



Xanadu Mines Ltd

ACN 114 249 026

Half Year Financial Report

December 2013

CORPORATE DIRECTORY

Board of Directors:

Mark Wheatley	Non-Executive Director Non-Executive Chairman (appointed chairman 25 November 2013)
George Lloyd	Managing Director (appointed director 26 August 2013)
Ganbayar Lkhagvasuren	Executive Director
Hannah Badenach	Non-Executive Director
Darryl Clark	Non-Executive Director
Denis Gately	Non-Executive Chairman (ceased 22 November 2013)
Brian Thornton	Non-Executive Director (resigned 28 February 2014)
Robert Westphal	Non-Executive Director (resigned 22 November 2013)

Company Secretaries:

Janine Rolfe	(appointed 25 November 2013)
Mark Langan	(resigned 25 November 2013)

Registered Office Australia:

c/o Company Matters Pty Ltd
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Sydney, NSW 2000, Australia
Telephone: +612 8280 7497
Facsimile: +612 9287 0350
Email: info@xanadumines.com
Website: www.xanadumines.com

Registered Office Mongolia:

2nd Khoroo, AOS Street
Military Town, Bayanzurkh District
Ulaanbaatar, Mongolia
Telephone: +976 11 5011 0211

Share Registry:

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney, NSW 2000, Australia

Auditors

Ernst & Young
680 George Street
Sydney, NSW 2000, Australia

Solicitors - Australia

Baker & McKenzie
Level 27, AMP Centre
50 Bridge Street
Sydney, NSW 2000, Australia

Stock Exchange Listing

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

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Directors' Report

The directors submit their Report together with the Financial Report of Xanadu Mines Ltd ("Xanadu" or "the Company") and its subsidiaries (together referred to as the "Group") for the half year ended 31 December 2013.

DIRECTORS

The names of the Company's Directors in office at any time during or since the end of the half-year ended 31 December 2013 are as follows:

Mark Wheatley	Non-Executive Director
George Lloyd	Non-Executive Chairman (appointed Chairman 25 November 2013)
Ganbayar Lkhagvasuren	Managing Director (appointed director 26 August 2013)
Hannah Badenach	Executive Director
Darryl Clark	Non-Executive Director
Denis Gately	Non-Executive Chairman (ceased 22 November 2013)
Brian Thornton	Non-Executive Director (resigned 28 February 2014)
Robert Westphal	Non-Executive Director (resigned 22 November 2013)

PRINCIPAL ACTIVITIES

The principal activities of the Group during the period under review were the evaluation and exploration of its copper, gold and coal prospects in Mongolia.

REVIEW OF OPERATIONS

During the period the Company focussed primarily on its Mongolian copper strategy and cost reductions. A new investment law was passed by the Mongolian Parliament on 3 October 2013 and took effect on 1 November 2013. This law replaces the Law on Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance (the SEFIL) that was passed on 17 May 2012 and amended in April 2013. The new investment law takes significant steps to simplify Mongolia's foreign investment regime, particularly for non-government investors, and aims to ensure a stable and attractive investment environment.

The Company conducted exploration activities at its Oyut Ulaan and Sharchuluut projects and established the Mongol Metals LLC joint venture:

- the formation of the Mongol Metals LLC joint venture company ("Mongol Metals") was announced on 13 December 2013. Mongol Metals was established to acquire a 90% interest in the Kharmagtai copper-gold project as announced to the ASX on 3 February 2014. The joint venture partner is Mr Ganbayar Lkhagvasuren, director and substantial shareholder of Xanadu;
- the second phase of exploration commenced at the Oyut Ulaan copper gold project on 27 August 2013. New diamond core drilling defined the Diorite Hill prospect as a broad zone of strong quartz stockwork veining and associated high-grade copper-gold mineralisation (0.3 to 1.5% copper; 0.5 to >5 g/t gold) that is now at least 600m long, 40 to 80m wide, and at least 200m deep and remains open in all directions. A corresponding trenching program identified new mineralised sections that will inform the 2014 exploration program. Shareholders approved the issue of shares and performance share options to complete the acquisition of a 90% interest in the project at the Company's Annual General Meeting held on 22 November 2013; and
- new mapping and geochemical sampling was completed at the Sharchuluut project over September 2013 resulting in the identification of exposed granodiorite porphyry grading up to 0.8% copper and 31 ppm molybdenum. This discovery is significant and represents a high priority drill target.

The Company continued to review and rationalise its operations and non-core exploration activities, in particular:

- approximately 7,000 metres were drilled at Elgen Zost in the first half of the 2013 financial year. No gold mineralisation of significance was identified and a review of the project in late 2013 concluded that the next stage of drilling at Elgen Zost does not fit the Company's exploration criteria. The Company has commenced discussions with the joint venture partner in relation to a farmout or similar corporate transaction. Consequently the deferred exploration costs for Elgen Zost have been fully impaired during the Period; and
- activities at the Ekhgoviin Chuluu LLC joint venture were reduced considerably over the period. Minimum expenditure commitments were met at Nuurstei and Khus. Previous exploration activities confirmed the presence of hard coking coal at the Nuurstei project. Xanadu evaluated a number of strategies for unlocking the value of the Nuurstei project in the context of infrastructure development plans and complementary projects in the Khuvsugul region.

FINANCIAL POSITION

Xanadu's cash position as of 31 December 2013 was \$2.841 million (30 June 2013: \$5.642 million). The net decrease in cash over the period was \$2.801 million. This reflects deferred exploration expenditure of \$0.527 million at the Oyut Ulaan project and due diligence, transaction costs and a deposit payment of \$0.690 million in relation to the Kharmagtai acquisition. The Company realised savings in administrative expenses with a reduction of \$0.348 million to \$1.506 million (31 December 2012: \$1.854 million). Additional transaction costs were incurred for the completion of the Oyut Ulaan project and project activities in relation to the staged exit of the Company's coal assets. There has been an exceptionally high level of corporate activity over the period in relation to the calendar 2013 operational review. Management expect the level of corporate activity to subside with the completion of the Kharmagtai acquisition.

No dividends have been paid during the period (2013: nil) and no dividend is recommended.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There has been an exceptionally high level of corporate activity over the Period in relation to the calendar 2013 operational review and a number of transactions have been announced since 31 December 2013:

- on 16 January 2014 the Company announced that it had completed the acquisition of a 90% interest in Vantage LLC which owns 100% of the Oyut Ulaan copper-gold project. Under the terms of the acquisition agreement the Company paid US\$600,000 to the vendor and issued 5 million Xanadu Fully Paid Ordinary Shares, 15 million Series A and 20 million Series B Performance Share Options;
- on 31 January 2014 the Company announced in its Quarterly Activities Report that it had entered into agreements to dispose of its thermal coal projects;
- on 3 February 2014 the Company announced it had entered agreements to acquire an interest in the Kharmagtai copper-gold project in the South Gobi region of Mongolia including:
 - (i) that its joint venture company, Mongol Metals LLC, had entered definitive agreements to acquire a 90% interest in Oyut Ulaan LLC which owns 100% of the Kharmagtai copper-gold project. The total consideration for the acquisition is US\$14.0 million. A US\$0.5 million deposit paid has been paid by Mongol Metals LLC with US\$3.5 million payable on completion of the transaction. The balance of US\$10.0 million is deferred and payable within 18 months after completion. The Company has guaranteed the deferred consideration;
 - (ii) the terms of the Mongol Metals LLC joint venture agreements including the contribution of US\$4.0 million of equity to Mongol Metals LLC by a director of the Company. The joint venture agreements allow Xanadu to earn up to 85% interest in the joint venture company;
 - (iii) a US\$4.0 million loan facility with Noble Resources International Pte Ltd for a term of 3 years to fund the acquisition and exploration of the Kharmagtai project; and

- on 28 February 2014, the retirement of Xanadu Director Mr Brian Thornton, as announced on 22 October 2013, became effective. The Company expresses its gratitude to Mr Thornton for his valued contribution as co-founder and acknowledges Mr Thornton remaining as a substantial shareholder of the Company.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

ROUNDING

Xanadu is a company of the kind referred to in Class Order 98/100 and in accordance with Class Order 98/100, amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 6.

Signed in accordance with a resolution of directors pursuant to section 306(3) of the Corporations Act 2001.



George Lloyd

Managing Director

Dated: 12 March 2014



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

In relation to our review of the financial report of Xanadu Mines Ltd for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ryan Fisk
Partner
Sydney
12 March 2014

Consolidated Statement of Comprehensive Income for the Half-Year Ended 31 December 2013

	Notes	31-Dec-13 \$'000s	31-Dec-12 \$'000s
Revenue	4(a)	74	210
Total revenue		74	210
Other income / (expenses)	4(b)	(758)	44
Depreciation and amortisation expense		(66)	(68)
Administrative expenses	4(c)	(1,506)	(1,854)
Deferred exploration and evaluation expenditure written off	4(d)	(4,396)	(533)
Loss before income tax		(6,652)	(2,201)
Income tax expense		-	-
Loss after income tax		(6,652)	(2,201)
Items that may be classified subsequently to profit or loss:			
Exchange difference on translation of foreign operations		122	-
		(6,530)	(2,201)
Total comprehensive loss for the period attributable to:			
Owners of the parent		(6,530)	(2,201)
Non-controlling interest		-	-
		(6,530)	(2,201)
Loss per share for loss attributable to the ordinary equity holders of the parent			
Basic loss per share (cents per share)		(3.34)	(1.10)
Diluted loss per share (cents per share)		(3.34)	(1.10)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position as at 31 December 2013

	Notes	31-Dec-13 \$'000s	30-Jun-13 \$'000s
ASSETS			
Current assets			
Cash and cash equivalents	5	2,841	5,642
Prepayments and other assets		896	73
Other receivables		58	142
Total current assets		3,795	5,857
Non current assets			
Deferred exploration and evaluation costs	6	8,853	12,955
Property, plant and equipment		1,152	1,223
Total non current assets		10,005	14,178
Total assets		13,800	20,035
LIABILITIES			
Current liabilities			
Trade and other payables		366	200
Total current liabilities		366	200
Total liabilities		366	200
Net assets		13,434	19,835
Equity			
Issued capital	8	56,651	56,591
Reserves	9	6,201	6,010
Accumulated losses		(49,807)	(43,155)
Parent entity interest		13,045	19,446
Non-controlling interest		389	389
Total equity		13,434	19,835

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows for the Half-Year Ended 31 December 2013

	31-Dec-13 \$'000s	31-Dec-12 \$'000s
Cash flows from operating activities		
Payments to suppliers and employees	(1,304)	(1,496)
Rent received	9	-
Interest paid	-	(8)
Net cash flows used in operating activities	(1,295)	(1,504)
Cash flows from investing activities		
Interest received	105	275
Acquisition of exploration and evaluation assets	(690)	(4,918)
Purchase of property, plant and equipment and intangible assets	-	(131)
Loans repaid from other entities	-	1,230
Deferred exploration and evaluation costs	(757)	(3,269)
Net cash flows used in investing activities	(1,342)	(6,813)
Cash flows from financing activities		
Proceeds from issue of shares (net of share issue costs)	-	-
Net cash flows from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	(2,637)	(8,317)
Net foreign exchange differences	(164)	52
Cash and cash equivalents at beginning of period	5,642	15,724
Cash and cash equivalents at end of period	2,841	7,459

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity for the Half-Year Ended 31 December 2013

	Issued capital \$'000s	Option reserve \$'000s	Acquisition reserve \$'000s	Accumulated losses \$'000s	Foreign Currency Translation Reserve \$'000s	Non- Controlling Interest \$'000s	Total \$'000s
Balance as at 1 July 2012	56,591	6,171	168	(24,412)	-	1,095	39,613
Total comprehensive loss for the period	-	-	-	(2,201)	-	-	(2,201)
Transactions with owners in their capacity as owners							
Share-based payments	-	-	-	-	-	-	-
Asset acquisition reserve	-	-	-	-	-	-	-
Balance as at 31 December 2012	56,591	6,171	168	(26,613)	-	1,095	37,412
Balance as at 1 July 2013	56,591	6,176	168	(43,155)	(334)	389	19,835
Loss For Period	-	-	-	(6,652)	-	-	(6,652)
Other comprehensive income	-	-	-	-	122	-	122
Total comprehensive loss for the period	-	-	-	(6,652)	122	-	(6,530)
Transactions with owners in their capacity as owners							
Shares issued during period	60	-	-	-	-	-	60
Share-based payments	-	69	-	-	-	-	69
Balance as at 31 December 2013	56,651	6,245	168	(49,807)	(212)	389	13,434

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

1. CORPORATE INFORMATION

Xanadu Mines Ltd (“the Company”) was incorporated on 12 May 2005. The financial report of the Company for the half year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 12 March 2014.

Xanadu Mines Ltd is a company limited by shares incorporated in Australia.

The nature of the operations and principal activities of the Group are described in the Directors’ Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

This general purpose financial report for the half year ended 31 December 2013 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report does.

It is recommended that the half year financial report be read in conjunction with the annual report for the year ended 30 June 2013 and considered together with any public announcements made by Xanadu Mines Ltd during the half year ended 31 December 2013 in accordance with the continuous disclosure obligations of the ASX listing rules.

(b) Significant Accounting Policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2013, except for the adoption of new standards and interpretation noted below:

AASB10 Consolidated Financial Statements

AASB 11 Joint arrangements

AASB12 Disclosure of interests in other entities

AASB13 Fair value measurement

AASB 119 Employee benefits

AASB 2012-5 Amendments to Australian accounting standards arising from annual improvements 2009-2011 cycle

Adoption of these amendments had no material impact on the financial position or performance of the group.

3. SEGMENT INFORMATION

The consolidated entity operates predominantly in the minerals exploration sector. The principal activity of the consolidated entity is exploration for gold, copper and coal. The consolidated entity 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 6 of the half year financial report. No segment revenues are disclosed as each exploration tenement is not at a stage where revenues have been earned. Furthermore, no segment costs are disclosed as all segment expenditure is capitalised, with the exception of expenditure written off.

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

4. REVENUE AND EXPENSES

	31-Dec-13 \$'000s	31-Dec-12 \$'000s
(a) Revenue		
Finance income	65	210
Other income	9	-
Total revenue	74	210
(b) Other income / (expense)		
Net foreign currency gains/ (losses)	(758)	52
Interest paid	-	(8)
Total other income / (expense)	(758)	44
(c) Administrative expenses		
Share based payments	129	-
Salaries and directors fees	888	728
Administration expense	489	1,126
Total administrative expenses	1,506	1,854
(d) Deferred exploration and evaluation expenses written off		
Deferred exploration written off	4,396 ¹	533 ²
Total deferred exploration and evaluation expenses written off	4,396	533

Deferred exploration written off relates to assets that were impaired to reduce the carrying value to nil for the following licences:-

1 Elgan Zost, Nuurstei, Galshar, Khar Tarvarga, Suuj and Zoost.

2 Tugrug and three licences at Galshar.

5. CASH AND CASH EQUIVALENTS

	31-Dec-13 \$'000s	30-Jun-13 \$'000s
Cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	2,841	5,642
	2,841	5,642

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

6. DEFERRED EXPLORATION AND EVALUATION COSTS (NON-CURRENT)

	31-Dec-13 \$'000s	30-Jun-13 \$'000s
Costs incurred in respect of current mining leases (net of costs expensed)	8,853	12,955
Reconciliation of movement in deferred exploration and evaluation expenditure in current period	\$'000s	
Balance at 1 July 2013	12,955	
Additions	757	
Foreign Exchange	(463)	
Expenditure written off during the year	(4,396)	
Balance at 31 December 2013	8,853	

7. SHARE BASED PAYMENTS

At the Annual General Meeting on 22 November 2013 shareholders approved the issue of performance share rights to two executive directors on the following terms:

Ganbayar Lkhagvasuren 1,800,000 Performance Share Rights:

- 600,000 vesting on 23 May 2014 if a price hurdle of \$0.1105 is met
- 600,000 vesting on 23 May 2015 if a price hurdle of \$0.1437 is met
- 600,000 vesting on 23 May 2016 if a price hurdle of \$0.1870 is met

George Lloyd 4,000,000 Performance Share Rights:

- 1,000,000 vesting on 26 February 2014 if a price hurdle of \$0.1071 is met
- 1,300,000 vesting on 26 February 2015 if a price hurdle of \$0.1393 is met
- 1,700,000 vesting on 26 February 2016 if a price hurdle of \$0.1813 is met

The value of the equity-settled performance share rights granted was prepared by an independent accountant as at the date of grant using an enhanced employee stock option pricing model taking into account the terms and conditions upon which the performance rights were granted and the following economic assumptions:

- Expected volatility 90%
- Risk-free interest rate 2.85%
- Dividend yield Nil
- Expected life of rights 3 years

8. CONTRIBUTED EQUITY

	31-Dec-13 \$'000s	30-Jun-13 \$'000s
(a) Issued and paid up capital		
Ordinary shares fully paid (200,256,390 shares on issue)	56,651	56,591

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

8. CONTRIBUTED EQUITY (continued)

(b) Options

At the balance date there were 33,340,000 options and performance share rights on issue. Details of these are as follows:

	Number of options	Exercise Price	Expiry Date
Unlisted options	14,000,000	\$0.50	31-Dec-14
ESOP options	5,240,000	\$0.50	19-Dec-14
ESOP options	1,000,000	\$0.60	30-Jun-16
ESOP options	1,000,000	\$1.20	30-Jun-16
ESOP options	1,000,000	\$1.80	30-Jun-16
ESOP options	1,000,000	\$0.70	31-Dec-14
ESOP options	1,000,000	\$1.00	31-Dec-14
Performance Share Rights	5,100,000	Nil	23-May-16
Performance Share Rights	4,000,000	Nil	26-Feb-16
	<u>33,340,000</u>		

9. RESERVES

	31-Dec-13 \$'000s	30-Jun-13 \$'000s
Share-based compensation reserve	6,245	6,176
Asset acquisition reserve	168	168
Foreign currency translation reserve	(212)	(334)
Total reserves	<u>6,201</u>	<u>6,010</u>

Reconciliation of movement in share-based compensation reserve in current period

Balance at 1 July 2013	6,176
Expense arising from amortisation of equity settled share based payment transactions	69
Balance at 31 December 2013	<u>6,245</u>

10. FINANCIAL INSTRUMENTS

Net Fair Values

Fair value estimation

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

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

11. EVENTS AFTER BALANCE SHEET DATE

On 16 January 2014 the Company announced that it had completed the acquisition of a 90% interest in Vantage LLC which owns 100% of the Oyut Ulaan copper-gold project. Under the terms of the acquisition agreement the Company paid US\$600,000 to the vendor and issued 5 million Xanadu Fully Paid Ordinary Shares, 15 million Series A and 20 million Series B Performance Share Options;

On 31 January 2014 the Company announced in its Quarterly Activities Report that it had entered agreements to dispose of its thermal coal projects;

On 3 February 2014 the Company announced it had entered agreements to acquire an interest in the Kharmatgtai copper-gold project in the South Gobi region of Mongolia including:

- (i) that its joint venture company, Mongol Metals LLC, had entered definitive agreements to acquire a 90% interest in Oyut Ulaan LLC which owns 100% of the Kharmatgtai copper-gold project. The total consideration for the acquisition is US\$14.0 million. A US\$0.5 million deposit paid has been paid by Mongol Metals LLC with US\$3.5 million payable on completion of the transaction. The balance of US\$10.0 million is deferred and payable within 18 months after completion. The Company has guaranteed the deferred consideration;
- (ii) the terms of the Mongol Metals LLC joint venture agreements including the contribution of US\$4.0 million of equity to Mongol Metals LLC by a director of the Company. The joint venture agreements allow Xanadu to earn up to 85% interest in the joint venture company; and
- (iii) a US\$4.0 million loan facility with Noble Resources International Pte Ltd for a term of 3 years to fund the acquisition and exploration of the Kharmatgtai project; and

On 28 February 2014, the retirement of Xanadu Director Mr Brian Thornton, as announced on 22 October 2013, became effective. The Company expresses its gratitude to Mr Thornton for his valued contribution as co-founder and acknowledges Mr Thornton remaining as a substantial shareholder of the Company.

12. COMMITMENTS AND CONTINGENCIES

Commitments in relation to exploration licences contracted at the reporting date but not recognised as liabilities within one year are \$259,000 (2012: \$390,894).

There has been no change in commitments and contingent liabilities since the last annual reporting date.

13. RELATED PARTY TRANSACTIONS

- (a) Insurance brokering services were provided by InterRISK Australia Pty Ltd, a company of which Robert Westphal is a Director. The amount paid for premiums to InterRISK Pty Ltd during the period was \$54,409.
- (b) Office support services were provided by Farrington Corporate Services Pty Ltd, a company of which Brian Thornton is a Director. The amount paid for services provided during the period was \$629.

All services provided by companies associated with Directors were provided on commercial terms.

Directors' Declaration

In accordance with a resolution of the Directors of Xanadu Mines Ltd, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and performance for the half year ended on that date: and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



George Lloyd
Managing Director

Dated : 12 March 2014

To the members of Xanadu Mines Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Xanadu Mines Ltd, which comprises the condensed statement of financial position as at 31 December 2013, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Xanadu Mines Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

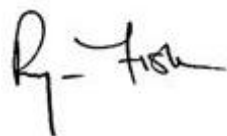
Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Ryan Fisk
Partner
Sydney
12 March 2014