

2023 ANNUAL REPORT

28 March 2024

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

2023 ANNUAL REPORT

Please find attached for release to the market, Xanadu Mines Ltd's *2023 Annual Report*.

-ENDS-

For further information, please contact:

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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 jointly control a globally significant copper-gold deposit in our flagship Kharmagtai project. Xanadu is the Operator of a 50-50 JV with Zijin Mining Group in Khuiten Metals Pte Ltd, which controls 76.5% of the 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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Xanadu Mines Ltd ACN 114 249 026

www.xanadumines.com

XANADU MINES



Annual Report

For the year ending 31 December 2023

ASX:XAM | TSX:XAM

xanadumines.com

CORPORATE DIRECTORY

DIRECTORS

Colin Moorhead
Ganbayar Lkhagvasuren
Michele Muscillo
Tony Pearson
Shaoyang Shen (Appointed 10 March 2023)

COMPANY SECRETARY

William Hundy

NOTICE OF ANNUAL GENERAL MEETING

The details of the annual general meeting
of Xanadu Mines Ltd are:
Date of Meeting: 23 May 2024

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS - AUSTRALIA

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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/corporate-governance

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LETTER FROM THE CHAIRMAN

I am pleased to present Xanadu Mines 2023 Annual Report following the completion of another successful year. This year marked a significant period of growth and achievement for the Company, driven by a strategic partnership with Zijin Mining Group Co (Zijin), successful exploration efforts, and the advancement of our flagship Kharmagtai Copper-Gold Project through the stages of a Pre-Feasibility Study (PFS).

In the March Quarter of 2023, we solidified our landmark strategic investment deal with our partner Zijin, a move that has been transformational for the advancement of the Kharmagtai Copper-Gold Project. This partnership created a 50-50 joint venture in Khuiten Metals, the holding company that controls the Kharmagtai Project, and provided US\$35M funding within the JV to drive the project through pre-feasibility to a Financial Investment Decision (FID). In parallel Zijin

invested directly in the Xanadu listed company at a 30% premium to market to become Xanadu's largest shareholder at 19.4%.

Following this major investment milestone, we accelerated our PFS program and exploration activities at Kharmagtai. Notably, our PFS infill drilling program delivered approximately 48,000m of diamond drilling, and yielded highly encouraging results. This included material vertical extensions of the high-grade zone within the Stockwork Hill pit shell and the discovery of a new high-grade core beneath the White Hill pit shell. This exceptional PFS infill drill program allowed the Company to accomplish another important project milestone with the successful delivery of an updated Mineral Resource Estimate totalling 1.3Bt including 3.4Mt of copper, 8.5Moz of gold.



“

Following this major investment milestone, we accelerated our PFS program and exploration activities at Kharmagtai.”

– Colin Moorhead, Executive Chairman

This represents an increase of approximately 15% contained copper and 9% contained gold metal and achieved our goal of increasing the resource classification to >90% Indicated within the defined pit limits.

Deep discovery drilling continued to test for significant mineralisation below the existing Resource using Xanadu's Exploration Model, based on geologic analogues such as Hugo Dummett and Cadia East. We believe that Kharmagtai has the potential to achieve a deep discovery, which was reinforced with drill hole KHDDH649 returning a broad intercept of low-grade mineralisation totalling 1,080m @ 0.21% CuEq from 491m below the White Hill deposit.

Sustainability continues to be at the forefront of our decision making, and we released our third annual Sustainability Report, further improving our disclosures and demonstrating our long-term commitment to Mongolia. We believe that Kharmagtai will play an integral role in the world's solution to the looming copper supply gap amid efforts to electrify the global economy.

Looking ahead to 2024, we remain steadfast in our commitment to unlock value for our shareholders and all stakeholders. Our focus continues on advancing Kharmagtai towards production while pursuing exploration opportunities and expanding our project portfolio. Our recent entry into the Sant Tolgoi project underscores our dedication to growth and diversification.

On behalf of the board, I would like to personally thank our stakeholders for their continued support and our employees for their efforts over the last year. We look forward to an exciting 2024 as we progress the Kharmagtai Project through the final PFS stages.

Colin Moorhead
Executive Chairman

REVIEW OF OPERATIONS

Management Discussion & Analysis

General

This Management Discussion and Analysis (MD&A) is current to 28 March 2024 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 2023 and 2022 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.

Forward Looking Statements

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 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.

Kharmagtai Copper-Gold Project (Xanadu 38.25%)

Kharmagtai Exploration

An aggressive ~20,000m growth and discovery drill discovery programme was completed at Kharmagtai in conjunction with the MRE definition drilling (**Table 1**). The discovery exploration programme included;

5,529.80m (3 holes) of deep exploration drilling targeting high-grade, large-scale mineralisation at depth in an analogue to Oyu Tolgoi (**Figure 1**).

14,482.70m (62 holes) of shallow exploration drilling targeting open pit style resources in five unexplored porphyry clusters within the wider Kharmagtai district (**Figure 2**).

Deep Exploration Drilling

Existing geochemical, geological, and geophysical datasets point to known mineralisation at Kharmagtai as a shallow surface expression of a much larger porphyry system at depth (**Figure 1**). Deep drill holes have been designed to ensure that a potential high-grade, large-scale and deeper “Oyu Tolgoi” style deposit is discovered early in the PFS process, allowing optimal infrastructure decisions to be made, without sterilising what could be the major value driver at Kharmagtai (**Figure 2**).

Diamond drill hole 648 delivered a broad 1,080m @ 0.21% CuEq from 491m, expanding mineralised system by +600m, at largest deposit, White Hill.

Diamond drill hole 779 hit the highly sought-after prize of tourmaline breccias and porphyry mineralisation between Stockwork Hill and Zaara deposits, encountering 2 broad zones, plus grade up to 0.89% CuEq or 1.73g/t AuEq, and is likely on the edge of a very large-scale copper gold system.

Table 1: Total drilling completed at Kharmagtai since March 2023

Project	Exploration Drilling type	Total of metres (m)	Total of count
Kharmagtai	Mineral Resource Estimate (MRE)	56,194.25	164
Kharmagtai	Deep Exploration	5,529.80	3
Kharmagtai	Shallow Exploration	14,482.70	62

Shallow Exploration Drilling

Shallow exploration drilling at Kharmagtai targeted additional porphyry copper-gold deposits outside the currently defined MRE. This programme also serves to inform future infrastructure location decisions associated with the potential development of the Kharmagtai Project into a large-scale mining operation. Important outcomes for which follow-up drilling is being planned include:

- Identified a broad zone of porphyry mineralisation above the Resource cut-off grade, including a cohesive zone greater than 0.6% CuEq mineralisation. This may represent a faulted offset to Stockwork Hill.
- Encountered mineralised structures at Cluster Three near surface containing up to 1.3% Cu.
- Defined a 2km long zone of gold-rich tourmaline breccia at Cluster Five.
- Encountered broad zones of peripheral porphyry and tourmaline breccia mineralisation approximately 1km along strike from the Stockwork Hill Tourmaline Breccia.
- Encountered a broad zone of shallow, low-grade porphyry mineralisation approximately 1.5km southwest of Golden Eagle where there is little drilling to date, suggesting the presence of a large-scale porphyry in this area.



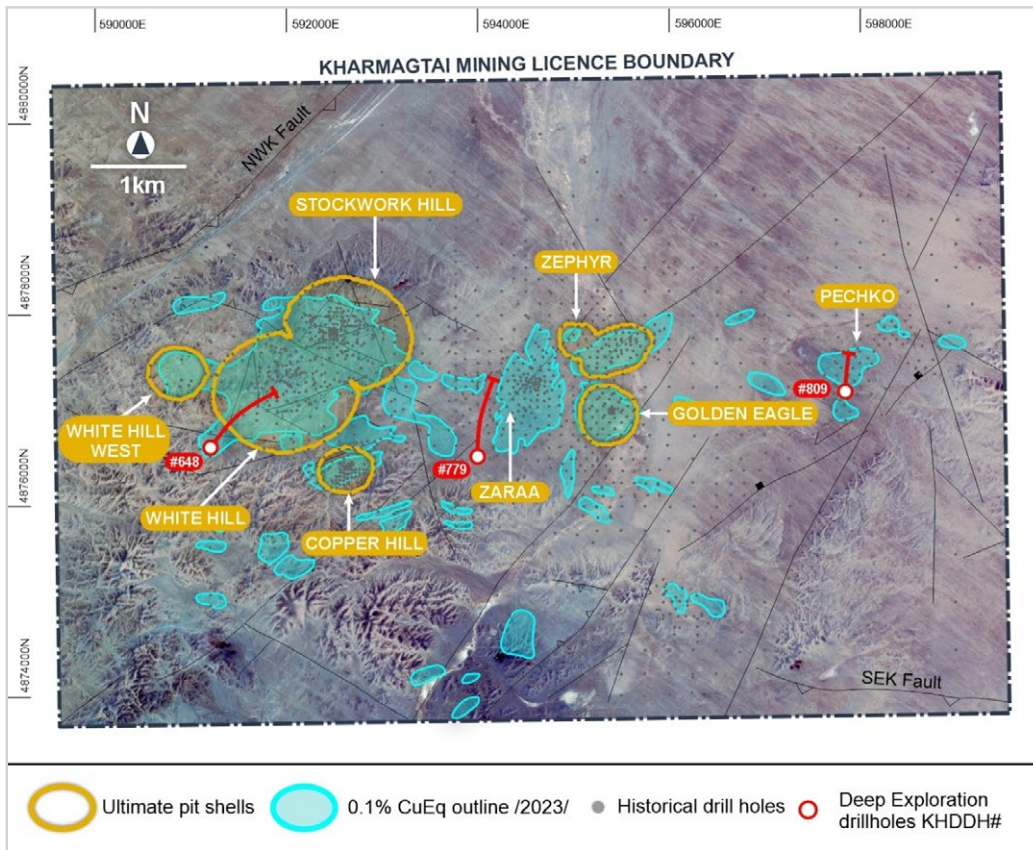


Figure 1: Kharmagtai copper-gold district showing currently defined mineral deposits and completed deep exploration holes

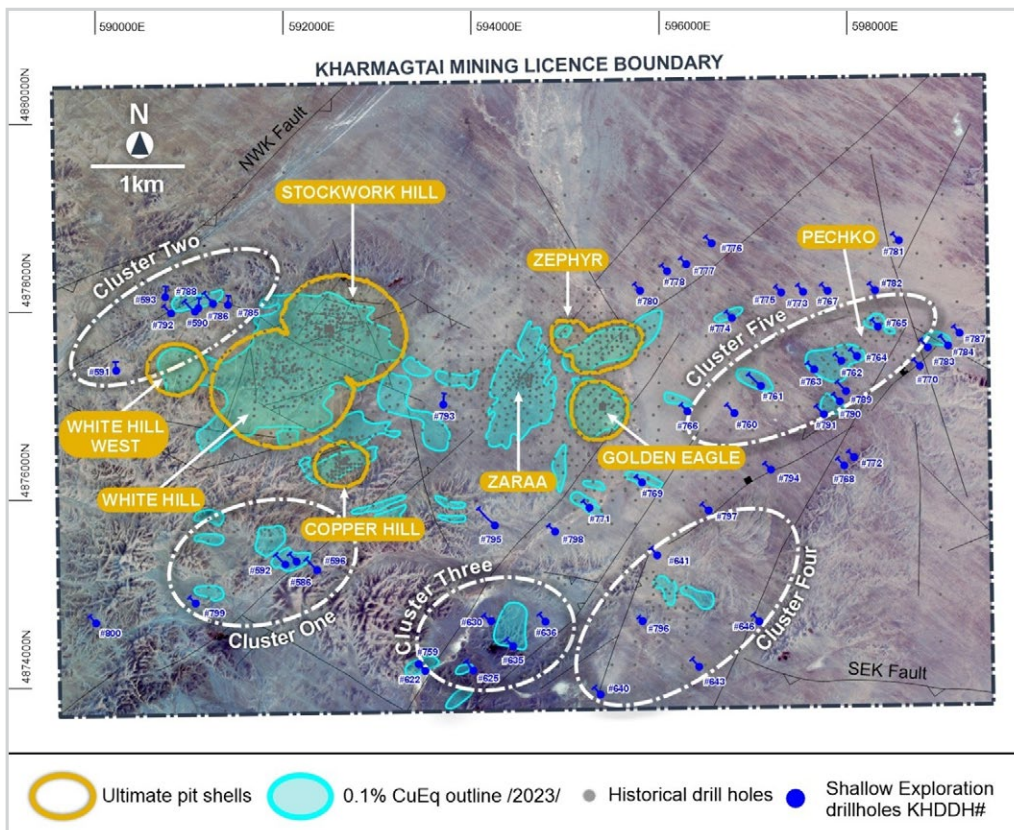


Figure 2: Kharmagtai copper-gold district showing currently defined mineral deposits and completed shallow exploration holes

Kharmagtai Pre-Feasibility Study (PFS)

During the reporting period, the Company and its partner Zijin rapidly advanced the Pre-Feasibility Study (PFS) Programme for the Kharmagtai Copper-Gold Project, which is funded by the US\$35 million from the JV with Zijin.

The PFS is utilising top tier advisors to define a large-scale, low strip ratio open pit operation, using a conventional copper concentrator producing a clean, gold-rich concentrate.

Upside opportunities versus the Scoping Study / PEA which are being investigated include but are not limited to oxide leaching, coarse particle flotation, electric haulage systems.

The study is on track for completion in Q3 CY2024 and will deliver both an international standard PFS and a Maiden Ore Reserve. Permitting and approvals are progressing on plan and in parallel with the PFS to include with Mongolian requirement studies and environmental assessments. The Kharmagtai PFS targets first production by end of CY2027 (**Figure 3**), subject to financing and approvals.

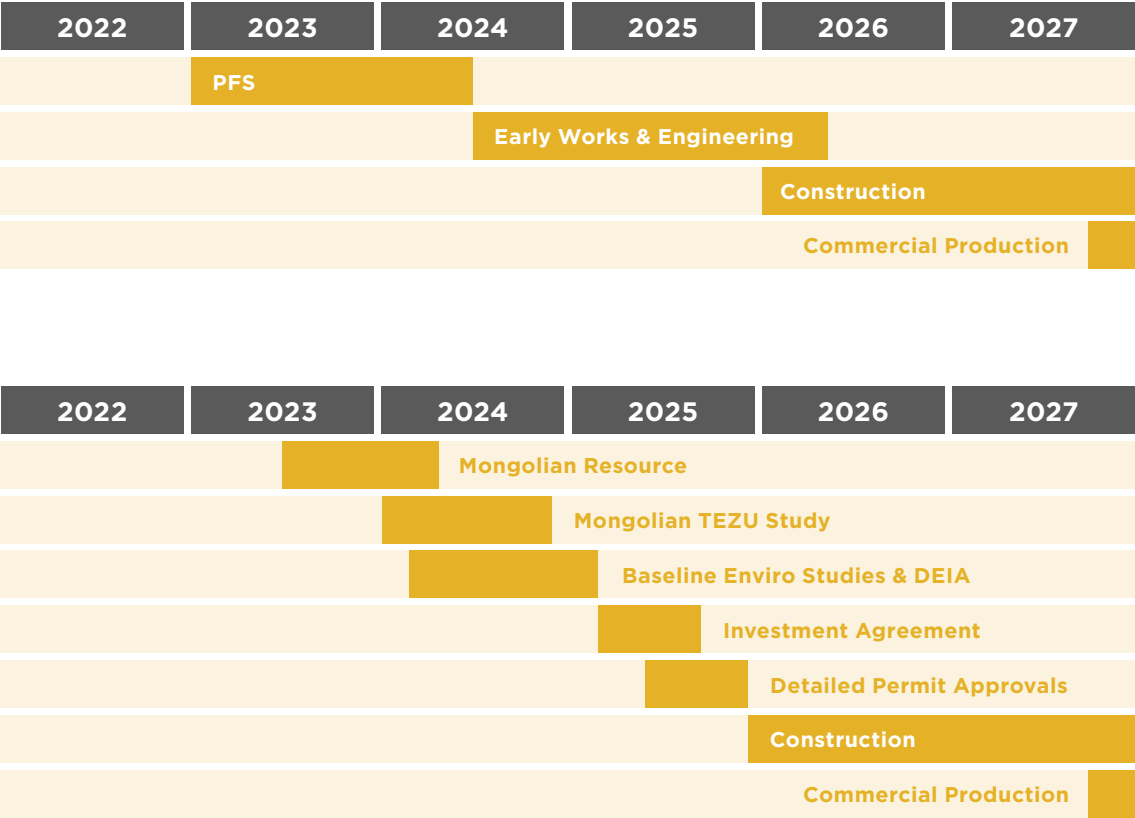


Figure 3: Studies and Permitting timelines to production

Infill Program and Resource Update

During 2023, the Company undertook extensive infill drilling program designed to improve and upgrade the Mineral Resource to Indicated classification for the PFS (**Table 2**). This work defined a new Mineral Resource estimate of 1.3 billion tonnes, classified as >90% indicated within the PEA pit shell volumes. It increased the Mineral Resource by 13% CuEq metal and increased the size of higher-grade zones by 25%.¹ Kharmagtai remains open along strike and at depth with significant potential for future upgrades.

Table 2: 2023 Upgraded Mineral Resource Estimate at Kharmagtai

Resource	Cutoff (%CuEq)	Classification	Tonnes (Mt)	Grades			Contained Metal			
				CuEq (%)	Cu (%)	Au (g/t)	CuEq (Mlbs)	CuEq (kt)	Cu (kt)	Au (koz)
2023	0.20 (OC)	Indicated	790	0.38	0.27	0.22	6,700	3,000	2,100	5,600
	0.30 (UG)	Inferred	460	0.37	0.27	0.19	3,800	1,700	1,300	2,800

1. ASX/TSX Announcement 8 December 2023 – Kharmagtai Mineral Resource Grows by 13% CuEq; Including 25% increase in higher grade zones

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We solidified our landmark strategic investment deal with our partner Zijin, a move that has been transformational for the advancement of the Kharmagtai Copper-Gold Project.”

– **Colin Moorhead**, Executive Chairman



Metallurgy

During 2023 and into Q4 of CY2024, the Company undertook metallurgical test work including sulphide flotation, hardness and grind size evaluation, and oxide leaching (Figure 4).

- Flotation identified strong rougher recoveries in line or better than the Scoping Study / PEA², now transitioning to regrind and cleaner flotation testwork to balance concentrate grade and recovery.³
- Grind size evaluation selected optimum grind sizes for Stage 1 and Stage 2 expansion, with coarse particle flotation under investigation to reduce power consumption and increase throughput.
- Oxide leach testing delivered good recoveries in material previously classified as pre-strip waste, providing significant upside potential in project economics.⁴

Process Design & Engineering

Process design commenced in 2023 with DRA Global and envisages a two-stage comminution circuit, similar to the Scoping Study / PEA, with the first stage operating at 20-26Mtpa using a conventional SABC circuit, and the second stage expansion bringing throughput up to 30-40Mtpa.

Following comminution, sulphide flotation is designed as a gravity circuit with single stage rougher, regrind and three stages of cleaning (Figure 5).

Oxide leaching, as mentioned above, will target a heap leach using acid copper leach followed by glycine neutralisation and then cyanide gold/silver leach.



Figure 4: Oxide Column Leach at Draslovka Mining Process Solutions

2. ASX/TSX Announcement 20 June 2022 NI43-101 Preliminary Economic Assessment Technical Report

3. ASX/TSX Announcement 4 March 2024 – Kharmagtai Rougher Recovery Results

4. ASX/TSX Announcement 6 March 2024 – Kharmagtai Oxide Material Recovery Results

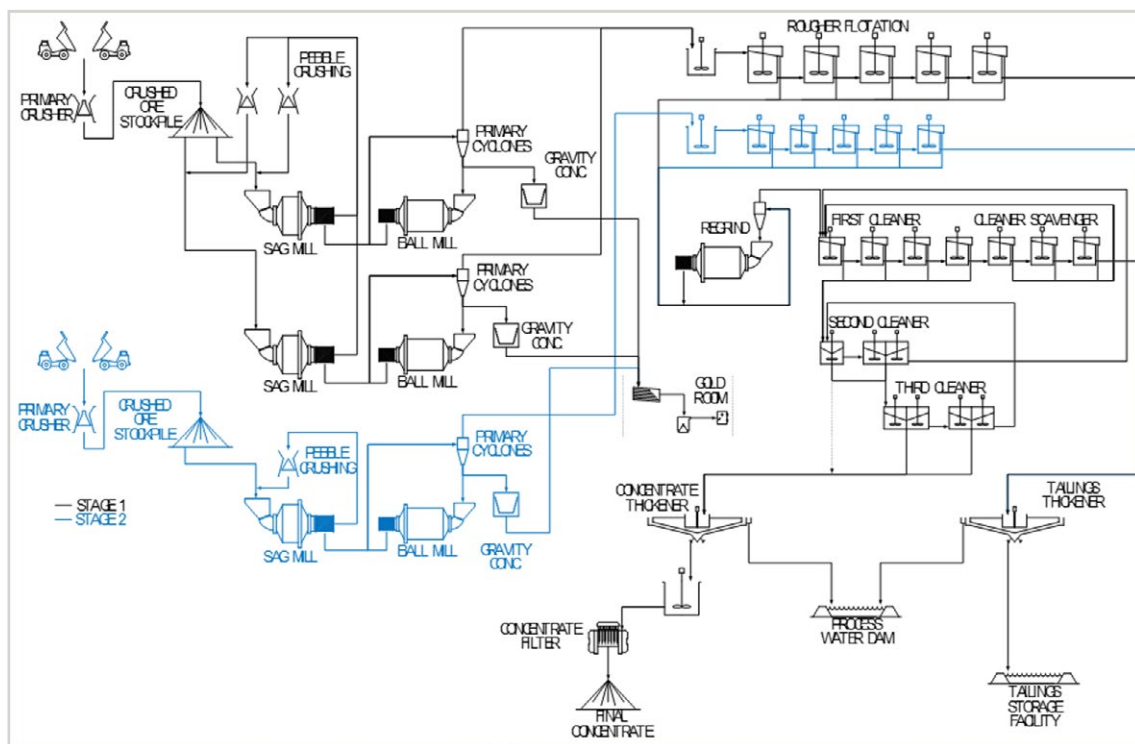
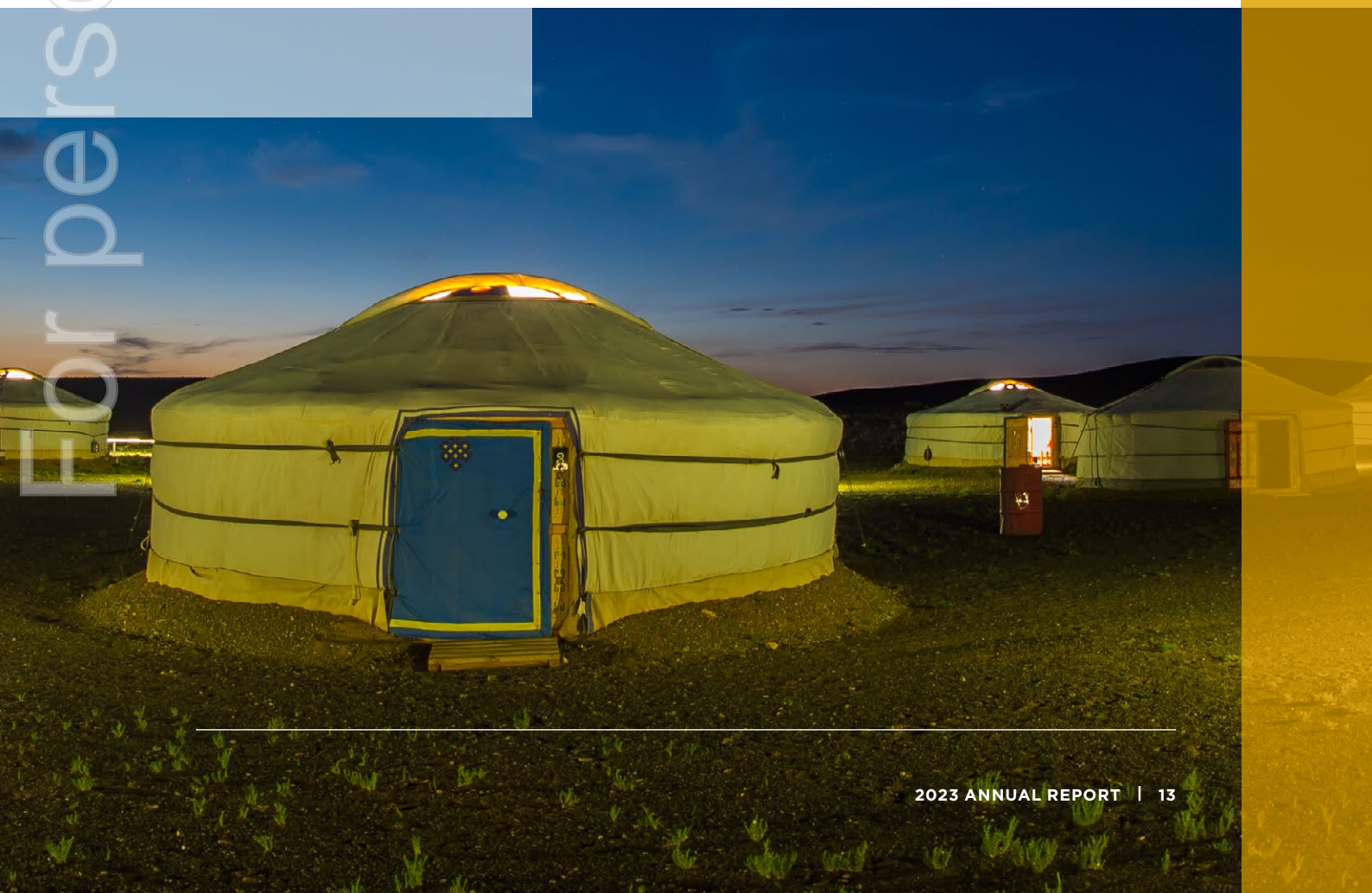


Figure 5: Process Flowsheet for Kharmagtai Plant



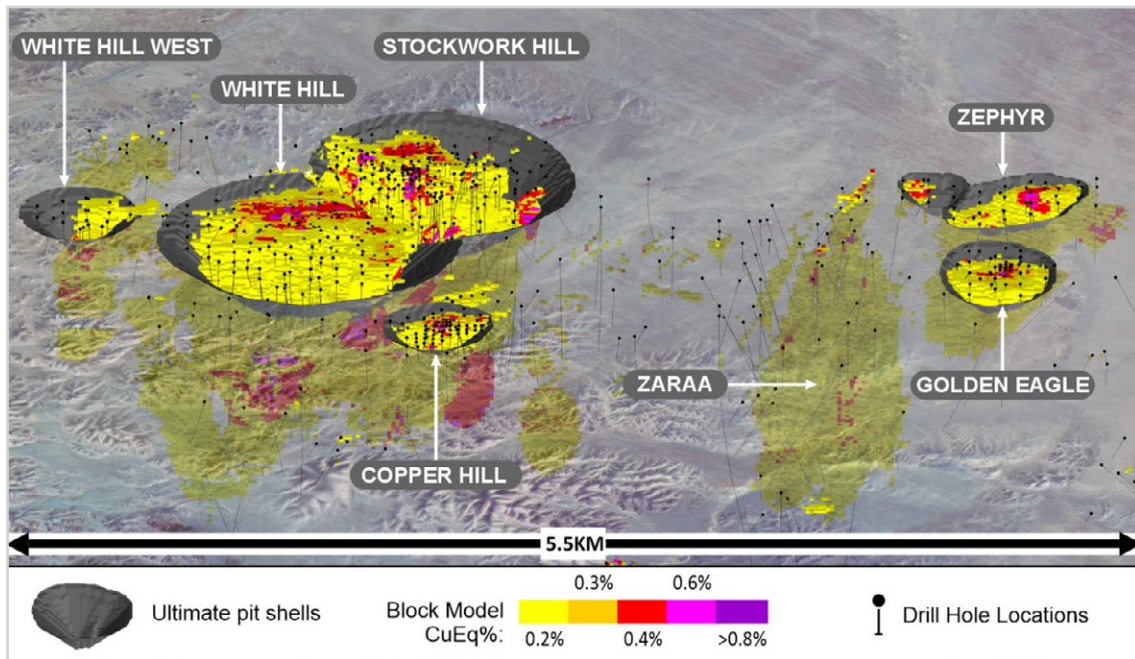


Figure 6: Scoping Study / PEA pits Overlaid to 2023 Upgraded Resource

Mine Design & Engineering

The mine plan uses multiple independent mining fronts and a grade focused stockpiling strategy. Whittle Consulting are undertaking enterprise pit optimisation (**Figure 6**) to maximise higher grade ore extraction and value, while Mining Plus are completing the detailed mine engineering and design.

Mining seeks to leverage the two-stage design by bringing grade forward during the first stage and utilising a contract fleet to deliver a rapid capital payback. During the second stage the mine moves to a bulk operation and seeks to leverage advanced haulage and larger fleet to generate long term cash as a bulk operation.

Project Infrastructure

Infrastructure studies focused on power, water, tailings and the site general arrangement to deliver an operational design that is Mongolian managed and operated with an onsite camp and fly in / fly out workforce from the major city Ulaanbaatar, built and designed to both Mongolian and international standards.

Power studies indicate hybrid supply of approximately 50% renewable and 50% grid power, with renewable utilising both solar and wind, both of which are very feasible in the South Gobi. Final design is underway now.

Water supply studies seek to expand the existing 70 litre per second resource to meet the full process plant requirements, based on modern and best practice water recycling and tailings management techniques. This work is ongoing following a break during the cold winter months and includes geophysics plus drilling and testing of both monitoring and production bores.

Tailings studies sought to benchmark and use industry best practices to maximise water recovery including use of thickening and minimise distance from the plant. This included design of a facility within the lease boundaries for at least 10-15 years to facilitate permitting and minimise off-site land use.



Figure 7: Water Monitoring Bore Drilling

Kharmagtai Site Upgrades

During 2023 the Khuiten JV invested in upgrades to the Kharmagtai operation to further modernise its drill core processing, power supply, and employee work and health (**Figure 8**). These upgrades help prepare Kharmagtai for the transition from exploration to construction and include:






	Grid Power: 35kV connection to support studies & ongoing exploration and removes dependence on diesel generators, designed to be easily upgradeable for the mine and plant construction stage;
	Core Processing Facility: Replaced the old core shed with a new modern facility designed for effective operation during the South Gobi winter and to last through life of mine;
	Accommodation: Added a second modern facility with ~30 bed capacity to support PFS and subsequent transition to Feasibility and construction;
	Greenhouse: Employing local families to provide long term, locally sourced food for employees; and
	Water Filtration: Providing healthy drinking water and reducing waste from plastic bottles on site.



Figure 8: Kharmagtai Site Upgrades – from top left clockwise: Core Process Facility, Electrical Grid Connection, Water Filtration, Greenhouse, and Accommodation

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 40km²) and consists of multiple co-genetic porphyry copper-gold centres, mineralised tourmaline breccia pipes and copper- gold/base metal magnetite skarns, which occur within the central part of Mining Licence 17129A (**Figure 9**).

Red Mountain is an earlier stage project than Kharmagtai and does not yet have a JORC Code, 2012 compliant Mineral Resource. During 2023 Xanadu completed a detailed target generation exercise. This included a review of prior drilling, geochemistry and geophysics data, as well as multi spectral analysis that was completed on all drill core during 2021.

A high-impact ~5,000m diamond drilling programme to test five main target areas at Red Mountain is now underway with drilling expected to be completed by mid-May 2024 and assays to be available by end-June 2024.

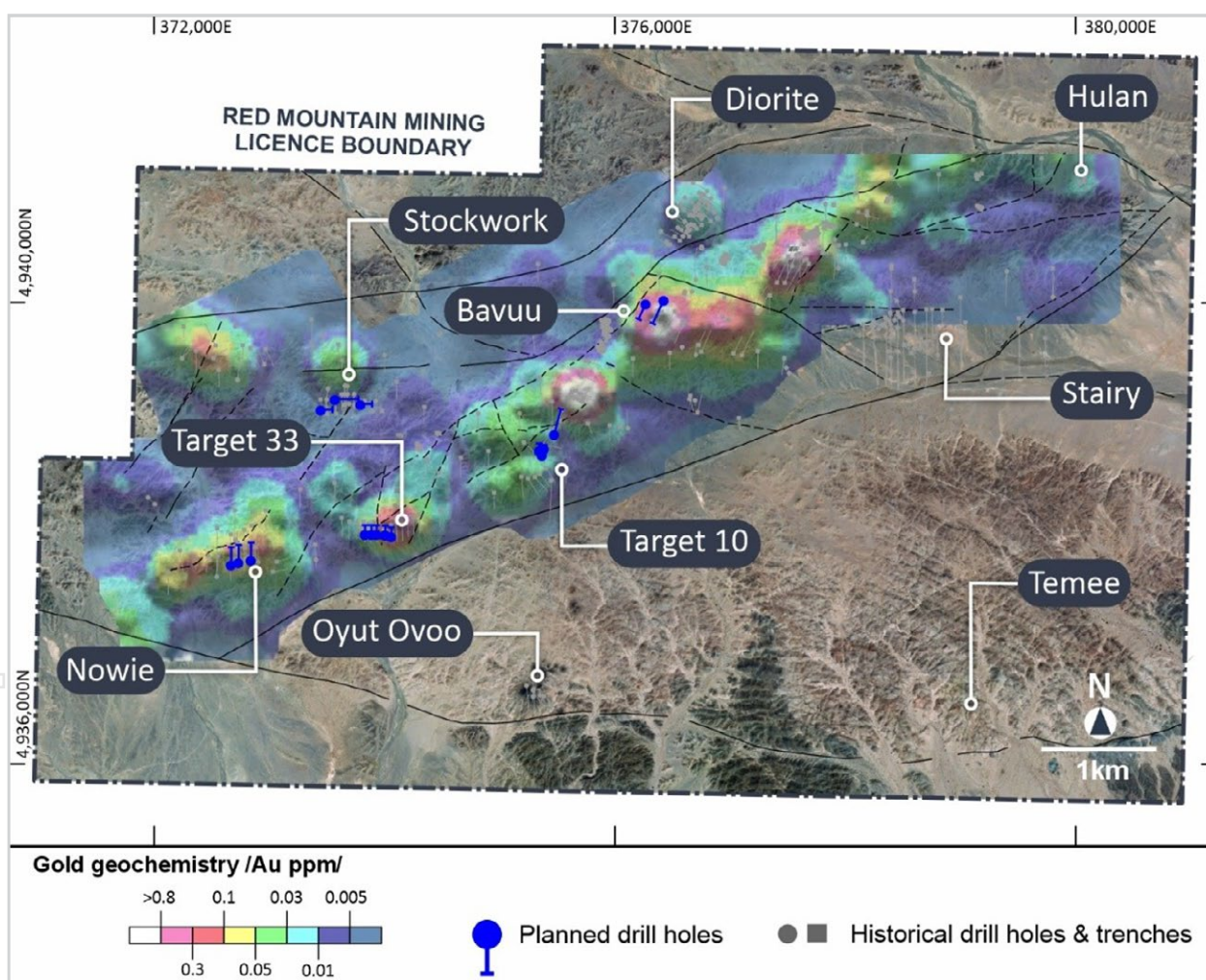


Figure 9: Red Mountain tenement map, main targets, and geochemistry

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Sustainability continues to be at the forefront of our decision making, and we released our third annual Sustainability Report, further improving our disclosures and demonstrating our long-term commitment to Mongolia.

- Colin Moorhead, Executive Chairman



Business Development

The company has agreed a binding term sheet with STSM LLC (STSM) granting the right to earn up to 80% interest in two exploration licences XV-17774 (Oyut) and XV-21887 (Sant Tolgoi) located in the Zavkhan Province of Western Mongolia. These two licenses make up the Sant Tolgoi Project, which is considered highly prospective for discovery

of new magmatic intrusion-related Copper-Nickel systems. Sant Tolgoi project hosts multiple shallow copper-nickel targets over several kilometres of strike. The Acquisition aligned to Xanadu Horizon 3 Strategy to build a portfolio future facing metals projects, and detailed mapping, geochemistry and geophysics planned to start in May 2024.

Work Plan for 2024

Exploration

Exploration in 2024 includes current and planned activities at three projects including Kharmagtai, Red Mountain and the new Joint Venture at Sant Tolgoi.

- Continued shallow exploration at Kharmagtai for lateral targets to expand the existing Resource and identify potential new open pits for inclusion in ongoing studies.
- Continued deep exploration at Kharmagtai targeting larger scale, deeper analogues to Hugo Dummett (Oyu Tolgoi) and Cadia Valley.
- Re-commencement of exploration at Red Mountain, initially with a 5,000 metre program to test multiple porphyry related gold and copper targets.
- Detailed mapping, geochemistry and geophysics at Sant Tolgoi, commencing in May 2024.

Kharmagtai Pre-Feasibility Study

During 2024 the emphasis of the project shifts from data acquisition into trade-off studies, optimisation and final mine and process engineering. The project remains on track for delivery of a PFS and Maiden Ore Reserve in Q3 CY2024.

Key PFS current and planned activities include:

- Follow-up sterilisation and geotechnical drilling to support surface infrastructure.
- Water supply upgrades including geophysics, drilling and reservoir modelling.
- Metallurgical investigations for both sulphide recovery optimisation and oxide material upside opportunities.
- Enterprise mine optimisation to bring forward grade, align to two stage project design and set the baseline for final engineering.
- Final engineering & design for power, water, and tailings storage infrastructure.
- Plant design and engineering, including oxide heap leach and optimised throughput.
- Mine design and engineering, including haulage uplift scenarios.
- Mongolian permitting and regulatory engagement to facilitate transition to construction.
- Community and stakeholder engagement.

Governance

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 announcement has been presented in accordance with the JORC Code 2012.

Mineral Resources: The information in this Report that relates to Mineral Resources is based on information compiled by Mr Robert Spiers who is responsible for the Mineral Resource estimate. Mr Spiers is a full-time Principal Geologist employed by Spiers Geological Consultants (SGC) and is a Member of the Australian Institute of Geoscientists with 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 "Qualified Person" as defined in the CIM Guidelines and National Instrument 43-101. Mr Spiers consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

Exploration Results: The information in this Report 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 the 2012 Edition of the "Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves" and the National Instrument 43-101. Dr Stewart consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

Metallurgical Results: The information in this Report relates to metallurgy and metallurgical testwork has been reviewed by Graham Brock, BSc (Eng), ARSM. Mr Brock is not an employee of the Company but is employed as a contract consultant. Mr Brock is a Fellow of the Australasian Institute of Mining and Metallurgy; he has sufficient experience with the style of processing response and type of deposit under consideration, and to the activities undertaken, to qualify as a competent as defined in the 2012 Edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves and the National Instrument 43-101. Mr Brock consents to the inclusion in this report of the contained technical information in the form and context as it appears.

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.

Results of Operations

Selected annual information

	Year ended 31 Dec 2023 \$'000	Year ended 31 Dec 2022 \$'000	Year ended 31 Dec 2021 \$'000	Year ended 31 Dec 2020 \$'000
Gross Exploration and Studies Expenditure incurred in period				
Kharmagtai ^a	28,564	3,093	8,721	5,097
Red Mountain ^b	220	963	2,890 ^b	1,337 ^b
Exploration expenditures capitalised ^a	220	4,056	9,367	5,028
Impairment of deferred exploration expenditure	-	-	4,637 ^c	-
Corporate general and admin ^d	4,666	4,483	3,577	3,330
Share-based payments	1,523	397	815	-
Depreciation and amortisation	64	69	55	55
Loss after income tax attributable to owners of XAM	7,578	4,565	9,305	2,932
Basic loss per share (cents per share)	0.47	0.33	0.77	0.33
Diluted loss per share (cents per share)	0.47	0.33	0.77	0.33
Deferred exploration expenditures	7,193	6,975	50,328	43,317
Total assets	66,114	50,376	54,632	51,716
Total liabilities	1,845	467	494	1,010
Net assets	64,269	49,909	54,138	50,706
Kharmagtai drilling (metres)	76,208	-	33,516	26,650
Red Mountain drilling (metres) ^e	-	-	6,987	4,321

^a Kharmagtai operations are no longer consolidated in the Annual Financial Statements of Xanadu Mining, commencing 10 March 2023. The disclosures for Kharmagtai operations are included to highlight the group's project activities where Xanadu Mines is the Operator.

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

^c The 2021 impairment of \$4,637,000 was booked at Red Mountain following the exit of Japan Oil Gas and Metals National Corporation (JOGMEC) from a Joint Exploration Agreement.

^d Corporate General and admin is netted off the recovery for the operator overhead expenses (general and admin costs which Xanadu are eligible to recover) from the Khuiten Joint Venture.

^e Excludes horizontal trenching metres.

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.

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.

Results of Operations

Selected quarterly information

	Quarter ended 31 Dec 2023 \$'000	Quarter ended 30 Sep 2023 \$'000	Quarter ended 30 Jun 2023 \$'000	Quarter ended 31 Mar 2023 \$'000
Gross Exploration and Studies Expenditure incurred in period				
Kharmagtai ^a	7,839	10,515	8,630	1,850
Red Mountain	69	90	32	29
Exploration expenditures capitalised	69	90	32	29
Impairment of deferred exploration expenditure	-	-	-	-
Corporate general and administration ^b	1,293	395	1,711	1,267
Share-based payments ^c	1,057	-	466	-
Depreciation and amortisation	19	17	17	15
Loss after income tax attributable to owners of XAM	2,326	1,645	2,327	1,280
Basic loss per share (cents per share)	0.14	0.10	0.14	0.08
Diluted loss per share (cents per share)	0.14	0.10	0.14	0.08
Kharmagtai drilling (metres)	12,677	29,388	28,032	6,111
Red Mountain drilling (metres)	-	-	-	-

^a Kharmagtai operations are no longer consolidated in the Annual Financial Statements of Xanadu Mining, commencing 10 March 2023. The disclosures for Kharmagtai operations are included to highlight the group's project activities where Xanadu Mines is the Operator.

^b The corporate general and admin expenses disclosed represent gross expenses incurred by Xanadu, netted off by the recovery for the operator overhead (general and admin costs which Xanadu are eligible to recover) of the Khuiten Joint Venture.

^c Share-based payments expense for the period were calculated ½ yearly on review

	Quarter ended 31 Dec 2022 \$'000	Quarter ended 30 Sep 2022 \$'000	Quarter ended 30 Jun 2022 \$'000	Quarter ended 31 Mar 2022 \$'000
Gross Exploration and Studies Expenditure incurred in period				
Kharmagtai	402	749	1,140	802
Red Mountain	261	343	117	242
Exploration expenditures capitalised	663	1,092	1,257	1,044
Impairment of deferred exploration expenditure	-	-	-	-
Corporate general and administration	939	1,042	1,641	861
Share-based payments ^a	121	122	123	31
Depreciation and amortisation	18	18	17	16
Loss after income tax attributable to owners of XAM	841	1,213	1,893	618
Basic loss per share (cents per share)	0.05	0.09	0.14	0.05
Diluted loss per share (cents per share)	0.05	0.09	0.14	0.05
Kharmagtai drilling (metres)	-	-	-	-
Red Mountain drilling (metres) ^b	-	-	-	-

^a Share-based payment for the period includes a catch-up adjustment of \$92k to the share option reserve following an extension of the vesting period due to change of control event modifications.

^b Excludes horizontal trenching metres

Results of Operations

Corporate

Corporate activity during the year included Management and Board changes, finalisation of investment deal with strategic partner Zijin Mining, the issues of Xanadu's third sustainability report, and the completion of two equity placements.

Strategic Partnership with Zijin Mining Group Co., Ltd

In April 2022, the Company agreed a strategic partnership (Agreement) with Zijin Mining Group Co., Ltd (Zijin) to progress the Company's flagship Kharmagtai Copper-Gold Project (Kharmagtai) through its next phase of project evaluation and decision on future development.

Completion of the Phase 2 Placement was achieved on 10 March 2023 and raised approximately A\$7.2 million for Xanadu (before costs) and increased Zijin's shareholding in Xanadu to 19.42% with the issue of approx. 179.1 million shares at A\$0.04 per share. The funds raised in the Phase 2 Placement will be used for (a) the exploration of Xanadu's highly prospective Red Mountain project; (b) new project generation in southern Mongolia; and (c) corporate regulatory and administrative costs.

Under the Phase 3 JV, also completed on 10 March 2023, Zijin invested US\$35 million into the Kharmagtai project in return for the formation of a 50:50 joint venture through Xanadu's 100% owned subsidiary Khuiten. The US\$35 million will be used to complete the Kharmagtai PFS, continue exploration and support associated expenditure on the project's development.

Xanadu also welcomed the appointment of Non-Executive Director from Zijin, Mr Shaoyang Shen.

Equity Placements

On the 18 January 2023, the Company completed a bridging placement, issuing 41,887,844 fully paid ordinary shares at an issue price of \$0.027 each, raising \$1.1M (before costs).

The Company completed an additional placement on 20 November 2023 raising \$4.3M via a placement over two tranches. First tranche includes 62,996,490 Xanadu shares at \$0.055 per share to professional and sophisticated investors (A\$3.46M before costs). Second tranche of 15,185,328 Xanadu shares at \$0.055 per share to Zijin (A\$0.84M before costs) subject to formal shareholder vote at Xanadu Extraordinary Meeting (EGM) scheduled for 6 February 2024.

Sustainability

Xanadu's third Sustainability Report was published in May 2023, demonstrating our commitment to ESG and our goal to be a leader in sustainable exploration. This sets the stage for further evolution in Xanadu's sustainability framework, as we evolve from a pure explorer into the development of Kharmagtai.

Results of Operations

Capital Management

The Company had \$7.3 million cash on hand as at 31 December 2023 (31 December 2022: \$0.1 million).

Xanadu announced an A\$1.1 million equity placement on 18 January 2023 to provide working capital during final approvals stage for the Zijin Strategic Partnership. This was well supported by both domestic and international institutions. This included the issue of 41,887,844 fully paid ordinary shares in Xanadu (New Shares) at an issue price of \$0.027 each to raise A\$1.1M (before costs). Bell Potter Securities Limited acted as the Lead Manager to the Placement.⁸

On 10 March 2023, the Company completed the Phase 2 placement to Zijin Mining Group of 179,116,132 fully paid ordinary shares in Xanadu at an issue price of \$0.04 each to raise \$7.2M, which increased Zijin's shareholding to 19.42% of Xanadu. The proceeds of the Placement were used to fund ongoing exploration and new project acquisition for the Company's projects other than Kharmagtai. This placement was unbrokered.⁹

On 20 November 2023, Xanadu announced an A\$4.3 million equity placement (before costs) to provide funding for its strategic Horizons 2 and 3, as well as working capital.¹⁰ This was well supported by both domestic and international institutions and included proportionate participation by Zijin, Xanadu's largest shareholder. The placement was offered across two tranches to eligible and sophisticated investors, comprising 78,181,818 fully paid ordinary shares in Xanadu at an issue price of \$0.055 each:

- First tranche, being the issue of 62,996,490 New Shares to raise A\$3.46 million, was unconditional and was issued pursuant to the Company's existing placement capacity under ASX Listing Rule 7.1.
- Second tranche, being the proposed subscription of 15,185,328 New Shares by Xanadu's major shareholder Zijin for A\$0.84 million, was subject to formal documentation and approval by Australia Foreign Investment Review Board (FIRB) and Xanadu shareholder approval.

Bell Potter Securities Limited acted as Lead Manager and Ord Minnett acted as Co-Manager to the Placement.

A Xanadu Extraordinary General Meeting was held on 6 February 2024 which resulted in Xanadu shareholder approval of the second tranche to Zijin. FIRB approval was received by Zijin in late February, and the second tranche was finalised on 4 March 2024.¹¹

During 2024 the Company may need to raise additional capital for its non-Kharmagtai 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.

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 23 of the Financial Report to the Consolidated Financial Statements for a detailed discussion of Financial Instruments and Risk Management.

⁸ ASX/TSX Announcement 18 January 2023 - \$1.1 million placement

⁹ ASX/TSX Announcement 10 March 2023 – Zijin and Xanadu Transaction Completed and Kharmagtai PFS Underway

¹⁰ ASX/TSX Announcement 20 November 2023 - \$4.3 million Placement

¹¹ ASX/TSX Announcement 4 March 2024 – Completion of Placement to Zijin Mining

Results of Operations

Subsequent Matters

In November 2023 Xanadu announced that its major shareholder Zijin Mining Group Co., Ltd (Zijin) was intending to subscribe to 15,185,328 new shares (nominal value of \$835,193) in Xanadu. This placement was conditional on Xanadu shareholder approval under ASX Listing Rule 10.11 and Foreign Investment Review Board (FIRB) approval. A Xanadu Extraordinary General Meeting was scheduled for 6 February 2024 to seek approval of the issue of these shares to Zijin. Approval was granted at this meeting and the shares were subsequently issued on 04 March 2024.

On 22 January 2024 Xanadu signed a binding term sheet with STSM LLC (STSM) which grants the right to earn up to 80% interest in two exploration licences XV-17774 (Oyut) and XV-21887 (Sant Tolgoi) located in the Zavkhan Province of Western Mongolia. These two licenses make up the Sant Tolgoi Project, which is considered highly prospective for discovery of new magmatic intrusion-related Copper-Nickel systems. As part of this term sheet, Xanadu may elect to proceed to stage 1 once the minimum commitment has been met and can earn a 51% interest in the Project by spending USD\$1,000,000 on exploration over a period of twenty-four months.

No other matter or circumstance has arisen since 31 December 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.

Directors Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Xanadu Mines Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2023.

Directors

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

Colin Moorhead
Ganbayar Lkhagvasuren
Michele Muscillo
Tony Pearson
Shaoyang Shen

Executive Chairman & Managing Director
Executive Director
Independent Non-Executive Director
Independent Non-Executive Director
Non-Executive Director

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) during the period was the development of the Kharmagtai project with our JV partner Zijin and continuing exploration for copper-gold in Mongolia. The Company held interests in the following two tenements:

- (a) the Kharmagtai copper-gold project via Khuiten JV; 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 \$7,578,000 (31 December 2022: \$4,565,000).

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

In March 2023, Xanadu's 100% wholly owned subsidiary and the holding company for Xanadu's investment in Kharmagtai, Khuiten Metals Pte Ltd (Khuiten), issued new shares to Zijin as part of phase 3 of the strategic partnership. As a result of the issue of new shares Xanadu lost effective control as both Xanadu and Zijin have a 50% interest. With the loss of control, Xanadu no longer consolidates the Khuiten in its results, and treats the investment as an equity accounted investment. The impact of this was the deconsolidation of the Khuiten entity and its subsidiaries. The impacts of this are detailed in the accounts, including a gain on sale of the investment, and also booking previous years Foreign Currency Translation movements out of reserves and expensed in the Profit & Loss.

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

Matters subsequent to the end of the financial year

In November 2023 Xanadu announced that its major shareholder Zijin Mining Group Co., Ltd (Zijin) was intending to subscribe to 15,185,328 new shares (nominal value of \$835,193) in Xanadu. This placement was conditional on Xanadu shareholder approval under ASX Listing Rule 10.11 and Foreign Investment Review Board (FIRB) approval. A Xanadu Extraordinary General Meeting was scheduled for 6 February 2024 to seek approval of the issue of these shares to Zijin. Approval was granted at this meeting and the shares were subsequently issued on 04 March 2024.

On 22 January 2024 Xanadu signed a binding term sheet with STSM LLC (STSM) which grants the right to earn up to 80% interest in two exploration licences XV-17774 (Oyut) and XV-21887 (Sant Tolgoi) located in the Zavkhan Province of Western Mongolia. These two licenses make up the Sant Tolgoi Project, which is considered highly prospective for discovery of new magmatic intrusion-related Copper-Nickel systems. As part of this term sheet, Xanadu may elect to proceed to stage 1 once the minimum commitment has been met and can earn a 51% interest in the Project by spending USD\$1,000,000 on exploration over a period of twenty-four months.

Directors Report

No other matter or circumstance has arisen since 31 December 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.

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.

Information on directors

Name:

Colin Moorhead

Title:

Executive Chairman and Managing Director

Qualifications:

B.Sc (Hons) FAusIMM (CP) GAICD

Experience and expertise:

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 a 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)
Ramelius Resources Limited (ASX:RMS)

Former directorships (last 3 years):

Merdeka Copper Gold (IDX:MDKA) (from January 2016 to July 2020)

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:

8,840,000

Interests in options:

23,600,000

Directors Report

Name: Ganbayar Lkhagvasuren
Title: Executive Director
Qualifications: M.IBL
Experience and expertise: Mr Lkhagvasuren is a co-founder of Xanadu and has been a Director since 2006. He is the minority shareholder 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: 23,670,000

Name: Michele Muscillo
Title: Independent Non-Executive Director
Qualifications: LL.B
Experience and expertise: 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: 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: 4,019,981
Interests in options: 6,300,000

Name: Tony Pearson
Title: Non-Executive Director
Qualifications: B.Com, MAICD
Experience and expertise: Mr Pearson is an experienced international natural resources executive and company director. He is currently a director of ASX listed QEM Limited, a Trustee of the Royal Botanical Gardens & Domain Trust and a Non-Executive Director of Communicare Inc., Possability Group Limited, Bloomfield Group (Big Ben Holdings Pty Ltd), and the Foundation and Friends of the Botanic Gardens (NSW). 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: QEM Limited (ASX: QEM)
Former directorships (last 3 years): Peak Resources Limited (ASX: PEK)
Cellnet Group Limited (ASK: CLT)
Special responsibilities: Chair of the Audit and Risk Committee and Member of the Nomination and Remuneration Committee
Interests in shares: 2,460,555
Interests in options: 7,440,000

Directors Report

Name:	Shaoyang Shen
Title:	Non-Executive Director (appointed 10 March 2023)
Qualifications:	Degree in Economy (Xiamen University), MBA (National University of Singapore), Master of Management & Professional Accounting (University of Toronto)
Experience and expertise:	Mr Shaoyang Shen is the Deputy President for Corporate Development & Overseas Operations of Zijin Mining Group. He has more than a dozen years of operations management and investment (M&A) experience in the mining industry. Prior to joining Zijin in 2014, he held senior executive positions with Silvercorp Metals Inc., including as COO of the company and Vice President for China Operations. He also served as a board member of Pretium Resources Inc. from 2015 to 2018, and as a Managing Director of Barrick New Niugini Limited from 2015 to 2019.
Other current directorships:	Zijin Mining Co. Ltd Group
Former directorships (last 3 years):	Nil
Interests in shares:	Nil
Interests in options:	Nil

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

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

Company secretary

William Hundy, B.Comm. LLB (UNSW), B.Sc (USYD), FAICD, FGIA, FGC
(appointed 31 January 2023)

Mr Hundy was appointed Company Secretary of Xanadu in January 2023. He is a lawyer and admitted as a solicitor of the Supreme Court of NSW. He has extensive background in corporate law, company secretarial practice, corporate governance, communications, compliance, risk management and insurance.

Previously, Mr Hundy served as Company Secretary of ASX listed companies Origin Energy Limited, Email Limited, Placer Pacific Limited, Kidston Gold Mines Limited and Oil Company of Australia Limited.

Mr Hundy is a Fellow of the Governance Institute of Australia, the Chartered Governance Institute and the Australian Institute of Company Directors.

Phil Mackey, B Bus
(resigned 31 January 2023)

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.

Directors Report

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the period ended 31 December 2023, 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	4	4	3	3
Ganbayar								
Lkhagvasuren	9	9	-	-	-	-	3	3
Michele Muscillo	9	9	3	3	4	4	-	-
Tony Pearson	9	9	3	3	4	4	-	-
Shaoyang Shen	5	8	-	-	-	-	-	-

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 <https://www.xanadumines.com/corporate-governance/>

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 explore and develop our South Gobi porphyry copper and gold projects and other Mongolian focused leases 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.

Directors Report

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.

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 the granting 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.

Directors Report

The Board's policy is to design equity style awards as LTIs. The vesting of an LTI award is dependent on the achievement of longer-term objectives, including share price growth over a three-year performance period.

The previous LTI program was approved by Shareholders at the Annual General Meeting ('AGM') on 30 July 2020 with additional vesting conditions approved by shareholders during the 23 December 2020 Extraordinary General Meeting ('EGM'). The current program was approved at the EGM on 7th February 2023.

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 / MD	100	50	-
CEO / MD'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 industry standard valuation techniques.

Non-Executive Remuneration

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

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers fees paid and securities issued to Non-Executive Directors of comparable companies when undertaking the annual review as well as the time commitment of directors in discharging duties at Board, Committee work and additional assistance provided to the Company. Currently, the Non-Executive Director base fee is \$60,000 per annum and a Committee Chairman receives \$10,000 per annum per committee.

Non-Executive Directors are encouraged by the Board to hold shares purchased on market in accordance with the Xanadu Securities Trading Policy. The Board considers that by holding shares in the Company, the Non-Executive Directors are aligning themselves with the best interests of the shareholders.

Directors Report

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
- Ganbayar Lkhagvasuren
- Michele Muscillo
- Tony Pearson
- Shaoyang Shen

And the following persons:

- Munkhsaikhan Dambiinyam (Chief Operating Officer)
- Spencer Cole (Chief Financial Officer)
- Andrew Stewart (Vice President of Geology)
- Mat Brown (Chief Geologist)**

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled \$	Total \$
31 Dec 2023							
<i>Non-Executive Directors:</i>							
Michele Muscillo	70,000	-	-	-	-	94,467	164,467
Tony Pearson	63,206	-	-	6,794	-	106,929	176,929
Shaoyang Shen*	-	-	-	-	-	-	-
<i>Executive Directors:</i>							
Colin Moorhead	219,997	83,600	-	-	-	301,499	605,096
Ganbayar Lkhagvasuren	403,613	90,631	-	-	-	278,832	773,076
<i>Other Key Management Personnel:</i>							
Munkhsaikhan Dambiinyam	274,152	65,049	-	-	-	199,099	538,300
Spencer Cole	325,653	84,427	-	26,347	-	242,131	678,558
Andrew Stewart	338,653	79,004	-	26,348	-	289,215	733,220
Mat Brown**	56,000	-	-	-	-	-	56,000
	<u>1,751,274</u>	<u>402,711</u>	<u>-</u>	<u>59,489</u>	<u>-</u>	<u>1,512,172</u>	<u>3,725,646</u>

* Shaoyang Shen was appointed to the Board to represent Zijin Mining Co. He receives remuneration from Zijin and is not entitled to any remuneration from Xanadu.

** Whilst Mat Brown continues to consult across the Group's portfolio of exploration assets, Mat is primarily a consultant of Khuiten Metals, which has been deconsolidated during the 2023 financial year. Therefore, whilst Mat remains focused on the Kharmagtai development and his role has not changed, he is no longer a KMP of Xanadu Mines Limited and therefore does not form part of the KMP Remuneration Report for 2023 from 10 March 2023 (date of deconsolidation).

Directors Report

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Salary and fees \$	Bonus as restated [#] \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled ** \$	Total as restated \$
31 Dec 2022							
<i>Non-Executive Directors:</i>							
Michele Muscillo	69,997	-	-	-	-	21,098	91,095
Colin Moorhead*	189,773	73,700	-	5,227	-	58,807	327,507
Tony Pearson	63,492	-	-	6,507	-	42,749	112,748
<i>Executive Directors:</i>							
Andrew Stewart***	340,568	86,140	-	24,432	-	94,272	545,412
Ganbayar Lkhagvasuren	382,683	90,631	-	-	-	62,848	536,162
<i>Other Key Management Personnel:</i>							
Munkhsaikhan Dambiinyam	255,445	76,806	-	-	-	62,848	395,099
Spencer Cole	314,568	72,494	-	24,432	-	62,848	474,342
Mat Brown	202,139	50,000	-	-	-	-	252,139
	<u>1,818,665</u>	<u>449,771</u>	<u>-</u>	<u>60,598</u>	<u>-</u>	<u>405,470</u>	<u>2,734,504</u>

* Colin Moorhead became the Executive Chairman and Managing Director on 31 March 2022.

** Colin Moorhead was granted options in September 2022 that were not accounted for in the 2022 financial statements. His prior period equity settled remuneration has been adjusted upwards by \$16k to reflect this in the current year.

*** Andrew Stewart resigned as CEO and Executive Director on 31 March 2022 and took up the role as Vice President of Exploration.

[#] the cash bonus has been restated to reflect the accrual basis of accounting, rather than the cash basis as previously presented.

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 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
<i>Non-Executive Directors:</i>						
Michele Muscillo	43%	77%	-	-	57%	23%
Tony Pearson	40%	62%	-	-	60%	38%
Shaoyang Shen	-	-	-	-	-	-
<i>Executive Directors:</i>						
Colin Moorhead	36%	60%	14%	22%	50%	18%
Ganbayar Lkhagvasuren	52%	71%	12%	17%	36%	12%
<i>Other Key Management Personnel:</i>						
Munkhsaikhan Dambiinyam	51%	65%	12%	19%	37%	16%
Spencer Cole	52%	72%	12%	15%	36%	13%
Andrew Stewart	50%	67%	11%	16%	39%	17%
Mat Brown	100%	80%	-	20%	-	-

Directors Report

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: Colin Moorhead
Title: Executive Chairman and Managing Director
Details: Mr Moorhead's fixed remuneration is an annual salary package based on a nominal workload of 20 hours per week for AUD\$222,000 including compulsory taxes and social insurance applicable. In the event of Mr Moorhead's employment being terminated other than in the case of misconduct, Mr Moorhead 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 Moorhead 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 Moorhead 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\$180,000 including compulsory taxes and social insurance applicable as an employee in Mongolia. His annual package was increased to this amount from US\$167,000 in March 2023. 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 and Chief Development Officer
Details: Mr Cole's fixed remuneration is an annual salary package of A\$352,000 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.

Directors Report

Name: Andrew Stewart
Title: Vice President of Exploration
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 6 months' notice prior to termination, and the Company must give 6 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: Mat Brown
Title: Chief Geologist
Details: Mr Brown's remuneration is based on a daily contract rate of A\$1,500, 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.

Whilst Mat Brown is a KMP to the Xanadu Group and continues to consult across the Group's portfolio of exploration, during the 2023 financial year Mat was focused on the Kharmagtai development which is reported under the Khuiten Metals Joint Venture. Therefore he does not form part of the KMP Remuneration Report for 2023.

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

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2023 are set out below:

Name	Date	Shares	Issue price	\$
Colin Moorhead*	03/01/2023	2,280,000	\$0.000	-
Michele Muscillo*	03/01/2023	1,140,000	\$0.000	-
Tony Pearson*	03/01/2023	1,140,000	\$0.000	-

* these shares were issued on the exercise of options.

Directors Report

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					
Michele Muscillo	3,150,000	07 Feb 2023	30 May 2024	28 Feb 2029	\$0.025
Michele Muscillo	3,150,000	07 Feb 2023	10 Sep 2024	28 Feb 2029	\$0.023
Tony Pearson	1,140,000	17 Jun 2021	30 Sep 2024	30 Jun 2025	\$0.036
Tony Pearson	3,150,000	07 Feb 2023	30 May 2024	28 Feb 2029	\$0.025
Tony Pearson	3,150,000	07 Feb 2023	10 Sep 2024	28 Feb 2029	\$0.023
Executive Director Options					
Colin Moorhead	17,600,000	07 Feb 2023	10 Sep 2024	07 Feb 2029	\$0.023
Colin Moorhead	6,000,000	20 Sep 2022	10 Sep 2024	21 Jan 2031	\$0.020
Ganbayer Lkhagvasuren	500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Ganbayer Lkhagvasuren	1,000,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Ganbayer Lkhagvasuren	1,500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Ganbayer Lkhagvasuren	1,500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Ganbayer Lkhagvasuren	4,000,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Ganbayer Lkhagvasuren	15,170,000	07 Feb 2023	10 Sep 2024	28 Feb 2029	\$0.023
Management Options					
Munkhsaikhan Dambiinyam	500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	1,000,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	1,500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	1,500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	4,000,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Munkhsaikhan Dambiinyam	9,000,000	07 Feb 2023	10 Sep 2024	28 Feb 2029	\$0.023
Spencer Cole	500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Spencer Cole	1,000,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Spencer Cole	1,500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Spencer Cole	1,500,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Spencer Cole	4,000,000	21 Jan 2021	30 Sep 2024	21 Jan 2027	\$0.036
Spencer Cole	12,330,000	07 Feb 2023	10 Sep 2024	28 Feb 2029	\$0.023

- * 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 program was updated at the Extraordinary General Meeting held on 7 February 2023, and the Company issued options under this LTI plan during 2023.

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, and the EGM notice of meeting for the 7th of February 2023.

Directors Report

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

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								
F	Retention on employment(1) The satisfaction of one of the following: Retention on employment(11)	3.3	17/06/2021	30/09/2024	30/06/2025	1,140,000	41,040	0.036
Feb 23	Share price hurdle(12) The satisfaction of one of the following: Performance criteria(10)	1.3	07/02/2023	30/05/2024	28/02/2029	6,3000,000	151,200	0.025
Feb 23	Retention on employment(11) Share price hurdle(12)	1.7	07/02/2023	10/09/2024	28/02/2029	<u>6,3000,000</u>	<u>151,200</u>	<u>0.023</u>
						<u>13,740,000</u>	<u>343,440</u>	<u>0.059</u>
Executive Director and Management options								
A	Performance criteria(2) Share price hurdle(6) Retention on employment(8) Change of control event(9)	3.7	21/01/2021	30/09/2024	21/01/2027	2,250,000	81,000	0.036
B	Performance criteria(3) Share price hurdle(6) Retention on employment(8) Change of control event(9)	3.7	21/01/2021	30/09/2024	21/01/2027	4,500,000	162,000	0.036
C	Performance criteria(4) Share price hurdle(6) Retention on employment(8) Change of control event(9)	3.7	21/01/2021	30/09/2024	21/01/2027	6,750,000	243,000	0.036
D	Performance criteria(5) Share price hurdle (6) Retention on employment(8) Change of control event(9)	3.7	21/01/2021	30/09/2024	21/01/2027	6,750,000	243,000	0.036

Directors Report

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 \$
E	Performance criteria(7)							
	Share price hurdle(7)							
	Retention on employment(8)							
	Change of control event(9)	3.7	21/01/2021	30/09/2024	21/01/2027	18,000,000	648,000	0.036
	The satisfaction of one of the following:							
Sep 22	Performance criteria (10)							
	Retention on employment(11)							
	Share price hurdle(12)	2.0	20/09/2022	10/09/2024	21/01/2031	6,000,000	117,420	0.020
	The satisfaction of one of the following:							
Feb 23	Performance criteria(10)							
	Retention on employment(11)							
	Share price hurdle(12)	1.6	07/02/2023	10/09/2024	28/02/2029	26,470,000	608,810	0.023
		1.3	07/02/2023	30/05/2024	28/02/2029	6,300,000	144,900	0.023
	The satisfaction of one of the following:							
Feb 23	Performance criteria(10)							
	Retention on employment(11)							
	Share price hurdle(12)	1.6	07/02/2023	10/09/2023	28/02/2029	34,100,000	784,300	0.023
						111,120,000	3,014,430	0.246
						124,860,000	3,357,870	0.305

All options have zero exercise price.

Directors Report

- (1) All Non-Executive Director ('NED') options have a term of 18 months after vesting subject to retention of employment. If a NED leaves the Board the options will vest on a pro-rata basis.
- (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) 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.
- (6) 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 this Tranche of Executive Options is satisfied has been at least \$0.18 per share.
- (7) The 10-day VWAP after the date on which the Performance Criteria for this Tranche of Executive Options is satisfied has been at least \$0.28 per share.
- (8) Remains in continuous employment for two years from 30 July 2020 to 30 July 2022.
- (9) 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.
- (10) Delivery of a satisfactory pre-feasibility study for the Kharmagtai Copper – Gold Project which supports a JORC Code, 2012 compliant Ore Reserve or NI 43-101 compliant Mineral Reserve with:
 - a life of mine of at least 20 years (using economic input parameters consistent with the Scoping Study conducted by the Company dated 6 April 2022 and the NI43-101 Preliminary Economic Assessment Technical Report prepared by the Company dated 20 June 2022);
 - an internal rate of return of at least 20%; and
 - a payback period of less than 6 years
- (11) Remaining continuously employed or engaged with the Company (or any related body corporate) for a period of:
 - in the case of the Executive Director Options - three years commencing from the date of the offer letter issued to the Director for the Executive Director Options; or
 - in the case of the Non-Executive Director Options – 18 months continuous service (first tranche of 50% of the Non-Executive Director Options) and three years continuous service (second tranche of 50% of the Non-Executive Director Options) from the date of the offer letter issued to the Director for the Non-Executive Director Options
- (12) The 5-day VWAP of the Company's shares is higher than the share price as determined by the VWAP of issued securities of the Company calculated over 10 consecutive days on which sales in the shares of the Company were recorded commencing on 1 December 2022 (\$0.027 per share)

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 2023.

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 2023.

Directors Report

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:

	2019	2020	2021	2022	2023
Share price at financial year end (\$)	0.030	0.038	0.029	0.030	0.059
Basic loss per share (cents per share)	(1.17)	(0.33)	(0.77)	(0.33)	(0.47)
Diluted loss per share (cents per share)	(1.17)	(0.33)	(0.77)	(0.33)	(0.47)

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	Exercise of Options	Purchase/disposal on Open Market	Balance at the end of the year*
<i>Ordinary shares</i>					
Colin Moorhead	6,560,000	-	2,280,000	-	8,840,000
Andrew Stewart	4,931,292	-	-	-	4,931,292
Ganbayar Lkhagvasuren	16,558,329	-	-	-	16,558,329
Michele Muscillo	2,879,981	-	1,140,000	-	4,019,981
Tony Pearson	1,320,555	-	1,140,000	-	2,460,555
Munkhsaikhan Dambiinyam	1,478,578	-	-	-	1,478,578
Spencer Cole	375,000	-	-	-	375,000
Mat Brown *	1,053,199	-	-	-	1,053,199
	<u>35,156,934</u>	<u>-</u>	<u>4,560,000</u>	<u>-</u>	<u>39,716,934</u>

* Mat Brown was a KMP in year ended 2022 and consults to Khuiten Metals Joint Venture

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 as restated	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Colin Moorhead*	8,280,000	17,600,000	(2,280,000)	-	23,600,000
Andrew Stewart	12,750,000	12,770,000	-	-	25,520,000
Ganbayar Lkhagvasuren	8,500,000	15,170,000	-	-	23,670,000
Michelle Muscillo	1,140,000	6,300,000	(1,140,000)	-	6,300,000
Tony Pearson	2,280,000	6,300,000	(1,140,000)	-	7,440,000
Munkhsaikhan Dambiinyam	8,500,000	9,000,000	-	-	17,500,000
Spencer Cole	8,500,000	12,330,000	-	-	20,830,000
	<u>49,950,000</u>	<u>79,470,000</u>	<u>(4,560,000)</u>	<u>-</u>	<u>124,860,000</u>

* There were 6 million options issued to Colin Moorhead in September 2022 which were not included in the previous year's annual report. The opening balance for the current year has been adjusted to reflect this error.

This concludes the remuneration report, which has been audited.

Directors Report

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*
17 June 2021	30 June 2025	\$0.000	1,140,000
21 January 2021	21 January 2027	\$0.000	38,250,000
22 September 2022	21 January 2027	\$0.000	6,000,000
07 February 2023	28 February 2029	\$0.000	34,100,000
07 February 2023	28 February 2029	\$0.000	32,770,000
07 February 2023	28 February 2029	\$0.000	12,600,000
			<u>124,860,000</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

There were 4,560,000 ordinary shares of Xanadu Mines Ltd issued on the exercise of options during the year ended 31 December 2023 and up to the date of this report. See the Shareholding section of this report for information on the recipients of these options.

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 an insurance 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.

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

There were no non-audit services provided during the financial year by the auditor.

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.

Directors Report

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

27 March 2024

Auditor's Independence Declaration



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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 2023, 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.

Ernst & Young

Siobhan Hughes
Partner
27 March 2024

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

		Consolidated	
	Note	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Other income			
Other income	5	3,013	61
Gain on deconsolidation of subsidiary	6	1,155	-
Expenses			
Other expenses	7	(7,670)	(4,483)
Share-based payments expense	34	(1,523)	(397)
Depreciation and amortisation expense		(64)	(69)
Finance costs		(77)	(36)
Share of loss of a joint venture	13	(2,412)	-
Loss before income tax expense from continuing operations		(7,578)	(4,924)
Income tax expense	8	-	-
Loss after income tax expense from continuing operations		(7,578)	(4,924)
Loss after income tax expense from discontinued operations		-	(167)
Loss after income tax expense for the year		(7,578)	(5,091)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(329)	(5,378)
Foreign currency translation reclassified to profit or loss	20	12,508	-
Share of other comprehensive loss of a joint venture	13	(18)	-
Other comprehensive income for the year, net of tax		12,161	(5,378)
Total comprehensive income for the year		<u>4,583</u>	<u>(10,469)</u>
Loss for the year is attributable to:			
Non-controlling interest		-	(526)
Owners of Xanadu Mines Ltd	21	(7,578)	(4,565)
		<u>(7,578)</u>	<u>(5,091)</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(81)	(825)
Owners of Xanadu Mines Ltd		4,664	(9,644)
		<u>4,583</u>	<u>(10,469)</u>

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

		Cents	Cents
Earnings per share for loss from discontinued operations attributable to the owners of Xanadu Mines Ltd			
Basic earnings per share	33	-	(0.01)
Diluted earnings per share	33	-	(0.01)
Earnings per share for loss attributable to the owners of Xanadu Mines Ltd			
Basic earnings per share	33	(0.47)	(0.33)
Diluted earnings per share	33	(0.47)	(0.33)

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

Consolidated Statement of Financial Position

As at 31 December 2023

		Consolidated	
	Note	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Assets			
Current assets			
Cash and cash equivalents	9	7,324	61
Other receivables	10	506	52
		7,830	113
Assets of disposal groups classified as held for sale	11	-	42,803
Total current assets		7,830	42,916
Non-current assets			
Investments accounted for using the equity method	13	50,608	-
Property, plant and equipment	14	212	84
Right-of-use assets	15	271	401
Deferred exploration and evaluation expenditure	16	7,193	6,975
Total non-current assets		58,284	7,460
Total assets		66,114	50,376
Liabilities			
Current liabilities			
Trade and other payables	17	1,481	95
Employee benefits		107	17
Lease liabilities	18	61	67
		1,649	179
Liabilities directly associated with assets of disposal groups classified as held for sale:	12	-	32
Total current liabilities		1,649	211
Non-current liabilities			
Employee Benefits		62	-
Lease liabilities	18	134	256
Total non-current liabilities		196	256
Total liabilities		1,845	467
Net assets		64,269	49,909
Equity			
Issued capital	19	163,083	151,671
Reserves	20	5,334	(8,431)
Accumulated losses	21	(104,148)	(96,570)
Equity attributable to the owners of Xanadu Mines Ltd		64,269	46,670
Non-controlling interest		-	3,239
Total equity		64,269	49,909

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 2023

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 2022	145,659	(13,751)	10,708	(537)	(92,005)	4,064	54,138
Loss after income tax expense for the year	-	-	-	-	(4,565)	(526)	(5,091)
Other comprehensive income for the year, net of tax	-	(5,079)	-	-	-	(299)	(5,378)
Total comprehensive income for the year	-	(5,079)	-	-	(4,565)	(825)	(10,469)
Share-based payments expensed (note 34)	-	-	397	-	-	-	397
Options exercised (note 19)	169	-	(169)	-	-	-	-
Modifications to share-based payment reserve following updated vesting conditions	283	-	-	-	-	-	283
Shares issued in placement	5,560	-	-	-	-	-	5,560
Balance at 31 December 2022	<u>151,671</u>	<u>(18,830)</u>	<u>10,936</u>	<u>(537)</u>	<u>(96,570)</u>	<u>3,239</u>	<u>49,909</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 2023	151,671	(18,830)	10,936	(537)	(96,570)	3,239	49,909
Loss after income tax expense for the year	-	-	-	-	(7,578)	-	(7,578)
Other comprehensive income for the year, net of tax	-	12,242	-	-	-	(81)	12,161
Total comprehensive income for the year	-	12,242	-	-	(7,578)	(81)	4,583
Contributions of equity, net of transaction costs (note 19)	11,412	-	-	-	-	-	11,412
Share-based payments expensed (note 34)	-	-	1,523	-	-	-	1,523
Loss of control in a subsidiary	-	-	-	-	-	(3,158)	(3,158)
Balance at 31 December 2023	<u>163,083</u>	<u>(6,588)</u>	<u>12,459</u>	<u>(537)</u>	<u>(104,148)</u>	<u>-</u>	<u>64,269</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 2023

		Consolidated	
	Note	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Cash flows from operating activities			
Payments to suppliers and employees		(6,672)	(4,761)
Receipts from joint venture		3,004	-
Interest received		9	41
Interest and other finance costs paid		(77)	(44)
Net cash used in operating activities	32	(3,736)	(4,764)
Cash flows from investing activities			
Payments for property, plant and equipment	14	(66)	(9)
Payments for exploration and evaluation expenditure	16	(220)	(3,772)
Proceeds from disposal of property, plant and equipment		-	33
Net cash used in investing activities		(286)	(3,748)
Cash flows from financing activities			
Net Proceeds from issue of shares	19	11,412	5,560
Repayment of lease liabilities	18	(127)	(50)
Net cash from financing activities		11,285	5,510
Net increase/(decrease) in cash and cash equivalents		7,263	(3,002)
Cash and cash equivalents at the beginning of the financial year		61	3,321
Effects of exchange rate changes on cash and cash equivalents		-	(201)
Cash and cash equivalents at the end of the financial year	9	7,324	118

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

Notes to the Consolidated Financial Statements

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 27 March 2024.

Note 2. Material accounting policy information

The accounting policies that are material to the Group are set out below. The accounting policies adopted are consistent with those of the previous financial year, 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, namely amendments to *AASB 101 Presentation of Financial Statements*.

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

Going concern

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group has incurred net losses after tax of \$7,578,000 (31 Dec 2022: \$5,091,000) and net cash outflows from operations of \$3,736,000 (31 Dec 2022: \$4,764,000) for the year ended 31 December 2023. At year end, cash and cash equivalents were \$7,324,000 (31 Dec 2022: \$61,000). The Group is in the exploration stage and does not generate operating cash inflows, and is dependent on cash on hand, further capital raises and/or external financing to maintain operations.

During the year ended 31 December 2023, the Company raised \$11,769,000 through equity issuances to fund the ongoing exploration, operating costs and maximise the value of its exploration assets. 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.

On 10 March 2023, the Company completed its strategic partnership with Zijin Mining Group Co Ltd ('Zijin') which resulted to Khuiten Metals Pte Ltd ("Khuiten Metals"), a wholly-owned subsidiary of Xanadu, issuing US\$35 million of new shares to a subsidiary of Zijin. This transaction resulted in joint control of the Khuiten joint venture (the "Joint Venture"), with Xanadu and Zijin each holding equal 50% ownership interests in Khuiten Metals. The US\$35 million was paid by Zijin directly to Khuiten Metals to fully fund the Pre-Feasibility Study and ongoing exploration of the Kharmagtai Project. Whilst the Group can recharge some of its corporate operating and administrative costs to Khuiten Metals, this only applies to costs directly related to operation of Khuiten Metals including the Kharmagtai Project. The Group must self-fund the ongoing corporate overhead costs, and exploration costs related to all other projects including Red Mountain and any future exploration projects.

In the Director's opinion, at the date of signing this report, the going concern basis of preparation remains appropriate. Whilst the Group has cash on hand at 31 December 2023 and has the ability to partially recharge applicable Group costs to the Khuiten Metals JV, given the Group does not generate revenue there is uncertainty on the Group's ability to maintain a positive cash position, whilst also funding ongoing corporate operating and administrative costs and projects other than Kharmagtai.

Notes to the Consolidated Financial Statements

Note 2. Material accounting policy information (continued)

The Directors have a reasonable basis to believe the above will be achievable through the following actions:

- raising equity funds in capital markets, noting that the Group has a history of successful equity raisings;
- raising capital in debt markets on the basis of the Kharmagtai PFS outcomes if Xanadu will not sell all its interest in Khuiten Metals;
- 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;
- deferral of discretionary corporate operating and administrative costs and exploration expenditures; and
- exercise one of the put options under the Khuiten Metals Joint Venture Shareholders agreement to sell 100% of Xanadu's remaining ownership in Khuiten Metals to Zijin for US\$50 million or 50% for US\$25 million; available for a 6 month period commencing on the date of PFS Delivery (which is expected to be in September 2024).

As a result of the above, a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern and therefore whether it would realise its assets and settle 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.

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 29.

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 2023 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.

Notes to the Consolidated Financial Statements

Note 2. Material accounting policy information (continued)

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 Tugrik ('MNT').

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.

Other income

Other income is recognised when the related services are rendered and costs are incurred.

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.

Notes to the Consolidated Financial Statements

Note 2. Material accounting policy information (continued)

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.

Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

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.

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.

Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Notes to the Consolidated Financial Statements

Note 2. Material accounting policy information (continued)

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income.

The initial investment in the joint venture is recognised at the fair value of the investment. The Investment in the joint venture is carried in the statement of financial position at the initial fair value plus post-acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

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

Note 2. Material accounting policy information (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.

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.

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.

Notes to the Consolidated Financial Statements

Note 2. Material accounting policy information (continued)

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.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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 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.

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.

Notes to the Consolidated Financial Statements

Note 2. Material accounting policy information (continued)

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.

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.

Notes to the Consolidated Financial Statements

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Impairment of non-financial assets

The Group assesses for indicators of impairment of non-financial 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.

The Group also holds a 50% interest in Khuiten Metals Pte Ltd. As a result of the terms of this agreement, Xanadu accounts for this interest as an equity accounted investment. Any losses of the operation to date are taken off of the fair value of the investment at period end. After application of the equity method on the investment in Khuiten Metals, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of a joint venture' in the statement of profit or loss.

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 in Mongolia. 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 16 '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.

Note 5. Other income

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
Net gain on disposal of property, plant and equipment	-	58
Interest income from term deposit	9	3
Operator overhead recovery	2,716	-
Rental recovery from JV	288	-
Other income	3,013	61

Operator overhead income pertains to the allocated costs incurred and charged by Xanadu to the joint venture for its services for the joint venture. Rental recovery is rent of equipment to joint venture.

Notes to the Consolidated Financial Statements

Note 6. Gain on deconsolidation of subsidiary

In the prior year, the Group entered into a series of agreements with Zijin Mining Group Co., Ltd (Zijin) to issue new shares to Zijin to bring its interest in the share capital in Khuiten Metals Pte Ltd ("Khuiten Metals") which owns the Group's Kharmagtai Project up to 50%. At 31 December 2022, the Group had reclassified \$42.8m of assets and \$32k of liabilities to Held for Sale.

In February 2023 all regulatory approvals were obtained, and the transaction was formally completed on 10 March 2023. This transaction involved the issuance of new share capital in Khuiten Metals (formerly 100% controlled by Xanadu) in exchange for cash consideration so that a 50:50 joint venture was established between the two partners. Khuiten Metals is the ultimate owner of 78.5% of the Kharmagtai Project. This transaction resulted in loss of control over Khuiten Metals. The remaining 50% interest in Khuiten Metals was accounted for as an equity accounted investment and Khuiten Metals was deconsolidated in March 2023 which resulted to the following net gain on disposal:.

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
Gain on deconsolidation of subsidiary	1,155	-

Reconciliation of gain on deconsolidation:

	Consolidated 31 Dec 2023	Consolidated 31 Dec 2022
Fair value of consideration received	-	-
Fair value of the retained 50% interest in Khuiten Metals	53,038	-
	53,038	-
Carrying value of net assets of Khuiten Metals	(42,533)	-
Derecognition of the carrying value of Non-controlling interest	3,158	-
Foreign currency translation reclassified to profit or loss	(12,508)	-
	1,155	-

Note 7. Other expenses

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
Administration expenses	2,533	1,683
Wages and management fees	3,032	2,146
Consulting fees	2,105	654
Other expenses	7,670	4,483

Notes to the Consolidated Financial Statements

Note 8. Income tax expense

	Consolidated	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense from continuing operations	(7,578)	(4,924)
Loss before income tax expense from discontinued operations	-	(167)
	(7,578)	(5,091)
Tax at the statutory tax rate of 25%	(1,895)	(1,273)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	381	99
Capitalised expenses (s40-880)	256	200
Accrued expenses	182	-
Non-assessable income	(289)	-
Sundry items	4	-
	(1,361)	(974)
Current year tax losses not recognised	1,562	823
Adjustment recognised for prior periods	(105)	244
Difference in overseas tax rates - Singapore at 17% (2022: 17%)	12	14
s40-880 Capital deduction	(138)	(117)
Employee leave provisions – Net Movement	30	10
Income tax expense	-	-

As at 31 December 2023, Xanadu Mines Ltd has carried forward tax losses of \$35,111,000 (31 December 2022: \$32,186,000) and carried forward capital losses of \$12,859,000 (31 December 2022: \$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.

A deferred tax asset has not been recognised 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.

Notes to the Consolidated Financial Statements

Note 9. Cash and cash equivalents

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	7,324	61
<i>Reconciliation to cash and cash equivalents at the end of the financial year</i>		
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	7,324	61
Cash and cash equivalents classified as held for sale (note 11)	-	57
Balance as per statement of cash flows	7,324	118

Cash at bank, invested in term deposits, earns interest at floating rates based on daily bank deposit rates.

Note 10. Other receivables

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Current assets</i>		
Security Deposits & other receivables	54	40
Prepayments	55	-
Interest receivable	9	-
GST recoverable	75	12
Deposits for incorporation of Mongolian companies	313	-
	506	52

Security Deposits relate to security and environmental deposits paid, refund of goods and services tax payments due and other current assets. 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.

Deposits for incorporation relates to the incorporation costs for two entities that have been paid to the Mongolian authorities for the companies to be set up and registered. The deposits are for amounts of USD \$100k each.

Note 11. Assets of disposal groups classified as held for sale

As part of Xanadu's strategic partnership with the Zijin Group to obtain further funding to advance the Kharmagtai gold project and create a 50-50 Joint Venture (JV) between the two parties, the Kharmagtai operating entity was reclassified as an asset held for sale in the previous period. This is due to the fact that the assets were to be jointly controlled upon completion of the transaction upon creation of the Joint Venture. As a result of the execution of the agreement with Zijin in December 2022, the transaction became highly probable and all assets and liabilities within the Kharmagtai entity were reclassified as held for sale.

Set out below are the assets and liabilities transferred to held for sale at the balance sheet date:

Notes to the Consolidated Financial Statements

Note 11. Assets of disposal groups classified as held for sale (continued)

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Current assets</i>		
Cash and cash equivalents	-	57
Trade and other receivables	-	39
Property, plant and equipment	-	441
Capitalized Mining and Exploration Expense	-	42,266
	-	42,803

Note 12. Liabilities directly associated with assets of disposal groups classified as held for sale:

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	-	10
Other payables	-	8
Accrued expenses	-	14
	-	32

Note 13. Investments accounted for using the equity method

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Non-current assets</i>		
Investment in Khuiten Joint Venture	50,608	-

Reconciliation of the Investment in Joint Venture since its inception:

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
Fair value of investment in joint venture	53,038	-
Share of loss of joint venture	(2,412)	-
Share of joint venture's foreign currency translation loss	(18)	-
	50,608	-

As disclosed in note 6, the Xanadu lost control of Khuiten Metals and the remaining 50% interest in Khuiten Metals is accounted for using the equity method in the consolidated financial statements starting on 10 March 2023.

Summarised financial information of the joint venture and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

Notes to the Consolidated Financial Statements

Note 13. Investments accounted for using the equity method (continued)

Summarised statement of financial position of Khuiten Metals:		31 Dec 2023
<i>Current assets</i>		
Cash		17,057
Trade and other receivables		28
Prepayments		131
		<u>17,216</u>
<i>Non-current assets</i>		
Property, plant and equipment		3,525
Capitalised Mining and Exploration Expense		70,830
		<u>74,355</u>
<i>Current Liabilities</i>		
Trade and other payables		(1,275)
		<u>(1,275)</u>
Net assets		<u>90,296</u>
Xanadu's share in net assets at 50% ownership interest		45,148
Deferred Exploration & Evaluation Expenses		<u>5,460</u>
Carrying amount of the investment		<u>50,608</u>
Summarised statement of profit or loss and other comprehensive income of Khuiten from 10 March 2023 to 31 December 2023:		31 Dec 2023
Interest income		848
Admin and other expenses		(2,163)
Consulting, Operator Overhead & Legal fees		(2,795)
Unrealised foreign exchange loss		(714)
		<u>(4,824)</u>
Other comprehensive income		<u>(37)</u>
Total comprehensive income		<u>(4,861)</u>
Xanadu's share of loss at 50% ownership interest		(2,412)
Xanadu's share of other comprehensive income at 50% ownership interest		(18)

Note 14. Property, plant and equipment

	Consolidated	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000
<i>Non-current assets</i>		
Plant and equipment - at cost	163	308
Less: Accumulated depreciation	(149)	(300)
	<u>14</u>	<u>8</u>
Motor vehicles - at cost	345	86
Less: Accumulated depreciation	(147)	(10)
	<u>198</u>	<u>76</u>
	<u>212</u>	<u>84</u>

Notes to the Consolidated Financial Statements

Note 14. 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 \$	Motor Vehicles \$	Total \$
Balance at 1 January 2022	506	53	559
Additions	9	-	9
Classified as held for sale	(418)	(23)	(441)
Disposals	-	(10)	(10)
Exchange differences	(77)	63	(14)
Depreciation expense	(12)	(7)	(19)
Balance at 31 December 2022	8	76	84
Additions	13	53	66
Transfers	-	87	87
Exchange differences	-	(2)	(2)
Depreciation expense	(6)	(17)	(23)
Balance at 31 December 2023	15	197	212

Note 15. Right-of-use assets

Consolidated	
31 Dec 2023 \$'000	31 Dec 2022 \$'000
Motor vehicles - right-of-use	498
Less: Accumulated depreciation	(97)
271	401

Non-current assets

Motor vehicles - right-of-use
Less: Accumulated depreciation

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
Balance at 1 January 2022	323
Additions	175
Exchange differences	(45)
Depreciation expense	(52)
Balance at 31 December 2022	401
Transfers	(87)
Exchange differences	(2)
Depreciation expense	(41)
Balance at 31 December 2023	271

Notes to the Consolidated Financial Statements

Note 16. Deferred exploration and evaluation expenditure

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Non-current assets</i>		
Deferred exploration and evaluation expenditure – Red Mountain	12,710	12,494
Less: Accumulated impairment	(5,517)	(5,519)
	<u>7,193</u>	<u>6,975</u>

The accumulated impairment relates to deferred exploration expenditure assets at Red Mountain of \$5,517,000. Note that impairments were booked in Mongolian currency and therefore will vary with exchange rate.

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 2022	50,328
Additions ⁽ⁱ⁾ ⁽ⁱⁱ⁾	4,056
Exchange differences	(5,143)
Deferred E&E expenditure classified as held for sale	(42,266)
Balance at 31 December 2022	6,975
Exchange Differences	(2)
Additions ⁽ⁱ⁾ ⁽ⁱⁱ⁾	220
Balance at 31 December 2023	<u>7,193</u>

Consolidated	
31 Dec 2023	31 Dec 2022
\$'000	\$'000

⁽ⁱ⁾ Additions made up of:

Additions Funded by Xanadu:

Cashflow payments for exploration and evaluation at Kharmagtai	-	2,810
Cashflow payments for exploration and evaluation at Red Mountain	220	962
Total cashflow payments for exploration and evaluation expenditure	<u>220</u>	<u>3,772</u>

Other Additions:

Kharmagtai additions via shares issued to consultants	-	284
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Total additions to exploration and evaluation asset	<u>220</u>	<u>4,056</u>
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The Company held interests in two tenements during 2023:

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

Notes to the Consolidated Financial Statements

Note 16. Deferred exploration and evaluation expenditure (continued)

Kharmagtai Copper-Gold Project

As a result of the Joint Venture with Zijin Mining Co. in Khuiten, Xanadu no longer incorporate E&E costs in the consolidated financial statements. Any results to date within the Khuiten JV are instead accounted for via equity accounting.

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.

Exploration during 2023 was limited due to operational reasons and the current plan is to recommence exploration in 2024.

Note 17. Trade and other payables

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	-	87
Accrued expenses and other payables	1,481	8
	<u>1,481</u>	<u>95</u>

Refer to note 23 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 18. Lease liabilities

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Current liabilities</i>		
Lease liability - motor vehicles	61	67
<i>Non-current liabilities</i>		
Lease liability - motor vehicles	134	256
	<u>195</u>	<u>323</u>

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening balance	323	232
Additions to lease borrowings	-	130
Repayment of lease liabilities	(127)	(49)
Exchange differences	(1)	10
Closing balance	<u>195</u>	<u>323</u>

Amounts of leases capitalised to deferred exploration expenditure include:

- -

Notes to the Consolidated Financial Statements

Note 18. Lease liabilities (continued)

	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Other Leases		
Office lease rental payments in respect of the office lease in Melbourne	72	76
Refer to note 23 for further information on financial risk management objectives and policies.		

Note 19. Issued capital

	31 Dec 2023 Shares	31 Dec 2022 Shares	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Ordinary shares - fully paid (net of transaction costs)	<u>1,700,820,681</u>	<u>1,412,260,215</u>	<u>163,083</u>	<u>151,671</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 January 2022	1,259,037,750		145,659
Fair value of options vested and exercised	7 January 2022	4,560,000	\$0.000	169
Shares issued as payment for E&E consulting services (note 12)	1 March 2022	1,473,606	\$0.029	43
Shares issued as payment for E&E consulting services (note 12)	20 April 2022	8,188,859	\$0.029	240
Shares issued - phase 1 placement to Zijin	27 April 2022	<u>139,000,000</u>	<u>\$0.040</u>	<u>5,560</u>
Balance	31 December 2022	1,412,260,215		151,671
Fair value of options vested and exercised	9 January 2023	4,560,000	\$0.000	-
New equity placement	24 January 2023	41,887,844	\$0.027	1,140
Shares issued - phase 2 placement to Zijin	10 March 2023	179,116,132	\$0.040	7,164
New equity placement	24 November 2023	62,996,490	\$0.055	3,465
Share issue costs		<u>-</u>	<u>\$0.000</u>	<u>(357)</u>
Balance	31 December 2023	<u>1,700,820,681</u>		<u>163,083</u>

Movements in options

Details	Date	Options
Balance	1 January 2022	51,510,000
Options exercised during the period	07 January 2022	<u>(4,560,000)</u>
Balance	31 December 2022	46,950,000
Options exercised during the period	09 January 2023	(4,560,000)
Options granted in FY22 and recorded in FY23	21 January 2023	6,000,000
Options granted during the period	28 February 2023	79,470,000
Options expired during the period	31 October 2023	<u>(3,000,000)</u>
Balance	31 December 2023	<u>124,860,000</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.

Notes to the Consolidated Financial Statements

Note 19. Issued capital (continued)

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

Share buy-back

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

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 2022 Annual Report.

Note 20. Reserves

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
Foreign currency translation reserve	(6,588)	(18,830)
Share-based payments reserve	12,459	10,936
Transactions with owners reserve	(537)	(537)
	<u>5,334</u>	<u>(8,431)</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.

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).

Notes to the Consolidated Financial Statements

Note 20. Reserves (continued)

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 2022	(13,751)	10,708	(537)	(3,580)
Share-based payments	-	397	-	397
Foreign currency translation	(5,079)	-	-	(5,079)
Options exercised	-	(169)	-	(169)
Balance at 31 December 2022	(18,830)	10,936	(537)	(8,431)
Share-based payments	-	1,523	-	1,523
Foreign Currency Translation	(248)	-	-	(248)
Foreign currency translation reclassified to profit or loss	12,508	-	-	12,508
Share of other comprehensive loss of a joint venture	(18)	-	-	(18)
Balance at 31 December 2023	(6,588)	12,459	(537)	5,334

Note 21. Accumulated losses

	Consolidated	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Accumulated losses at the beginning of the financial year	(96,570)	(92,005)
Loss after income tax expense for the year	(7,578)	(4,565)
Accumulated losses at the end of the financial year	(104,148)	(96,570)

Note 22. Dividends

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

Note 23. 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.

Notes to the Consolidated Financial Statements

Note 23. Financial risk management objectives and policies (continued)

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 Tughrig ('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 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
	\$'000	\$'000	\$'000	\$'000
Consolidated				
Cash and cash equivalents denominated in US\$	35	23	-	-
Cash and cash equivalents denominated in MNT	2	62	-	-
	<u>37</u>	<u>85</u>	<u>-</u>	<u>-</u>

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

Consolidated - 31 Dec 2023		% 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%	3	3	(10%)	(3)	(3)
A\$/MNT	'000	10%	-	-	(10%)	-	-
			<u>3</u>	<u>3</u>		<u>(3)</u>	<u>(3)</u>

Notes to the Consolidated Financial Statements

Note 23. Financial risk management objectives and policies (continued)

Consolidated - 31 Dec 2022		% 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%	2	2	(10%)	(2)	(2)
A\$/MNT	'000	10%	6	6	(10%)	(6)	(6)
			<u>8</u>	<u>8</u>		<u>(8)</u>	<u>(8)</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 outstanding:

Consolidated	31 Dec 2023		31 Dec 2022	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents (incl assets held for resale)	1.30%	<u>7,324</u>	-	<u>118</u>
Net exposure to cash flow interest rate risk		<u><u>7,324</u></u>		<u><u>118</u></u>

Notes to the Consolidated Financial Statements

Note 23. Financial risk management objectives and policies (continued)

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

Consolidated - 31 Dec 2023	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax \$'000	Effect on equity \$'000	Basis points change	Effect on profit before tax \$'000	Effect on equity \$'000
Net interest rate risk exposure (\$'000)	100	20	20	(100)	(20)	(20)
					8	8

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 \$7,324,000 (31 December 2022: \$118,000).

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.

Notes to the Consolidated Financial Statements

Note 23. Financial risk management objectives and policies (continued)

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 undiscounted contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 31 Dec 2023	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 undiscounted contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Other payables	-	1,481	-	-	-	1,481
<i>Interest-bearing - variable</i>						
Lease liability	12.00%	88	173	-	-	261
Total non-derivatives		1,569	173	-	-	1,742

Consolidated - 31 Dec 2022	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 undiscounted contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	87	-	-	-	87
Other payables	-	8	-	-	-	8
<i>Interest-bearing - variable</i>						
Lease liability	12.00%	107	100	132	31	370
Total non-derivatives		202	100	132	31	465

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.

Notes to the Consolidated Financial Statements

Note 23. Financial risk management objectives and policies (continued)

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.

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.

Contractual risk

Xanadu's key project (the Kharmagtai project) is held pursuant to a joint venture arrangement. Additionally, the Company 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, the 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.

Notes to the Consolidated Financial Statements

Note 24. Key management personnel disclosures

Directors

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

Colin Moorhead	Independent Non-Executive Chairman
Ganbayar Lkhagvasuren	Executive Director
Michele Muscillo	Independent Non-Executive Director
Tony Pearson	Independent Non-Executive Director
Shaoyang Shen (appointed on 10 March 2023)	Non-Executive Director

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 & Chief Development Officer
Andrew Stewart	Vice President of Geology
Mat Brown *	Chief Geologist

* Mat Brown is now a Consultant of Khuiten Metals following the formation of the Joint Venture. Accordingly, he is no longer considered a KMP of Xanadu.

Compensation

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

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$	\$
Short-term employee benefits	2,153,985	2,294,656
Post-employment benefits	59,489	60,598
Share-based payments	1,512,172	388,859
	<u>3,725,646</u>	<u>2,744,113</u>

Note 25. Remuneration of auditors

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$	\$
Amounts received or due and receivable by Ernst & Young Australia		
Audit and review of financial statements of Xanadu and its subsidiaries	78,092	130,191
Underlying audit procedures for Khuiten Metals and its subsidiaries [#]	67,000	-
Total	<u>145,092</u>	<u>130,191</u>
Amounts received or due and receivable by Ernst & Young Singapore		
Review of financial statements of Khuiten Metals and its subsidiaries [#]	21,250	-
Total	<u>21,250</u>	<u>-</u>
Total auditors' remuneration	<u>166,342</u>	<u>130,191</u>

[#] Following the deconsolidation of Khuiten Metals from Xanadu Group in March 2023, the audit fees in relation to the audit of the financial statements of Khuiten Metals are now paid separately from Xanadu.

Apart from auditing services, there were no other consulting services provided by Ernst & Young during the year.

Note 26. Contingent liabilities

There are no material contingent liabilities relating to the Group.

Notes to the Consolidated Financial Statements

Note 27. Commitments

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Lease commitments</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	88	106
One to five years	173	231
More than five years	-	31
Total commitment	261	368
Less: Future finance charges	(66)	(105)
Net commitment recognised as liabilities	195	263

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 \$0.04 million (31 December 2022: \$0.13 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 28. Related party transactions

Parent entity

Xanadu Mines Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$	\$
Payment for goods and services:		
Office rent, paid to Ganbayar Lkhagvasuren ⁽ⁱ⁾	72,175	75,532
Legal fees, paid to HopgoodGanim Lawyers ⁽ⁱⁱ⁾	203,489	171,946
Consultant fees paid to consultants employed by through Colin Moorhead and Associates ⁽ⁱⁱⁱ⁾	-	4,808
Melbourne office rent and operations support paid to Colin Moorhead and Associates ^(iv)	71,999	63,772
Sydney office rent paid to Bastion Minerals ^(v)	-	30,920
Receipts from Khuiten Joint venture to Xanadu for Operator Overheads ^(vi)	2,716,000	-
Receipts from Oyut Ulaan to Xanadu Exploration Mongolia LLC for hire of vehicles ^(vii)	288,000	-

Notes to the Consolidated Financial Statements

Note 28. Related party transactions (continued)

- (i) The Company maintains a rental agreement for its Ulaanbaatar office with Ganbayar Lkhagvasuren, an Executive Director of the Company.
- (ii) The Company sources legal services from HopgoodGanim Lawyers, where Non-Executive Director Michele Muscillo is a partner.
- (iii) The consultants are employed through Colin Moorhead & Associates, a company associated with Colin Moorhead, a Non-Executive chairman of the Company.
- (iv) The Company maintains a rental and executive support agreement related to a Melbourne office with Colin Moorhead & Associates.
- (v) The Company maintained a rental agreement related to a Sydney office with Bastion Minerals, a company at which Dr. Andrew Stewart was a Non-Executive Director.
- (vi) Under the shareholders agreement for the Khuiten JV, Xanadu is entitled to recover operator overhead for its overheads incurred in the management of the JV and the project.
- (vii) Under the shareholders agreement for the Khuiten JV, Xanadu and its subsidiary Xanadu Exploration Mongolia are entitled to recover the cost of their motor vehicle fleet which is used on the JV.

Please refer to note 24 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 Khuiten Metals Pte Ltd (Khuiten), a JV entity operated by Xanadu Mines and Zijin Mining. Khuiten owns 85% of Mongol Metals LLC which in turns owns Oyut Ulaan LLC, the owner of the Kharmagtai tenement. Mongol Metals is 85% owned by Khuiten and 15% owned by Ganbayar Lkhagvasuren, an Executive Director of Xanadu. Mongol metals owns 90% of Oyut Ulan LLC and 10% is owned by QGX, an unrelated party.

Prior to the 10th of March 2023, all funding for Mongol Metals since December 2017 has been provided by an operating loan from Xanadu Mines. Since 10th of March 2023, all funding for Mongol metals is provided by Khuiten strategic JV.

Note 29. 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 2023	31 Dec 2022
	\$	\$
Loss after income tax	(7,578)	(5,091)
Total comprehensive income	(7,578)	(5,091)

Notes to the Consolidated Financial Statements

Note 29. Parent entity information (continued)

Statement of financial position

	Parent 31 Dec 2023 \$	31 Dec 2022 \$
Total current assets	7,721	86
Total assets	81,437	50,003
Total current liabilities	1,574	94
Total liabilities	1,636	94
Equity		
Issued capital	163,083	151,671
Foreign currency translation reserve	(6,588)	(18,931)
Share-based payments reserve	12,459	10,936
Transactions with owners reserve	(537)	-
Accumulated losses	(88,616)	(93,767)
Total equity	79,801	49,909

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2023.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 31 December 2023.

Material accounting policy information

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.

Notes to the Consolidated Financial Statements

Note 30. 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 2023 %	31 Dec 2022 %
Xanadu Mines Group			
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%
Vantage LLC	Mongolia	100.00%	100.00%
Gobi Battery Metals Pte Ltd ¹	Singapore	100.00%	-
Xanadu Battery Metals Pte Ltd ¹	Singapore	100.00%	-
Khuiten Metals Group ²			
Khuiten Metals Pte Ltd*	Singapore	-	100.00%
Mongol Metals LLC*	Mongolia	-	85.00%
Oyut Ulaan LLC	Mongolia	-	76.50%

¹ These subsidiaries were incorporated on 17 Nov 2023 in conjunction with the Xanadu Mines strategy to explore for new opportunities in Mongolia

² As a result of the Khuiten Metals Joint Venture, there was a loss of control of the above three entities in the Khuiten Group on 10 March 2023. The operating results of these entities were incorporated into the Xanadu Groups results up until this date. At the commencement of the Joint Venture the entities are no longer consolidated into the financial statements of the Xanadu Group. The results of the Khuiten Group accounted for as an investment by the Xanadu Mines Groups and the share of the joint venture is included in the Xandu groups results (refer note 2 Accounting Policy: Joint Venture)

Note 31. Events after the reporting period

In November 2023 Xanadu announced that its major shareholder Zijin Mining Group Co., Ltd (Zijin) was intending to subscribe to 15,185,328 new shares (nominal value of \$835,193) in Xanadu. This placement was conditional on Xanadu shareholder approval under ASX Listing Rule 10.11 and Foreign Investment Review Board (FIRB) approval. A Xanadu Extraordinary General Meeting was scheduled for 6 February 2024 to seek approval of the issue of these shares to Zijin. Approval was granted at this meeting and the shares were subsequently issued on 04 March 2024.

On 22 January 2024 Xanadu signed a binding term sheet with STSM LLC (STSM) which grants the right to earn up to 80% interest in two exploration licences XV-17774 (Oyut) and XV-21887 (Sant Tolgoi) located in the Zavkhan Province of Western Mongolia. These two licenses make up the Sant Tolgoi Project, which is considered highly prospective for discovery of new magmatic intrusion-related Copper-Nickel systems. As part of this term sheet, Xanadu may elect to proceed to stage 1 once the minimum commitment has been met and can earn a 51% interest in the Project by spending USD\$1,000,000 on exploration over a period of twenty-four months.

No other matter or circumstance has arisen since 31 December 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.

Notes to the Consolidated Financial Statements

Note 32. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
Loss after income tax expense for the year	(7,578)	(5,091)
Adjustments for:		
Depreciation and amortisation	64	69
Share-based payments	1,523	397
Foreign exchange differences	-	(10)
Other non-cash transactions	(86)	-
Gain on deconsolidation of subsidiary	(1,155)	-
Net gain on sale of plant and equipment	-	(21)
Share of loss of a joint venture	2,412	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(454)	42
Decrease in prepayments	-	15
Increase/(decrease) in trade and other payables from operating activities	1,386	(173)
Increase in employee benefits	152	8
Net cash used in operating activities	<u>(3,736)</u>	<u>(4,764)</u>

Note 33. Earnings per share

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>(7,578)</u>	<u>(4,924)</u>
	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Earnings per share for loss from discontinued operations</i>		
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>-</u>	<u>(167)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,607,483,119	1,365,326,274
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,607,483,119	1,365,326,274
	Cents	Cents
Basic earnings per share	(0.00)	(0.01)
Diluted earnings per share	(0.00)	(0.01)

Notes to the Consolidated Financial Statements

Note 33. Earnings per share (continued)

	Consolidated	
	31 Dec 2023	31 Dec 2022
	\$'000	\$'000
<i>Earnings per share for loss</i>		
Loss after income tax	(7,578)	(5,091)
Non-controlling interest	-	526
Loss after income tax attributable to the owners of Xanadu Mines Ltd	<u>(7,578)</u>	<u>(4,565)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,607,483,119	1,365,326,274
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,607,483,119</u>	<u>1,365,326,274</u>
	Cents	Cents
Basic earnings per share	(0.47)	(0.33)
Diluted earnings per share	(0.47)	(0.33)

Note 34. 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 issued during 2021.

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

	Number of options 31 Dec 2023	Weighted average exercise price 31 Dec 2023	Number of options 31 Dec 2022	Weighted average exercise price 31 Dec 2022
Outstanding at the beginning of the financial year	46,950,000	\$0.000	51,510,000	\$0.000
Granted	85,470,000	\$0.000	-	\$0.000
Exercised	(4,560,000)	\$0.000	(4,560,000)	\$0.000
Expired	<u>(3,000,000)</u>	\$0.000	<u>-</u>	\$0.000
Outstanding at the end of the financial year	<u>124,860,000</u>	\$0.000	<u>46,950,000</u>	\$0.000

Notes to the Consolidated Financial Statements

Note 34. Share-based payments (continued)

31 Dec 2023

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	30/06/2024	\$0.000	3,420,000	-	(3,420,000)	-	-
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	21/01/2027	\$0.000	38,250,000	-	-	-	38,250,000
05/10/2021	05/10/2023	\$0.000	3,000,000	-	-	(3,000,000)	-
22/09/2022	22/09/2028	\$0.000	-	6,000,000	-	-	6,000,000
07/02/2023	28/02/2029	\$0.000	-	32,770,000	-	-	32,770,000
07/02/2023	28/02/2029	\$0.000	-	34,100,000	-	-	34,100,000
07/02/2023	28/02/2029	\$0.000	-	12,600,000	-	-	12,600,000
			46,950,000	85,470,000	(4,560,000)	(3,000,000)	124,860,000

31 Dec 2022

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	30/06/2023	\$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
			51,510,000	-	(4,560,000)	-	46,950,000

Notes to the Consolidated Financial Statements

Note 34. 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 one remaining tranches upon 18 months continuous employment condition: 1,140,000 vesting on 30 September 2024 and expiring on 30 June 2025.	\$0.000	1,140,000
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 30 September 2024 and expiring on 21 January 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 30 September 2024 and expiring on 21 January 2027.	\$0.000	17,000,000
Unlisted Employee Options, issued as part of share-based compensation for performance	Vesting in three tranches upon attainment of one of the following performance criteria; Delivery of a satisfactory pre-feasibility study for the Kharmagtai Copper – Gold Project, a 1.5 year for Non-Executive Directors and a 3 year continuous employment condition for Executive Directors and share price hurdles: Performance measurement/vesting on 10 September 2024 and expiring on 28 Feb 2029.	\$0.000	34,100,000
Unlisted Executive Director Options, issued as part of share-based compensation for performance	Vesting in two tranches upon attainment of one of the following performance criteria; Delivery of a satisfactory pre-feasibility study for the Kharmagtai Copper – Gold Project, a 1.5 year for Non-Executive Directors and a 3 year continuous employment condition for Executive Directors: Performance measurement/vesting on 10 September 2024 and expiring on 28 February 2029.	\$0.000	32,770,000
Unlisted Executive Director Options, issued as part of share-based compensation for performance	Vesting in one tranche upon attainment of one of the following performance criteria; Delivery of a satisfactory pre-feasibility study for the Kharmagtai Copper – Gold Project, a 2 year continuous employment condition and share price hurdles: Performance measurement/vesting on 10 September 2024 and expiring on 22 Sep 2029.	\$0.000	6,000,000
Unlisted Non-Executive Director Options, issued as part of share-based compensation for performance	Vesting in two tranches upon attainment of one of the following performance criteria; Delivery of a satisfactory pre-feasibility study for the Kharmagtai Copper – Gold Project, a 1.5 year for Non-Executive Directors and a 3 year continuous employment condition for Executive Directors: Performance measurement/vesting on 30 May 2024 or 10 September 2024 and expiring on 28 Feb 2029.	\$0.000	12,600,000
			<u>124,860,000</u>
		Consolidated	
		31 Dec 2023	31 Dec 2022
		\$'000	\$'000
Share based payment expense			
Amortisation of share based payment options based on vesting conditions above		<u>(1,523)</u>	<u>(397)</u>

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 2023 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

27 March 2024

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



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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 2023, 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 material accounting policy information, 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 2023 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 events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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



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.

Accounting for the loss of control over Khuiten Metals Pte Ltd ("Khuiten Metals") and associated matters

Why significant	How our audit addressed the key audit matter
<p>On 10 March 2023, Khuiten Metals, a wholly-owned subsidiary of Xanadu Mines Limited ("the Group"), issued US\$35 million of new shares to a subsidiary of Zijin Mining Group Co., Ltd ("Zijin"). This transaction resulted in joint control, with the Group and Zijin each holding equal 50% ownership interests in Khuiten Metals.</p> <p>Note 6 of the financial report outlines that, as a result of the loss of control of Khuiten Metals, the following occurred:</p> <ul style="list-style-type: none">• The Group derecognised all assets, liabilities and non-controlling interest ("NCI") balances. This included the Kharmagtai exploration asset, which prior to the transaction represented 85% of the Group's net assets.• The Group recycled the functional currency translation reserve ("FCTR") through the Statement of Comprehensive Income.• An equity accounted investment was recorded for the retained 50% interest in Khuiten Metals based on the fair value of this interest.• A net gain on disposal of \$1.15 million was recorded. <p>Given the complexity and magnitude of the transaction, and the importance to the users of the financial statements, we considered this to be a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">• Obtained and reviewed the executed agreements in relation to Zijin's subscription of shares in Khuiten Metals and the formation of the Khuiten Metals joint venture.• Assessed the Group's determination that control over Khuiten Metals was lost on 10 March 2023 and joint control established at that date, by reviewing the terms of voting and decision-making rights contained in the joint venture agreement.• Assessed the accuracy of the gain on disposal and the associated recognition of the equity accounted investment, which included the following at as at 10 March 2023:<ul style="list-style-type: none">◦ Assessed the fair value of the retained interest with reference to the price paid by Zijin;◦ Vouched the cash received to bank statements;◦ Agreed that the assets, liabilities, and NCI of Khuiten Metals were appropriately derecognised following the loss of control of Khuiten Metals;◦ Checked that the recycling of the FCTR to the profit and loss was appropriate in accordance with the requirements of Australian Accounting Standards.• Assessed the adequacy of the associated disclosures in the Financial Report.

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



Equity accounting for the investment in Khuiten Metals

Why significant

Following the loss of control over Khuiten Metals on 10 March 2023, the Group's remaining interest in Khuiten Metals has been accounted for as an equity accounted investment in line with the requirements of Australian Accounting Standards.

During the period, the Group recognised an equity accounted loss of \$2.4 million with respect to the Khuiten Metals investment and recorded a carrying value at 31 December 2023 of \$50.6 million, which represents 79% of the Group's net assets as disclosed in Note 13 of the financial report.

Given the significance of the balance and the importance to the users of the financial statements, we considered this to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessed the Group's recognition of the equity accounted investment recorded for the Group's retained 50% interest in Khuiten Metals, based on the fair value of this interest.
- Assessed the Group's determination of the fair value of the retained interest with reference to the price paid by Zijin.
- Recalculated the 'loss from equity accounted investment' for the period from 10 March 2023 to 31 December 2023 with reference to the audited trial balance of Khuiten Metals and the Group's ownership percentage throughout the year.
- Performed audit procedures on the underlying trial balance of Khuiten Metals for the year ended 31 December 2023, which included testing a sample of costs capitalised to the Kharmagtai exploration asset during the period in line with the requirements of the Australian Accounting Standards.
- Assessed the operating costs recharged by the Group to the Khuiten Metals joint venture with reference to the terms of the joint venture agreement and Board approvals.
- Considered whether any indicators of impairment were present which included an assessment both at the Kharmagtai exploration asset level as well as for the Group's equity accounted investment in accordance with *AASB 6 Exploration for and Evaluation of Mineral Resources* and *AASB 128 Investments in Associates and Joint Ventures*.
- Assessed the adequacy of the associated disclosures in the Financial Report.

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



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 2023 annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do 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, 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.

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.

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



- 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.

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 2023.

In our opinion, the Remuneration Report of Xanadu Mines Limited for the year ended 31 December 2023, complies with section 300A of the *Corporations Act 2001*.

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



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

Ernst & Young

A handwritten signature in cursive script, identified as Susan Hughes.

Partner
Sydney
27 March 2024

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Shareholder Information

The shareholder information set out below was applicable as at 22 March 2024.

Distribution of Equitable Securities

Analysis of number of equitable security holders by size of holding

Range	Ordinary Shares		Options over Ordinary Shares	
	Number of Holders	% of Shares issued	Number of Holders	% of Shares issued
1 - 1,000	74	0.00		
1,001 - 5,000	125	0.02		
5,001 - 10,000	239	0.12		
10,001 - 100,000	988	2.47		
100,001 Over	705	97.39	8	100%
Total	2,131	100.00	8	100%
Holding less than a marketable parcel	281			

Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary Shares	
	Number held	% of total shares issued
JINPING (SINGAPORE) MINING PTE LTD	333,301,460	19.42
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	325,943,349	18.99
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT>	143,871,412	8.38
TREASURY SERVICES GROUP PTY LTD <NERO RESOURCE FUND A/C>	44,168,046	2.57
HARBIG NOMINEES PROPRIETARY LIMITED <THE HARBIG CUNNINGHAM A/C>	42,873,911	2.50
CITICORP NOMINEES PTY LTD	40,244,208	2.35
CANADIAN REGISTER CONTROLIC	32,092,168	1.87
FAST LANE AUSTRALIA PTY LTD	30,000,000	1.75
MR MARTIN JAMES HICKLING + MRS JANE FRANCES HICKLING <M & J HICKLING SUPER A/C>	29,001,000	1.69
CM SUPER FUND PTY LTD <CAROL MCCOLL SUPER FUND A/C>	25,000,000	1.46
A N SUPERANNUATION PTY LTD <ANNE NEATE SUPER FUND A/C>	21,836,645	1.27
MR GANBAYAR LKHAGVASUREN	16,558,329	0.96
MR SIMON ZHANG	12,000,000	0.70
BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	11,369,431	0.66
ROJO NERO CAPITAL PTY LTD	10,145,858	0.59
SWISS TRADING OVERSEAS CORP	10,000,000	0.58
CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	9,971,600	0.58
SUTVILLE PTY LTD <INVESTMENTS A/C>	8,410,597	0.49
MR WEI GUO FAN + MRS HONG JI	8,085,128	0.47
SSF AUST PTY LTD <SCHMARR FAMILY S/F A/C>	8,069,600	0.47
	1,162,942,742	67.75

Shareholder Information

Options over Ordinary Shares

	Number Held	% of Options Issued
A L STEWART FAMILY PTY LTD <STEWART FAMILY A/C>	25,520,000	20.4%
CIAO! PUNTO PTY LIMITED <CIAO PUNTO FAMILY A/C>	1,140,000	0.9%
INVIA CUSTODIANS PTY LTD <MR COLIN MOORHEAD A/C>	23,600,000	18.9%
MR GANBAYAR LKHAGVASUREN	23,670,000	19.0%
MRS CARMEL LISA MUSCILLO	6,300,000	5.0%
MUNKHSAIKHAN DAMBIINYAM	17,500,000	14.0%
SIERRA PACIFIC CONSULTING PTY LTD <SIERRA PACIFIC A/C>	20,830,000	16.7%
TONY PEARSON	6,300,000	5.0%
	124,860,000	100.0%

Unquoted equity securities

Security	Total
EMPLOYEE OPTIONS 28 FEB 23 - EXP 72 MONTHS FROM ISSUE	34,100,000
EXE DIRECTOR OPTIONS 28 FEB 2023 - EXP 72 MONTHS FROM ISSUE	32,770,000
EXECUTIVE DIRECTOR OPTIONS EXPIRING 21/01/2031	6,000,000
EXECUTIVE OPTIONS TRANCHE A	2,250,000
EXECUTIVE OPTIONS TRANCHE B	4,500,000
EXECUTIVE OPTIONS TRANCHE C	6,750,000
EXECUTIVE OPTIONS TRANCHE D	6,750,000
EXECUTIVE OPTIONS TRANCHE E	18,000,000
INCENTIVE OPTIONS VESTING 31/12/23	1,140,000
NON-EXE DIRECTOR OPTIONS 28 FEB 23 - EXP 72 MTH FROM ISSUE	12,600,000
Grand Total	124,860,000

Substantial holders

Substantial holders in the company are set out below:

Name	Ordinary Shares	
	Number held	% of total shares issued
JINPING (SINGAPORE) MINING PTE LTD	333,301,460	19.42
CAAF	226,665,378	13.21

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.

There is no current on-market buy-back.

Shareholder Information

Licenses and projects held by Xanadu

Description	Tenement Name	Tenement number	Interest owned %	Location
Kharmagtai ⁽ⁱ⁾	Kharmagtai	MV17387A	38.25%	Mongolia, Umnugobi province Tsogttsetsii soum
Red Mountain ⁽ⁱⁱ⁾	Red Mountain	MV017129	100.00%	Mongolia, Dornogobi province, Saikhandulaan soum
(i) As a result of the issue of shares in Khuiten Metals Pte Ltd, the interest of Xanadu Mines as of 10 March 2023 decreased from 76.5% to 38.25%				
(ii) Interest increased from 90% to 100% in the December 2021 quarter via purchase of the minority interest				

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