XANADU MINES

Xanadu Mines Ltd
Second Quarter 2023 Report
Condensed Interim Consolidated Financial Statements

As at and for the six months ended June 30, 2023

Unaudited

(stated in Australian dollars, unless otherwise indicated)

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Unaudited Condensed Interim Consolidated Financial Statements

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102 *Continuous Disclosure Obligations* issued by the Canadian Securities Administrators, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Xanadu Mines Ltd (‘Xanadu’ or the ‘Company’) have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by CPA Canada for a review of interim financial statements by an entity’s auditor.

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Unaudited - stated in thousands of Australian dollars, except share and per share amounts)

		Consolidated			
		3 months ended		6 months ended	
		Jun 30, 2023 A$'000	Jun 30, 2022 A$'000	Jun 30, 2023 A$'000	Jun 30, 2022 A$'000
	Note				
Revenue					
Other income	5	1,000	(3)	1,001	14
Result of deconsolidation on loss of control of subsidiaries	6	1,832	-	1,832	-
Expenses					
Other expenses	7	(3,191)	(1,641)	(4,442)	(2,502)
Depreciation and amortisation expense		(14)	(17)	(31)	(33)
Share-based payments expense		(456)	(147)	(466)	(292)
Finance costs		(10)	(9)	(23)	(18)
Share of profit/(loss) of Joint Venture		(209)	-	(209)	-
Profit/(Loss) before income tax expense		**(1,048)**	**(1,817)**	**(2,338)**	**(2,831)**
Income tax expense		-	-	-	-
Profit/(Loss) after income tax expense for the period		**(1,048)**	**(1,817)**	**(2,338)**	**(2,831)**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation		(813)	1,070	(2,027)	(1,843)
Reclassification of foreign currency difference on de-consolidation on disposal		12,604	-	12,604	-
Other comprehensive income for the period, net of tax		11,791	1,070	10,577	(1,843)
Total comprehensive income profit/(loss) for the period		**10,743**	**(747)**	**8,239**	**(4,674)**
Profit/(loss) for the period is attributable to:					
Non-controlling interest		-	100	-	(182)
Owners of Xanadu Mines Ltd		(1,048)	(1,917)	(2,338)	(2,649)
		(1,048)	**(1,817)**	**(2,338)**	**(2,831)**
Total comprehensive income profit/(loss) for the period is attributable to:					
Non-controlling interest		-	139	-	(293)
Owners of Xanadu Mines Ltd		10,743	(886)	8,239	(4,381)
		10,743	**(747)**	**8,239**	**(4,674)**
		Cents	**Cents**	**Cents**	**Cents**
Basic earnings per share	14	(0.06)	(0.14)	0.35	(0.20)

Interim Financial Statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - stated in thousands of Australian dollars)

	Note	Jun 30, 2023 A$'000	Dec 31, 2022 A$'000
ASSETS			
Current Assets			
Cash and cash equivalents		5,077	61
Other receivables		196	52
Prepayments and other assets		11	-
		5,284	113
Assets of disposal groups held for resale		-	42,803
Total current assets		5,284	42,916
Non-current Assets			
Property, plant and equipment		88	84
Right-of-use-assets		384	401
Deferred exploration and evaluation expenditure	9	6,720	6,975
Investment in Joint Venture	8	52,830	-
Total non-current assets		60,022	7,460
Total Assets		**65,306**	**50,376**
LIABILITIES			
Current Liabilities			
Trade and other payables		814	95
Employee benefits		80	17
Lease liabilities		75	67
		969	179
Liabilities of disposal groups held for resale		-	32
Total current liabilities		969	211
Non-current Liabilities			
Lease liabilities		154	256
Total non-current liabilities		154	256
Total Liabilities		1,123	**467**
Net Assets		**64,183**	**49,909**
EQUITY			
Issued capital	10	**159,898**	151,671
Reserves		3,192	(8,431)
Accumulated losses		(98,907)	(96,570)
Equity attributable to the owners of Xanadu Mines Ltd		64,183	46,670
Non-controlling interest		-	3,239
Total Equity		**64,183**	**49,909**

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited - stated in thousands of Australian dollars)

	Issued capital A$'000	Foreign currency translation reserve A$'000	Share-based payments reserve A$'000	Transactions with owners' reserve A$'000	Accumulated losses A$'000	Non-controlling interest A$'000	Total equity A$'000
Balance at January 1, 2022	145,659	(13,751)	10,708	(537)	(92,005)	4,064	54,138
Loss after income tax expense for the period	-	-	-	-	(2,649)	(182)	(2,831)
Other comprehensive income profit for the period, net of tax	-	(1,732)	-	-	-	(111)	(1,843)
Total comprehensive income profit/(loss) for the period	-	(1,732)	-	-	(2,649)	(293)	(4,674)
Transactions with owners in their capacity as owners:							
Share-based payments	-	-	292	-	-	-	292
Shares issued during the year	5,843	-	-	-	-	-	5,843
Options exercised	169	-	(169)	-	-	-	-
Balance at June 30, 2022	145,639	(15,350)	10,016	(537)	(84,525)	3,795	59,038

	Issued capital A$'000	Foreign currency translation reserve A$'000	Share-based payments reserve A$'000	Transactions with owners' reserve A$'000	Accumulated losses A$'000	Non-controlling interest A$'000	Total equity A$'000
Balance at January 1, 2023	151,671	(18,830)	10,936	(537)	(96,570)	3,239	49,909
Gain/(Loss) after income tax expense for the period	-	-	-	-	(2,328)	-	(2,338)
Other comprehensive income loss for the period, net of tax	-	(2,094)	-	-	-	-	(2,027)
Reclassification of foreign currency difference on deconsolidation of subsidiary		12,604					12,604
Total comprehensive income Gain/(Loss) for the period	-	10,577)	-	-	(2,338)	-	8,189
Transactions with owners in their capacity as owners:							
Share-based payments	-	-	465	-	-	-	465
Shares issued during the year	8,228	-	-	-	-	-	8,228
Transaction costs	-	-	-	-	-	-	-
Other movements	-	-	44	-	-	-	44
Impact of deconsolidation of Non Consolidated Equity balances following loss of control event	-	-	-	537	-	(3,239)	2,702
Balance at June 30, 2023	159,898	(8,253)	11,445	-	(98,907)	-	64,183

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - stated in thousands of Australian dollars)

	Note	3 months ended Jun 30, 2023 A$'000	3 months ended Jun 30, 2022 A$'000	6 months ended Jun 30, 2023 A$'000	6 months ended Jun 30, 2022 A$'000
Cash flows from operating activities					
Payments to suppliers and employees		(2,371)	(1,892)	(3,859)	(2,710)
Interest received		-	-	1	-
Government incentives received		-	-	-	-
Interest and other finance costs paid		(10)	(9)	(23)	(18)
Other (JV Operator Overhead Recoveries)		1,001	-	1,001	-
Net cash used in operating activities		(1,380)	(1,901)	(2,880)	(2,728)
Cash flows from investing activities					
Payments for property, plant and equipment		(7)	(9)	(7)	(9)
Proceeds from disposal of plant and equipment		-	11	-	28
Payment for exploration and evaluation expenditure	9	10	(974)	(87)	(2,018)
Cashflows on Loans to other entities		144	-	-	-
Payment for investments		133	-	(288)	-
Net cash used in investing activities		280	(972)	(382)	(1,999)
Cash flows from financing activities					
Proceeds from issue of shares	10	-	5,560	8,221	5,560
Transaction costs of issue of shares		-	-	-	-
Repayment of lease liabilities		-	(7)	-	(34)
Net cash from financing activities		-	5,553	8,221	5,526
Net increase/(decrease) in cash and cash equivalents		(1,100)	2,680	4,959	799
Cash and cash equivalents at the beginning of the financial period		6,177	1,255	118	3,321
Effects of exchange rate changes on cash and cash equivalents		-	170	-	(15)
Cash and cash equivalents at the end of the financial period		5,077	4,105	5,077	4,105

Notes to the Condensed Interim Consolidated Financial Statements

Note 1. Corporate information

Xanadu Mines Ltd (the ‘Company’) was incorporated on May 12, 2005 and is the ultimate holding company for the Xanadu group (the ‘Group’). The unaudited financial statements of the Company and its controlled entities are for the period ended June 30, 2022. The principal activity of the Company (and its subsidiaries) is copper-gold exploration in Mongolia.

Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period ended June 30, 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Australian *Corporations Act 2001* (Cth) (**Corporations Act**), as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended December 31, 2022, and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act.

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

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 reported a net loss after tax of $2.388 Million dollars (June 30, 2022: Loss $2.831M) and net cash outflows from operations of $2.880M (June 30, 2022 $2.728M) for the period ended June 30, 2023. At period end, cash and cash equivalents were $5.077M.

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. 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.

Subsequent to year end, on 10 March 2023, Xanadu completed Phase 2 and Phase 3 of its strategic partnership with Zijin. Phase 2 was an equity placement in Xanadu Mines by Zijin, which resulted in the Group receiving $7,164,645 on that day. Phase 3 is the issue of new shares by our wholly owned subsidiary Khuiten Metals Pte Ltd (Khuiten Metals) for US$35M. Khuiten Metals is the ultimate owner of 78.5% of the Kharmagtai Project. The result of this transaction was that Xanadu Mines have retained a 50% share in Khuiten Metals, and Khuiten is fully funded to progress the next stage of the Kharamgtai project.

In the Director’s opinion, the going concern basis of preparation remains appropriate given the $7,164,645 raised in March 2023 and the cash outlook over the next 18 months. However should these funds be fully utilised, the Group will need to implement further potential actions to fund ongoing activity which includes, but is not limited to: ongoing corporate operating and administrative costs (that are not rechargeable to Kharmagtai), exploration at the Red Mountain project and new project acquisition. The Directors have a reasonable basis to believe this will be achievable through the following actions:

- raising equity funds in capital markets, noting that the Group has a history of successful equity raisings;
- entering into farm-out, sell down or joint venture agreements at Red Mountain in order to continue to advance the project through further exploration work including a pre-feasibility study based on strong copper prices and current market sentiment; and
- deferral of discretionary corporate operating and administrative costs and exploration expenditures

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.

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.

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.

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

The Group assesses indicators of impairment for 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. Considerations include the results of exploration activities during the period, budgeted future expenditure, recent comparable transaction information (when available), resource multiples. These also consider fair value less costs of disposal or value-in-use calculations. If an indicator of impairment exists, the recoverable amount of the asset is determined.

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 10 '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 Condensed Interim Consolidated Financial Statements

Note 5. Other income

	Consolidated			
	3 months ended Jun 30, 2023 A$'000	3 months ended Jun 30, 2022 A$'000	6 months ended Jun 30, 2023 A$'000	6 months ended Jun 30, 2022 A$'000
Operator Overhead Recoveries	1,000	-	1,001	-
Other	-	(3)	-	14
	1,000	(3)	1,001	14

Note 6. Result of deconsolidation on loss of control of subsidiary

	Consolidated			
	3 months ended Jun 30, 2023 A$'000	3 months ended Jun 30, 2022 A$'000	6 months ended Jun 30, 2023 A$'000	6 months ended Jun 30, 2022 A$'000
Gain on deconsolidation of Khuiten Metals Pte Ltd following loss of controlling interest:				
Gain on Fair Value remeasurement of interest in Khuiten	11,820	-	11,820	-
Gain on derecognition of NCI following loss of control	3,152	-	3,152	-
Transfer of Khuiten FX Reserve to P/L	(12,603)	-	(12,603)	-
Derecognition of transactions with owners reserve	(537)	-	(537)	-
	1,832	-	1,832	-

Note 7. Other expenses

	Consolidated			
	3 months ended Jun 30, 2023 A$'000	3 months ended Jun 30, 2022 A$'000	6 months ended Jun 30, 2023 A$'000	6 months ended Jun 30, 2022 A$'000
Administration expenses	627	580	1,302	919
Wages and management fees	900	898	1,332	1,278
Consulting fees	1,658	169	1,803	312
Net foreign currency (gains)/losses	6	(6)	5	(7)
	3,191	1,641	4,442	2,502

Note 9. Deferred exploration and evaluation expenditure

	Consolidated	
	Jun 30, 2023 A$'000	**Dec 31, 2022 A$'000**
Non-current assets		
Deferred exploration and evaluation expenditure	6,720	49,241
Net Assets classified as held for sale (see note 7)	-	(42,266)
	6,720	6,975

Reconciliations

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

Consolidated	**Exploration and evaluation A$'000**
Balance at January 1, 2023	6,975
Additions [i]	62
Exchange differences	65
Less amounts written off in period	(97)
Less amounts written off on deconsolidation of Khuiten Metals	(281)
	6,720

[i] Additions made up of:	**A$'000**
Additions funded by Xanadu:	
Cashflow payments for exploration and evaluation expenditure at Red Mountain	62

The Company held interest in one tenement during the period to March 31, 2023:
(a) the Red Mountain copper-gold project

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 first quarter of 2023, Xanadu commenced a trenching program at Red Mountain to generate new drill targets, with initial assays identifying a broad zone of shallow gold. The program is continuing into the fourth quarter.

Note 10. Issued capital

	Consolidated			
	Jun 30, 2023 Shares	Dec 31, 2022 Shares	Jun 30, 2023 A$'000	Dec 31, 2022 A$'000
Ordinary shares - fully paid (net of transaction costs)	1,633,264,191	1,412,260,215	159,898	151,671

Movements in ordinary share capital

Details	Date	Shares	A$'000
Balance	January 1, 2023	1,412,260,215	151,671
Equity placement	January 24, 2023	41,887,844	1,131
Zijin Shareholding Placement (Phase 2)	March 10, 2023	179,116,132	7,165
Capital Raising Costs		-	(69)
Balance	June 30, 2023	1,633,264,191	159,898

Movements in options

Details	Date	Options
Balance	January 1, 2023	46,950,000
Executive Director Options ratified February 2023	February 7, 2023	32,770,000
Non-Executive Director Options ratified February 2023	February 7, 2023	12,600,000
Balance	June 30, 2023	92,320,000

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

Note 11. Dividends

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

Note 12. Contingent liabilities

There are no material contingent liabilities relating to the Company.

Note 13. Events after the reporting period

No matter or circumstance has arisen since June 30, 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 14. Earnings per share

	Consolidated			
	3 months ended Jun 30, 2023 A$'000	**3 months ended Jun 30, 2022 A$'000**	**6 months ended Jun 30, 2023 A$'000**	**6 months ended Jun 30, 2022 A$'000**
Loss after income tax	(1,048)	(1,817)	(2,338)	(2,831)
Non-controlling interest	-	(100)	-	182
Loss after income tax attributable to the owners of Xanadu Mines Ltd	(1,048)	(1,917)	(2,338)	(2,649)
	Number	**Number**	**Number**	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,633,264,191	1,370,836,168	1,560,245,761	1,298,810,623
	Cents	**Cents**	**Cents**	**Cents**
Basic earnings per share	(0.06)	(0.14)	(0.15)	(0.20)