointment. Additionally, the Company enters into employment contracts with each newly employed Senior Executive, setting out in further detail the responsibilities specifically delegated to them.

Recommendation 1.4:

The Company Secretary is accountable to the Board, through the Chairman on all governance matters to do with the proper functioning of the Board.

Recommendation 1.5:

Notification of Departure: *The Company does not have a formal policy concerning diversity and has not established measurable objectives for achieving gender diversity at this time. Given the size of the Company's workforce which is predominantly located in Mongolia, the Board has determined that it is not currently necessary or practicable to implement a policy concerning diversity and to establish measurable objectives for achieving gender diversity. The Board will consider and review matters relating to diversity, including whether it is necessary to establish formal policies and objectives as the Company matures.*

The table below outlines the proportion of women and men employed by Xanadu as at 31 December 2014:

	Women	Men
Board	1 (16.7%)	5 (83.3%)
Senior Management[1]	0 (0%)	3 (100%)
Managers	0 (0%)	4 (100%)

[1] Senior management includes all executives reporting directly to the Managing Director.

Recommendation 1.6:

The "Policy for the Evaluation of the Board, Committees and Senior Executives" outlines the process for the performance evaluation of the Board and its Committees. The Policy provides that the performance of the Board and its Committees will be regularly reviewed against appropriate measures and sets out the mechanisms for reviewing and evaluating performance.

Notification of Departure: *A review of the Board and its Committees occurred on several occasions by the Utility Committee during the first half of 2014. However, as the Board had intended to adjust its governance structure at the end of 2014/start of 2015 as described above, no formal evaluation took place during the six month reporting period ending 31 December 2014.*

Following the recent review of Xanadu's governance practices, the Company's policies regarding the evaluation of the Board, Committees and Senior Executives were incorporated into the Governance Committee Charter, thereby superceding the prior Policy. It is the role of the Governance Committee to evaluate the collective performance of the Board, the Chairman of the Board, the individual performance of all the Directors and senior management and report the results of the evaluation to the Board. It is the intention of the Governance Committee to undertake a thorough review of the performance of the Board and its Committees at its July 2015 Meeting.

The Governance Committee Charter is available on the Company's website under "About" then "Governance".

Recommendation 1.7:

The "Policy for the Evaluation of the Board, Committees and Senior Executives" outlines the process for the performance evaluation of Senior Executives. The Policy provides that the performance of senior executives will be regularly reviewed against appropriate measures and sets out the mechanisms for reviewing and evaluating performance.

Notification of Departure: *In March 2014, a performance evaluation of Senior Executives was undertaken and conducted by the Utility Committee (for final review by the Board) in accordance with the process disclosed under Recommendation 1.7. While no formal evaluation of Senior Executives was undertaken in accordance with the Policy during the six month reporting period ending 31 December 2014, the Governance Committee undertook a review in January 2015 and subsequently reported the same to the Board at its January 2015 Meeting.*

Following the recent review of Xanadu's governance practices, the Company's policies regarding evaluation of the Board, Committees and Senior Executives was incorporated into the Governance Committee Charter, thereby superceding the prior Policy. It is the role of the Governance Committee to evaluate the collective performance of the Board, the Chairman of the Board, the individual performance of all the Directors and Senior Management and report the results of the evaluation to the Board. The newly adopted Governance Committee Charter is available on the Company's website under "About" then "Governance".

1.2. Principle 2: Structure the Board to add value

Recommendation 2.1:

Notification of Departure: *During the reporting period, the Company did not have a Nominations Committee.*

In January 2014, the Nomination and Remuneration Committee was dissolved and the Board established the Utility Committee which had a broader corporate governance mandate. The Utility Committee's Terms of Reference set out the roles and responsibilities, composition, structure and the membership of the Utility Committee. All non-Committee members were invited to attend Committee Meetings in an ex-officio capacity.

The initial responsibilities of the Committee were to assist the Board with the review of Board composition, undertake a selection process to appoint an Independent Non-Executive Director and address any other matters referred to the Committee by the Board. The Board was responsible for other nomination related functions such as succession issues, and ensuring the Board had the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

During the reporting period, the Utility Committee comprised three members without a majority of Independent Non-Executive Directors. The Committee comprised one Independent Non-Executive Director, Dr Darryl Clark (Committee Chairman), one Non-Executive Director, Ms Hannah Badenach and one Executive Director, Mr George Lloyd.

Committee members' attendance at the Utility Committee Meetings are set out in the Directors' Report.

Governance Committee
Following the recent review of Xanadu's governance practices, the Utility Committee was dissolved and the Governance Committee was established to assist the Board in fulfilling its corporate governance responsibilities in regard to nomination related matters (amongst other items).

The Board has adopted a Governance Committee Charter. Under the Charter, the Committee must consist of at least three members with a majority of Independent Non-Executive Directors and the Chairman of the Committee is to be an Independent Non-Executive Director.

The Governance Committee comprises two Independent Non-Executive Directors, Mr Lavin (Committee Chairman) and Dr Clark and one Non-Executive Director, Ms Badenach.

The Governance Committee Charter is available on the Company's website under "About" then "Governance".

Recommendation 2.2:
Notification of Departure: *The Company has not developed a Board skills matrix at this time. The composition of the existing Board has been formed on the basis of providing the Company with the benefit of a broad range of technical and financial skills with specific industry and country knowledge, combined with an appropriate level of exploration and operations experience at a senior corporate level.*

Recommendation 2.3:
Directors are independent if they are not members of Management and are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

During the reporting period, the independence of Directors was measured having regard to the relationships listed in Box 2.1 of the 2nd Edition ASX Principles and the Company's materiality thresholds.

In the newly adopted Board Charter, the factors to measure the independence of Directors were updated to incorporate the additional criteria included in the 3rd Edition ASX Principles.

The following table sets out the Directors of the Company during the reporting period, including their length of service and non-executive and independent status.

Name	Appointment Date	Current Length of Service	Non-Executive?	Independent?
Mark Wheatley	9 November 2012	2 years and 3 months	Yes	Yes
George Lloyd	26 August 2013	1 year 6 months	No	No
Hannah Badenach	4 October 2011	3 years 5 months	Yes	No
Darryl Clark	9 November 2012	2 years 3 months	Yes	Yes
Barry Lavin	22 September 2014	5 months	Yes	Yes
Ganbayar Lkhagvasuren	28 August 2006	8 years 6 months	No	No

The current Board has six Directors comprising two Executive Directors and four Non-Executive Directors, three of which are Independent. The current members of the Board are:

- Mr Mark Wheatley – Independent Non-Executive Chairman
- Mr George Lloyd – Managing Director
- Ms Hannah Badenach – Non-Executive Director
- Dr Darryl Clark – Independent Non-Executive Director
- Mr Barry Lavin – Independent Non-Executive Director
- Mr Ganbayar Lkhagvasuren – Executive Director

Recommendation 2.4:

Notification of Departure: *The Board currently does not have a majority of Independent Directors. However to participate in a particular Board decision, each Director must bring an independent judgement to bear, otherwise in accordance with the Company's Conflict of Interest Protocols, abstain from participating in the deliberation.*

Under the Board Charter, the Board must consist of at least a majority of Non-Executive Directors.

Recommendation 2.5:

Mr Mark Wheatley was appointed as Independent Non-Executive Chairman on 25 November 2013.

The roles of the Chairman and Managing Director are not exercised by the same individual. The Board Charter sets out the distinct responsibilities of each role.

Recommendation 2.6:

New Directors undergo a formal induction program in which they are given a full briefing on Xanadu, its operations and the industry in which it operates. This includes meeting members of the existing Board, Company Secretary and the Senior Management for new Directors to familiarise themselves with the Company and Board practices and procedures. The Governance Committee is responsible for reviewing induction procedures for newly appointed Directors to facilitate their ability to discharge their responsibilities.

Mr Lavin was appointed as an Independent Non-Executive Director during the reporting period. As part of his formal induction, he met with fellow Directors and Senior Management and received a comprehensive induction pack containing documentation core to the Company.

To achieve continuing improvement in Board performance and to enhance the skills of Board members, all Directors may request and undertake training and professional development, as appropriate, at the Company's expense.

1.3. Principle 3: Promote ethical and responsible decision-making

Recommendation 3.1:

Code of Conduct

The Code of Conduct governs all XAM's commercial operations and the conduct of Directors, employees, contractors, consultants and all other people when they represent Xanadu ('Personnel').

The Company's Code of Conduct discloses the practices necessary to maintain confidence in the integrity of the Company and its subsidiaries, the practices necessary for the Company to fulfil its legal obligations, the responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour; and clarifies the standards of ethical behaviour required of the Board, Senior Executives and all employees to encourage the observance of those standards.

The Board monitors implementation of the Code. Breaches must be reported by employees or contractors to a supervisor and by Management or Directors to the Board or the Chairman. The Code protects individuals who, in good faith, report conduct which they reasonably believe to be corrupt, illegal or unethical on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

Following the recent review of Xanadu's governance practices, the Board adopted a new Code of Conduct. The newly adopted Code of Conduct is available on the Company's website under "About" then "Governance".

Securities Trading Policy

The Securities Trading Policy applies to all Personnel. The Policy prohibits Personnel from dealing in XAM securities while in possession of price-sensitive or inside information.

In addition, Directors and Senior Executives of the Company and its subsidiaries (Designated Persons) and any family member or associate over whom a Designated Person has influence (relevant persons), may deal in XAM securities by following the 'notice of intent to deal' procedures, but are prohibited from dealing in XAM securities (subject to exception circumstances) during certain blackout periods.

Designated Persons and relevant persons are prohibited from entering into hedging arrangements or otherwise permitting a grant of a charge over XAM's securities.

Directors and Senior Executives are not permitted to enter into transactions with securities (or any derivative thereof) in associated products which limit the economic risk of any unvested entitlements awarded under any equity-based remuneration scheme currently in operation or which will be offered by the Company in the future.

The Securities Trading Policy is available on the Company's website under "About" then "Governance".

1.4. Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1:

The Board had established an Audit and Risk Management Committee and adopted an Audit and Risk Management Committee Charter. Under the Charter, the Committee was to consist of at least three members, two of whom must be Independent Non-Executive Directors. Members were to be all financially literate, and at least one member was to have relevant financial qualifications and experience and all members were to have an understanding of the industry in which the Company operates.

During the reporting period, the Committee comprised two Independent Non-Executive Directors, Mr Wheatley and Dr Clark. Mr Wheatley was Committee Chairman and the Board believed that Mr Wheatley was appropriately qualified to be charged with the role and responsibility as Committee Chairman.

Committee members' qualifications and their attendance at the Audit and Risk Management Committee Meetings are set out in the Directors' Report. All the Committee members are financially literate and have an understanding of the industry in which the Company operates.

Notification of Departure: *Given the size and composition of the Board during the reporting period, the Committee did not have three members but instead the two Independent Non-Executive Directors served as Members. Following the appointment of a third Independent Non-Executive Director, going forward the Committee will have three members.*

In addition, the Chairman also served as Committee Chairman. This was considered appropriate given the Board's size and composition to date, however, the Committee Chairmanship will be considered by the Governance Committee during the year.

Audit Committee

Following the recent review of Xanadu's governance practices, the Board considered the scope of the Committee and determined that given the size and stage of development of the Company as well as its Board and Committee Meetings schedule, it would more appropriate for the Board to retain the responsibilities for risk oversight and the Board will consider risk periodically at its regular Meetings. The Board will in turn be supported by the Safety, Health and Environment Committee in respect of operational risk management and when required, by the Audit Committee for support with financial risk management matters. A new Audit Committee Charter was adopted.

Under the Charter, the Committee must consist of at least three members with a majority of Independent Non-Executive Directors and the Chairman of the Committee is to be an Independent Non-Executive Director. It is anticipated that at least one member has financial expertise or significant experience of financial, accounting and commercial matters and all Committee Members are to be financially literate.

The Audit Committee comprises two Independent Non-Executive Directors, Mr Wheatley (Committee Chairman) and Mr Lavin and an Executive Director, Mr Lkhagvasuren.

The newly adopted Audit Committee Charter is available on the Company's website under "About" then "Governance".

Recommendation 4.2:

Prior to Board approval of Xanadu's quarterly, half year and annual financial reports, the Managing Director and Chief Financial Officer must provide the Board with declarations required under section 295A of the Corporations Act 2001 (Cth) and Recommendation 4.2 of the 3rd Edition of the ASX Principles.

For the financial year ended 30 June 2014, the Managing Director and Chief Financial Officer provided the Board with declarations that, in their opinion, the financial records of Company had been properly maintained and that the financial statements complied with the appropriate accounting standards and gave a true and fair view of the financial position and performance of the Company and that the opinion had been formed on the basis of a sound system of risk management and internal control which was operating effectively.

A similar declaration will be given by the Managing Director and Chief Financial Officer in respect of the financial year ended 31 December 2014 and future Quarterly Reports.

Recommendation 4.3:

Xanadu's external auditor attends each Annual General Meeting (AGM) and is available to answer shareholder questions about the conduct of the audit and preparation and conduct of the Independent Auditor's Report. Xanadu believes this is important in both promoting and encouraging shareholder participation in the meeting and providing balanced and understandable information. The Company also considers that this reflects and underlines the role of the auditor and the auditor's accountability to shareholders.

1.5 Principle 5: Make timely and balanced disclosure

Recommendation 5.1:
The Board adopted a Communications and Continuous Disclosure Policy to ensure the Company's compliance with its disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules. The Policy outlines the procedures that apply to the central collection, control, assessment and if required, release to ASX, of material information.

The only persons authorised to speak to ASX or externally (such as analysts, investors, brokers or shareholders) in relation to the Company are the:

- Chairman;
- Managing Director;
- Chief Geologist; and
- Company Secretary.

Continuous Disclosure and Shareholder Communications Policy
Following the recent review of Xanadu's governance practices, the Board adopted a new Continuous Disclosure and Shareholder Communications Policy, thereby superceding the prior Policy. The new Policy incorporates Xanadu's shareholders' communication policy (as per the requirements under Principle 6) and is available on the Company's website under "About" then "Governance".

1.6. Principle 6: Respect the rights of security holders

Recommendation 6.1:
The Board's is committed to providing shareholders with sufficient information to enable them to assess the performance of Xanadu, and to inform shareholders of major developments affecting the state of affairs of Xanadu. Information is communicated to shareholders by lodging all relevant financial and other information with the ASX and publishing information on Xanadu's website, www.xanadumines.com.

Xanadu's website contains an overview of the Company's profile and businesses. The following Company and governance information is available on the website:

- Xanadu's strategy and projects;
- Board and Management profiles;
- Corporate Governance Charters and Policies;
- corporate directory, including Share Registry contact details;
- ASX announcements – current and historical;
- presentations;
- technical reports;
- financial and annual reports; and
- share price information.

Recommendation 6.2:
Xanadu will hold its AGM in May 2015 and the Chairman and the Managing Director will engage with shareholders in advance of the AGM, as appropriate.

Should shareholders wish to contact the Company, the contact details of Xanadu and its Share Registry (see below under Recommendation 6.4) are available on the Company's website.

Xanadu recognises the importance of its relationships with investors and analysts. The Managing Director is the primary contact for communicating with the investment community. Further details are contained in the Continuous Disclosure and Shareholder Communications Policy available on the Company's website under "About" then "Governance".

Recommendation 6.3:
To encourage shareholder engagement and participation at the AGM, shareholders have the opportunity to attend the AGM, ask questions on the floor, participate in voting and meet the Board and Management in person.

Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form accompanying the Notice of Meeting. Shareholders have the opportunity to submit written questions to the Company and external auditor, or make comments on the management of the Company and access AGM presentations and speeches made by the Chairman and Managing prior to the commencement of the meeting. The Company will publish results of the meeting to the ASX and on its website following the conclusion of the AGM.

Recommendation 6.4:
Shareholders have the option of receiving all shareholder communications (including notification that the Annual Report is available to view, Notices of Meeting and Payment Statements) by email. Shareholders can also subscribe to ASX announcement email alerts via the Xanadu website under "Contact" then "Alerts". Electronic communications have the added advantage of being more timely and cost effective, which benefits all shareholders.

The Company's contact details are available on the Company's website under "Contact". Shareholders can contact Xanadu via email at info@xanadumines.com.

1.7. Principle 7: Recognise and manage risk

Recommendation 7.1:

During the reporting period, the Audit and Risk Management Committee was responsible for assisting the Board in fulfilling its corporate governance responsibilities in regard to financial risk management, the oversight and management of material business risks and the effectiveness of the Company's management of its material business risks.

Notification of Departure: *Given the size and composition of the Board during the reporting period, the Committee did not have three members but instead the two Independent Non-Executive Directors served as Members. Following the appointment of a third Independent Non-Executive Director, the reconstituted Audit Committee now has three members.*

Risk Management Policy Statement

For the reporting period, the Board had adopted a Risk Management Policy Statement which sets out the roles and accountabilities of the Board, Audit and Risk Management Committee and Management, to identify, assess, monitor and manage the Company's risks and profile.

Key elements of the Policy were as follows:

- the Board oversees the establishment and implementation of risk management processes;
- the Audit and Risk Management Committee is responsible for establishment, implementation and maintenance of the Company's risk management systems and frameworks; and
- Senior Management is responsible for management of operational risk and the implementation of risk management strategies.

The Board approved risk management systems and reviewed those systems and their implementation periodically. The Company's risk profile, assessed and determined on the basis of the Company's businesses in mineral exploration, was also continually reviewed. The Board regularly considered specific/a range of risk management matters at its meetings.

During the period, the Company's risk management systems and control frameworks included:

- the Board's ongoing monitoring of management and operational performance;
- a system of budgeting, forecasting and reporting to the Board;
- approval procedures for significant expenditure above threshold levels;
- approval of treasury policy;
- review of tax risks; and
- the functioning of Audit & Risk Management Committee.

Following the recent review of Xanadu's governance former practices, the Risk Management Policy Statement has been superceded.

Audit Committee

Refer to commentary under Recommendation 4.1 for information about this Committee.

Following the recent corporate governance review, as stated earlier in this statement, the Board has assumed responsibility for risk oversight and establishment of the risk management framework.

In addition, the Board established the Safety, Health and Environment Committee to assist the Board in fulfilling its corporate governance responsibilities in regard to safety, health, environment and community matters concerning Xanadu, including operational risk management.

Under the Charter, the Committee must consist of at least three members with a majority of Non-Executive Directors and the Chairman of the Committee is to be an Independent Non-Executive Director.

The Safety, Health and Environment comprises three Independent Non-Executive Directors, Mr Lavin (Committee Chairman), Mr Wheatley and Dr Clark.

Recommendation 7.2:

The Board has required Management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires Management to report to it confirming that those risks are being managed effectively.

Notification of Departure: *In the six month reporting period, the Board did not receive formal questions from Management as to the effectiveness of the Company's management of its material business risks, however necessary assurances were given by the Managing Director and the Chief Financial Officer to the Board at the time of approving the financial statements for the year ended 30 June 2014. The Safety, Health and Environment Committee Meeting received a thorough presentation on the Company's management of its material operational business risks at its February 2015 Meeting, and as part of its presentation of the statutory accounts, Management will address the Board's questions on the Company's management of its material financial business risks at its March 2015 Meeting.*

Recommendation 7.3:
Notification of Departure: *The Company does not have an internal audit function at this time. Given the small size and scope of the Company's operations, the Board has not established an internal audit function. During the reporting period, the Audit and Risk Management Committee was responsible for oversight of the Company's internal processes and practices and assessing the effectiveness of the Company's risk management and internal control processes.*

Recommendation 7.4:
The Board recognises that material risks facing the Company are the more significant areas of uncertainty or exposure to the Company that could adversely affect the achievement of the Company's objectives and successful implementation of its business strategies.

The material risks, both financial and non-financial, facing the Company are as follows (in no particular order):

- country risk;
- commodity risk;
- exploration risk;
- protection of the Company's assets;
- maintenance of proper financial and accounting records;
- reliability of financial information;
- compliance with tax jurisdictions;
- compliance with key performance indicators;
- financial markets;
- retaining key personnel; and
- technical risk.

The Board will consider these material risks as part of its periodic risk management review, on an as required basis upon advices from either the Safety, Health and Environment Committee, the Audit Committee and Senior Management (including the Managing Director).

Further details about the Company's material business risks is set out in the Directors' Report.

1.8. Principle 8: Remunerate fairly and responsibly

Recommendation 8.1:
Notification of Departure: *During the reporting period, the Company did not have a Remuneration Committee.*

In January 2014, the Board established the Utility Committee (with a broader corporate governance mandate) after the Nomination and Remuneration Committee was dissolved.

The initial responsibilities of the Committee were to assist the Board with the review of Board composition, undertake a selection process to appoint an Independent Non-Executive Director and any other matters referred to the Committee by the Board. The Board was responsible for other remuneration related functions such as processes employed for setting the level and composition of remuneration for Directors and Senior Executives and ensuring that such remuneration is appropriate and not excessive.

Refer to commentary under Recommendation 2.1 for further information about this Committee.

Governance Committee
Following the recent review of Xanadu's governance practices, the Utility Committee was dissolved and the Governance Committee was established to assist the Board in fulfilling its corporate governance responsibilities in regard to remuneration related matters.

Refer to commentary under Recommendation 2.1 for further information about this Committee.

Recommendation 8.2:

Non-Executive Directors are paid fees from an aggregate sum approved by shareholders of the Company. There are no retirement schemes for Non-Executive Directors, other than superannuation. Non-Executive Directors are remunerated at a fixed fee for time, commitment and responsibilities and their remuneration is not linked to the operating performance of the Company. From time to time and where appropriate, the Company may issue equity-based incentives to Non-Executive Directors subject to shareholder approval. Details about equity-based incentives to Non-Executive Directors during the year are set out in the Remuneration Report.

Pay and rewards for executive Directors and Senior Executives consists of a base salary and performance incentives. Long term performance incentives may include share rights and options granted at the discretion of the Board and subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and these are reviewed annually to ensure market competitiveness.

Details of remuneration, including the Company's policy on remuneration, are contained in the Remuneration Report which forms part of the Directors' Report. The Company's remuneration policies are reflected in the Company's remuneration philosophy (as set out at the start of the Remuneration Report). The Company's remuneration philosophy is to establish competitive remuneration, including performance incentives, consistent with long term development and success, to ensure remuneration is fair and reasonable, taking into account all relevant factors, and within appropriate controls or limits, ensure performance and remuneration are appropriately linked, that all remuneration packages are reviewed annually or on an ongoing basis in accordance with Management's remuneration packages and that retirement benefits or termination payments (other than notice periods) will not be provided or agreed other than in exceptional circumstances.

There are no termination or retirement benefits for Non-Executive Directors (other than for superannuation).

Recommendation 8.3:

Directors and Senior Executives are not permitted to enter into transactions with securities (or any derivative thereof) in associated products which limit the economic risk of any unvested entitlements awarded under any equity-based remuneration scheme currently in operation or which will be offered by the Company in the future.

Statement of Profit or Loss and Other Comprehensive Income

For the period ended 31 December 2014

	Note	Consolidated 31 December 2014 $'000 (6 months)	30 June 2014 $'000 (12 months)
Revenue	5	36	94
Expenses			
Depreciation and amortisation expense		(45)	(149)
Deferred exploration and evaluation costs written off		(279)	(5,000)
Other expenses	6	(2,725)	(3,695)
Finance costs		(133)	–
Loss before income tax expense		(3,146)	(8,750)
Income tax expense	7	–	–
Loss after income tax expense for the period		(3,146)	(8,750)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(477)	334
Other comprehensive income for the period, net of tax		(477)	334
Total comprehensive income for the period		(3,623)	(8,416)
Loss for the period is attributable to:			
Non-controlling interest		(72)	(250)
Owners of Xanadu Mines Ltd	17	(3,074)	(8,500)
		(3,146)	(8,750)
Total comprehensive income for the period is attributable to:			
Non-controlling interest		245	(250)
Owners of Xanadu Mines Ltd		(3,868)	(8,166)
		(3,623)	(8,416)
		Cents	Cents
Basic earnings per share	31	(1.21)	(4.09)
Diluted earnings per share	31	(1.21)	(4.09)

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

Statement of Financial Position

As at 31 December 2014

	Note	Consolidated 31 December 2014 $'000	Consolidated 30 June 2014 $'000
Assets			
Current assets			
Cash and cash equivalents	8	7,508	4,427
Prepayment and other assets		120	261
Other receivables	9	361	112
Total current assets		7,989	4,800
Non-current assets			
Property, plant and equipment	10	435	411
Deferred exploration expenditure	11	29,864	27,075
Total non-current assets		30,299	27,486
Total assets		38,288	32,286
Liabilities			
Current liabilities			
Trade and other payables	12	446	586
Deferred acquisition consideration	13	5,520	–
Total current liabilities		5,966	586
Non-current liabilities			
Deferred acquisition consideration	14	–	10,595
Term loan - related party		3,064	2,135
Total non-current liabilities		3,064	12,730
Total liabilities		9,030	13,316
Net assets		29,258	18,970
Equity			
Issued capital	15	71,843	58,629
Reserves	16	8,215	8,312
Accumulated losses	17	(54,729)	(51,655)
Equity attributable to the owners of Xanadu Mines Ltd		25,329	15,286
Non-controlling interest	18	3,929	3,684
Total equity		29,258	18,970

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

Statement of Changes in Equity

For the period ended 31 December 2014

Consolidated	Issued capital $'000	Other reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2013	56,591	6,344	(334)	(43,155)	389	19,835
Loss after income tax expense for the period	–	–	–	(8,500)	(250)	(8,750)
Other comprehensive income for the period, net of tax	–	–	334	–	–	334
Total comprehensive income for the period	–	–	334	(8,500)	(250)	(8,416)
Transactions with owners in their capacity as owners:						
Share-based payments (Note 32)	84	–	–	–	–	84
Share issued during the year	2,043	–	–	–	–	2,043
Transaction costs	(89)	–	–	–	–	(89)
Recognition of non-controlling interest	–	–	–	–	3,545	3,545
Recognition of share-based payments	–	1,968	–	–	–	1,968
Balance at 30 June 2014	58,629	8,312	–	(51,655)	3,684	18,970

Consolidated	Issued capital $'000	Other reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2014	58,629	8,312	–	(51,655)	3,684	18,970
Loss after income tax expense for the period	–	–	–	(3,074)	(72)	(3,146)
Other comprehensive income for the period, net of tax	–	–	(794)	–	317	(477)
Total comprehensive income for the period	–	–	(794)	(3,074)	245	(3,623)
Transactions with owners in their capacity as owners:						
Share-based payments (Note 32)	75	(90)	–	–	–	(15)
Shares issued during the year	13,636	–	–	–	–	13,636
Transaction costs	(497)	–	–	–	–	(497)
Receipts for shares alloted post year end issue	–	787	–	–	–	787
Balance at 31 December 2014	71,843	9,009	(794)	(54,729)	3,929	29,258

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

Statement of Cash Flows

For the period ended 31 December 2014

	Note	Consolidated 31 December 2014 $'000 (6 months)	Consolidated 30 June 2014 $'000 (12 months)
Cash flows from operating activities			
Payments to suppliers and employees		(2,587)	(2,620)
Interest received		36	127
Other revenue		–	9
Interest and other finance costs paid		(2)	–
Net cash used in operating activities	30	(2,553)	(2,484)
Cash flows from investing activities			
Payments for property, plant and equipment	10	(116)	(58)
Payments for exploration and evaluation	11	(2,788)	(5,581)
Payments for security deposits		(5)	–
Payments of deferred consideration		(6,568)	–
Proceeds from disposal of subsidiaries		1	–
Proceeds from sale of property, plant and equipment		–	466
Exploration and evaluation expenditure		–	(1,140)
Net cash used in investing activities		(9,476)	(6,313)
Cash flows from financing activities			
Proceeds from issue of shares	15	14,423	1,718
Funds contributed by related party		–	4,293
Proceeds of term loan from related party		798	2,134
Transaction costs on issue of shares		(497)	(89)
Net cash from financing activities		14,724	8,056
Net increase/(decrease) in cash and cash equivalents		2,695	(741)
Cash and cash equivalents at the beginning of the financial period		4,427	5,642
Effects of exchange rate changes on cash and cash equivalents		386	(474)
Cash and cash equivalents at the end of the financial period	8	7,508	4,427

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

Notes to the Financial Statements

For the period ended 31 December 2014

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 six months period ended 31 December 2014. The nature of the operations and principal activities of the group are described in the directors' report.

Note 2. Significant accounting policies

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

Any significant impact on the accounting policies of the group from the adoption of these Accounting Standards and Interpretations are disclosed below. 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:

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The group has applied AASB 2012-3 from 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

The group has applied AASB 2013-3 from 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting

The group has applied AASB 2013-4 from 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations.

AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities

The group has applied AASB 2013-5 from 1 January 2014. The amendments allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard.

AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (Part B)

The group has applied Part B of 2013-9 from 1 January 2014, which amends particular Australian Accounting Standards to delete references to AASB 1031 Materiality as part of the AASB's aim to eventually withdraw AASB 1031.

Note 2. Significant accounting policies (continued)

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)

The group has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

AASB 1031 Materiality

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed. AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Change in financial year end date

The company obtained approval from the Australian Securities and Investments Commission ("ASIC") to change its financial year end from 30 June to 31 December. The change 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 current financial period is a six month period from 1 July 2014 to 31 December 2014. Consequently, the statement of profit or loss and other comprehensive income and statement of cash flows of the December 2014 Transitional Year are for six month ended 31 December 2014 and are not entirely comparable. Effective 1 January 2015, the financial years of the company are for twelve months ending 31 December.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the group only. Supplementary information about the parent entity is disclosed in Note 24.

Note 2. Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Xanadu Mines Ltd ('company' or 'parent entity') as at 31 December 2014 and the results of all subsidiaries for the period then ended. Xanadu Mines Ltd and its subsidiaries together are referred to in these financial statements as the 'group'.

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

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

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

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

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

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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

Revenue recognition

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

Interest income

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

Other revenue

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

Note 2. Significant accounting policies (continued)

Income tax

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

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

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

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

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

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

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

Other taxes

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

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

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

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Note 2. Significant accounting policies (continued)

Deferred exploration and evaluation expenditure

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Impairment losses are recognised in the income statement.

Investment in Joint Venture

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

Rehabilitation of property

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

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

- uncertainty as to the remaining life of existing operating sites; and
- the impact of changes in environmental legislation.

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

Impairment of non-financial assets

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

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

Note 2. Significant accounting policies (continued)

Trade and other payables

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

Fair value measurement

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

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

Issued capital

Ordinary shares are classified as equity.

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

Business combinations

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

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

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

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

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

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

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

Earnings per share

Basic earnings per share

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

Note 2. Significant accounting policies (continued)

Diluted earnings per share

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

Share-based payment transactions

In addition to consulting fees and salaries, the consolidated entity provides benefits to certain directors and employees of the consolidated entity in the form of share-based payment transactions, whereby directors and employees render services in exchange for shares or rights over shares ("equity-settled transactions").

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

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

The cumulative expenses recognised for equity-settled transactions at each reporting date until vesting date reflects

i. the extent to which the vesting period, if any, has expired; and

ii. the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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

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

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the reporting period ended 31 December 2014. The group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

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

Recognition of asset of acquisition

In determining the recognition of asset and business acquisitions, an assessment of the underlying assets and operations of the acquired entity is completed where the Group acquires an entity for tenements only, rather than acquiring an operation with clear distinct processes, the acquisition is deemed to be an asset acquisition rather than a business combination.

Share-based payment transactions

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

Carrying value of exploration assets

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

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in Note 10.

Consolidation of entities in which the group holds less than majority of voting rights

The group considers that it controls Mongol Metals LLC. The group has a majority of representatives on the board and can effectively direct the activities of the company. Based on the structure of the board and the financial relationship with the company, Mongol Metals LLC is consolidated into the group's consolidated financial statements.

Note 4. 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 5. Revenue

	Consolidated	
	31 December 2014 $'000 (6 months)	30 June 2014 $'000 (12 months)
Interest	36	85
Rental and other revenue	–	9
Revenue	36	94

Note 6. Other expenses

	Consolidated	
	31 December 2014 $'000 (6 months)	30 June 2014 $'000 (12 months)
Other expenses		
Administration and other expenses	1,086	949
Bad debt written off	–	31
Net foreign currency loss	463	662
Loss on disposal of subsidiaries	38	79
Wages and management fees	985	1,755
Share-based payments	153	219
	2,725	3,695

Included in administration and other expenses are $242,000 (June 2014: nil) incurred for transactional costs and $90,000 (June 2014: nil) rent expense recognised over the rent free period.

Note 7. Income tax expense

	Consolidated	
	31 December 2014 $'000 (6 months)	30 June 2014 $'000 (12 months)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(3,146)	(8,750)
Tax at the statutory tax rate of 30%	(944)	(2,625)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax effect of expenses not allowed for tax purposes	18	104
	(926)	(2,521)
Current period tax losses not recognised	663	2,461
Difference in overseas tax rates - Mongolia at 25% (June 2014: 25%)	203	56
Difference in overseas tax rates - Singapore at 17% (June 2014: 17%)	60	4
Income tax expense	–	–

At the reporting date, the group has estimated tax losses of $16,856,000 (June 2014: $16,193,000). A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available to use against such losses.

Note 8. Current assets – cash and cash equivalents

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Cash at bank and on hand	7,508	2,342
Restricted cash*	–	2,085
	7,508	4,427

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

*Restricted cash was proceeds of a drawdown on the Noble facility where funds were not cleared until 1 July 2014.

Note 9. Current assets – Other receivables

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Sundry debtors	118	79
GST recoverable	243	33
	361	112

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

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

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Plant and equipment – at cost	339	507
Less: Accumulated depreciation	(153)	(290)
	186	217
Motor vehicles – at cost	353	353
Less: Accumulated depreciation	(104)	(159)
	249	194
	435	411

Reconciliations

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

Consolidated	Land & Buildings $'000	Plant & Equipment $'000	Motor Vehicles $'000	Total $'000
Balance at 1 July 2013	757	219	247	1,223
Additions	–	101	40	141
Disposals	(757)	(17)	(30)	(804)
Depreciation expense	–	(86)	(63)	(149)
Balance at 30 June 2014	–	217	194	411
Additions	–	61	55	116
Exchange differences	–	(65)	14	(51)
Depreciation expense	–	(27)	(14)	(41)
Balance at 31 December 2014	–	186	249	435

Note 11. Non-current assets – Deferred exploration expenditure

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Deferred exploration expenditure	29,864	27,075

Reconciliations

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

Consolidated	Exploration and evaluation $'000
Balance at 1 July 2013	12,955
Acquisition of tenements	17,719
Expenditure during the period	1,345
Expenditure written off on relinquishment of exploration licences	(516)
Expenditure subject to impairment written off during the year	(4,428)
Balance at 30 June 2014	27,075
Expenditure during the period	2,788
Revaluation increments	280
Impairment of assets*	(279)
Balance at 31 December 2014	29,864

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

Note 12. Current liabilities – trade and other payables

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Trade payables	100	307
Accrued expenses	346	279
	446	586

Refer to Note 20 for further information on financial risk management objectives and policies.

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

Note 13. Current liabilities – Deferred acquisition consideration

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Deferred acquisition consideration	5,520	–

During the 30 June 2014 financial year, Xanadu and Ganbayar Lkhagvasuren formed a joint venture company Mongol Metals LLC for the purpose of acquiring the Kharmagtai copper and gold project. Mongol Metals LLC acquired the project through the acquisition of 90% of the shares in Oyut Ulaan LLC which owns the project. At 31 December 2014, Xanadu has a 67.5% shareholding in Mongol Metals LLC and effectively controls that entity.

The purchase price was $14,667,000 (US$14,000,000) of which $4,237,600 (US$4,000,000) was contributed by Ganbayar Lkhagvasuren to fund the initial payment. The remaining $10,595,000 (US$10,000,000) is payable within 18 months of completion. Xanadu has guaranteed the payment of the deferred consideration. Xanadu has funded the joint venture to facilitate exploration activity since completion. Xanadu has an obligation to pay 50% of the net proceeds from any equity capital raised or asset sales towards the deferred acquisition consideration of the $10,595,000 (US$10,000,000), Xanadu paid $6,568,000 (US$5,500,000) during the period, funded through its private placement and rights issue, leaving the balance owing of $5,500,000 (US$4,500,000) after allowing for foreign exchange differences as at 31 December 2014.

On 5 January 2015, the company made a further payment of $500,000 (US$400,000). The current balance of deferred consideration is $5,200,000 (US$4,100,000) as at the date of this report. On 16 February 2015, the repayment date has been extended by eight months to 31 July 2016.

Note 14. Non-current liabilities – Deferred acquisition consideration

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Deferred acquisition consideration	–	10,595

Refer to Note 20 for further information on financial risk management objectives and policies.

The deferred acquisition consideration has been reclassified to current liability as at 31 December 2014.

Note 15. Equity – issued capital

	Consolidated			
	31 December 2014 Shares	30 June 2014 Shares	31 December 2014 $'000	30 June 2014 $'000
Ordinary shares - fully paid (net of transaction cost)	354,763,294	241,536,839	71,843	58,629

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 July 2013	199,256,390	56,591
Managing Director as per employment contract		1,000,000	60
Vendor of Oyut Ulaan Mining Tenement		5,000,000	325
Placement to fund the Kharmagtai Project		8,211,459	394
Placement to fund the Kharmagtai Project		27,568,990	1,235
Issue Pursuant to Xanadu Equity Incentive Plan		500,000	24
Balance	30 June 2014	241,536,839	58,629
Exercise of share rights	10 November 2014	1,250,000	–
Issue of shares to KMP	10 November 2014	750,000	75
Share placement – tranche 1	5 December 2014	60,247,663	7,386
Share placement – tranche 2	17 December 2014	50,978,792	6,250
Transaction costs		–	(497)
Balance	31 December 2014	354,763,294	71,843

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 proceeds from the issue of shares during the period is $786,947 in relation to the rights issue offer announced on 25 November 2014, which closed on 23 December 2014. New shares were allotted on 2 January 2015. Given the shares were issued post year end this amount is disclosed in other reserves at year end.

Share buy-back

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

Capital risk management

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

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

The capital risk management policy remains unchanged from the June 2014 Annual Report.

Note 16. Equity - reserves

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Foreign currency reserve	(794)	–
Share-based payments reserve	8,222	8,312
Other reserves	787	–
	8,215	8,312

Share-based payments – Employee benefits

This reserve is used to record the value of equity benefits provided to directors, employees and external service providers as part of their fees and remuneration.

Share-based payments – Acquisition of tenements

This reserve is used to record in equity the value of equity issued to the vendor of the Oyut Ulaan Project as part of the acquisition consideration.

Foreign currency translation reserve

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

Other reserve

As at 31 December 2014, $786,947 were received in relation to the rights issue offer announced on 25 November 2014, which closed on 23 December 2014. New shares were alloted on 2 January 2015. Given the shares were issued post year end this amount is disclosed in other reserve at year end.

Movements in reserves

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

Consolidated	Share - based payments $'000	Foreign curency translation $'000	Other $'000	Total $'000
Balance at 1 July 2013	6,344	(334)	–	6,010
Share-based payments – employee benefits	219	–	–	219
Share-based payments – acquisition of tenements	1,749	–	–	1,749
Foreign currency translation reserve	–	334	–	334
Balance at 30 June 2014	8,312	–	–	8,312
Share-based payments - employee benefits	(90)	–	–	(90)
Foreign currency translation	–	(794)	–	(794)
Rights issue alloted post year end *	–	–	787	787
Balance at 31 December 2014	8,222	(794)	787	8,215

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

Note 17. Equity – accumulated losses

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Accumulated losses at the beginning of the financial period	(51,655)	(43,155)
Loss after income tax expense for the period	(3,074)	(8,500)
Accumulated losses at the end of the financial period	(54,729)	(51,655)

Note 18. Equity – non-controlling interest

	Consolidated	
	31 December 2014 $'000	30 June 2014 $'000
Retained profits	3,929	3,684

Note 19. Equity – dividends

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

Note 20. Financial risk management objectives and policies

Financial risk management

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

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

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

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

Market risk

Foreign currency risk

As a result of significant operations in Mongolia and the majority of expenditure being denominated in United States Dollars, the group's balance sheet can be affected significantly by movements in the US$/A$ exchange rates. The group seeks to mitigate the effect of its foreign currency exposure by holding part of its cash reserves in US Dollars.

The group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Note 20. Financial risk management objectives and policies (continued)

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

	Assets		Liabilities	
Consolidated	31 December 2014 $'000	30 June 2014 $'000	31 December 2014 $'000	30 June 2014 $'000
Cash and cash equivalents	428	2,187	–	–
Term loan – related party	–	–	3,064	2,135
Deferred acquisition consideration	–	–	5,520	10,594
	428	2,187	8,584	12,729

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

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

	AUD strengthened			AUD weakened		
Consolidated - 30 June 2014	% change	Effect on profit after tax	Effect on equity	% change	Effect on profit after tax	Effect on equity
AUD/USD	10%	1,054	1,054	(10%)	(1,054)	(1,054)

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

Interest rate risk

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

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

	31 December 2014		30 June 2014	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash and cash equivalents	2.40%	7,508	–%	4,427
Interest bearing loans and borrowings	10.25%	(3,064)	–%	(2,135)
Net exposure to cash flow interest rate risk		4,444		2,292

Note 20. Financial risk management objectives and policies (continued)

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

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

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

	Basis points increase			Basis points decrease		
Consolidated - 30 June 2014	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Net interest rate risk exposure	100	22	22	(100)	(22)	(22)

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

Credit risk

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

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

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

Liquidity risk

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

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

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

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

Fair value

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

Note 21. Key management personnel disclosures

Directors

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

Mark Wheatley	Independent Non-Executive Director and Chairman
George Lloyd	Managing Director and Chief Executive Officer
Ganbayar Lkhagvasuren	Executive Director - Mongolia
Hannah Badenach	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Barry Lavin	Independent Non-Executive Director (appointed 22 September 2014)

Other key management personnel

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

Munkhsaikhan Dambiinyam	Chief Financial Officer (appointed 3 November 2014)
Mark Langan	Chief Financial Officer (ceased 3 November 2014)
Andrew Stewart	Chief Geologist and Country Manager

Compensation

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

	Consolidated	
	31 December 2014 $ (6 months)	30 June 2014 $ (12 months)
Short-term employee benefits	579,002	1,249,110
Post-employment benefits	54,677	105,856
Share-based payments	175,036	303,633
	808,715	1,658,599

Transactions with key management personnel - prior period

On 13 December 2013, the company announced it had established a joint venture company, Mongol Metals LLC. The joint venture partner is Ganbayar Lkhagvasuren a director of the company. The arrangements concerning the Mongol Metals LLC joint venture were approved by shareholders. During the period, Xanadu has increased its interests from 13% to 67.5% shareholding in Mongol Metals LLC and effectively controls that entity.

On 2 April 2014, the company announced it had sold its 64% interest in the Ulaanbaatar office building to Ganbayar Lkhagvasuren a director of the company. The sale was for cash and a rent free period amounting to $677,636. The sale price was supported by an independent valuation. The rent free period expires on 30 November 2015.

Note 22. Remuneration of auditors

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

	Consolidated	
	31 December 2014 $ (6 months)	30 June 2014 $ (12 months)
Audit services - Ernst and Young		
Audit or review of the financial statements	64,000	92,500
Other services - Ernst and Young		
Tax services	1,250	13,625
	65,250	106,125

Note 23. Contingent liabilities

Under the Mongolian tax laws, any amounts paid to acquire or associated with the transfer of an exploration or mining license are considered to be a sale of mineral rights and the acquirer of the license 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. The company is in the process of assessing whether there is an exposure under the tax rules in light of recent developments.

There are no other material contingent liabilities relating to the company and/or the group.

Note 24. Commitments

Commitments in relation to exploration licences contracted at the reporting date, including regulatory charges such as license fees, but not recognised as liabilities within one year are $1,212,620 (30 June 2014: $309,437). As the future exploration activity is in most cases dependent upon reserves being found it is not possible to set out the funds due to be contributed in more than one year's time.

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

No other commitments or contingencies existed at 31 December 2014.

Note 25. Related party transactions

Parent entity

Xanadu Mines Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 27.

Key management personnel

Disclosures relating to key management personnel are set out in Note 21 and the remuneration report in the directors' report.

Transactions with related parties

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

Receivable from and payable to related parties

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

Loans to/from related parties

In the prior year, Noble Resources International Pte Ltd made a variable rate loan to Xanadu at LIBOR +10%. At 31 December 2014, the amount drawn down is $3,064,000 (30 June 2014: $2,135,000).

Terms and conditions

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

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	31 December 2014 $'000	30 June 2014 $'000
Loss after income tax	(1,812)	(11,271)
Total comprehensive income	(1,812)	(11,271)

Statement of financial position

	Parent	
	31 December 2014 $'000	30 June 2014 $'000
Total current assets	7,138	2,222
Total assets	26,427	13,079
Total current liabilities	144	341
Total liabilities	144	341
Equity		
Issued capital	71,843	58,629
Share-based payments reserve	8,222	8,311
Other reserves	2,232	–
Accumulated losses	(56,014)	(54,202)
Total equity	26,283	12,738

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The company has entered into a guarantee for the obligations of Mongol Metals LLC in relation to the deferred consideration payable for the acquisition of the Kharmagtai Project.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2014.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 31 December 2014.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the group, as disclosed in Note 2, except for the following:

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

Note 27. Interests in subsidiaries

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

Name	Principal place of business/ Country of incorporation	Ownership interest 31 December 2014 %	Ownership interest 30 June 2014 %
Xanadu Mines Mongolia LLC*	Mongolia	–%	100.00%
Xanadu Exploration Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Metals Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Copper Mongolia LLC	Mongolia	100.00%	100.00%
Xanadu Mines Singapore Pte Ltd	Singapore	100.00%	100.00%
Khuiten Metals Pte Ltd	Singapore	100.00%	100.00%
Mongol Metals LLC **	Mongolia	67.50%	13.00%
Vantage LLC	Mongolia	90.00%	90.00%
Oyut Ulaan LLC	Mongolia	90.00%	90.00%
Altan Xanadu LLC*	Mongolia	–%	80.00%
Xanadu South Gobi Copper LLC*	Mongolia	–%	51.00%

* Disposal of subsidiary.

** Increase in ownership interest through new shares issue.

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

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

Name	Principal place of business/ Country of incorporation	Principal activities	Parent: Ownership interest 31 December 2014 %	Parent: Ownership interest 30 June 2014 %	Non-controlling interest: Ownership interest 31 December 2014 %	Non-controlling interest: Ownership interest 30 June 2014 %
Mongol Metals LLC	Mongolia	Mining and exploration	67.50%	13.00%	32.50%	87.00%
Vantage LLC	Mongolia	Mining and exploration	90.00%	90.00%	10.00%	10.00%
Oyut Ulaan LLC	Mongolia	Mining and exploration	90.00%	90.00%	10.00%	10.00%

Note 28. Events after the reporting period

On 2 January 2015, the company announced the issue of 8,590,785 shares at $0.12 per share, raising $1,030,894 (of which $786,947 was received as at 31 December 2014) in relation to the rights issue made pursuant to the offer document dated 4 December 2014 and which closed on 23 December 2014.

On 5 January 2015, the company made a further payment of $0.5 million of the deferred consideration for the Kharmagtai project. The current balance of deferred consideration is $5.5 million (US$4.1 million).

On 22 January 2015, the company announced that Managing Director and CEO, George Lloyd, will step down from his role with effect from 1 July 2015.

On 16 February 2015, the repayment date of the deferred consideration for the Kharmagtai project has been extended by eight months to 31 July 2016. On the basis that a future capital raising occurs, 50% of the funds raised will go towards repayment of the deferred consideration.

On 5 March 2015, the company announced that Noble Resources International Pte Ltd ('Noble') has further subscribed for 5,547,885 shares at 12 cents per share raising $665,746 in relation to the rights issue shortfall placement made pursuant to the offer document dated 4 December 2014. This brings the balance of the deferred consideration down to approximately $5.2 million (US$3.8 million).

No other matter or circumstance has arisen since 31 December 2014 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 29. Interest in joint operation

On 13 June 2014, Xanadu announced that it had sold its 50% interest in the joint venture with The Noble Group known as Ekhgoviin Chuluu LLC. The 50% interest was sold to Aspire Mining Ltd for up to 15 million Aspire Mining Ltd shares based on project milestones being met.

In the prior period, the group recognised the following joint venture assets in its statement of financial position:

	Consolidated	
	31 December 2014	30 June 2014
Financial performance		
Profit/(loss) for the year	–	(678)

i. Xanadu Mines Ltd had no further commitment to the joint venture as at 31 December 2014.

ii. The carrying value of the interest in the joint venture was written down to $850,000 at 30 June 2013. This remaining value was written down on sale to nil.

Note 30. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	31 December 2014 $'000 (6 months)	30 June 2014 $'000 (12 months)
Loss after income tax expense for the period	(3,146)	(8,750)
Adjustments for:		
Depreciation and amortisation	45	149
Net loss on disposal of property, plant and equipment	–	79
Share-based payments	153	304
Foreign exchange differences	463	661
Impairment of deferred exploration and evaluation assets	–	4,979
Interest on loan capitalised	131	–
Loss on disposal of subsidiaries	38	–
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(143)	146
Decrease in trade and other payables	(94)	(52)
Net cash used in operating activities	(2,553)	(2,484)

Note 31. Earnings per share

	Consolidated	
	31 December 2014 $'000 (6 months)	30 June 2014 $'000 (12 months)
Loss after income tax	(3,146)	(8,750)
Non-controlling interest	72	250
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(3,074)	(8,500)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	255,098,626	207,823,960
Weighted average number of ordinary shares used in calculating diluted earnings per share	255,098,626	207,823,960

	Cents	Cents
Basic earnings per share	(1.21)	(4.09)
Diluted earnings per share	(1.21)	(4.09)

Note 32. Share-based payments

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

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

31 December 2014

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

* Lapsed during the period.

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

30 June 2014

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

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

The weighted average exercise price during the financial period was $0.62 (2013: $0.65).

Note 32. Share-based payments (continued)

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

31 December 2014

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

* Lapsed during the period.

30 June 2014

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
22/05/2013	23/05/2016	$0.00	3,300,000	–	–	–	3,300,000
22/11/2013	23/05/2016	$0.00	–	1,800,000	–	–	1,800,000
22/11/2013	26/02/2016	$0.00	–	4,000,000	–	–	4,000,000
16/05/2014	28/02/2016	$0.00	–	2,500,000	–	–	2,500,000
			3,300,000	8,300,000	–	–	11,600,000

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

- 2,400,000 share rights which may vest after 21 May 2015 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1437;
- 1,200,000 share rights which may vest after 21 May 2016 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1870;
- 2,300,000 share rights which may vest after 26 February 2015 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1393;
- 1,700,000 share rights which may vest after 26 February 2016 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1813;
- 1,250,000 share rights that may vest after 9 November 2015 should the share price meet or exceed $0.18 as traded on the ASX for 3 consecutive trading days between 1 March 2015 up to and including 28 February 2016;
- 300,000 share rights which may vest after 1 June 2015 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1105;
- 350,000 share rights which may vest after 1 June 2016 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1437;
- 350,000 share rights which may vest after 1 June 2017 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1870;
- 333,333 share rights which may vest after 18 September 2015 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.1847;
- 333,333 share rights which may vest after 18 September 2016 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.2401; and
- 333,334 share rights which may vest after 18 September 2017 if the closing price of shares on any 3 consecutive trading days in the prior 12 month period exceeds $0.3121.

Note 32. Share-based payments (continued)

For the share rights granted during the June and December 2014 financial periods, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Vesting date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
22/11/2013	23/05/2014	$0.04	$0.00	90.00%	–%	2.85%	$0.026
22/11/2013	23/05/2015	$0.02	$0.00	90.00%	–%	2.85%	$0.022
22/11/2013	23/05/2016	$0.01	$0.00	90.00%	–%	2.85%	$0.017
22/11/2013	22/02/2014	$0.05	$0.00	90.00%	–%	3.63%	$0.056
22/11/2013	26/02/2015	$0.05	$0.00	90.00%	–%	3.63%	$0.053
22/11/2013	26/02/2016	$0.04	$0.00	90.00%	–%	3.63%	$0.046
17/05/2014	09/11/2014	$0.03	$0.00	90.00%	–%	3.63%	$0.035
17/05/2014	09/11/2015	$0.03	$0.00	90.00%	–%	3.63%	$0.034
28/11/2014	18/09/2015	$0.05	$0.00	139.00%	–%	2.75%	$0.025
28/11/2014	18/09/2016	$0.05	$0.00	139.00%	–%	2.75%	$0.016
28/11/2014	18/09/2017	$0.05	$0.00	139.00%	–%	2.75%	$0.005
01/12/2014	01/06/2015	$0.10	$0.00	125.00%	–%	3.00%	$0.075
01/12/2014	01/06/2016	$0.10	$0.00	125.00%	–%	3.00%	$0.050
01/12/2014	01/06/2017	$0.10	$0.00	125.00%	–%	3.00%	$0.015

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

During the June 2014 financial year end, 35,000,000 share rights were also issued to the vendors of the Oyut Ulaan project as follows. Vesting of Series A (15,000,000) is contingent on recognition of a JORC resource of at least 300,000 tonnes contained copper equivalent, and Series B (20,000,000) is contingent on the recognition of a JORC resource of at least 900,000 tonnes contained copper equivalent.

The valuation model inputs used to determine the fair value at the grant date, are:

- Expiry date 16 January 2019
- Risk free interest rate 4.0%
- Exercise price nil
- Share price at grant date 5.0 cents
- Fair value per right 5.0 cents

	Consolidated	
	31 December 2014	30 June 2014
Fair value of share rights issued to the vendors of the Oyut Ulaan project:		
Series A 15,000,000 share rights which may be exercised in the three months after the third day after the Company defines and announces a JORC Code compliant resource of at least 300,000 tonnes of contained copper equivalent or if the Company fails to meet the US$1,000,000 minimum expenditure commitment of 18 months after approval of the transaction by the Government of Mongolia	–	750
Series B 20,000,000 share rights which may be exercised in the three months after the third day after the Company defines and announces a JORC Code compliant resource of at least 900,000 tonnes of contained copper equivalent or if the Company fails to meet the US$3,000,000 minimum expenditure commitment 30 months after approval of the transaction by the Government of Mongolia	–	1,000
	–	1,750

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the group's financial position as at 31 December 2014 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Mark Wheatley
Non-Executive Chairman
13 March 2015

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

Building a better working world

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

Report on the financial report

We have audited the accompanying financial report of Xanadu Mines Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

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

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Opinion

In our opinion:

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

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the six month ended on that date; and

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

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

Report on the remuneration report

We have audited the Remuneration Report included in directors' report for the six month period ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Xanadu Mines Limited for the six month period ended 31 December 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ryan Fisk
Partner
Sydney
13 March 2015

ASX Additional Information

Additional information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below. The information is current as at 23 March 2015.

(a) Substantial Shareholders

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

Fully paid ordinary shares

Name	Number of Shares	Percentage of Shares
Sakari Energy Trading Pte Ltd	24,642,332	6.95%[1]
Noble Resources International Pte. Ltd.	33,478,041	9.00%[2]
CAAF Limited	119,302,461	32.07%[3]
Khan Mongolia Equity Fund	119,302,461	32.07%[3]
Copperplate Success Limited	119,302,461	32.07%[3]
Brian Thornton	21,687,371	6.11%[4]

[1] As notified to Xanadu on 18 December 2014.
[2] As notified to Xanadu on 20 March 2015.
[3] As notified to Xanadu on 23 March 2015. CAAF Limited, Khan Mongolia Equity Fund and Copperplate Success Limited are associates as defined in the Corporations Act 2001 (Cth).
[4] As notified to Xanadu on 19 December 2014.

(b) Number of security holders and securities on issue

Quoted securities

Xanadu has issued 371,978,226 fully paid ordinary shares held by 919 shareholders.

Unquoted securities

Share rights

Xanadu has issued 6,850,000 unquoted share rights with various vesting prices held by 6 right holders. For the purposes of ASX Listing Rule 4.10.7, each right holder holds more than 100,001 rights.

Options

Xanadu has issued:

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

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

(c) Voting Rights

Ordinary shares

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

Share rights

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

Options

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

ASX Additional Information

continued

(d) Distribution of security holders

Quoted securities

Category	Fully paid ordinary shares		
	Number of Holders	Number of Shares	Percentage of Shares
1 – 1,000	32	12,193	0%
1,001 – 5,000	169	544,948	0.15%
5,001 – 10,000	135	1,119,619	0.30%
10,001 – 100,000	404	15,637,134	4.20%
100,001 and over	179	354,664,332	95.35%
Total	919	371,978,226	100%

(e) Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 169. 4,546 shares comprise a marketable parcel at Xanadu's closing share price of $0.11.

(f) Twenty largest shareholders of quoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

Name	Number of Shares	Percentage of Shares
1. HSBC Custody Nominees (Australia) Limited	57,290,313	15.40%
2. BBY Nominees Limited	50,978,792	13.70%
3. Noble Resources International Pte Ltd	33,478,041	9.00%
4. Sakari Energy Trading Pte Ltd	24,642,332	6.62%
5. J P Morgan Nominees Australia Limited	18,961,933	5.10%
6. Mr Ganbayar Lkhagvasuren	14,389,565	3.87%
7. Eagle Securities Limited	11,367,765	3.06%
8. Bikini Atoll Investments Pty Ltd	7,260,000	1.95%
9. Citicorp Nominees Pty Ltd	6,976,049	1.88%
10. Farrington Corporate Services Pty Ltd <Farrington Super Fund A/C>	6,826,100	1.84%
11. Mr George A Lloyd	6,758,333	1.82%
12. Emsdale Holdings Pty Ltd	6,000,000	1.61%
13. Ms Jan Meek	5,900,000	1.59%
14. Fast Lane Australia Pty Ltd	4,937,620	1.33%
15. ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	4,363,778	1.17%
16. Bellarine Gold Pty Ltd <Ribblesdale Super Fund A/C>	4,188,635	1.13%
17. Norvale Pty Ltd <Norvale Employees S/F A/C>	3,357,143	0.90%
18. Norvale Pty Ltd	3,090,485	0.83%
19. Second Naremi Pty Ltd	3,045,500	0.82%
20. Talbot Group Holdings Pty Ltd <Talbot Equities A/C>	3,000,000	0.81%
	276,812,384	74.43%

(g) On market buy-back

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

(h) Tenements held as at 31 December 2014

Tenement Number	Tenement Name	Location	Interest
MV17387A	Kharmagtai	Omnogovi Province	61%
MV017129	Oyut Ulaan	Dornogovi Province	90%
13670x	Sharchuluut	Bulgan Province	100%

Corporate Directory

Directors

Mark Wheatley	Independent Non-Executive Director and Chairman
George Lloyd	Managing Director
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Barry Lavin	Independent Non-Executive Director

Company Secretary
Janine Rolfe

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Share Registry
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Auditor
Ernst & Young
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Stock Exchange Listing
Xanadu Mines Ltd shares are listed on the Australian Securities Exchange (ASX:XAM)

ABN 92 114 249 026

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