

2021 Annual Report

31 March 2022

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

BY ELECTRONIC LODGEMENT

2021 Annual Report

Please find attached for release to the market, the Xanadu Mines Ltd's *2021 Annual Report*.

-ENDS-

For further information, please contact:

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Executive Chairman & Managing Director
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About Xanadu Mines Ltd:

Xanadu is an ASX and TSX listed Exploration company operating in Mongolia. We give investors exposure to globally significant, large-scale copper-gold discoveries and low-cost inventory growth. Xanadu maintains a portfolio of exploration projects and remains one of the few junior explorers on the ASX or TSX who control a globally significant copper-gold deposit in our flagship Kharmagtai project. For information on Xanadu visit: www.xanadumines.com.

This Announcement was authorised for release by Xanadu's Board of Directors.

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MONGOLIA

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T: +967 7012 0211

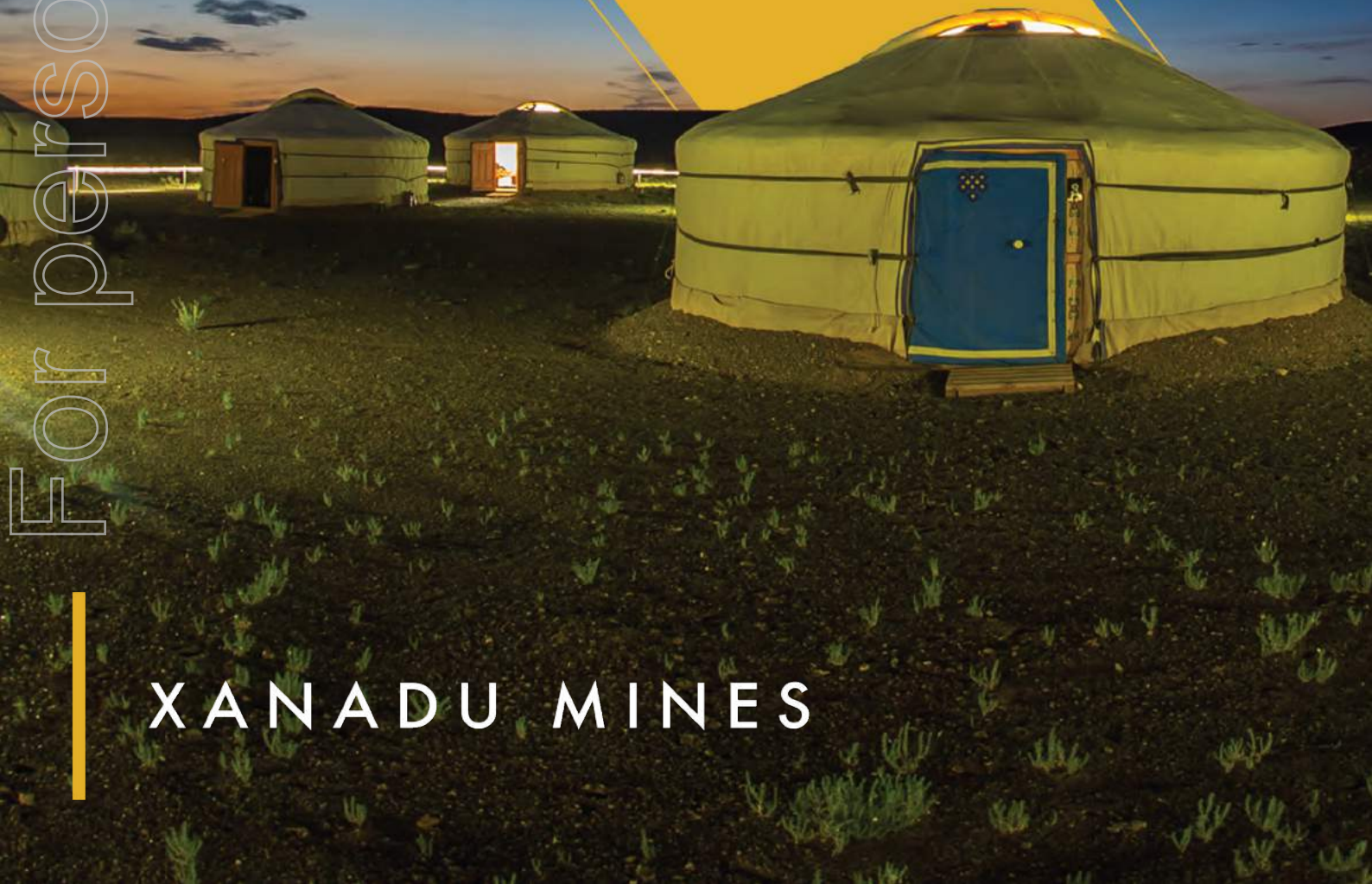
Xanadu Mines Ltd ACN 114 249 026

www.xanadumines.com

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Annual Report 2021



XANADU MINES

Board of Directors

Directors

Colin Moorhead
Andrew Stewart
Ganbayar Lkhagvasuren
Michele Muscillo
Tony Pearson (appointed 3 May 2021)

Company secretary

Phil Mackey

Notice of annual general meeting

The details of the annual general meeting of Xanadu Mines Ltd are:
Date of Meeting: 17 May 2022

Registered office - Australia

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

Registered office and principal place of business - Mongolia

Suite 23, Building 9B
Olympic Street, Khoroo 1,
Sukhbaatar District
Ulaanbaatar 14240
Tel: +976 11 7012 0211

Share register

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

Auditor

Ernst & Young
200 George Street
Sydney NSW 2000

Stock exchange listing

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

Website

www.xanadumines.com

ABN

92 114 249 026

Corporate Governance Statement

The Company's Corporate Governance
Statement can be found on the
Company's website:
[www.xanadumines.com/site/about/
corporate-governance](http://www.xanadumines.com/site/about/corporate-governance)

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Chairman's Letter



Colin Moorhead
Non-Executive Chairman

Dear Shareholder,

I'm pleased to say that despite 2021 being another challenging year, disrupted by ongoing pandemic related restrictions, great progress was made advancing our projects in Mongolia without significant adverse health, safety or environmental outcomes. We set challenging technical goals to prove the value of Kharmagtai, and we set corporate goals for sustainability and to simplify project ownership structures. To a large extent these goals have been achieved in 2021. I am particularly proud of our inaugural Sustainability Report published during the year. Delivery of this report puts us in the forefront of ESG relative to other explorers and provides a solid platform to build upon in coming years. Xanadu is committed to giving its projects a strong grounding in sustainability as they move forward to future development.

The key technical target in 2021 was to double the higher-grade core of Kharmagtai to at least 100 million tonnes at greater than 0.8% CuEq and to increase the total scale of the deposit to >1 billion tonnes. These objectives were delivered with our updated Mineral Resource Estimate in December. This new model, informed by more than 60,000 metres of new drilling, is not only larger but importantly is considerably better than before. Higher grade zones and controlling structures are well defined allowing a more precise estimate of contained metal and is reflected in a significant increase of the deposit being able to be classified as an Indicated Resource. As a result, Kharmagtai is now not only the largest undeveloped copper resource on the ASX not controlled by a global mining major, but also positioned to move into the pre-feasibility stage in 2022 following completion of an updated Mining Concept Study. At time of writing that study was nearing completion and on track to demonstrate that Kharmagtai has the potential to become a contemporary, low technical risk, low cost and long-life copper mine. Fundamentals for copper remain strong. Our strategy for Kharmagtai remains to position it as one of the best development ready copper assets in the world and to realise that value for our stakeholders.

Elsewhere at Red Mountain, significant progress was made generating and testing the first of several prospective targets prior to our partner JOGMEC

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(Japan Oil, Gas and Metals National Corporation) exiting the Joint Exploration Agreement. The Company took this opportunity to consolidate full ownership of the asset by also closing a deal to buy out the remaining minority shareholder. This gives Xanadu 100% of a significant copper district with real potential for large scale porphyry related deposits and as untested potential for shallow high grade systems with grades in excess of 16% copper returned in 2021. Follow up work is planned in 2022 to advance exploration at Red Mountain with the aim of making another meaningful discovery there.

During 2021 The Company faced headwinds which continue to be reflected in our share price. These included lack of clarity about the true value of our assets, in particular Kharmagtai, and perceptions about political risk in Mongolia and our ability to fund our projects going forward. We aim to realise the progress made this year in 2022 and to be able to present Kharmagtai as a globally compelling copper asset and will also continue to pursue appropriate funding options. The Company was particularly encouraged by the recent announcement of a sustainable agreement between The Government of Mongolia and Rio Tinto with respect to The Oyu Tolgoi Project, which I see as unambiguously positive for all stakeholders and demonstrates Mongolia to be a strong mining jurisdiction going forward. In 2021 we were also pleased to further strengthen our board with the appointment of Mr. Tony Pearson as an Independent

Non-Executive Director. Tony brings strong banking, Mongolia and directorship experience to the Board, and with this change, Xanadu now has a majority non-executives on the Board.

As you can imagine operating in remote areas with often very harsh conditions requires strong leadership careful management at the best of times. During the pandemic we have relied heavily on our in-country leadership and their teams to deliver strong outcomes whilst managing health, safety and other operational risks. I would like to recognise all of our team in Mongolia and thank them for their ongoing and constant professionalism. On behalf of the Board, we are very much looking forward to spending time with you in 2022.

I would like to personally thank you for your support over the past 12 months. We look forward to unlocking more value from Kharmagtai and our other Mongolian exploration projects over the course of 2022.

Yours faithfully,



Colin Moorhead

Non-Executive Chairman

31 March 2022



Management Discussion **and Analysis**

For the Year Ended
31 December 2021

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General

This Management Discussion and Analysis (MD&A) is current to 31 March 2022 and is Management's assessment of the operations and the financial results together with prospects of Xanadu Mines. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended 31 December 2021 and 2020 and notes thereto, prepared in accordance with International Financial Reporting Standards (IFRS). Management is responsible for the preparation of the financial statements and this MD&A.

All dollar figures in this MD&A are expressed in Australian dollars (\$) unless stated otherwise.

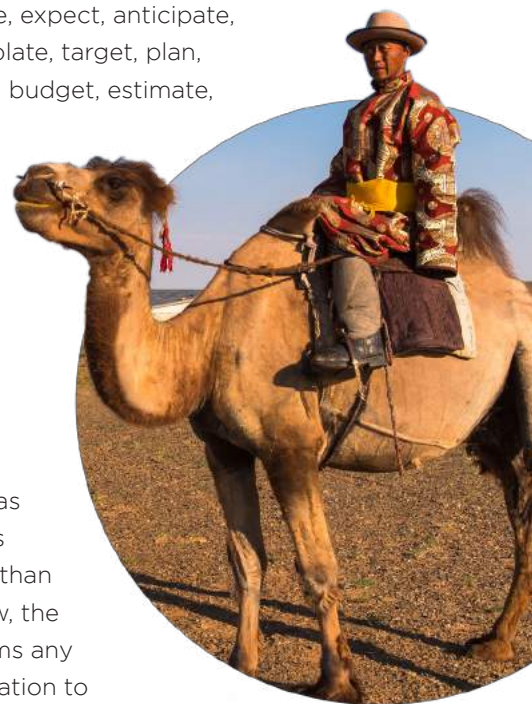
This MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in the "Risks and Uncertainties" and the "Cautionary Note Regarding Forward-Looking Information" sections at the end of this MD&A.

Additional information relating to the Company, including the Company's most recent financial reports, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, on the ASX Announcements platform under the Company's code XAM and on the Company's website at www.xanadumines.com.

This MD&A contains forward-looking statements, which are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. The forward-looking statements in this MD&A are subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations that may include, amongst other things, statements regarding targets, estimates and assumptions in respect of mineral

Forward Looking Statements

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



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The flagship Kharmagtai project has continued to emerge as one of the premier undeveloped copper and gold assets globally.”

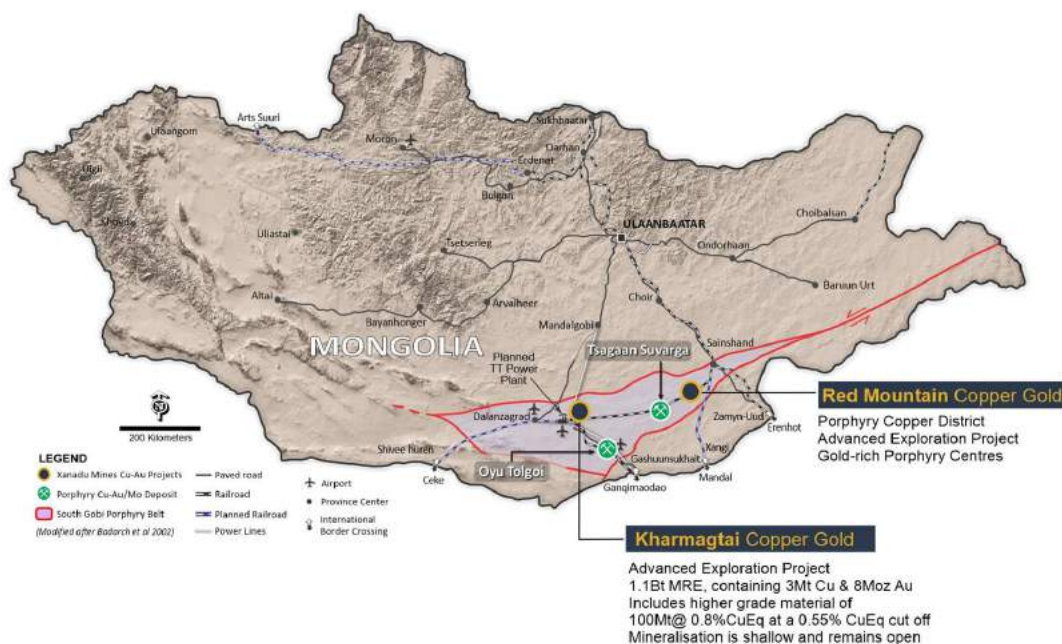


FIGURE 1: Location of Xanadu’s copper-gold projects, within Mongolia’s highly mineralised and vastly underexplored mineral belts. The Resource figure above (1.1 billion tonnes (Bt)) includes both indicated (487Mt) and inferred (664Mt) resource categories, at a cut-off grade of 0.2%CuEq for open pit and 0.3% CuEq for underground¹.

The 12 months ended 31 December 2021 was a pivotal year for Xanadu Mines. The Company has significantly grown its porphyry copper and gold project at Kharmagtai and has an advanced district-scale exploration project at Red Mountain (Figure 1).

Kharmagtai Copper-gold Project (Xanadu 76.5%)

The flagship Kharmagtai project has continued to emerge as one of the premier undeveloped copper and gold assets globally. The project is located within the Omnogovi Province, approximately 420 kilometres (km) southeast of Ulaanbaatar and 120 km north of the Rio Tinto-controlled Oyu Tolgoi deposit. The Kharmagtai porphyry copper-gold project is 90% owned by Mongol Metals LLC, which is 85% owned by Xanadu.

An updated mineral resource estimate (MRE) was completed for the Kharmagtai project in 2021,

significantly increasing the scale of the Kharmagtai Project and doubled the size of the higher grade core. This updated Resource positions Kharmagtai as the largest undeveloped copper asset held by a listed junior on the ASX and one of the largest globally.

Exploration drilling during 2021 focused on extensions to high-grade mineralisation at Stockwork Hill and expanding the known mineralisation at White Hill, Zaraa and numerous other exploration targets across the Mining Lease with a total of 33,516m of diamond drilling conducted during 2021.

¹ASX/TSX Announcement 8 December 2021 – Kharmagtai Resource Grows to 1.1 Billion Tonnes

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Mineral Resource Estimate Upgrade (MRE)

In December 2021 the company released an updated MRE for the Kharmagtai Project. This MRE updates the resource estimate released in December 2018 and includes an additional 69,479m of diamond drilling and incorporates the recent discoveries of Zaraa, Golden Eagle and Zephyr into the global resource base.

The open pit resources are reported above nominated meters Relative Level (mRL), which is unique to each deposit area. Levels are based

on preliminary optimisation analysis and a 0.2% CuEq cut-off grade. The underground Resource is reported below the nominated mRL's levels based on preliminary optimisation analysis and a 0.3% CuEq cut-off grade. The updated MRE contains an additional 1Mt of copper and an additional 3.7MOz of gold, which represents a 52% increase in contained copper and 82% increase in contained gold.

All six deposits within the updated Mineral Resource Estimate for Kharmagtai are open and require additional drilling to determine the boundaries of each deposit.

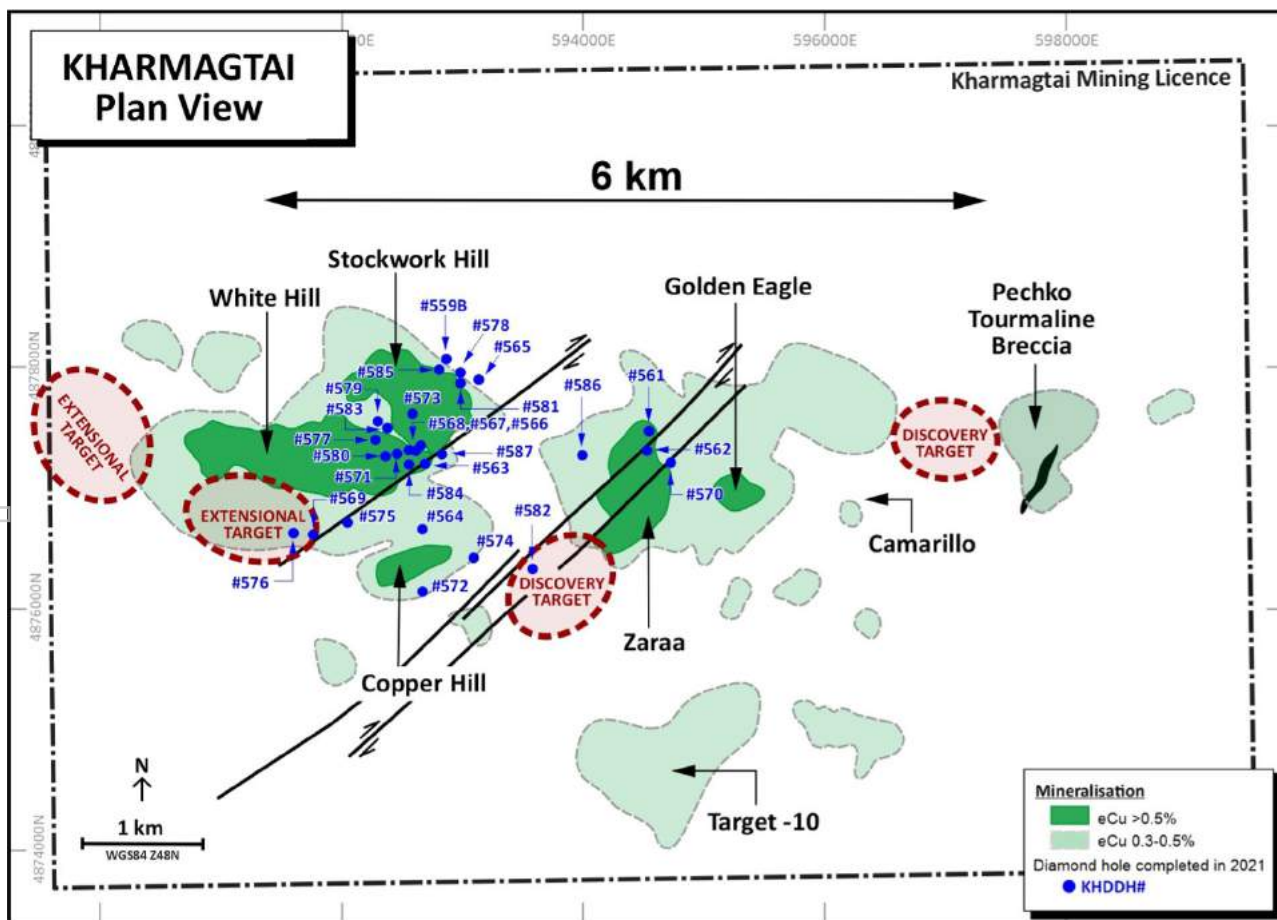


Figure 2. Drilling conducted at Kharmagtai during 2021

Table 1: Comparison 2021 Resource² vs 2018 Resource³

Resource	Cutoff (% CuEq)	Classification	Tonnes (Mt)	Grades			Contained Metal			
				CuEq (%)	Cu (%)	Au (g/t)	CuEq (Mlbs)	CuEq (kt)	Cu (kt)	Au (koz)
2021	0.2 (OC) 0.3 (UG)	Indicated	455	0.4	0.3	0.2	4,438	1,850	1,250	3,700
		Inferred	664	0.3	0.2	0.2	5,140	2,330	1,680	4,100
2018	0.3 (OC) 0.5 (UG)	Indicated	131	0.5	0.4	0.4	1,570	710	480	1,500
		Indicated	477	0.4	0.3	0.2	4,350	1,970	1,500	2,930

* 2018 Resource includes a relatively smaller amount of underground material (1.5Mt indicated and 8.3Mt inferred).

Red Mountain Project (Xanadu 100%)

The Red Mountain copper-gold project is located in the Dornogovi Province of southern Mongolia, approximately 70km west of the future industrial centre of Sainshand. Red Mountain is a highly prospective porphyry copper-gold project. The project comprises a large and underexplored porphyry district (covering approximately 40km) and consists of multiple co-genetic porphyry copper-gold centres, mineralised tourmaline breccia pipes and copper-gold/base metal magnetite skarns, which occur within the central part of Mining Licence 17129A (Figure 3).

During 2021 a total of 6,987 metres of diamond drilling and 1,086m of trenching was conducted at Red Mountain, focused mainly on the high-grade copper targets at Stairy. The Stairy prospect consists of a 1.5km by 1km zone of sheeted mineralised structures hosted within the Stairy Intrusive in the

central east of the Red Mountain Mining Lease. These structures are interpreted to be sub-vertical, up to 24m wide and can extend for over 1km. Copper mineralisation at Stairy consists of bornite and chalcopyrite sulphide with quartz carbonate fill. The current geological interpretations suggest these sheeted structures may be linked to a large-scale porphyry system at depth. This work was funded by a Joint Exploration Agreement with Japan Oil Gas and Metals National Corporation (JOGMEC).

During the reporting period, JOGMEC exited the Joint Exploration Agreement and, Xanadu consolidated 100% ownership of the Red Mountain Project by purchasing of the 10% minority interest previously held by Enkh Tunkh Delkhii LLC for US\$350,000 cash.

²ASX/TSX Announcement 28 February 2022 - Kharmagtai Technical Report
³ASX/TSX Announcement 18 December 2018 - Technical Report Released to Support Kharmagtai Mineral Resource Estimate

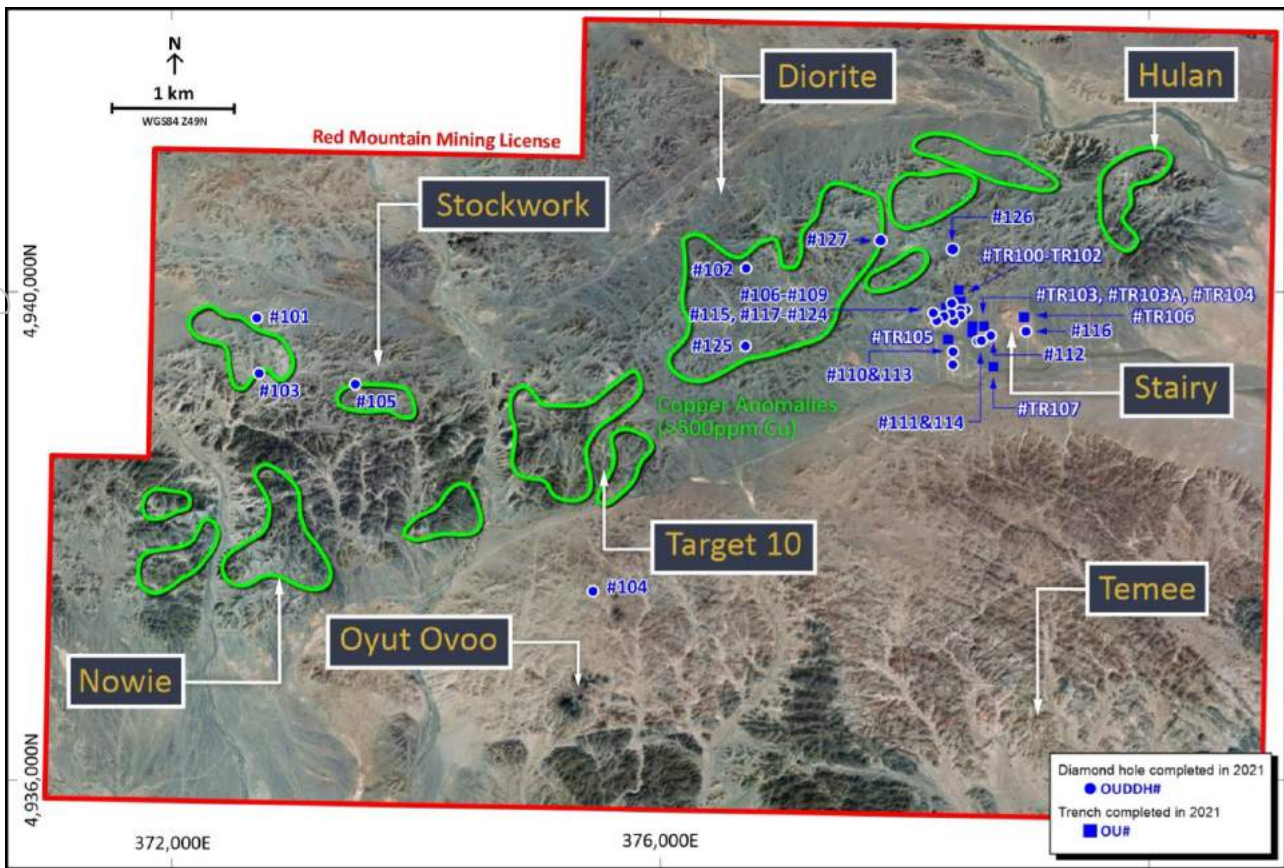


Figure 3. Drilling conducted at Red Mountain during 2021

Work Plan for 2022

Xanadu has commenced a Scoping Study to evaluate development options for the Kharmagtai District and compare to previous studies. This will include evaluation of mining, metallurgy and processing, engineering and infrastructure, marketing, logistics and the regulatory environment. Study will aim to leverage the known advantages of Kharmagtai, including:

- Targeting higher-grade core with high gold-copper ratio to drive short payback of capital
- Bulk mining of large resource, delivering a long mine life following capital payback
- Strong recoveries with metallurgy amenable to conventional crushing, milling and flotation
- Conventional tailings and mine waste management leveraging flat and stable topography
- Leverage nearby infrastructure including regional power and industrial water sources
- Simplified logistics with local rail and road access and proximity to smelters

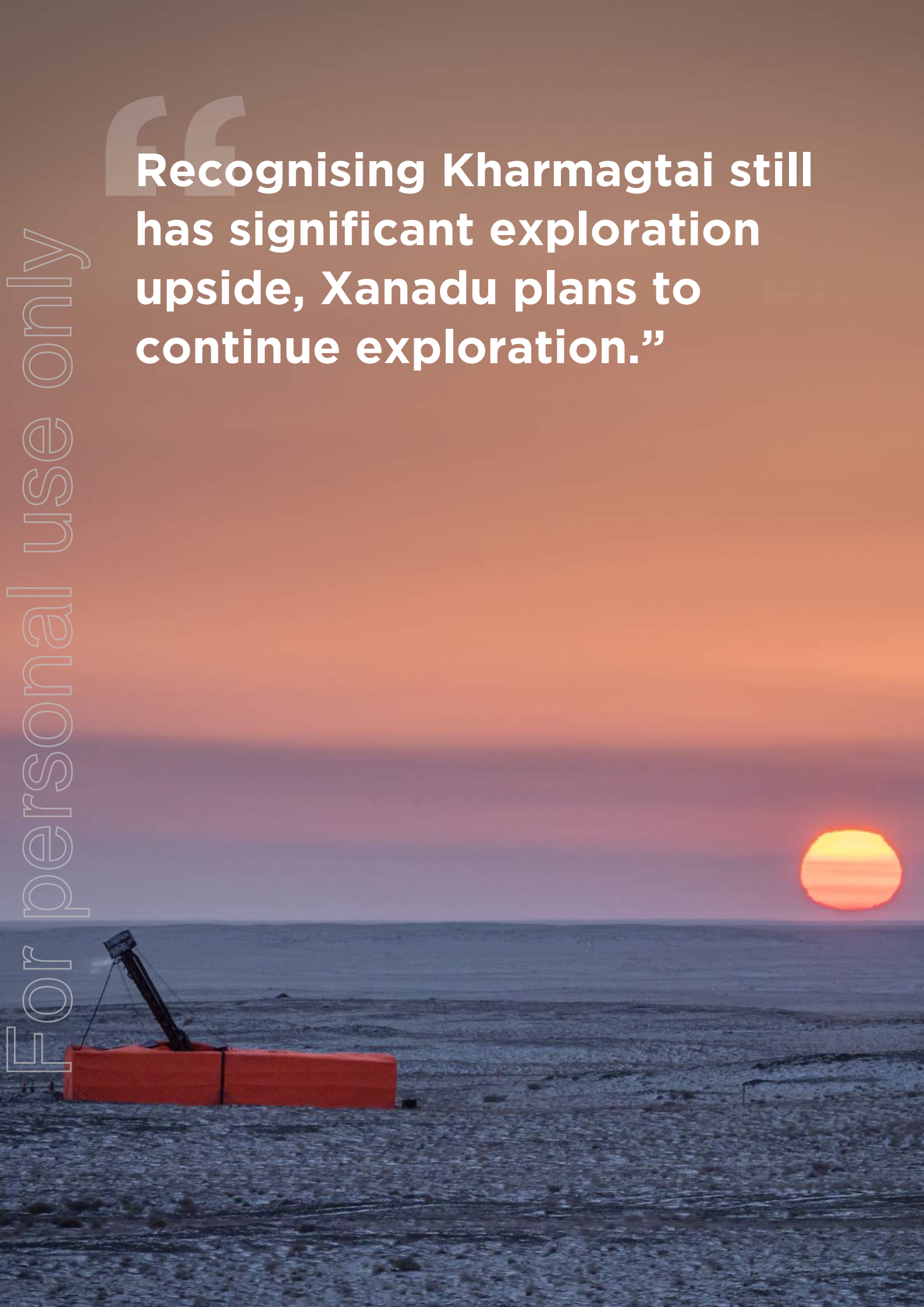
- Saleable Cu concentrates with strong gold credits no known deleterious elements

A positive outcome of this Scoping Study in 2022 would lead to a gating decision and potential commencement of a Pre-Feasibility Study (PFS).

Exploration at Red Mountain in 2022 will include a detailed review and reassessment of the large volume of data collected during the Joint Exploration Agreement with JOGMEC. This targeting is expected to focus on high-grade copper lode style mineralisation at Stairy, high-grade gold from epithermal and high-grade moderate tonnage porphyry targets. On the ground activities are anticipated to include trenching and diamond drilling following this targeting program.

“Recognising Kharmagtai still has significant exploration upside, Xanadu plans to continue exploration.”

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Competent Person's Statements

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code 2012) sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The Information contained in this MD&A has been presented in accordance with the JORC Code 2012.

The information in this Announcement that relates to exploration results is based on information compiled by Dr Andrew Stewart who is responsible for the exploration data, comments on exploration target sizes, QA/QC and geological interpretation and information. Dr Stewart, who is an employee of Xanadu and is a Member of the Australasian Institute of Geoscientists, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the "Competent Person" as defined in JORC Code 2012 and the National Instrument 43-101 Standards of Disclosure for Mineral Projects, issued by the Ontario Securities Commission. Dr Stewart consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

The information in this Announcement relating to the updated 2021 Mineral Resource Estimate was compiled by Mr Robert Spiers. Mr Robert Spiers is a full time Principal Geologist employed by Spiers Geological Consultants (SGC), 2-6 Byrne Street, Mount Martha, Victoria, Australia. Mr Spiers is contracted on a consulting basis by Xanadu Mines.

Mr Spiers graduated with a Bachelor of Science (BSc) Honours and a double Major of Geology and Geophysics from Latrobe University, Melbourne, Victoria, Australia and has been a member of the Australian Institute of Geoscientists for 26 years; working as a Geologist for in-excess of 30 years since graduating.

Mr Spiers has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaking to qualify as a Competent Person as defined in the JORC Code, 2012. Mr Spiers consents to the inclusion in the report to which this statement is to be attached of the matters based on his information in the form and context in which it appears.

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The information in the report to which this statement is to be attached that relates to Mineral Resources is based on information compiled by Mr Robert Spiers, a Competent Person who is a Member of the Australian Institute of Geoscientists or a 'Recognised Professional Organisation' (RPO) included in a list posted on the ASX website from time to time.

Mr Spiers consents to the disclosure of this information on the page/s in the form and context in which it appears.

To the best of Mr Spiers', knowledge, information and belief, neither SGC, himself and / or other related parties have any conflict of interest with by Xanadu Mines in accordance with the transparency principle set out by the JORC Code 2012 and supported by ASX rulings.

In relation to the above statement, Mr Spiers holds 750,000 ordinary shares in the ASX listed XAM entity purchased on market in accordance with XAM's Securities Trading Policy (ASX Guidance Note 27 Trading Policies). The aforementioned shareholding does not constitute a material holding in Xanadu.

Mr Spiers has read the definition of "competent person" set out in the JORC Code 2012 and guidelines for the reporting of Mineral Resource Estimates and certify that by reason of his education, affiliation with a professional association (MAIG) and past relevant work experience, that he fulfils the requirements of a "Competent Person" for the purposes of JORC Code 2012.

As of the date of this Announcement, to the best of Mr Spiers' knowledge, information and belief, the Public Release / Technical Report to which this statement is to be attached (in relation to the Reporting of the Kharmagtai Mineral Resource Estimation December 2021) contains all the scientific and technical information that is required to be disclosed in relation to the Mineral Resources to make the Public Release / Technical Report not misleading with respect to the sections for which Mr Spiers is responsible.



Resource Reporting Governance Arrangements

Xanadu Mines reporting of resource estimates are governed by the following:

- Reporting in accordance with the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code 2012); and
- By suitably qualified and experienced persons

The Company confirms it is not aware of any new information or data that materially affects the information included in this MD&A relating to exploration activities and all material assumptions and technical parameters underpinning the exploration activities in the market announcements referenced continue to apply and have not been changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcements.



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Results of Operations

For the Year Ended 31 December 2021

Selected annual information

	Year ended 31 Dec 2021 \$'000	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
Gross exploration expenditure				
Kharmagtai	8,721	5,097	2,896	8,000
Red Mountain	2,890	1,337*	229	196
Yellow Mountain	-	-	94	94
Exploration expenditures capitalised	9,367	5,028	3,219	8,290
Impairment of deferred exploration expenditure	4,637	-	4,425	-
Corporate general and administration	3,577	3,330	3,720	4,630
Share-based payments	815	-	(215)	1,696
Depreciation and amortisation	55	55	60	81
Loss after income tax attributable to owners of XAM	9,305	2,932	7,920	6,181
Basic loss per share (cents per share)	0.77	0.33	1.17	1.01
Diluted loss per share (cents per share)	0.77	0.33	1.17	1.01

* Red Mountain exploration was primarily funded by JOGMEC Joint Exploration Agreement in 2020 and 2021 and not capitalised.

	Year ended 31 Dec 2021 metres	Year ended 31 Dec 2020 metres	Year ended 31 Dec 2019 metres	Year ended 31 Dec 2018 metres
Kharmagtai drilling	33,516	26,650	5,434	40,445
Red Mountain drilling	6,987	4,321	-	199
Yellow Mountain drilling	-	-	-	-

	As at 31 Dec 2021 \$'000	As at 31 Dec 2020 \$'000	As at 31 Dec 2019 \$'000	As at 31 Dec 2018 \$'000
Deferred exploration expenditures	50,328	43,317	43,352	45,903
Total assets	54,632	51,716	44,995	52,076
Total liabilities	494	1,010	161	814
Net assets	54,138	50,706	44,834	51,262

The Company is in the exploration stage and does not generate operating revenue.

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

The 2019 impairment of deferred exploration expenditure relate to the following deferred exploration expenditure assets ('000).

2019: Yellow Mountain \$3,442 and Red Mountain \$1,118, inclusive of foreign exchange impact between MNT functional currency and AUD. An additional impairment of \$4,637 was booked at Red Mountain in 2021 following the exit of Japan Oil Gas and Metals National Corporation (JOGMEC) from a Joint Exploration Agreement.

Share-based payments are measured by reference to the fair value at the date at which they are granted. The fair value of the options is determined by an independent written valuation. Share-based payments expense is amortised over the vesting period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.



Selected quarterly information

	Quarter ended 31 Dec 2021 \$'000	Quarter ended 30 Sep 2021 \$'000	Quarter ended 30 Jun 2021 \$'000	Quarter ended 31 Mar 2021 \$'000
Gross Exploration Expenditure				
Kharmagtai	2,028	2,756	2,297	1,640
Red Mountain *	435	1,090	480	885
Exploration expenditures capitalised	2,178	3,092	2,457	1,640
Impairment of deferred exploration expenditure	4,637	-	-	-
Corporate general and administration	854	929	606	1,188
Share-based payments	815	-	-	-
Depreciation and amortisation	17	11	13	14
Loss after income tax attributable to owners	6,310	1,098	666	1,221
Basic loss per share (cents per share)	0.50	0.09	0.06	0.11
Diluted loss per share (cents per share)	0.50	0.09	0.06	0.11

* Red Mountain exploration was primarily funded by JOGMEC Joint Exploration Agreement in 2020 and 2021 and not capitalised.

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	Quarter ended 31 Dec 2020 metres	Quarter ended 30 Sep 2020 metres	Quarter ended 30 Jun 2020 metres	Quarter ended 31 Mar 2020 metres
Kharmagtai Drilling	5,716	11,146	8,670	7,984

Red Mountain Drilling	-	2,948	-	4,039
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	Quarter ended 31 Dec 2020 \$'000	Quarter ended 30 Sep 2020 \$'000	Quarter ended 30 Jun 2020 \$'000	Quarter ended 31 Mar 2020 \$'000
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Gross Exploration Expenditure

Kharmagtai	2,457	1,534	538	568
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Red Mountain *	242	832	233	30
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Exploration expenditures capitalised	2,345	1,545	540	598
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Impairment of deferred exploration expenditure	-	-	-	-
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Corporate general and administration	939	937	766	688
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Share-based payments	-	-	-	-
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Depreciation and amortisation	15	12	14	14
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Loss after income tax attributable to owners of XAM	931	642	653	706
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Basic loss per share (cents per share)	0.09	0.07	0.08	0.09
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Diluted loss per share (cents per share)	0.09	0.07	0.08	0.09
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* Red Mountain exploration was primarily funded by JOGMEC Joint Venture in 2020 and 2021 and not capitalised.

	Quarter ended 31 Dec 2020 metres	Quarter ended 30 Sep 2020 metres	Quarter ended 30 Jun 2020 metres	Quarter ended 31 Mar 2020 metres
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Kharmagtai Drilling	14,380	7,209	2,598	2,463
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Red Mountain Drilling	393	3,627	301	-
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Corporate

Capital Management

Corporate activity during the year included equity funding, Board renewal, issue of Xanadu's first Sustainability Report, and consolidation of 100% ownership at Red Mountain.

The \$10.2 million capital placement is described below under Capital Management.

Xanadu's first Sustainability Report⁴ was published in November 2021 and outlines the Environmental, Social and Governance (ESG) frameworks under which Xanadu operates. It also provides a number of case studies to help the reader understand the work Xanadu is undertaking in this area.

To undertake continued Board renewal and align to corporate governance best practices, following resignation of the remaining nominee director in 2020, Xanadu undertook a detailed search for a new Board member. On 3 May 2021, Xanadu appointed Tony Pearson as an independent, non-executive Director⁵. Mr. Pearson is an experienced mining industry and banking executive and company director who has lived and worked in Mongolia, China, Hong Kong, the Philippines and Indonesia.

The Red Mountain Joint Exploration Agreement⁶ with Japan Oil, Gas and Metals National Corporation (JOGMEC) was terminated, prior to completing earn-in conditions, and consolidation of 100% ownership of Red Mountain⁷ resulted from Xanadu's purchase of 10% of Red Mountain owned by Enkh Tunkh Delkhii, a Mongolian company, for US\$350,000.

The Company had \$3.3 million cash on hand as at 31 December 2021 (31 December 2020: \$7.7 million).

On 23 April 2021, Xanadu announced a \$10.2 million Placement to fund drilling at Kharmagtai via issue of 163,776,228 fully-paid ordinary shares at A\$0.062 each. Argonaut Securities Pty Limited (Argonaut) and CLSA Australia Pty Ltd (CLSA) acted as Joint Lead Managers and bookrunners to the Placement. The Placement settled on 30 April 2021 and new shares were allotted and commenced trading on 3 May 2021, after which the Company had 1,255,617,750 fully paid shares on issue⁸.

The primary use of funds over the first half of 2022 will be completion of a Scoping Study, based on the new JORC Mineral Resource Estimate at Kharmagtai⁹. This Scoping Study will aim to define a viable business case for Kharmagtai and enable a gating decision to Pre-Feasibility Stage of development. During the second half of 2022, the intention is to use funds for resource definition drilling, metallurgical test work and other Pre-Feasibility Study work at Kharmagtai and for a new exploration program at Red Mountain.

The Company may need to raise additional capital for its exploration and development activities or seek a partnership such as a joint venture to provide funding. 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.

⁸ BASX/TSX Announcements 23 Apr 2021 - \$10.2 Placement for Kharmagtai High Grade Exploration and 3 May 2021 - Placement Cleansing Notice

⁹ ASX/TSX Announcement 8 December 2021 - Kharmagtai Resource Grows to 1.1 billion Tonnes

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Financial Instruments and Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

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

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

Please refer to Note 21 of the Financial Report to the Consolidated Financial Statements for a detailed discussion of Financial Instruments and Risk Management.



Directors' Report

For the Year Ended 31 December 2021

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 year ended 31 December 2021.



Colin Moorhead

Independent
Non-Executive Chairman



Andrew Stewart

Executive Director &
Chief Executive Officer



Ganbayar Lkhagvasuren

Executive Director
& Country Manager



Michele Muscillo

Independent
Non-Executive Director



Tony Pearson

Independent
Non-Executive Director
(appointed 3 May 2021)

Principal activities

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

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

Dividends

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

Review of operations

The loss for the Group after providing for income tax and non-controlling interest amounted to \$9,305,000 (31 December 2020: \$2,932,000).

A more detailed 'review of operations' and 'results of operations' is included in the Management Discussion and Analysis ('MD&A').

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

Subsequent to the end of 2021, Xanadu announced a change to its management and Board structure, under which the CEO Andrew Stewart became Vice President Exploration and resigned from the Board, and Non-Executive Chairman Colin Moorhead became Executive Chairman and Managing Director¹¹. The purpose of this change was to position Xanadu for the next stage of development at its flagship Kharmagtai project. No other matter or circumstance has arisen since 31 December 2021

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 Company and the expected results of operations have been included in the MD&A. Xanadu intends to continue to invest and explore the projects described in this MD&A.

Off balance sheet arrangements

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

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 Sustainability Policy that guides all field operations in which the Company engages.

¹¹ ASX/TSX Announcement 23 March 2022 - Executive Board Transition - Xanadu Enters New Phase

Directors' Report For the Year Ended 31 December 2021

Information on Directors

Colin Moorhead

Independent Non-Executive Chairman

B.Sc (Hons) FAusIMM (CP) GAICD

Mr Moorhead is an experienced industry executive with a demonstrated track record of over three decades building value in mining companies through innovation, discovery, project development and safe, efficient operations. Mr Moorhead has extensive experience in development and financing significant mining projects internationally. He also has experience with global mining operations as well as experience in successful mergers and acquisitions.

A geologist by training, Mr Moorhead is known for strong leadership, strategy and execution that saw him rise through the ranks from a graduate with BHP in 1987 to an executive level manager responsible for global exploration and resource development at Newcrest Mining from 2008 to 2015, a period of significant growth for the company. Mr Moorhead has significant relevant experience as CEO of emerging Indonesian listed producer PT Merdeka Copper Gold Tbk from 2016 to 2018, where he built and led the team that constructed and commissioned the highly successful Tujuh Bukit Gold Mine.

Mr Moorhead is a Fellow, Chartered Professional and Immediate Past President of AUSIMM, a graduate of AICD and Harvard Business School Advanced Management Program (AMP).

Other current directorships:

Aeris Resources (ASX: AIS)
Coda Minerals Limited (ASX: COD)
Sihayo Gold Limited (ASX: SIH)

Former directorships (last 3 years):

Merdeka Copper Gold (IDX: MDKA)
(from January 2016 to July 2020)
Finders Resources Limited (ASX: FND)
(from August 2018 to October 2019)

Special responsibilities:

Member of the Audit and Risk Committee, Member of the Nomination and Remuneration Committee and Chair of the Safety, Health and Environment Committee.

Interests in shares:

3,280,000

Interests in options:

4,560,000

Dr Andrew Stewart

Chief Executive Officer

BSc, PhD, MAIG, MSEG, MAICD

Dr Stewart is a geologist with over 15 years' experience in mineral exploration; primarily focussed on project generation, project evaluation and exploration strategy development throughout Asia and Eastern Europe. Dr Stewart has particular expertise in porphyry copper and epithermal gold deposits and has worked across a diverse range of commodities. He holds a BSc (Hons) from Macquarie University and a PhD from the Centre of Ore Deposits and Exploration Studies at the University of Tasmania.

During his time at Ivanhoe Mines and Vale, Dr Stewart held various technical and management positions in Mongolia and Indonesia and has been involved in several green field discoveries. After providing technical and program management for Vale in Indonesia and Mongolia, Dr Stewart joined Xanadu Mines as Chief Geologist leading the gold and base metals project generation and evaluation team in Mongolia.

Other current directorships:

Bastion Minerals (ASX: BMO)

Former directorships (last 3 years):

Godolphin Resources Limited (ASX: GRL)
(October 2019 to April 2020)

Special responsibilities:

Chief Executive Officer and Member of the Safety, Health and Environment Committee

Interests in shares:

4,931,292

Interests in options:

12,750,000

Ganbayar Lkhagvasuren

Executive Director

M.IBL

Mr Lkhagvasuren 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.

Other current directorships:

None

Former directorships (last 3 years):

None

Special responsibilities:

Member of the Safety, Health and Environment Committee

Interests in shares:

16,558,329

Interests in options:

8,500,000

Michele Muscillo

Independent Non-Executive Director

LL.B

Mr Muscillo is a Partner with HopgoodGanim Lawyers in Brisbane. He has practised exclusively in corporate law for the duration of his legal career and has extensive experience in mergers and acquisitions and capital markets transactions, including the negotiation of significant commercial contracts and agreements. Mr Muscillo has significant experience as a Non-Executive Director of resources companies, including taking junior exploration companies through the full life cycle from listing to major discovery to sale. His key areas of practice include Corporate Advisory and Governance, Mergers and Acquisitions, Capital Markets and Resources and Energy.

Other current directorships:

Cardinal Resources Limited (ASX:CDV)
Aeris Resources Limited (ASX:AIS)
Mako Gold Limited (ASX:MKG)

Former directorships (last 3 years):

None

Special responsibilities:

Chair of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee

Interests in shares:

1,199,441

Interests in options:

2,280,000

Directors' Report For the Year Ended 31 December 2021

Information on Directors Cont.

Tony Pearson (appointed 3 May 2021)

Non-Executive Director

B.Com, MAICD

Mr Pearson is an experienced international natural resources executive and company director. He is currently the Chair of ASX listed Peak Rare Earths and ASX listed Cellnet, a Trustee of the Royal Botanical Gardens & Domain Trust and a Non-Executive Director of Communicare Inc. He was formerly a Commissioner at the Independent Planning Commission, and previously a group executive at TSX/HKEx listed South Gobi Resources, based in Hong Kong, where he was responsible for the company's corporate and strategic initiatives.

Mr Pearson also has over 15 years commercial and investment banking experience, covering the Asia Pacific natural resources industry, most recently as a Managing Director at HSBC.

Other current directorships:

Peak Resources Limited (ASX: PEK)
Cellnet Group Limited (ASX: CLT)

Former directorships (last 3 years):

None

Special responsibilities:

Chair of the Audit and Risk Committee and Member of the Nomination and Remuneration Committee

Interests in shares:

Nil

Interests in options:

3,420,000

'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.

Phil Mackey

Company Secretary

B Bus

Mr Mackey was appointed Company Secretary of Xanadu in May 2017. He has over four decades of listed and unlisted company secretarial and commercial experience, including multi-jurisdictional board practice as both a company secretary and a director.

Previously, Mr Mackey served as Company Secretary of ASX and SGX dual listed Australand Group Limited (a quadruple stapled group) and Deputy Company Secretary of AMP Limited (ASX:AMP). His commercial experience includes appointment as Chief Operating Officer (Specialised Funds) at Babcock & Brown.

Mr Mackey is a Fellow of the Governance Institute Australia and a Graduate Member of the Australian Institute of Company Directors.

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Directors' Report For the Year Ended 31 December 2021

Meeting 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 2021, and the number of meetings attended by each director were:

	Full Board	Full Board	Audit & Risk Committee	Audit & Risk Committee	Nomination & Remuneration Committee	Nomination & Remuneration Committee	Safety, Health and Environment Committee	Safety, Health and Environment Committee
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Colin Moorhead	9	9	3	3	2	2	3	3
Andrew Stewart	9	9	-	-	-	-	3	3
Ganbayar Lkhagvasuren	8	9	-	-	-	-	3	3
Michele Muscillo	9	9	3	3	2	2	-	-
Tony Pearson*	6	6	2	2	1	1	-	-

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

As at the date of this report the Company has a Safety, Health and Environment Committee, an Audit and Risk Committee and a Nomination and Remuneration Committee.

Further details are set out in the Corporate Governance Statement on the Company's website at www.xanadumines.com/site/about/corporate-governance

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Directors' Report For the Year Ended 31 December 2021

Remuneration Report (Audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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

Xanadu is a Mongolian-focused exploration company. Our strategy is to convert our South Gobi porphyry copper and gold projects into mineable deposits and build long-term value for shareholders by becoming the next internationally competitive mid-tier copper and gold company in Asia.

The Company's remuneration philosophy is to ensure that the level and composition of remuneration is competitive, reasonable and appropriate to attract, retain and motivate the directors and employees with the skills required to deliver on the Company's strategy. Our philosophy recognises the importance of people and a team approach.

Important attributes that impact on Xanadu's success are:

- exploration and safety excellence, dedication and persistence;
- understanding of Mongolia and a strong national team;
- ability to communicate exploration success in the public markets to attract capital and increase shareholder value; and
- adherence to good corporate governance principles.

When considering remuneration matters, the Nomination and Remuneration Committee reviews and recommends to the Board on matters of remuneration policy, specific recommendations in relation to senior management and all matters concerning equity plans and awards.

Executive Remuneration

There are up to three categories of remuneration employed to reward employees depending on their role and responsibility within Xanadu:

- (1) Total Fixed Remuneration;
- (2) Short Term Incentive; and
- (3) Long Term Incentive.

The remuneration mix consists of fixed and variable or "at-risk" pay and of short and longer-term rewards.

Total Fixed Remuneration ('TFR')

TFR comprises base salary, any relevant allowances and statutory contributions that the Company is legally required to make in the local jurisdiction. TFR is set with reference to market data and will reflect the scope of the role and the size and activities of the Company.

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TFR is reviewed annually as part of the performance appraisals undertaken in the fourth quarter of the calendar year (prior to finalisation of the following year's budget).

Within Mongolia, the term net and gross TFR is used. Net TFR is fixed remuneration net of all taxes including Personal Income Tax and Social Insurance Tax and the Company is responsible for paying these taxes. Gross TFR includes personal income tax but excludes employer social insurance tax. Within Australia, the term TFR is inclusive of personal income tax but excludes payroll tax.

Variable or At-Risk Incentive Remuneration

It is the Board's policy to deliver at-risk incentive remuneration to employees as both a Short-Term Incentive ('STI') and a Long-Term Incentive ('LTI'). The payment of STIs and LTIs are linked to achievement of agreed performance measures and establishes a variable remuneration arrangement that links short- and long-term performance with short- and longer-term rewards. Any equity awarded will be governed by the Xanadu Equity Incentive Plan ('Plan'), and if awarded to a Director, the award will be subject to shareholder approval.

The Plan was initially approved by shareholders at the 2020 Annual General Meeting, reapproved at the 23 December 2020 Extraordinary General Meeting and permits and permits the award of a number of styles of awards including Options and Share Rights to employees. The issue of securities under the Plan is subject to the Xanadu Securities Trading Policy. Shares issued may be acquired on-market, transferred or issued from the capital of the Company.

Short Term Incentive ('STI')

Xanadu has established the STI to achieve the following objectives:

- focus employees on the achievements of annual key safety, financial and business targets that the Board believes will lead to sustained and improved business performance; and
- reward and recognise superior performance, if achieved.

The incentive offered under the STI will vary depending upon individual performance against key performance indicators ('KPIs') and any discretion employed by the Board. KPIs for Chief Executive Officer ('CEO') and CEO's direct reports are approved by the Board upon recommendation from the Nomination and Remuneration Committee. KPIs for all other employees are approved by the CEO. Depending on the individual's position, KPIs will include a range of metrics including health and safety, exploration results, corporate governance, financial stewardship, risk management, business development and leadership. Payment of STIs can be cash or shares which is also at the discretion of the Board.

Long Term Incentive ('LTI')

The Board believes that an appropriately designed LTI is an important component of the Group's remuneration arrangements. The LTI is a key tool to allow the Group to attract and retain talented directors, executive and managers and ensure the interests of LTI participants are aligned with those of shareholders in creating long-term shareholder value.

The Board's policy is to design equity style awards as LTIs dependent on the achievement of longer-term objectives.

Directors' Report For the Year Ended 31 December 2021

Total Reward Mix - Executives

As a guide, the proportion of remuneration attributable to each component of the Xanadu remuneration philosophy is dependent on the level of seniority of the employee. The target total reward mix on average is as follows:

	Total fixed remuneration %	STI % of TFR	LTI % of TFR
CEO	100	50	-
CEO's Direct Reports	100	30	-

Xanadu's Executive LTI program does not vest on an annual basis. Please refer to the section titled Terms and Conditions for Director and KMP Options in this Remuneration Report.

The STI and LTI percentages of TFR are the target payable and the overall mix may vary depending on individual circumstances, legacy contracts and other benefits associated with expatriate allowances. The value of equity-based awards is determined at the time of grant using the Black-Scholes option pricing model.



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Directors' Report For the Year Ended 31 December 2021

Details of remuneration

Amounts of remuneration

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

The key management personnel of the Group consisted of the following directors of Xanadu Mines Ltd:

- Colin Moorhead
- Andrew Stewart
- Ganbayar Lkhagvasuren
- Michele Muscillo
- Tony Pearson (appointed 3 May 2021)

And the following persons:

- Munkhsaikhan Dambiinyam (Chief Operating Officer)
- Spencer Cole (Chief Financial Officer)
- Mat Brown (Chief Geologist)

31 Dec 2021	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Colin Moorhead	112,067	-	-	7,933	-	204,044	324,044
Michele Muscillo	65,833	-	-	-	-	102,022	167,855
Tony Pearson *	41,711	-	-	4,122	-	64,229	110,062
<i>Executive Directors:</i>							
Andrew Stewart	342,369	161,056	-	22,631	-	147,307	673,363
Ganbayar Lkhagvasuren	349,049	98,190	-	-	-	98,205	545,444
<i>Other Key Management Personnel:</i>							
Munkhsaikhan Dambiinyam	219,967	61,392	-	-	-	98,205	379,564
Spencer Cole	277,369	86,018	-	22,631	-	98,205	484,223
Mat Brown	316,841	60,750	-	-	-	-	377,591
	<u>1,725,206</u>	<u>467,406</u>	<u>-</u>	<u>57,317</u>	<u>-</u>	<u>812,217</u>	<u>3,062,146</u>

* appointed 3 May 2021

Directors' Report For the Year Ended 31 December 2021

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
31 Dec 2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Colin Moorhead	129,589	-	-	10,411	-	-	140,000
Michele Muscillo	60,000	-	-	-	-	-	60,000
Stephen Motteram *	-	-	-	-	-	-	-
<i>Executive Directors:</i>							
Andrew Stewart	345,025	-	-	19,975	-	-	365,000
Ganbayar Lkhagvasuren	384,847	-	-	-	-	-	384,847
<i>Other Key Management Personnel:</i>							
Munkhsaikhan Dambiinyam	242,526	-	-	-	-	-	242,526
Spencer Cole **	161,984	-	-	13,016	-	-	175,000
Mat Brown	267,696	-	-	-	-	-	267,696
	<u>1,591,667</u>	<u>-</u>	<u>-</u>	<u>43,402</u>	<u>-</u>	<u>-</u>	<u>1,635,069</u>

* resigned 30 June 2020 and did not receive remuneration

** appointed 1 June 2020

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
<i>Non-Executive Directors:</i>						
Colin Moorhead	37%	100%	-	-	63%	-
Michele Muscillo	39%	100%	-	-	61%	-
Tony Pearson *	42%	-	-	-	58%	-
<i>Executive Directors:</i>						
Andrew Stewart	54%	100%	24%	-	22%	-
Ganbayar Lkhagvasuren	64%	100%	18%	-	18%	-
<i>Other Key Management Personnel:</i>						
Munkhsaikhan Dambiinyam	58%	100%	16%	-	26%	-
Spencer Cole **	62%	100%	18%	-	20%	-
Mat Brown	84%	100%	16%	-	-	-

* appointed 3 May 2021

** appointed 1 June 2020

Directors' Report For the Year Ended 31 December 2021

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: Andrew Stewart
Title: Chief Executive Officer
Details: Dr Stewart's fixed remuneration is an annual salary package of A\$365,000 including superannuation and any applicable taxes withheld. In the event of termination of Dr Stewart's employment other than in the case of misconduct, the executive must give a minimum of 9 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: Ganbayar Lkhagvasuren
Title: Executive Director
Details: Mr Lkhagvasuren's fixed remuneration is an annual salary package of US\$265,000 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 6 months' notice prior to termination, and the Company must give 9 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: Munkhsaikhan Dambiinyam
Title: Chief Operating Officer
Details: Mr Dambiinyam's fixed remuneration is an annual salary package of US\$167,000 including compulsory taxes and social insurance applicable as an employee in Mongolia. In the event of termination of Mr Dambiinyam's employment other than in the case of misconduct, Mr Dambiinyam must give a minimum of 6 months' notice prior to termination, and the Company must give 6 months' notice prior to termination. The Company may, at its discretion, provide Mr Dambiinyam 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 Dambiinyam any right to receive such a payment.

Name: Spencer Cole
Title: Chief Financial Officer
Details: Mr Cole's fixed remuneration is an annual salary package of A\$300,000 including superannuation and any applicable taxes withheld. In the event of termination of Mr Cole'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 6 months' notice prior to termination. The Company may, at its discretion, provide Mr Cole 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 Cole any right to receive such a payment.

Name: Mat Brown
Title: Chief Geologist
Details: Mr Brown's remuneration is based on a daily contract rate of A\$1,000, excluding GST, paid exclusively for days worked. In the event of termination of Mr Brown's contract other than in the case of misconduct, the executive must give 30 days' notice prior to termination, and the Company must give 30 days' notice prior to termination. Mr Brown is eligible to participate in incentive plans at the discretion of the Board.

Directors' Report For the Year Ended 31 December 2021

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2021.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name *	Number of options granted **	Grant date	Vesting date and exercisable date	Expiry date	Fair value per option at grant date
Non-Executive Director Options					
Colin Moorhead	2,280,000	21 Jan 2021	21 Jan 2021	30 Jun 2022	\$0.036
Colin Moorhead	2,280,000	21 Jan 2021	31 Dec 2021	30 Jun 2023	\$0.036
Colin Moorhead	2,280,000	21 Jan 2021	31 Dec 2022	30 Jun 2024	\$0.036
Michele Muscillo	1,140,000	21 Jan 2021	21 Jan 2021	30 Jun 2022	\$0.036
Michele Muscillo	1,140,000	21 Jan 2021	31 Dec 2021	30 Jun 2023	\$0.036
Michele Muscillo	1,140,000	21 Jan 2021	31 Dec 2022	30 Jun 2024	\$0.036
Tony Pearson	1,140,000	17 Jun 2021	31 Dec 2021	30 Jun 2023	\$0.036
Tony Pearson	1,140,000	17 Jun 2021	31 Dec 2022	30 Jun 2024	\$0.036
Tony Pearson	1,140,000	17 Jun 2021	31 Dec 2023	30 Jun 2025	\$0.036
Executive Director Options					
Andrew Stewart	750,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Andrew Stewart	1,500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Andrew Stewart	2,250,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Andrew Stewart	2,250,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Andrew Stewart	6,000,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Ganbayar Lkhagvasuren	500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Ganbayar Lkhagvasuren	1,000,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Ganbayar Lkhagvasuren	1,500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Ganbayar Lkhagvasuren	1,500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Ganbayar Lkhagvasuren	4,000,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Management Options					
Munkhsaikhan Dambiinyam	500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	1,000,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	1,500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	1,500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	4,000,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Spencer Cole	500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Spencer Cole	1,000,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Spencer Cole	1,500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Spencer Cole	1,500,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036
Spencer Cole	4,000,000	21 Jan 2021	31 Dec 2023	21 Jan 2027	\$0.036

Directors' Report For the Year Ended 31 December 2021

- * Colin Moorhead options were granted indirectly to Invia Custodian Pty Limited [CF & AC Moorhead S/F A/C]
Michele Muscillo options were granted indirectly to Mrs Carmel Muscillo
Tony Pearson options were granted indirectly to Ciao! Punto Pty Ltd ATF Ciao! Punto Family Trust
Andrew Stewart options were granted indirectly to A L Stewart Family Pty Ltd ATF Stewart Family Trust
Spencer Cole options were granted indirectly to Sierra Pacific Consulting Pty Ltd ATF Sierra Pacific Trust

- ** All options have a zero exercise price.

Options granted carry no dividend or voting rights.

The Xanadu Long Term Incentive ('LTI') plan was approved by Shareholders during the 30 July 2020 Annual General Meeting, with additional vesting conditions approved by shareholders during the 23 December 2020 Extraordinary General Meeting. The Company issued the options under this LTI plan during 2021.

Full conditions of this LTI plan are contained within the Notice of Meeting for the December 2020 EGM which is available on the Xanadu website and via ASX.

Based on an assessment management have determined the vesting term is 31 December 2023 for the Executive Director Options and Management Options.

Directors' Report For the Year Ended 31 December 2021

Terms and Conditions for Director and KMP Options

Tranche	Vesting conditions	Vesting period (years)	Grant date	Vesting date	Expiry date	Number of options granted	Option value \$	Fair value per option at grant date \$
Non-Executive Director options								
A	Retention on employment(1)	-	21/01/2021	21/01/2021	30/06/2022	3,420,000	123,120	0.036
B	Retention on employment(1)	0.9	21/01/2021	31/12/2021	30/06/2023	3,420,000	123,120	0.036
C	Retention on employment(1)	1.9	21/01/2021	31/12/2022	30/06/2024	3,420,000	123,120	0.036
D	Retention on employment(1)	0.5	17/06/2021	31/12/2021	30/06/2023	1,140,000	41,040	0.036
E	Retention on employment(1)	1.5	17/06/2021	31/12/2022	30/06/2024	1,140,000	41,040	0.036
F	Retention on employment(1)	2.5	17/06/2021	31/12/2023	30/06/2025	1,140,000	41,040	0.036
						<u>13,680,000</u>	<u>492,480</u>	
Executive Director and Management options								
A	Performance criteria(2) Share price hurdle(7) Retention on employment(12) Change of control event(13)	2.9	21/01/2021	31/12/2023	21/01/2027	2,250,000	81,000	0.036
B	Performance criteria(3) Share price hurdle(8) Retention on employment(12) Change of control event(13)	2.9	21/01/2021	31/12/2023	21/01/2027	4,500,000	162,000	0.036
C	Performance criteria(4) Share price hurdle(9) Retention on employment(12) Change of control event(13)	2.9	21/01/2021	31/12/2023	21/01/2027	6,750,000	243,000	0.036
D	Performance criteria(6) Share price hurdle (10) Retention on employment(12) Change of control event(13)	2.9	21/01/2021	31/12/2023	21/01/2027	6,750,000	243,000	0.036
E	Performance criteria(7) Share price hurdle(11) Retention on employment(12) Change of control event(13)	2.9	21/01/2021	31/12/2023	21/01/2027	18,000,000	648,000	0.036
						<u>38,250,000</u>	<u>1,377,000</u>	
						<u>51,930,000</u>	<u>1,869,480</u>	

Directors' Report For the Year Ended 31 December 2021

All options have zero exercise price.

The value of the options is determined at the time of grant per AASB 2, refer note 32.

- (1) All Non-Executive Director ('NED') options must be exercised within 18 months after vesting. If a NED leaves the Board, their options for that year will vest on a pro-rata basis calculated on the number of months served during the calendar year and the balance which have not vested will expire.
- (2) Approval by Government of Mongolia to progress exploration at Yellow Mountain, or replacement by the Company of Yellow Mountain with new prospective ground in the portfolio.
- (3) Discovery at Red Mountain of a pre-JORC >60Mt @0.6% CuEq, confirmed as a highly prospective discovery by an Independent Competent Person review.
- (4) Define a JORC compliant Mineral Resource Estimate >1000Mt @ 0.5% CuEq at Kharmagtai with an accompanying Independent Competent Person sign-off.
- (5) Define a high grade starter pit or block at Kharmagtai supported by a JORC compliant Mineral Resource Estimate >100Mt @0.8% CuEq and an Independent Competent Person sign-off.
- (6) Where there is publicly announced any proposal in relation to the Company which the Board reasonably believes may lead to a Shareholder Liquidity Event taking the form of:
 - Kharmagtai sale as an asset with >1Bt JORC Mineral Resource Estimate;
 - Xanadu company sale (or JV at least 30%) at >5% premium to market;
 - Kharmagtai JV, funding at least 50% through to PFS.
- (7) The volume weighted average market price of the Company's shares calculated over 10 consecutive days on which sales in the shares of the Company were recorded (10-day VWAP) after the date on which the Performance Criteria for the Tranche A Executive Options is satisfied has been at least \$0.18 per share.
- (8) The 10-day VWAP after the date on which the Performance Criteria for the Tranche B Executive Options is satisfied has been at least \$0.18 per share.
- (9) The 10-day VWAP after the date on which the Performance Criteria for the Tranche C Executive Options is satisfied has been at least \$0.18 per share.
- (10) The 10-day VWAP after the date on which the Performance Criteria for the Tranche D Executive Options is satisfied has been at least \$0.18 per share.
- (11) The 10-day VWAP after the date on which the Performance Criteria for the Tranche E Executive Options is satisfied has been at least \$0.28 per share.
- (12) Remains in continuous employment for two years from 30 July 2020 to 30 July 2022.
- (13) A change of control event is defined as a publicly announced proposal under which the Company enters into a scheme of arrangement, commencement of a bid period, or a person or group has sufficient shares in the Company to replace all or a majority of Directors. Under a change of control event, all shares will immediately vest.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 31 December 2021 are set out below:

Name *	Number of	Number of	Number of	Number of
	options granted during the year 31 Dec 2021	options granted during the year 31 Dec 2020	options vested during the year 31 Dec 2021	options vested during the year 31 Dec 2020
Colin Moorhead	6,840,000	-	4,560,000	-
Michele Muscillo	3,420,000	-	2,280,000	-
Tony Pearson	3,420,000	-	1,140,000	-
Andrew Stewart	12,750,000	-	-	-
Ganbayar Lkhagvasuren	8,500,000	-	-	-
Munkhsaikhan Dambiinyam	8,500,000	-	-	-
Spencer Cole	8,500,000	-	-	-

Directors' Report For the Year Ended 31 December 2021

- * Colin Moorhead options were granted indirectly to Invia Custodian Pty Limited [CF & AC Moorhead S/F A/C]
 Michele Muscillo options were granted indirectly to Mrs Carmel Muscillo
 Tony Pearson options were granted indirectly to Ciao! Punto Pty Ltd ATF Ciao! Punto Family Trust
 Andrew Stewart options were granted indirectly to A L Stewart Family Pty Ltd ATF Stewart Family Trust
 Spencer Cole options were granted indirectly to Sierra Pacific Consulting Pty Ltd ATF Sierra Pacific Trust

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 31 December 2021 are set out below:

Name *	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Colin Moorhead	246,240	82,080	-	63%
Michele Muscillo	123,120	41,040	-	61%
Tony Pearson	123,120	-	-	58%
Andrew Stewart	459,000	-	-	22%
Ganbayar Lkhagvasuren	306,000	-	-	18%
Munkhsaikhan Dambiinyam	306,000	-	-	26%
Spencer Cole	306,000	-	-	20%

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 Tony Pearson options were granted indirectly to Ciao! Punto Pty Ltd ATF Ciao! Punto Family Trust
 Andrew Stewart options were granted indirectly to A L Stewart Family Pty Ltd ATF Stewart Family Trust
 Spencer Cole options were granted indirectly to Sierra Pacific Consulting Pty Ltd ATF Sierra Pacific Trust

Directors' Report For the Year Ended 31 December 2021

Details of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 31 December 2021 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 \$
Colin Moorhead	21 Jan 2021	30 Jun 2022	2,280,000	82,080	82,080	-	-
Colin Moorhead	21 Jan 2021	30 Jun 2023	2,280,000	82,080	82,080	-	-
Colin Moorhead	21 Jan 2021	30 Jun 2024	2,280,000	82,080	-	-	-
Michele Muscillo	21 Jan 2021	30 Jun 2022	1,140,000	41,040	41,040	-	-
Michele Muscillo	21 Jan 2021	30 Jun 2023	1,140,000	41,040	41,040	-	-
Michele Muscillo	21 Jan 2021	30 Jun 2024	1,140,000	41,040	-	-	-
Tony Pearson	17 Jun 2021	30 Jun 2023	1,140,000	41,040	41,040	-	-
Tony Pearson	17 Jun 2021	30 Jun 2024	1,140,000	41,040	-	-	-
Tony Pearson	17 Jun 2021	30 Jun 2025	1,140,000	41,040	-	-	-
Andrew Stewart	21 Jan 2021	21 Jan 2027	750,000	27,000	-	-	-
Andrew Stewart	21 Jan 2021	21 Jan 2027	1,500,000	54,000	-	-	-
Andrew Stewart	21 Jan 2021	21 Jan 2027	2,250,000	81,000	-	-	-
Andrew Stewart	21 Jan 2021	21 Jan 2027	2,250,000	81,000	-	-	-
Andrew Stewart	21 Jan 2021	21 Jan 2027	6,000,000	216,000	-	-	-
Ganbayar Lkhagvasuren	21 Jan 2021	21 Jan 2027	500,000	18,000	-	-	-
Ganbayar Lkhagvasuren	21 Jan 2021	21 Jan 2027	1,000,000	36,000	-	-	-
Ganbayar Lkhagvasuren	21 Jan 2021	21 Jan 2027	1,500,000	54,000	-	-	-
Ganbayar Lkhagvasuren	21 Jan 2021	21 Jan 2027	1,500,000	54,000	-	-	-
Ganbayar Lkhagvasuren	21 Jan 2021	21 Jan 2027	4,000,000	144,000	-	-	-
Munkhsaikhan Dambiinyam	21 Jan 2021	21 Jan 2027	500,000	18,000	-	-	-
Munkhsaikhan Dambiinyam	21 Jan 2021	21 Jan 2027	1,000,000	36,000	-	-	-
Munkhsaikhan Dambiinyam	21 Jan 2021	21 Jan 2027	1,500,000	54,000	-	-	-
Munkhsaikhan Dambiinyam	21 Jan 2021	21 Jan 2027	1,500,000	54,000	-	-	-
Munkhsaikhan Dambiinyam	21 Jan 2021	21 Jan 2027	4,000,000	144,000	-	-	-
Spencer Cole	21 Jan 2021	21 Jan 2027	500,000	18,000	-	-	-
Spencer Cole	21 Jan 2021	21 Jan 2027	1,000,000	36,000	-	-	-
Spencer Cole	21 Jan 2021	21 Jan 2027	1,500,000	54,000	-	-	-
Spencer Cole	21 Jan 2021	21 Jan 2027	1,500,000	54,000	-	-	-
Spencer Cole	21 Jan 2021	21 Jan 2027	4,000,000	144,000	-	-	-

Directors' Report For the Year Ended 31 December 2021

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 Andrew Stewart options were granted indirectly to A L Stewart Family Pty Ltd ATF Stewart Family Trust
 Spencer Cole options were granted indirectly to Sierra Pacific Consulting Pty Ltd ATF Sierra Pacific Trust

Performance rights

Other than the zero exercise price options outlined above, the Company has not granted any performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2021.

Other than the zero exercise price options outlined above, there were no performance rights over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 31 December 2021.

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:

	2017	2018	2019	2020	2021
Share price at financial year end (\$)	0.280	0.105	0.030	0.038	0.029
Basic loss per share (cents per share)	(0.72)	(1.00)	(1.17)	(0.33)	(0.77)
Diluted loss per share (cents per share)	(0.72)	(1.00)	(1.17)	(0.33)	(0.77)

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Directors' Report For the Year Ended 31 December 2021

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year 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 year	Received as part of remuneration	Additions*	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Colin Moorhead	1,000,000	-	2,280,000	-	3,280,000
Andrew Stewart	4,931,292	-	-	-	4,931,292
Ganbayar Lkhagvasuren	16,558,329	-	-	-	16,558,329
Michele Muscillo	59,441	-	1,140,000	-	1,199,441
Tony Pearson (appointed 3 May 2021)	-	-	-	-	-
Munkhsaikhan Dambiinyam	1,478,578	-	-	-	1,478,578
Spencer Cole	375,000	-	-	-	375,000
Mat Brown	1,232,821	-	-	-	1,232,821
	25,635,461	-	3,420,000	-	29,055,461

* 3,420,000 additions arise from the exercise of options during the year

Option holding

The number of options over ordinary shares in the Company held during the financial year 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 year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Colin Moorhead	-	6,840,000	(2,280,000)	-	4,560,000
Andrew Stewart	-	12,750,000	-	-	12,750,000
Ganbayar Lkhagvasuren	-	8,500,000	-	-	8,500,000
Michelle Muscillo	-	3,420,000	(1,140,000)	-	2,280,000
Tony Pearson (appointed 3 May 2021)	-	3,420,000	-	-	3,420,000
Munkhsaikhan Dambiinyam	-	8,500,000	-	-	8,500,000
Spencer Cole	-	8,500,000	-	-	8,500,000
	-	51,930,000	(3,420,000)	-	48,510,000
			Vested and exercisable	Unvested	Balance at the end of the year
<i>Options over ordinary shares</i>					
Colin Moorhead			2,280,000	2,280,000	4,560,000
Andrew Stewart			-	12,750,000	12,750,000
Ganbayar Lkhagvasuren			-	8,500,000	8,500,000
Michele Muscillo			1,140,000	1,140,000	2,280,000
Tony Pearson (appointed 3 May 2021)			1,140,000	2,280,000	3,420,000
Munkhsaikhan Dambiinyam			-	8,500,000	8,500,000
Spencer Cole			-	8,500,000	8,500,000
			4,560,000	43,950,000	48,510,000

This concludes the remuneration report, which has been audited.

Directors' Report For the Year Ended 31 December 2021

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	Exercise price	Number under option
21 January 2021	30 June 2023	\$0.000	-
21 January 2021	30 June 2024	\$0.000	3,420,000
17 June 2021	30 June 2023	\$0.000	-
17 June 2021	30 June 2024	\$0.000	1,140,000
17 June 2021	30 June 2025	\$0.000	1,140,000
21 January 2021	21 January 2027	\$0.000	38,250,000
5 October 2021	5 October 2023	\$0.000	3,000,000
			<u>46,950,000</u>

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

There were no unissued ordinary shares of Xanadu Mines Ltd under share rights outstanding at the date of this report.

Shares issued on the exercise of options

The following ordinary shares of Xanadu Mines Ltd were issued during the year ended 31 December 2021 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
21 January 2021	\$0.000	3,420,000
21 January 2021	\$0.000	3,420,000
17 June 2021	\$0.000	1,140,000
		7,980,000

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 year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the Company (as named in the Remuneration Report) against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

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

Directors' Report For the Year Ended 31 December 2021

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 year by the auditor are outlined in note 23 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Ernst & Young

There are no officers of the Company who are former partners of Ernst & Young.

Rounding of amounts

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

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.

Auditor

Ernst & 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



Colin Moorhead
Chairman

31 March 2022



Building a better
working world

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

As lead auditor for the audit of the financial report of Xanadu Mines Limited for the financial year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.
- c) no non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

A stylized signature of the Ernst & Young logo, written in a cursive script.

Ernst & Young

A handwritten signature of Siobhan Hughes in a cursive script.

Siobhan Hughes
Partner
31 March 2022

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Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 31 December 2021

	Note	Consolidated	
		31 Dec 2021	31 Dec 2020
		\$'000	\$'000
Other income			
Other income	5	1	102
Expenses			
Other expenses	6	(3,577)	(3,330)
Share-based payments expense	32	(815)	-
Depreciation and amortisation expense		(55)	(55)
Impairment of exploration and evaluation assets	12	(4,637)	-
Finance costs		(35)	(26)
Loss before income tax expense		(9,118)	(3,309)
Income tax expense	7	-	-
Loss after income tax expense for the year		(9,118)	(3,309)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		2,681	(5,915)
Other comprehensive income for the year, net of tax		2,681	(5,915)
Total comprehensive income for the year		(6,437)	(9,224)
Loss for the year is attributable to:			
Non-controlling interest		187	(377)
Owners of Xanadu Mines Ltd	18	(9,305)	(2,932)
		(9,118)	(3,309)
Total comprehensive income for the year is attributable to:			
Non-controlling interest		366	(882)
Owners of Xanadu Mines Ltd		(6,803)	(8,342)
		(6,437)	(9,224)
		Cents	Cents
Basic earnings per share	31	(0.77)	(0.33)
Diluted earnings per share	31	(0.77)	(0.33)

Consolidated Statement of Financial Position As at 31 December 2021

	Note	Consolidated 31 Dec 2021 \$'000	31 Dec 2020 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	3,321	7,687
Other receivables	9	86	145
Prepayments and other assets		15	201
Total current assets		3,422	8,033
Non-current assets			
Property, plant and equipment	10	559	128
Right-of-use assets	11	323	238
Deferred exploration and evaluation expenditure	12	50,328	43,317
Total non-current assets		51,210	43,683
Total assets		54,632	51,716
Liabilities			
Current liabilities			
Trade and other payables	13	253	547
Contract liabilities	14	-	306
Employee benefits		9	5
Lease liabilities	15	40	64
Total current liabilities		302	922
Non-current liabilities			
Lease liabilities	15	192	88
Total non-current liabilities		192	88
Total liabilities		494	1,010
Net assets		54,138	50,706
Equity			
Issued capital	16	145,659	136,005
Reserves	17	(3,580)	(6,774)
Accumulated losses	18	(92,005)	(82,197)
Equity attributable to the owners of Xanadu Mines Ltd		50,074	47,034
Non-controlling interest	19	4,064	3,672
Total equity		54,138	50,706

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

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2021

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserves \$'000	Transactions with owners reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2020	120,909	(10,843)	10,016	(537)	(79,265)	4,554	44,834
Loss after income tax expense for the year	-	-	-	-	(2,932)	(377)	(3,309)
Other comprehensive income for the year, net of tax	-	(5,410)	-	-	-	(505)	(5,915)
Total comprehensive income for the year	-	(5,410)	-	-	(2,932)	(882)	(9,224)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 16)	15,096	-	-	-	-	-	15,096
Balance at 31 December 2020	<u>136,005</u>	<u>(16,253)</u>	<u>10,016</u>	<u>(537)</u>	<u>(82,197)</u>	<u>3,672</u>	<u>50,706</u>

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserves \$'000	Transactions with owners reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2021	136,005	(16,253)	10,016	(537)	(82,197)	3,672	50,706
Profit/(loss) after income tax expense for the year	-	-	-	-	(9,305)	187	(9,118)
Other comprehensive income for the year, net of tax	-	2,502	-	-	-	179	2,681
Total comprehensive income for the year	-	2,502	-	-	(9,305)	366	(6,437)
Contributions of equity, net of transaction costs (note 16)	9,531	-	-	-	-	-	9,531
Share-based payments expensed (note 32)	-	-	815	-	-	-	815
Options exercised (note 16)	123	-	(123)	-	-	-	-
Additional investment in subsidiary (note 28)	-	-	-	-	(503)	26	(477)
Balance at 31 December 2021	<u>145,659</u>	<u>(13,751)</u>	<u>10,708</u>	<u>(537)</u>	<u>(92,005)</u>	<u>4,064</u>	<u>54,138</u>

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

Consolidated Statement of Cash Flows For the year ended 31 December 2021

	Note	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Cash flows from operating activities			
Payments to suppliers and employees		(3,618)	(3,295)
Interest received		1	2
Government incentives received		-	100
Interest and other finance costs paid		(35)	(26)
		<u> </u>	<u> </u>
Net cash used in operating activities	30	(3,652)	(3,219)
Cash flows from investing activities			
Payments for property, plant and equipment	10	(422)	(61)
Payments for exploration and evaluation expenditure	12	(9,529)	(4,844)
Payments for exploration and evaluation on behalf of JOGMEC	12	(2,082)	(1,337)
Proceeds from JOGMEC Red Mtn earn-in payments	12	1,776	1,406
Proceeds from JOGMEC Red Mtn option payments capitalised	12	162	115
Proceeds from JOGMEC Red Mtn earn-in payments received in advanced	14	-	306
Payments for additional investment in subsidiary	28	(477)	-
		<u> </u>	<u> </u>
Net cash used in investing activities		(10,572)	(4,415)
Cash flows from financing activities			
Proceeds from issue of shares	16	10,154	15,707
Transaction costs on issue of shares	16	(623)	(611)
Repayment of lease liabilities	15	(49)	(72)
		<u> </u>	<u> </u>
Net cash from financing activities		9,482	15,024
Net increase/(decrease) in cash and cash equivalents		(4,742)	7,390
Cash and cash equivalents at the beginning of the financial year		7,687	1,209
Effects of exchange rate changes on cash and cash equivalents		376	(912)
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial year	8	<u>3,321</u>	<u>7,687</u>

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

Notes to the Consolidated Financial Statements

31 December 2021

Note 1. Corporate information

The financial statements cover Xanadu Mines Ltd as a Group consisting of Xanadu Mines Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Xanadu Mines Ltd's functional and presentation currency. The functional currency of the Company's Mongolian subsidiaries is the Mongolian Tughrik ('MNT').

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 March 2022.

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 years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

The Group has incurred net losses after tax of \$9,118,000 (2020: \$3,309,000) and net cash outflows from operations of \$3,652,000 (2020: \$3,219,000) for the year ended 31 December 2021. At year end, cash and cash equivalents were \$3,321,000 (2020: \$7,687,000). As the Group is in the exploration stage and does not generate operating cash inflows, the Group is dependent on further capital raises or external financing to maintain operations.

During the period ended 31 December 2021, the Company raised \$10,154,000 through equity issuances to fund the ongoing exploration program at Kharmagtai. While the Company has the ability to reduce costs, this would be at the expense of the exploration program, and as a result this is not the current intention of the Group.

The Directors have assessed that the Group is and will remain a going concern and believes that the going concern basis of preparation of the accounts is appropriate, however is subject to the Group's ability to implement the following potential actions:

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

Should the Group not be successful in managing its cashflow through the above means, there may be uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Notes to the Consolidated Financial Statements

31 December 2021

Note 2. Significant accounting policies (continued)

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 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 certain classes of property, plant and equipment.

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 2.

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 27.

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 2021 and the results of all subsidiaries for the year 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.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Xanadu Mines Ltd's functional and presentation currency. The functional currency of the Company's Mongolian subsidiaries is the Mongolian Tughrig ('MNT').

Notes to the Consolidated Financial Statements

31 December 2021

Note 2. Significant accounting policies (continued)

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 year-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 rates at the dates of the transactions, 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

Interest income

Interest income 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.

Government grants

Government grant income is recognised when it is received or when the right to receive payment is established.

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 the 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 be applied 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 at 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.

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 classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's 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.

Notes to the Consolidated Financial Statements

31 December 2021

Note 2. Significant accounting policies (continued)

A liability is classified as current when: it is either expected to be settled in the Group's 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 cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Property, plant and equipment

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	10 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. Property, plant and equipment is subject to impairment or adjusted for any remeasurement of value.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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.

Notes to the Consolidated Financial Statements

31 December 2021

Note 2. Significant accounting policies (continued)

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.

Deferred exploration and evaluation assets

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.

Treatment of JOGMEC receipts and capital expenditure

During the period, the Red Mountain project operated under a Joint Exploration Agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC), under which JOGMEC was to contribute US\$7.2 million to fund 4 years of exploration in return for 51% working interest in the project, with Xanadu as operator during the earn-in period. This agreement was terminated in November 2021 prior to completion of earn-in conditions.

Funding of exploration by JOGMEC was not recorded as exploration expenditure under Xanadu's account. Xanadu also did not recognise any gain or loss on its exploration and evaluation farm-out arrangement, and it redesignated any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee was credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmer as a gain on disposal.

Impairment of deferred exploration and evaluation assets

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has significant uncertainty regarding its value, the uncertain recoverability is impaired in the year in which the decision is made.

Impairment of non-financial assets

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.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Note 2. Significant accounting policies (continued)

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to directors and employees as part of their fees and remuneration, and external service providers for goods and services provided (including acquisition of tenements).

Equity-settled transactions are awards of shares, or options over shares, that are provided to provided to directors and employees as part of their fees and remuneration, and external service providers for goods and services provided (including acquisition of tenements). Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Monte Carlo or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

Notes to the Consolidated Financial Statements

31 December 2021

Note 2. Significant accounting policies (continued)

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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 interests. 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.

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 year, adjusted for bonus elements in ordinary shares issued during the financial year.

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.

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 Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Notes to the Consolidated Financial Statements

31 December 2021

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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with directors, employees and consultants 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 Monte Carlo 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.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets

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

Exploration and evaluation costs

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

Note 4. Operating segments

Xanadu operates predominantly in the minerals exploration sector. The principle activity of the Company is exploration for copper and gold. Xanadu classifies these activities under a single operating segment, the Mongolian exploration projects. Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in note 12 'Deferred exploration and evaluation expenditure'. No segment revenues are disclosed, as all segment expenditure is capitalised, with the exception of expenditure written off. The non-current assets of Xanadu, attributable to the parent entity, are located in Mongolia.

Notes to the Consolidated Financial Statements 31 December 2021

Note 5. Other income

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Interest income	1	2
COVID-19 government incentive	-	100
Other income	1	102

Note 6. Other expenses

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Administration expenses	1,313	1,136
Wages and management fees	1,880	1,341
Consulting fees	383	855
Net foreign currency (gains) / losses	1	(2)
Other expenses	3,577	3,330

Note 7. Income tax expense

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(9,118)	(3,309)
Tax at the statutory tax rate of 26% (2020: 27.5%)	(2,371)	(910)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of E&E assets	1,206	-
Share-based payments	212	-
Sundry items	(36)	(28)
Current year tax losses not recognised	(989)	(938)
Adjustment recognised for prior periods	1,011	916
Difference in overseas tax rates - Mongolia at 25% (2020: 25%)	(43)	-
Difference in overseas tax rates - Singapore at 17% (2020: 17%)	9	20
Income tax expense	12	2

As at 31 December 2021, Xanadu Mines Ltd has carried forward tax losses of \$29,872,000 (31 December 2020: \$25,982,000) and carried forward capital losses of \$12,859,000 (31 December 2020: \$12,859,000). These losses are potentially able to be utilised against future taxable income and future capital gains respectively.

These losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Notes to the Consolidated Financial Statements 31 December 2021

Note 7. Income tax expense (continued)

A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available in the foreseeable future to use against such losses.

Xanadu Mines Ltd is not part of an Australian tax-consolidated group. Current and deferred tax amounts (if any) are measured as a stand-alone taxpayer. There are no tax funding arrangements or tax sharing agreements in place.

Note 8. Cash and cash equivalents

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	3,321	7,687

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

Note 9. Other receivables

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
<i>Current assets</i>		
Sundry debtors	52	60
GST recoverable	34	85
	86	145

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. Property, plant and equipment

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
<i>Non-current assets</i>		
Plant and equipment - at cost	876	418
Less: Accumulated depreciation	(370)	(321)
	506	97
Motor vehicles - at cost	178	132
Less: Accumulated depreciation	(125)	(101)
	53	31
	559	128

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Notes to the Consolidated Financial Statements 31 December 2021

Note 10. Property, plant and equipment (continued)

Reconciliations

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

Consolidated	Plant & Equipment \$'000	Motor Vehicles \$'000	Total \$'000
Balance at 1 January 2020	105	36	141
Additions	27	34	61
Exchange differences	(17)	(27)	(44)
Depreciation expense	(18)	(12)	(30)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	97	31	128
Additions	422	-	422
Exchange differences	2	28	30
Depreciation expense	(15)	(6)	(21)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2021	<u>506</u>	<u>53</u>	<u>559</u>

Note 11. Right-of-use assets

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
<i>Non-current assets</i>		
Motor vehicles - right-of-use	427	310
Less: Accumulated depreciation	(104)	(72)
	<hr/>	<hr/>
	<u>323</u>	<u>238</u>

Reconciliations

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

Consolidated	Motor vehicles right-of-use \$'000	Total \$'000
Balance at 1 January 2020	147	147
Additions	123	123
Exchange differences	(7)	(7)
Depreciation expense	(25)	(25)
	<hr/>	<hr/>
Balance at 31 December 2020	238	238
Additions	131	131
Exchange differences	(12)	(12)
Depreciation expense	(34)	(34)
	<hr/>	<hr/>
Balance at 31 December 2021	<u>323</u>	<u>323</u>

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Notes to the Consolidated Financial Statements 31 December 2021

Note 11. Right-of-use assets (continued)

During the period, the Group made the following lease payments which have been capitalised to deferred exploration expenditure:

- office lease rental payments of \$77,396 (2020: \$84,917) in respect of the short term office lease in Mongolia; and
- equipment lease rental payments \$1,969,825 (2020: \$479,541) in respect of leases on various equipment for 90 days periods.

The Group also made lease payments which have not been capitalised as follows:

- office lease rental payments of \$53,172 (2020: \$31,130) in respect of the short term office lease in Melbourne; and
- office lease rental payments of \$22,500 (2020: \$1,500) in respect of the short term office lease in Sydney.

Note 12. Deferred exploration and evaluation expenditure

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<i>Non-current assets</i>		
Deferred exploration and evaluation expenditure	59,525	47,475
Less: Accumulated impairment	(9,197)	(4,158)
	50,328	43,317

The accumulated impairment relates to deferred exploration expenditure assets: Yellow Mountain \$3,442,000 and Red Mountain \$5,755,000.

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

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

Reconciliations

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

Consolidated	Exploration and evaluation \$'000
Balance at 1 January 2020	43,352
Additions ⁽ⁱ⁾ ⁽ⁱⁱ⁾	4,913
Exchange differences	(4,948)
Balance at 31 December 2020	43,317
Additions ⁽ⁱ⁾ ⁽ⁱⁱ⁾	9,367
Impairment of assets *	(4,637)
Exchange differences	2,281
Balance at 31 December 2021	50,328

* The impairment relates to Red Mountain based on independent valuation report and JOGMEC withdrawing from the Joint Exploration Agreement.

Notes to the Consolidated Financial Statements 31 December 2021

Note 12. Deferred exploration and evaluation expenditure (continued)

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
(i) Additions made up of:		
Additions Funded by Xanadu:		
Cashflow payments for exploration and evaluation at Kharmagtai	8,721	4,844
Cashflow payments for exploration and evaluation at Red Mountain	808	-
Total cashflow payments for exploration and evaluation expenditure <small>(see Statement of cashflow investing activities)</small>	<u>9,529</u>	<u>4,844</u>
Additions Related to Red Mountain Joint Exploration Agreement with JOGMEC:		
Cashflow payments for exploration and evaluation on behalf of JOGMEC <small>(see Statement of cashflow investing activities)</small>	2,082	1,337
Proceeds from JOGMEC earn-in payments <small>(see Statement of cash flows investing activities)</small>	(1,776)	(1,406)
Proceeds from JOGMEC earn-in payments <small>(see note 14 and Statement of cashflow investing activities for 2020)</small>	(306)	-
Proceeds from option payments <small>(see Statement of cash flows investing activities)</small>	(162)	(115)
	<u>(162)</u>	<u>(184)</u>
Other Additions:		
Amounts in trade payable relating to exploration and evaluation expenditure	-	253
Total additions to exploration and evaluation asset	<u>9,367</u>	<u>4,913</u>
	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000

(ii) Amounts capitalised to deferred exploration expenditure include:

Office lease rental payments in respect of the office lease in Mongolia	77	85
Equipment lease rental payments in respect of leases on various equipment for 90 days periods	1,970	480

The Company held interests in two tenements during 2021:

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

Kharmagtai Copper-Gold Project

The Kharmagtai copper-gold Project is located within the South Gobi porphyry copper province of Mongolia, approximately 440 kilometres (km) south-southwest of the capital, Ulaanbaatar and 120km north of Turquoise Hill's Oyu Tolgoi copper-gold mine. Access from Ulaanbaatar to Kharmagtai is via sealed highway for 450km and then along a well-used gravel road for 70km. The project holds a 30-year mining license and Xanadu owns 76.5% with two minority partners.

Notes to the Consolidated Financial Statements 31 December 2021

Note 12. Deferred exploration and evaluation expenditure (continued)

Exploration during 2022 consisted of 33,516 metres drilling, with three rigs testing extensions of higher grade zones, growing the resource, and testing new discovery targets.

Red Mountain Copper-Gold Project

Xanadu's Red Mountain porphyry copper-gold Project is located within the Dornogovi Province of southern Mongolia, approximately 420km southeast of Ulaanbaatar, and 70km west from the provincial centre of Sainshand. The project holds a 30-year mining licence and is owned 100% by Xanadu. During the period, the project was subject to a Joint Exploration Agreement with JOGMEC, dated March 2020, in which JOGMEC would earn 51% interest, subject to sole funding US\$7.2 million of expenditure over four years (earn-in condition). This agreement was terminated in November 2021, prior to completion of earn-in conditions.

Exploration during 2022 consisted of Moving Loop Electromagnetic (MLEM), 1,000 metres of trenching and 6,987 metres drilling, targeting near surface, high grade zones. Between 1 January 2021 and 31 December 2021, JOGMEC contributed \$2.082 million on behalf of Red Mountain exploration, including \$0.162 million received as an option payment.

Note 13. Trade and other payables

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<i>Current liabilities</i>		
Trade payables	25	501
Accrued expenses and other payables	228	46
	253	547

Refer to note 21 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 14. Contract liabilities

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<i>Current liabilities</i>		
Contract liabilities	-	306

The 31 December 2020 balance represents prepayments by JOGMEC for the Red Mountain exploration undertaken after 31 December 2020. The 31 December 2021 balance is nil following termination and reconciliation of the Joint Exploration Agreement with JOGMEC effective 30 November 2021.

Notes to the Consolidated Financial Statements 31 December 2021

Note 15. Lease liabilities

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<i>Current liabilities</i>		
Lease liability - motor vehicles	40	64
<i>Non-current liabilities</i>		
Lease liability - motor vehicles	192	88
	<u>232</u>	<u>152</u>
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	152	101
Additions to lease borrowings	117	109
Repayment of lease liabilities	(49)	(58)
Exchange differences	12	-
Closing balance	<u>232</u>	<u>152</u>

Refer to note 22 for further information on financial risk management objectives and policies.

Note 16. Issued capital

	Consolidated			
	31 Dec 2021 Shares	31 Dec 2020 Shares	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Ordinary shares - fully paid (net of transaction costs)	<u>1,259,037,750</u>	<u>1,091,841,522</u>	<u>145,659</u>	<u>136,005</u>
<i>Movements in ordinary share capital</i>				
Details	Date	Shares	Issue price	\$'000
Balance	1 January 2020	712,848,544		120,909
Ordinary Shares issued - placement	20 January 2020	78,326,311	\$0.033	2,585
Ordinary Shares issued - placement	28 May 2020	34,000,000	\$0.033	1,122
Ordinary Shares issued - placement	18 August 2020	123,776,228	\$0.045	5,570
Ordinary Shares issued - placement	8 October 2020	142,890,439	\$0.045	6,430
Share issue costs		-		(611)
Balance	31 December 2020	1,091,841,522		136,005
Ordinary Shares issued - placement	3 May 2021	163,776,228	\$0.062	10,154
Fair value of Options vested and exercised	22 July 2021	3,420,000	\$0.000	123
Share issue costs		-		(623)
Balance	31 December 2021	<u>1,259,037,750</u>		<u>145,659</u>

Notes to the Consolidated Financial Statements 31 December 2021

Note 16. Issued capital (continued)

Movements in options

Details	Date	Options
Balance	1 January 2020	-
Balance	31 December 2020	-
Unlisted Remuneration Options issued to non-executive directors	21 January 2021	10,260,000
Unlisted Remuneration Options issued to non-executive directors	17 June 2021	3,420,000
Unlisted Performance Options issued to executive directors	21 January 2021	21,250,000
Unlisted Performance Options issued to management	21 January 2021	17,000,000
Unlisted Options exercised	22 July 2021	(3,420,000)
Unlisted options issued to consultants	5 October 2021	3,000,000
Balance	31 December 2021	<u>51,510,000</u>

Ordinary shares

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

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

Share buy-back

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

Capital risk management

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

Capital is regarded as total equity, as recognised in the Statement of Financial Position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Management effectively Xanadu's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. The capital risk management policy remains unchanged from the 31 December 2020 Annual Report.

Note 17. Reserves

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Foreign currency translation reserve	(13,751)	(16,253)
Share-based payments reserve	10,708	10,016
Transactions with owners reserve	(537)	(537)
	<u>(3,580)</u>	<u>(6,774)</u>

Foreign currency translation reserve

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

Notes to the Consolidated Financial Statements 31 December 2021

Note 17. Reserves (continued)

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to directors and employees as part of their fees and remuneration, and external service providers for goods and services provided (including acquisition of tenements).

Movements in reserves

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

Consolidated	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Transactions with owners reserve \$'000	Total \$'000
Balance at 1 January 2020	(10,843)	10,016	(537)	(1,364)
Foreign currency translation	(5,410)	-	-	(5,410)
Balance at 31 December 2020	(16,253)	10,016	(537)	(6,774)
Share-based payments	-	815	-	815
Foreign currency translation	2,502	-	-	2,502
Options exercised	-	(123)	-	(123)
Balance at 31 December 2021	<u>(13,751)</u>	<u>10,708</u>	<u>(537)</u>	<u>(3,580)</u>

Note 18. Accumulated losses

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(82,197)	(79,265)
Adjustment for additional investment in subsidiary	(503)	-
Accumulated losses at the beginning of the financial year - restated	(82,700)	(79,265)
Loss after income tax expense for the year	(9,305)	(2,932)
Accumulated losses at the end of the financial year	<u>(92,005)</u>	<u>(82,197)</u>

Note 19. Non-controlling interest

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Non-controlling interest	<u>4,064</u>	<u>3,672</u>

Note 20. Dividends

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

Notes to the Consolidated Financial Statements 31 December 2021

Note 21. Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

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

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

Market risk

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

Foreign currency risk

The Group is exposed to foreign exchange fluctuations with respect to Australian Dollars ('A\$'), US Dollars ('US\$'), Mongolian Tugrik ('MNT'), and Canadian Dollars ('C\$'). The Group's financial results are reported in A\$. Salaries for certain local employees in Mongolia may be paid in MNT. The Group's operations are in Mongolia and some of its payment commitments and exploration expenditures under the various agreements governing its rights are denominated in MNT and US\$. As a result, the Group's financial position and results are impacted by the exchange rate fluctuations among A\$, US\$, MNT and C\$. Such fluctuations may materially affect the Group's financial position and results.

The Group's currency risk to US\$ and MNT foreign denominated financial assets and liabilities at the end of the reporting period, expressed in Australian Dollars, was as follows:

	Assets		Liabilities	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Consolidated				
Cash and cash equivalents denominated in US\$	917	3,403	-	-
Cash and cash equivalents denominated in MNT	70	14	-	-
Other financial assets denominated in MNT	40	39	-	-
Financial liabilities denominated in MNT	-	-	86	286
	<u>1,027</u>	<u>3,456</u>	<u>86</u>	<u>286</u>

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

Consolidated - 31 Dec 2021	% change	A\$ strengthened		% change	A\$ weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
A\$/US\$ '000	10%	92	92	(10%)	(92)	(92)
A\$/MNT '000	10%	7	7	(10%)	(7)	(7)
		<u>99</u>	<u>99</u>		<u>(99)</u>	<u>(99)</u>

Notes to the Consolidated Financial Statements 31 December 2021

Note 21. Financial risk management objectives and policies (continued)

Consolidated - 31 Dec 2020		% change	A\$ strengthened Effect on profit before tax	Effect on equity	% change	A\$ weakened Effect on profit before tax	Effect on equity
A\$/US\$	'000	10%	340	340	(10%)	(340)	(340)
A\$/MNT	'000	10%	1	1	(10%)	(1)	(1)
			<u>341</u>	<u>341</u>		<u>(341)</u>	<u>(341)</u>

Commodity price risk

Even if commercial quantities of mineral deposits are discovered, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Group may affect the marketability of any minerals discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Group, including, among other things, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The Group is particularly exposed to the risk of movement in the price of copper and gold.

Equity price risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Group does not hold equity in any publicly listed companies.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Group does not have any borrowings at variable rates. Interest rate risk is limited to potential decreases on the interest rate offers on cash and cash equivalents held with chartered financial institutions. The Group considers this risk to be immaterial.

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, Group had the following cash and cash equivalents and variable rate borrowings outstanding:

Consolidated	31 Dec 2021		31 Dec 2020	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	0.01%	<u>3,321</u>	0.04%	<u>7,687</u>
Net exposure to cash flow interest rate risk		<u>3,321</u>		<u>7,687</u>

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

Consolidated - 31 Dec 2021	Basis points change	Basis points increase		Basis points decrease		
		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	<u>33</u>	<u>33</u>	(100)	<u>(33)</u>	<u>(33)</u>

Notes to the Consolidated Financial Statements 31 December 2021

Note 21. Financial risk management objectives and policies (continued)

Consolidated - 31 Dec 2020	Basis points increase			Basis points decrease		
	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	<u>77</u>	<u>77</u>	(100)	<u>(77)</u>	<u>(77)</u>

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

Credit risk

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

The Group's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$3,321,000 (31 December 2020 \$7,687,000).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The primary source of funds available to the Group is from equity financing. The Group has in place a planning and budgeting process to help determine the funds required to support the Group's normal operating requirements on an ongoing basis, to support its exploration plans, and to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Group does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions. The Group does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Group or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfil its obligations under any applicable agreements.

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

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 31 Dec 2021	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	25	-	-	-	25
Other payables	-	228	-	-	-	228
<i>Interest-bearing - fixed rate</i>						
Lease liability	17.00%	<u>75</u>	<u>53</u>	<u>160</u>	<u>79</u>	<u>367</u>
Total non-derivatives		<u>328</u>	<u>53</u>	<u>160</u>	<u>79</u>	<u>620</u>

Notes to the Consolidated Financial Statements 31 December 2021

Note 21. Financial risk management objectives and policies (continued)

Consolidated - 31 Dec 2020	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	501	-	-	-	501
Other payables	-	46	-	-	-	46
Contract liabilities	-	306	-	-	-	306
<i>Interest-bearing - fixed rate</i>						
Lease liability	21.00%	72	47	80	44	243
Total non-derivatives		925	47	80	44	1,096

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Other business risks

Political and legal risks

The Group's mineral projects are located in Mongolia, where mineral exploration and mining activities may be affected in varying degrees by political instability, economic conditions, expropriation or nationalization of property and changes in government regulations such as foreign investment laws, tax laws, business laws, environmental laws and mining laws, affecting the Group's business in that country. Government policy may change to discourage foreign investment, nationalization of the mining industry may occur and other government limitations, restrictions or requirements may be implemented. There can be no assurance that the Group's assets will not be subject to nationalization, requisition, expropriation or confiscation, whether legitimate or not, by any authority or body.

The regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. There can be no assurance that Mongolian laws protecting foreign investments will not be amended or abolished or that existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above.

Licence risks

The Group has licenses covering the Kharmagtai project and the Red Mountain project. The Government of Mongolia could revoke either of these licenses if the Group fails to satisfy its obligations, including payment of royalties and taxes to the Government of Mongolia and the satisfaction of certain mining, environmental, health and safety requirements. A termination of the Group's mining licenses by the Government of Mongolia could materially and adversely affect the Group's reputation, business, prospects, financial conditions and results of operations. In addition, the Group would require additional licenses or permits to conduct the Group's mining or exploration operations in Mongolia. There can be no assurance that the Group will be able to obtain and maintain such licenses or permits on terms favourable to it, or at all, for the Group's future intended mining or exploration targets in Mongolia, or that such terms would not be subject to various changes.

Mineral resource assumptions risk

The Group's Mineral Resource Estimate and Mineral Reserve Estimate for the Kharmagtai project are based on a number of assumptions. There are numerous uncertainties inherent in estimating quantities of mineral reserves and grades of mineralization, including many factors beyond the control of the Group. There can be no assurance that the mineral resources and mineral reserve estimates will be recovered in the quantities, qualities or yields presented in this prospectus or set out in the Kharmagtai Technical Report.

Copper and gold mineral resource and mineral reserve estimates are inherently prone to variability. They involve expressions of judgment with regard to the presence and quality of mineralization and the ability to extract and process the mineralization economically. These judgments are based on a variety of factors, such as knowledge, experience and industry practice.

Notes to the Consolidated Financial Statements

31 December 2021

Note 21. Financial risk management objectives and policies (continued)

Environmental risk

Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted and which may well be beyond the capacity of the Group to fund. Failure to comply with applicable environmental laws and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Operational risk

The Group's activities are subject to a number of operational risks and hazards, some of which are beyond its control. These risks and hazards include unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions, natural disasters such as earthquakes, industrial accidents, power, water or fuel supply interruptions or the increase in the price of such supplies, critical equipment failure, malfunction and breakdowns of information management systems, fires, and unusual or unexpected variations in mineralization, geological or mining conditions.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization, and during 2020 and 2021 this had a significant impact on the global economy and the mining industry. Despite this and due to a cautious approach by the Government of Mongolia, exploration and mining activities in the South Gobi were minimally impacted during 2021. The ongoing scale and duration of the pandemic remains uncertain as at the date of this report and may yet have an impact on our forecast cash flow and financial condition.

Contractual risk

The Group's key project (the Kharmagtai project) is held pursuant to a joint venture arrangement. Additionally, the Group may wish to develop its projects or future projects through further joint venture arrangements.

As in any contractual relationship, the ability for the Group to ultimately receive benefits from these contracts is dependent upon the relevant third party complying with its contractual obligations. Specifically, the Group's ability to further its flagship Kharmagtai project therefore depends upon the strength and enforceability of these contracts and the ability to enforce them against the relevant counterparties, under relevant laws.

Further, under the terms of the Group's original acquisition of the Kharmagtai project, the Group agreed to assume certain royalty obligations, the precise terms of which are unclear or not in existence. There is therefore some doubt as to the precise nature of the Group's obligations to the extent they exist.

In respect of these agreements and obligations, it may be necessary for the Group to enforce its rights under any of the contracts or pursue legal action to clarify their terms. Such legal action may be costly and no guarantee can be given by the Group that a legal remedy will ultimately be granted on appropriate terms.

Note 22. Key management personnel disclosures

Directors

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

Colin Moorhead	Independent Non-Executive Chairman
Andrew Stewart	Chief Executive Officer
Ganbayar Lkhagvasuren	Executive Director
Michele Muscillo	Independent Non-Executive Director
Tony Pearson (appointed 3 May 2021)	Independent Non-Executive Director

Notes to the Consolidated Financial Statements 31 December 2021

Note 22. Key management personnel disclosures (continued)

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 year:

Munkhsaikhan Dambiinyam	Chief Operating Officer
Spencer Cole	Chief Financial Officer
Mat Brown	Chief Geologist

Compensation

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

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$	\$
Short-term employee benefits	2,192,612	1,591,667
Post-employment benefits	57,317	43,402
Share-based payments	812,217	-
	<u>3,062,146</u>	<u>1,635,069</u>

Note 23. Remuneration of auditors

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$	\$
Auditors of the Group - Ernst & Young		
Audit and review of financial statements Group	<u>93,187</u>	<u>122,810</u>
Non-audit services		
Cyber risk review and recommendations *	<u>15,000</u>	<u>-</u>
Total services provided by Ernst & Young	<u>108,187</u>	<u>122,810</u>

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$	\$
Other auditors and their related network firms		
Audit and review of financial statements Controlled entities and joint operations	<u>7,915</u>	<u>3,086</u>
Total services provided by other auditors (excluding Ernst & Young)	<u>7,915</u>	<u>3,086</u>

* Service provided in 2021, paid in February 2022

Note 24. Contingent liabilities

There are no material contingent liabilities relating to the Group.

Notes to the Consolidated Financial Statements 31 December 2021

Note 25. Commitments

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<i>Lease commitments</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	75	72
One to five years	213	127
More than five years	79	44
	367	243
Total commitment		
Less: Future finance charges	(135)	(91)
	232	152
Net commitment recognised as liabilities		

The above commitments are in relation to vehicles lease liabilities.

Commitments in relation to exploration licences contracted at the reporting date, including regulatory charges such as license fees and corporate administrations, but not recognised as liabilities within one year are \$0.13 million (31 December 2020: \$0.2 million).

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.

Note 26. Related party transactions

Parent entity

Xanadu Mines Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	31 Dec 2021 \$	31 Dec 2020 \$
<i>Payment for goods and services:</i>		
Office rent, paid to Ganbayar Lkhagvasuren ⁽ⁱ⁾	77,396	84,917
Legal fees, paid to HopgoodGanim Lawyers ⁽ⁱⁱ⁾	58,440	50,980
Consultant fees paid to consultants employed by through Colin Moorhead and Associates ⁽ⁱⁱⁱ⁾	59,056	-
Melbourne office rent and operations support paid to Colin Moorhead and Associates ^(iv)	53,172	31,130
Sydney office rent paid to Bastion Minerals ^(v)	22,500	1,500

Notes to the Consolidated Financial Statements 31 December 2021

Note 26. Related party transactions (continued)

- (i) The Company maintains a rental agreement for its Ulaanbaatar office with Ganbayar Lkhagvasuren, an Executive Director of the Company. The transaction between these related parties is on normal commercial terms and conditions no more or less favourable than those available to other parties that are arm's length.
- (ii) The Company sources legal services from HoppoodGanim Lawyers, where Non-Executive Director Michele Muscillo is a partner. These services are provided on normal commercial terms and conditions, no more or less favourable than those available to other parties.
- (iii) The consultants are employed through Colin Moorhead & Associates, a company associated with Colin Moorhead, the Non-Executive chairman of the Company, as arm's length, pass through costs.
- (iv) The Company maintains a rental and executive support agreement related to a Melbourne office with Colin Moorhead & Associates, as an arm's length, pass through cost arrangement.
- (v) The Company maintains a rental agreement related to a Sydney office with Bastion Minerals, a company at which Dr. Andrew Stewart, CEO and Executive Director of the Company, is a Non-Executive Director. The transactions between these parties are on normal commercial terms and conditions, no more or less favourable than those available to other parties that are at arm's length.

Please refer to the Remuneration Report for salaries and compensation paid to Company Directors.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Terms and conditions

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

Mongol Metals

Kharmagtai exploration expenditure is funded by Mongol Metals, which is 85% owned by Xanadu and 15% owned by Ganbayar Lkhagvasuren, an Executive Director of Xanadu. All funding for Mongol Metals since December 2017 has been provided by an operating loan from Xanadu Mines.

Note 27. 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 Dec 2021	31 Dec 2020
	\$'000	\$'000
Loss after income tax	(3,396)	(2,586)
Total comprehensive income	(3,396)	(2,586)

Notes to the Consolidated Financial Statements 31 December 2021

Note 27. Parent entity information (continued)

Statement of financial position

	Parent	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Total current assets	2,853	7,202
Total assets	54,211	50,776
Total current liabilities	73	70
Total liabilities	73	70
Equity		
Issued capital	145,659	136,005
Share-based payments reserve	10,708	10,016
Other reserves	(13,553)	(10,035)
Accumulated losses	(88,676)	(85,280)
Total equity	<u>54,138</u>	<u>50,706</u>

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2021.

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; and
- 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 28. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2 to the financial statements:

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 Dec 2021 %	31 Dec 2020 %
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	85.00%	85.00%
Vantage LLC	Mongolia	100.00%	90.00%
Oyut Ulaan LLC	Mongolia	90.00%	90.00%

During the period, Xanadu acquired the 10% minority interest in Vantage LLC from Enkh Tunkh Delkhii, a Mongolian company, for US\$350,000 (AUD equivalent A\$477,000) in cash.

Notes to the Consolidated Financial Statements 31 December 2021

Note 29. Events after the reporting period

No matter or circumstance has arisen since 31 December 2021 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 30. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Loss after income tax expense for the year	(9,118)	(3,309)
Adjustments for:		
Depreciation and amortisation	55	55
Share-based payments	815	-
Foreign exchange differences	1	(3)
Impairment of deferred exploration and evaluation assets	4,637	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	59	(46)
Decrease/(increase) in prepayments	186	(154)
Increase/(decrease) in trade and other payables from operating activities	(292)	235
Increase in employee benefits	5	3
Net cash used in operating activities	<u>(3,652)</u>	<u>(3,219)</u>

Note 31. Earnings per share

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Loss after income tax	(9,118)	(3,309)
Non-controlling interest	(187)	377
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>(9,305)</u>	<u>(2,932)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>1,202,403,394</u>	<u>886,538,392</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,202,403,394</u>	<u>886,538,392</u>
	Cents	Cents
Basic earnings per share	(0.77)	(0.33)
Diluted earnings per share	(0.77)	(0.33)

Notes to the Consolidated Financial Statements 31 December 2021

Note 32. Share-based payments

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

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

	Number of options 31 Dec 2021	Weighted average exercise price 31 Dec 2021	Number of options 31 Dec 2020	Weighted average exercise price 31 Dec 2020
Outstanding at the beginning of the financial year	-	\$0.000	-	\$0.000
Granted	54,930,000	\$0.000	-	\$0.000
Exercised	<u>(3,420,000)</u>	\$0.000	-	\$0.000
Outstanding at the end of the financial year	<u>51,510,000</u>	\$0.000	<u>-</u>	\$0.000
Exercisable at the end of the financial year	<u>4,560,000</u>	\$0.000	<u>-</u>	\$0.000

31 Dec 2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
21/01/2021	30/06/2022	\$0.000	-	3,420,000	(3,420,000)	-	-
21/01/2021	30/06/2023	\$0.000	-	3,420,000	-	-	3,420,000
21/01/2021	30/06/2024	\$0.000	-	3,420,000	-	-	3,420,000
17/06/2021	30/06/2023	\$0.000	-	1,140,000	-	-	1,140,000
17/06/2021	30/06/2024	\$0.000	-	1,140,000	-	-	1,140,000
17/06/2021	30/06/2025	\$0.000	-	1,140,000	-	-	1,140,000
21/01/2021	31/12/2023	\$0.000	-	38,250,000	-	-	38,250,000
05/10/2021	05/10/2023	\$0.000	-	3,000,000	-	-	3,000,000
			<u>-</u>	<u>54,930,000</u>	<u>(3,420,000)</u>	<u>-</u>	<u>51,510,000</u>

Notes to the Consolidated Financial Statements 31 December 2021

Note 32. Share-based payments (continued)

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

Option	Class	Exercise price	Balance of options
Unlisted Non-Executive Director Options, issued as part of share-based compensation for remuneration	Vesting in three remaining tranches upon 18 months continuous employment condition: 4,560,000 vested on 31 Dec 2021 and expiring on 30 Jun 2023; 4,560,000 vesting on 31 Dec 2022 and expiring on 30 Jun 2024; and 1,140,000 vesting on 31 Dec 2023 and expiring on 30 Jun 2025.	\$0.000	10,260,000
Unlisted Executive Director Options, issued as part of share-based compensation for performance	Vesting in five tranches upon attainment of performance criteria, two years continuous employment condition and share price hurdles: Performance measurement/vesting on 31 Dec 2023 and expiring on 21 Jan 2027.	\$0.000	21,250,000
Unlisted Management Options, issued as part of share-based compensation for performance	Vesting in five tranches upon attainment of performance criteria, two years continuous employment condition and share price hurdles: Performance measurement/vesting on 31 Dec 2023 and expiring on 21 Jan 2027.	\$0.000	17,000,000
Consultant Options	Vesting in three tranches upon attainment of share price hurdles: Vesting on 5 Oct 2023 and expiring on 5 Oct 2023.	\$0.000	<u>3,000,000</u>
			<u><u>51,510,000</u></u>

Management have assessed the probability of the Executive Director and Executive performance criteria options to be 100% as at 31 December 2021, based on the anticipated timing of Pre-Feasibility Study completion at Kharmagtai.

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility*	Dividend yield	Risk-free interest rate	Fair value at grant date
21/01/2021	30/06/2022	\$0.036	\$0.000	90.000%	-	0.075%	\$0.036
21/01/2021	30/06/2023	\$0.036	\$0.000	90.000%	-	0.075%	\$0.036
21/01/2021	30/06/2024	\$0.036	\$0.000	90.000%	-	0.075%	\$0.036
17/06/2021	30/06/2023	\$0.036	\$0.000	90.000%	-	0.015%	\$0.036
17/06/2021	30/06/2024	\$0.036	\$0.000	90.000%	-	0.015%	\$0.036
17/06/2021	30/06/2025	\$0.036	\$0.000	90.000%	-	0.155%	\$0.036
21/01/2021	21/01/2027	\$0.036	\$0.000	90.000%	-	0.105%	\$0.036
05/10/2021	05/10/2023	\$0.028	\$0.000	90.000%	-	0.070%	\$0.013
05/10/2021	05/10/2023	\$0.028	\$0.000	90.000%	-	0.070%	\$0.009
05/10/2021	05/10/2023	\$0.028	\$0.000	90.000%	-	0.070%	\$0.007

* Volatility was determined by extracting historical share price data for one, two and three-year periods; estimating future volatility of 90% for the share price of Xanadu in valuing the options.

Notes to the Consolidated Financial Statements 31 December 2021

Note 32. Share-based payments (continued)

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Share based payment expense		
Amortisation of share based payment options based on vesting conditions above	815	-

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Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes 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 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 give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Colin Moorhead
Chairman

31 March 2022

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Xanadu Mines Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report which describes the principal conditions that raise doubts about the Group's ability to continue as a going concern. These conditions along with other matters disclosed in Note 2 indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Carrying value of deferred exploration and evaluation expenditure

Why significant

At 31 December 2021, the Group has capitalised \$50,328,000 in deferred exploration and evaluation expenditure ("E&E") relating to projects in Mongolia post impairment.

E&E assets are initially recognised at cost and any additional expenditure is capitalised to the E&E asset in accordance with the Group's accounting policy as outlined in Note 2.

At each reporting date, the Group assesses its E&E assets for indicators of impairment in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources* including:

- whether the rights to tenure are current;
- the Group's ability and intention to continue to evaluate and develop the areas of interest; and
- whether the result of the Group's exploration work to date are sufficiently progressed for a decision to be made as to the commercial viability or otherwise of the area of interest.

At 31 December 2021, the Group recorded an impairment of \$4,637,000 relating to its Red Mountain project.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessing the Group's right to explore in the relevant exploration areas by reference to relevant documentation such as license agreements;
- Evaluating the Group's ability and intent to carry out significant exploration and evaluation activity in the relevant exploration areas which included assessment of the Group's short-term cash-flow forecast models, review of the Group's exploration budgets, and enquiries of senior management as to their intentions and strategy of the Group;
- With involvement of our valuation specialists, comparing the carrying amount of E&E assets expressed as an amount per resource tonne, to resource multiples from comparable market transactions and resource multiples from comparable companies;
- With the involvement of our valuation specialists, considering market data, including third party valuation reports and fair values implied by market transactions, for any indication the assets are unlikely to be recovered in full from successful development or sale.

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Given the value of the E&E asset balance relative to total assets and the judgment involved in the assessment of indicators of impairment, we considered this to be a key audit matter.

- Where indicators were identified, considering the appropriateness of the impairment writedown with reference to third party and market data.
- Comparing the resource data used by the Group to its most recent National Instrument 43-101 reserve and resource statement;
- Assessing the competence, capability and objectivity of the experts used by the Group in the National Instrument 43-101 reserve and resource statement and third party valuation reports;
- Examining the Group's analysis of exploration and evaluation results relating to activities carried out in the relevant license areas, including an evaluation of drilling results;
- Cross checking the net asset balance against the market capitalisation of the Group;
- Assessing the adequacy of the associated disclosures in the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2021 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Xanadu Mines Limited for the year ended 31 December 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Siobhan Hughes'.

Siobhan Hughes
Partner
Sydney
31 March 2022

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Shareholder and Additional Information

The shareholder information set out below was applicable as at 2 March 2022

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	67	-	-	-
1,001 to 5,000	126	0.03	-	-
5,001 to 10,000	135	0.09	-	-
10,001 to 100,000	741	2.63	-	-
100,001 and over	636	97.25	8	100.00
	1,705	100.00	8	100.00
Holding less than a marketable parcel	473	-	-	-

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	239,147,307	18.90
ASIA CAPITAL AND ADVISORS PTE LTD [COPPER PLATE SUCCESS LTD A/C]	97,162,387	7.68
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD [DRP A/C]	83,836,915	6.63
CANADIAN REGISTER CONTROL\ C	56,162,513	4.44
BNP PARIBAS NOMINEES PTY LTD [IB AU NOMS RETAILCLIENT DRP]	50,243,821	3.97
CITICORP NOMINEES PTY LTD	43,841,414	3.47
FAST LANE AUSTRALIA PTY LTD	30,000,000	2.37
CM SUPER FUND PTY LTD [CAROL MCCOLL SUPER FUND A/C]	25,000,000	1.98
TREASURY SERVICES GROUP PTY LTD [NERO RESOURCE FUND A/C]	24,008,000	1.90
HARBIG NOMINEES PROPRIETARY LIMITED [THE HARBIG CUNNINGHAM A/C]	20,633,911	1.63
MR GANBAYAR LKHAGVASUREN	16,558,329	1.31
MR HUGH WALLACE-SMITH	16,381,278	1.29
TREASURY SERVICES GROUP PTY LTD + ATF NERO RESOURCE FUND [NERO RESOURCE FUND A/C]	11,430,000	0.90
BELL POTTER NOMINEES LTD [BB NOMINEES A/C]	11,369,431	0.90
ROJO NERO CAPITAL PTY LTD	8,345,858	0.66
A N SUPERANNUATION PTY LTD [ANNE NEATE SUPER FUND A/C]	8,127,319	0.64
SSF AUST PTY LTD [SCHMARR FAMILY S/F A/C]	8,069,600	0.64
MR RICHARD ELKINGTON + MRS CHRISTINE ELKINGTON [E S/F A/C]	8,052,459	0.64
MR BRIAN MCCUBBING + MRS ADRIANA MCCUBBING [B MCCUBBING SUPER FUND A/C]	8,000,000	0.63
JAYLEAF HOLDINGS PTY LTD [THE POLLOCK INVESTMENT A/C]	7,882,592	0.62
	774,253,134	61.20

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Shareholder Information

	Number held	options issued
A L Stewart Family Pty Ltd [Stewart Family A/c]	12,750,000	27.16
Munkhsaikhan Dambiinyam	8,500,000	18.10
Ganbayar Lkhagvasuren	8,500,000	18.10
Sierra Pacific Consulting Pty Ltd [Sierra Pacific A/c]	8,500,000	18.10
Anastasia Audley	3,000,000	6.39
Ciao! Punto Pty Ltd [Ciao! Punto Family A/c]	2,280,000	4.86
Invia Custodian Pty Limited [CF & AC Moorhead S/F A/c]	2,280,000	4.86
Carmel Muscillo	1,140,000	2.43
	46,950,000	100.00

Unquoted equity securities

	Number on issue	Number of holders
Unlisted Non-Executive Director Options at \$0.00 Exp 30 Jun 2024	4,560,000	3
Unlisted Non-Executive Director Options at \$0.00 Exp 30 Jun 2025	1,140,000	1
Unlisted Executive Director Options at \$0.00 Exp 21 Jan 2027	21,250,000	2
Unlisted Management Options at \$0.00 Exp 21 Jan 2027	17,000,000	2
Unlisted Consultant Options at \$0.00 Exp 5 Oct 2023	3,000,000	1

The following person holds 20% or more of unquoted equity securities:

Name	Class	Number held
A L Stewart Family Pty Ltd [Stewart Family A/c]	Unlisted Executive Director Options at \$0.00 Exp 21 Jan 2027	12,750,000

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares Number held	% of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	239,147,307	18.90
ASIA CAPITAL AND ADVISORS PTE LTD [COPPER PLATE SUCCESS LTD A/C]	97,162,387	7.68
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD [DRP A/C]	83,836,915	6.63

Options over ordinary shares Number held options issued

	Number held	% of total options issued
A L Stewart Family Pty Ltd [Stewart Family A/c]	12,750,000	27.16
Munkhsaikhan Dambiinyam	8,500,000	18.10
Ganbayar Lkhagvasuren	8,500,000	18.10
Sierra Pacific Consulting Pty Ltd [Sierra Pacific A/c]	8,500,000	18.10
Anastasia Audley	3,000,000	6.39

Shareholder Information

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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.

Options

All quoted and unquoted options do not carry any voting rights.

There are no other classes of equity securities.

Licenses and projects held by Xanadu

Description	Tenement Name	Tenement number	Interest owned %	Location
Kharmagtai	Kharmagtai	MV17387A	76.50%	Mongolia, Umnugobi province Tsogttsetsii soum
Red Mountain ⁽ⁱ⁾	Red Mountain	MV017129	100.00%	Mongolia, Dornogobi province, Saikhandulaan soum
Yellow Mountain ⁽ⁱⁱ⁾	Kholboo	13670x	100.00%	Mongolia, Bulgan province, Slenge and Bugat soums

(i) Interest increased from 90% to 100% in the December 2021 quarter via purchase of the minority interest

(ii) Expired in May 2020

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