



XANADU MINES

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2016 INTERIM REPORT

Xanadu Mines Limited ASX: XAM
For the half-year ended 30 June 2016

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General Information

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

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

Level 12, 680 George Street
Sydney NSW 2000
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A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 9 September 2016.

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 'Xanadu', 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 30 June 2016.

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
Andrew Stewart (appointed 8 March 2016)
Ganbayar Lkhagvasuren
Hannah Badenach
Marcus Engelbrecht
Darryl Clark
Barry Lavin

Principal activities

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

Review of operations

Unlocking Mongolia's copper and gold belts

Xanadu Mines Ltd is pleased to provide shareholders with a review of operations from a strong first half of the year. The Company now controls one of Asia's largest undeveloped copper-gold deposits, and continues to make significant advances in its vision to be the most successful copper-gold explorer in Asia. Despite industry sentiment in recent years and a challenging environment in Mongolia, Xanadu has defied these challenges. Exploration activities during the first half of the year focused on the Company's South Gobi copper-gold and gold projects at Kharmagtai and Oyut Ulaan. Continued exploration success at these projects has positioned the Company as one of the best performing ASX-listed copper-gold explorers.

Following the recent resolution of outstanding issues between Rio Tinto and the Government of Mongolia which has paved the way for the USD 5.4 Billion Phase Two Development of the massive Oyu Tolgoi (OT) copper-gold mine (3rd largest copper mine in the world), Mongolia is now firmly back on investors' radar and is regaining recognition that it is serious about being a pro-mining and development jurisdiction. The agreement to restart the OT mine last May and a landslide victory to Mongolia's MPP party in the June 2016 parliamentary elections should be a positive catalyst for foreign investors as political sentiment towards mining and exploration has improved markedly in Mongolia.

During the period, the Company finalised its acquisition of the flagship Kharmagtai copper-project on 1 April 2016 with Turquoise Hill Resources Ltd (TSX: TRQ) and the project is now fully secured.

The Company's excellent exploration results at Kharmagtai and Oyut Ulaan in the first half of 2016 were strongly endorsed by the support the Company received in a placement to raise A\$12.17 million at a placement price of 20 cents per share. Major shareholders participated in the placement, continuing their support of the Company. Two new well-regarded institutional investors were also introduced to the register. In addition, Xanadu has agreed with Noble Resources International Pte Ltd that the remaining USD\$1.5 million available under the Finance Facility, (first announced on 3 February 2014 as part of the Kharmagtai acquisition arrangement), will not be drawn. The balance of USD\$2.7 million remains due in July 2017.

The Company is now fully funded to continue its exploration programs, and will be amongst the most active ASX-listed junior copper-gold exploration companies in 2016. The funds raised from the placement, together with existing cash reserves, will allow the Company to continue to add value to the Kharmagtai copper-gold project and the new gold discovery at the Oyut Ulaan project.

Kharmagtai Copper-gold Project (Xanadu Earning up to 76.5%)

Xanadu and its joint venture partner, Mongol Metals LLC (MM), announced that MM had acquired a 90% interest in the Kharmagtai porphyry copper-gold project from Turquoise Hill Resources in February 2014. Under the MM joint venture terms, Xanadu has the right to earn an 85% interest in MM, equivalent to a 76.5% effective interest in the Project, by funding acquisition and exploration costs. During the first half of 2016, the Company has subscribed for shares in MM to increase its shareholding to 79.8% (71.8% effective interest in the Project).

Directors' Report

continued

The Kharmagtai project is located within the Omnogovi Province, approximately 420km southeast of Ulaanbaatar and 120km north of the giant Rio Tinto-controlled Oyu Tolgoi deposit. The Kharmagtai project is an advanced exploration project consisting of multiple co-genetic gold-rich porphyry copper centers and tourmaline breccia pipes occurring within the Lower Carboniferous Kharmagtai Igneous Complex. Exploration has identified significant shallow high-grade porphyry copper gold mineralisation in the central part of Mining Licence 17387A. A majority of the mineralised porphyry complex lies under un-explored shallow sediments. The large licence area has only been partially explored and the potential for further discoveries remains high.

The tendency for porphyry copper deposits to constitute clusters or alignments is clearly exemplified by the mineralised centres at Kharmagtai. Overall, Kharmagtai has sufficient prospects with exciting geology that it could easily develop into a district comparable to other porphyry districts in the south Gobi region such as Oyu Tolgoi (located 120 kilometres to the south).

Exploration in the first half of 2016 focused on exploring under cover for a fourth porphyry centre. Broad spaced reconnaissance Reverse Circulation (RC) drilling tested a series of high priority porphyry targets from amongst the more than 40 targets defined by geology, geochemistry and geophysics. Drilling tested a combination of targets which included high level gold-rich porphyry mineralisation and deeper tourmaline breccia mineralisation within the highly prospective 25km² area of interest which has yielded consistently encouraging results since the project was acquired. The RC drilling confirmed the existence of porphyry and tourmaline breccia related copper-gold mineralisation and alteration in at least 11 targets tested over a five kilometre strike of the Kharmagtai Intrusive Complex. A number of other narrow zones of epithermal gold mineralisation were also intersected in other RC holes but the limited drilling completed to date has not yet identified an obvious source for the high-grade gold mineralisation.

This first pass RC drilling program covered a large area of the buried Kharmagtai Intrusive Complex with very few holes, and every single hole intersected significant intervals of porphyry and/or tourmaline breccia related alteration with variable mineralisation. These new drilling results during the period provide significant advances in our understanding of the Kharmagtai project and continues to indicate potential for a large-scale mineralised breccia system along-side the established Mineral Resource and is transforming the Company's view of the growth potential of Kharmagtai.

Additional diamond and RC drilling is being planned to follow-up on significant results from this drilling program and to test some of the epithermal gold mineralisation previously intersected in RC drilling to enable a more comprehensive look at the nature of the mineralisation in drill core and to test the validity of gold sampling methods.

Continued exploration success during the period demonstrates our evolving and increasing understanding of the mineral system and reinforces the view that the district has strong potential to host large scale high-grade copper-gold mineralisation and potentially shallow high-grade epithermal gold mineralisation. The quality of this project continues to be demonstrated by positive exploration results reinforcing the view that the Kharmagtai project is one of the most promising copper-gold exploration projects globally; and reaffirms our belief in the potential for this mineral system to host a large scale high-grade copper-gold deposit.

Oyut Ulaan Project (Xanadu 90%)

The Oyut Ulaan copper-gold project is strategically located within the South Gobi Copper Belt and 260km east of Xanadu's flagship Kharmagtai copper-gold project. This large and underexplored porphyry district (covering approximately 40km²) consists of multiple co-genetic porphyry copper-gold centres, mineralised tourmaline breccia pipes, copper-gold/base metal magnetite skarns and epithermal gold veins, which occur within the central part of Mining Licence 17129A. Previous exploration at Oyut Ulaan delivered good results from several different prospects with a spectrum of mineralisation styles, any combination of which could possibly transform Oyut Ulaan into a significant mining camp. Consistently good exploration results at Oyut Ulaan, particularly over the past six months, have considerably elevated its status to a highly attractive second project.

Recent exploration has discovered at least four areas of shallow high-grade oxide gold mineralisation that occur within a prospective area of mineralisation that is 4.5km long and 300m wide (Stockwork Zone, Bavuu Zone, Diorite Zone and Hulan Zone). Gold mineralisation is hosted by hematitic-quartz veins with coarse visible gold, which occur as multiple stacked arrays. The veins are typically narrow but very high-grade with gold assays ranging from 1 g/t to >30 g/t gold over widths of 50cm-1.5m, making them potentially amendable to open pit mining.

Detailed surface exploration continues to identify zones of potentially significant outcropping gold mineralisation. A cost effective trenching program continues to test a combination of targets, delivering exceptional results and confirming extensions to previously identified zones and the discovery of several new zones of shallow continuous sub cropping high-grade gold.

Directors' Report

continued

Given the bonanza grades and significant strike, this style of mineralisation is considered to be a very attractive target. An exploration program is currently focused on understanding shallow high-grade gold mineralisation to demonstrate the full potential of the project and target a shallow oxide gold resource. This program will include metallurgical test work on a bulk sample to test gravity gold recovery which could be as high as 80% given observations made in the field. If such gravity recoveries are confirmed, the attractiveness of the project will be significantly enhanced.

The results of this first part of the exploration are extremely encouraging and indicate Oyut Ulaan is developing into one of the most prospective districts in the South Gobi with a series of copper-gold and gold prospects at different stages of exploration. Recent exploration drilling has also intersected porphyry copper mineralisation within two quartz-chalcopyrite stockwork zones at the Diorite Hill and Stockwork Hill Prospects which are approximately three kilometres apart. Xanadu will continue its systematic, low cost exploration at Oyut Ulaan with further reconnaissance exploration, field mapping, and trenching.

With multiple near surface oxide gold occurrences at the Oyut Ulaan project, these initial positive results during the first half of the year enhance the potential for a simple, low-cost early stage mining operation to generate meaningful cash flow that can be used to enhance the Company's exploration of its highly prospective areas at Oyut Ulaan and Kharmagtai.

Sharchuluut Project (Xanadu 100%)

Sharchuluut Uul is an early stage project focused on what is an extensive advanced argillic (high-sulphidation porphyry 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.

Corporate Activities

Corporate activities during the period include the appointment of Dr Andrew Stewart (8 March 2016) as an Executive Director of the Company, in addition to his role as Chief Executive Officer (CEO). Dr Andrew Stewart (BSc, PhD, MAIG and MSEG) is an exploration geologist with over 15 years' experience with porphyry copper-gold and epithermal gold systems around the world and has primarily been involved with front end exploration, project generation and business development strategies. During his time with Ivanhoe Mines he was instrumental in the recognition of the porphyry mineralisation systems in the under-explored South Gobi region of Mongolia including the Oyu Tolgoi and Kharmagtai Cu-Au porphyry deposits.

Exploration Expenditure

The Company invested \$1.4 million in exploration activities for the period ending 30 June 2016 (30 June 2015: \$1.6 million). A total of 5,974 metres of RC, 913 metres of diamond drilling and 1.4 kilometres of trenching were completed at the Kharmagtai and Oyut Ulaan projects in the period.

Capital Management

The Company's cash position increased over the period by \$3.6 million to \$12.2 million as at 30 June 2016 (31 December 2015: \$8.6 million). The Company raised gross proceeds of \$11.3 million (excluding \$0.9 million deferred to September 2016) from the share placement in June 2016. The primary use of funds over the remainder of 2016 will be for the continuation of exploration activities at the Company's Kharmagtai and Oyut Ulaan copper-gold projects.

During the period, the Company completed full repayment of the Kharmagtai deferred consideration with the final payments totalling USD\$2.8 million (\$3.9million). Subject to the final payments, the deferred consideration was reduced by over USD\$1 million (\$1.5 million) resulting in a one off gain to the Company.

During the period, the Company agreed with Noble Resources International Pte Ltd that the remaining US\$1.5 million available under the Finance Facility, (first announced on 3 February 2014 as part of the Kharmagtai acquisition arrangement), will not be drawn. The balance of US\$2.7 million remains due in July 2017.

Financial Performance

The Company realised a total comprehensive loss of \$0.2 million for the 6 month period ending 30 June 2016 (30 June 2015: \$1.4 million) and recognised total net assets of \$45.1 million (31 December 2015: \$34.4 million). The Company realised operating expenses of \$1.2 million (30 June 2015: \$1.8 million). The loss for the period included a one-off gain of \$1.5 million for the reduction in the Kharmagtai deferred consideration.

Share Capital

As at 30 June 2016, the Company had 511,218,639 issued shares, 2,916,667 share rights and 35,000,000 unlisted options on issue pursuant to the restructure of the Oyut Ulaan Acquisition terms.

Directors' Report

continued

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

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts

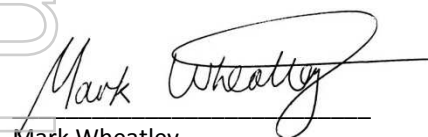
The Company is of a kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Instrument) issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with this Instrument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

Auditor's independence declaration

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

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

On behalf of the directors



Mark Wheatley
Executive Chairman

9 September 2016

Auditor's Independence Declaration



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

As lead auditor for the review of Xanadu Mines Limited for the half-year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Scott Jarrett
Partner
9 September 2016

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Statement of Profit or Loss and Other Comprehensive Income

For the period ended 30 June 2016

	Note	Consolidated	
		2016 \$'000	2015 \$'000
Revenue	4	1,474	94
Expenses			
Depreciation and amortisation expense		(64)	(59)
Other expenses	5	(1,431)	(1,819)
Finance costs		(98)	(168)
Loss before income tax expense		(119)	(1,952)
Income tax expense		-	-
Loss after income tax expense for the period		(119)	(1,952)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(267)	564
Other comprehensive income for the period, net of tax		(267)	564
Total comprehensive income for the period		<u>(386)</u>	<u>(1,388)</u>
Loss for the period is attributable to:			
Non-controlling interest		49	(52)
Owners of Xanadu Mines Ltd		(168)	(1,900)
		<u>(119)</u>	<u>(1,952)</u>
Total comprehensive income for the period is attributable to:			
Non-controlling interest		469	316
Owners of Xanadu Mines Ltd		(855)	(1,704)
		<u>(386)</u>	<u>(1,388)</u>
		Cents	Cents
Basic earnings per share	13	(0.04)	(0.52)
Diluted earnings per share	13	(0.04)	(0.52)

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

Statement of Financial Position

As at 30 June 2016

	Note	Consolidated	
		2016 \$'000	2015 \$'000
Assets			
Current assets			
Cash and cash equivalents		12,241	8,639
Other receivables	6	1,493	497
Total current assets		13,734	9,136
Non-current assets			
Property, plant and equipment		337	363
Deferred exploration expenditure	7	35,671	34,049
Total non-current assets		36,008	34,412
Total assets		49,742	43,548
Liabilities			
Current liabilities			
Trade and other payables		61	177
Deferred acquisition consideration	8	-	5,185
Total current liabilities		61	5,362
Non-current liabilities			
Term loan - related party		3,715	3,782
Total non-current liabilities		3,715	3,782
Total liabilities		3,776	9,144
Net assets		45,966	34,404
Equity			
Issued capital	9	93,995	82,108
Reserves		6,457	7,083
Accumulated losses		(59,235)	(59,067)
Equity attributable to the owners of Xanadu Mines Ltd		41,217	30,124
Non-controlling interest		4,749	4,280
Total equity		45,966	34,404

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

Statement of Changes in Equity

For the period ended 30 June 2016

Consolidated	Issued capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2015	71,843	9,009	(794)	(54,729)	3,929	29,258
Loss after income tax expense for the period	-	-	-	(1,900)	(52)	(1,952)
Other comprehensive income for the period, net of tax	-	-	564	-	-	564
Total comprehensive income for the period	-	-	564	(1,900)	(52)	(1,388)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	93	74	-	-	-	167
Share issued during the period	910	-	-	-	-	910
Transaction costs	(23)	-	-	-	-	(23)
Recognition of share-based payments	787	(787)	-	-	-	-
Receipts for shares allotted post year end issue	-	-	-	-	(1,326)	(1,326)
Balance at 30 June 2015	73,610	8,296	(230)	(56,629)	2,551	27,598
Consolidated	Issued capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2016	82,108	8,135	(1,052)	(59,067)	4,280	34,404
Profit/(loss) after income tax expense for the period	-	-	-	(168)	49	(119)
Other comprehensive income for the period, net of tax	-	-	(687)	-	420	(267)
Total comprehensive income for the period	-	-	(687)	(168)	469	(386)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	176	61	-	-	-	237
Shares issued during the year	12,204	-	-	-	-	12,204
Transaction costs	(493)	-	-	-	-	(493)
Balance at 30 June 2016	93,995	8,196	(1,739)	(59,235)	4,749	45,966

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

Statement of Cash Flows

For the period ended 30 June 2016

	Consolidated	
	2016	2015
	\$'000	\$'000
Cash flows from operating activities		
Payments to suppliers and employees	(1,606)	(2,061)
Interest received	18	94
Interest and other finance costs paid	(201)	-
Net cash used in operating activities	(1,789)	(1,967)
Cash flows from investing activities		
Payments for property, plant and equipment	(15)	(30)
Payments for security deposits	-	(4)
Payments of deferred consideration for Kharmagtai license acquisition	(3,934)	(838)
Payment for exploration and evaluation expenditure	(1,380)	(1,628)
Net cash used in investing activities	(5,329)	(2,500)
Cash flows from financing activities		
Proceeds from issue of shares	11,304	910
Transaction costs on issue of shares	(493)	(23)
Net cash from financing activities	10,811	887
Net increase/(decrease) in cash and cash equivalents	3,693	(3,580)
Cash and cash equivalents at the beginning of the financial period	8,639	7,508
Effects of exchange rate changes on cash and cash equivalents	(91)	216
Cash and cash equivalents at the end of the financial period	<u>12,241</u>	<u>4,144</u>

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

Notes to the Financial Statements

For the period ended 30 June 2016

Note 1. Corporate information

Xanadu Mines Ltd ("the Company") was incorporated on 12 May 2005 and is the ultimate holding company for the Xanadu Group ("Group"). The financial report of the Company and its controlled entities are for the half-year period ended 30 June 2016. The nature of the operations and principal activities of the Group are described in the directors' report.

Note 2. Significant accounting policies

These financial statements for the interim half-year reporting period ended 30 June 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

Note 3. Operating segments

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

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

Note 4. Revenue

	Consolidated	
	2016 \$'000	2015 \$'000
Interest	18	94
Other income	1,456	-
Revenue	1,474	94

During the period, the Company has recognised a gain of \$1,456,379 as a result of the settlement of the deferred consideration. Agreement was reached in January 2016 to reduce the deferred consideration by settling the liability early.

Notes to the Financial Statements

continued

Note 5. Other expenses

	Consolidated	
	2016 \$'000	2015 \$'000
Other expenses		
Administration expenses	592	974
Net foreign currency gains	(198)	(580)
Office rental expenses (non-cash)	-	73
Wages and management fees	800	1,185
Share-based payments	237	167
	<u>1,431</u>	<u>1,819</u>

Note 6. Current assets - Other receivables

	Consolidated	
	2016 \$'000	2015 \$'000
Sundry debtors	85	72
GST / VAT recoverable	508	425
Deferred share consideration	900	-
	<u>1,493</u>	<u>497</u>

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

The deferred share consideration represents shares which has been issued for deferred cash settlement to be completed by 30 September 2016.

Note 7. Non-current assets - Deferred exploration expenditure

	Consolidated	
	2016 \$'000	2015 \$'000
Deferred exploration expenditure	<u>35,671</u>	<u>34,049</u>

Notes to the Financial Statements

continued

Note 7. Non-current assets - Deferred exploration expenditure (continued)

Reconciliations

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

Consolidated	Exploration and evaluation	Total
	\$'000	\$'000
Balance at 1 January 2016	34,049	34,049
Expenditure during the period	1,575	1,575
Exchange differences	47	47
Balance at 30 June 2016	35,671	35,671

Note 8. Current liabilities - Deferred acquisition consideration

	Consolidated	
	2016 \$'000	2015 \$'000
Deferred acquisition consideration	-	5,185

During the period, the Company has fully settled its above deferred acquisition consideration for a total cash payment of \$3.9 million with the differences recognised in the statement of profit and loss and other comprehensive income.

Note 9. Equity - issued capital

	Consolidated			
	2016 Shares	2015 Shares	2016 \$'000	2015 \$'000
Ordinary shares	511,218,639	445,285,489	93,995	82,108

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 January 2016	445,285,489	82,108
Shares issued - Settlement of Oyut Ulaan Acquisition	1 April 2016	1,364,000	-
Shares issued - Equity Incentive Plan	20 May 2016	2,333,333	-
Shares issued - Short Term Incentive	20 May 2016	1,403,716	176
Shares issued - Placement	27 June 2016	56,332,101	11,304
Shares issued - Deferred cash settlement	27 June 2016	4,500,000	900
Transaction costs		-	(493)
Balance	30 June 2016	511,218,639	93,995

Ordinary shares

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

Notes to the Financial Statements

continued

Note 9. Equity - issued capital (continued)

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

Share buy-back

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

Note 10. Equity - dividends

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

Note 11. Net fair values

Fair value estimation

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

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

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

Note 12. Events after the reporting period

No matter or circumstance has arisen since 30 June 2016 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 13. Earnings per share

	Consolidated	
	2016	2015
	\$'000	\$'000
Loss after income tax	(119)	(1,952)
Non-controlling interest	(49)	52
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>(168)</u>	<u>(1,900)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	447,818,502	368,417,766
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>447,818,502</u>	<u>368,417,766</u>
	Cents	Cents
Basic earnings per share	(0.04)	(0.52)
Diluted earnings per share	(0.04)	(0.52)

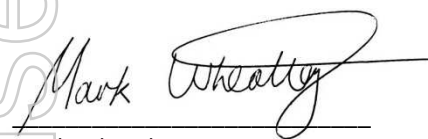
Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Mark Wheatley
Executive Chairman

9 September 2016

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



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Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Xanadu Mines Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit and loss & other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended 30 June 2016, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Xanadu Mines Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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



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Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in grey ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in grey ink, appearing to be 'Scott Jarrett'.

Scott Jarrett
Partner
Sydney
9 September 2016

Corporate Directory

Directors

Mark Wheatley	Executive Chairman
Andrew Stewart	Chief Executive Officer & Executive Director
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Marcus Engelbrecht	Non-Executive Director
Darryl Clark	Independent Non-Executive Director
Barry Lavin	Independent Non-Executive Director

Company Secretary

Janine Rolfe

Registered Office - Australia

c/o Company Matters Pty Limited
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Tel: +61 2 8280 7497
Fax: +61 2 9287 0350

Registered Office - Mongolia

2nd Khoroo, AOS Street
Khorshoolol Town, Bayanzurkh District
Ulaanbaatar 13361
Tel: +976 11 7012 0211

Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney, NSW 2000
Tel: +61 1300 855 080

Auditor

Ernst & Young
680 George Street
Sydney, NSW 2000

Stock Exchange Listing

Xanadu Mines Ltd shares are listed on the Australian Securities Exchange (ASX code: XAM)

ABN 92 114 249 026