Xanadu Mines Ltd

ACN 114 249 026

Half Year Financial Report

December 2012

CORPORATE DIRECTORY

Board of Directors:

Denis Gately	Non-Executive Chairman	(Appointed 9 November 2012)
Brian Thornton	Executive Director	
Ganbayar Lkhagvasuren	Executive Director	
Robert Westphal	Non-Executive Director	
Hannah Badenach	Non-Executive Director	
Darryl Clark	Non-Executive Director	(Appointed 9 November 2012)
Mark Wheatley	Non-Executive Director	(Appointed 9 November 2012)
Rod Williams	Non-Executive Director	(Resigned 31 October 2012)
Ron Heeks	Non-Executive Director	(Resigned 31 October 2012)

Company Secretaries:

Mark Langan	(Appointed 5 September 2012)
Brendan Evans	(Resigned 5 September 2012)

Management:

Dr. Andrew Stewart	Manager Mongolia & Chief Geologist

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Ulaanbaatar, Mongolia
Telephone: +976 11 5011 0211

Share Registry:
Computershare Investor Services Pty Ltd
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Sydney, NSW 2000, Australia

Auditors
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Sydney, NSW 2000, Australia

Solicitors - Australia
Baker & McKenzie
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Solicitors - Mongolia

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

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Chairman's Report

The first half of the year has been a very challenging period for the company. A series of external and internal events have confronted the company and adversely affected the share price performance. We are acutely aware of the impact this has had on our shareholders and have taken measures to strengthen the company in anticipation of a new stage in our growth and development. I would like to briefly address these events before highlighting the progress at the company's operations and our confidence in the future of your company.

Externally we are at an inflection point in the commodity cycle where the global mining industry has shifted its focus from expansion by investment in new projects to a greater focus on the productivity of its core assets and managing costs. This has tempered some investors' interest in the mining sector and exploration companies are sensitive to the contraction in available capital. We also see this as an opportunity for more entrepreneurial companies to acquire high quality advanced exploration stage projects.

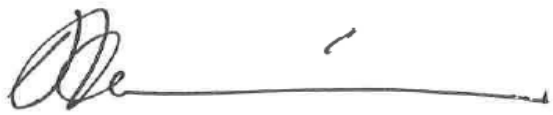
This stage of the mining cycle has coincided with Mongolian Parliamentary and the Presidential elections. While Mongolia has a long and proud history, politically it is still relatively young since its independence from the Soviet Union in 1991. This recent electoral cycle has created significant uncertainty for investors and the mining industry. We have observed a slowdown of activity within the country and a sharp contraction in available capital. We regard the recent debate as a healthy part of a vigorous democracy and all developing resource-rich nations. We believe that exploration companies and the global mining industry have a lot to contribute to Mongolia's development and we have every confidence in the future.

Internally, there has been a restructuring of the Board and senior management. Three new Directors joined the Board in November 2012 bringing valuable commercial, legal and geological experience with them. Mr Mark Langan joined the company as CFO and Company Secretary in September 2012. Effective from 25 February 2013, Mr George Lloyd was appointed as the company's new CEO. The restructured Board and executive team will bring renewed rigour and energy to the operations and business development strategy.

We believe that we have put in place the foundations of a world-class copper/gold exploration portfolio. The southeast of Mongolia is quickly being transformed into a globally significant copper province, with first production at Oyu Tolgoi only months away. This area has the potential to host several new projects as has occurred in Chile. Key to the company's exploration and development strategy will be distinguishing between those projects with near-surface mineralisation that the company can advance to feasibility stage and larger scale projects where we will seek development partners.

Finally, I would like to thank our Chief Geologist, Dr Andrew Stewart, and Executive Director, Ganbayar Lkhagvasuren in Ulaanbataar and the Mongolian team. They have shown tremendous dedication during this challenging period.

I believe we have started calendar 2013 a much stronger company and see recent external events as potential catalyst for the growth of the company.



Denis Gately
Chairman
Dated: 15 March 2013

Directors' Report

Your Directors submit their Report together with the Financial Report of the consolidated entity for the half-year ended 31 December 2012.

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 2012 are as follows.

Denis Gately	Non-Executive Chairman	(Appointed 9 November 2012)
Brian Thornton	Executive Director	
Ganbayar Lkhagvasuren	Executive Director	
Robert Westphal	Non-Executive Director	
Hannah Badenach	Non-Executive Director	
Darryl Clark	Non-Executive Director	(Appointed 9 November 2012)
Mark Wheatley	Non-Executive Director	(Appointed 9 November 2012)
Rod Williams	Non-Executive Director	(Resigned 31 October 2012)
Ron Heeks	Non-Executive Director	(Resigned 31 October 2012)

DIVIDENDS

No dividends have been paid during the period (2011: nil) and no dividend is recommended.

PRINCIPAL ACTIVITIES

The principal activity of the group is exploration in Mongolia for gold, copper and coal.

REVIEW OF OPERATIONS

During the period the Company focused on exploration on its existing licences, the acquisition of additional licence areas, and a review of existing exploration data. Total expenditure during the period for existing licences was $3.1m substantially in respect of Elgen-Zost, further the Company expended $5.6m to obtain its interest in Oyut Ulaan as set out below. The primary focus was on the company's metals projects and also working closely with Noble Group in advancing the coking coal investments. More specifically:

- Oyut Ulaan (earning 90%): Xanadu announced in May 2012 its option to acquire the project, situated approximately 275 kilometres north east of the Oyu Tolgoi porphyry copper deposit. Since that announcement a thirty year mining licence was granted in September 2012. The current review of the Strategic Entity Foreign Investment Law of Mongolia (SEFIL) has caused a delay in the completion of the transaction. However Xanadu's geologists have continued to advance their understanding of this gold rich porphyry opportunity ahead of final approvals being received under the new SEFIL. Once approved, this should enable the company to conduct a more focused exploration effort on recently identified targets to unlock the undoubted exploration potential.
- Sharchuluut Uul (100%): This porphyry copper project in northern Mongolia, only 40km from the giant Erdenet copper mine gives investors exposure to a world-class porphyry opportunity. Initial drilling conducted in 2012 over this large area which contains a number of porphyry lithocaps, has provided proof of concept and further targets for stage 2 drilling in 2013. While Xanadu retains 100% equity of this licence, it has the flexibility to joint venture its interests in order to lay off risk but retain significant upside from any discovery.
- Elgen-Zost (80%): The project consists of three low sulphidation epithermal prospects, Elgen Uul, Suug and Zost Uul, occuring within a 35-kilometre long, east-west oriented corridor of alteration and mineralisation. During the period, a reverse-circulation and diamond drill programme was completed for 28 drill holes and a total of 6996.60 metres. The presence of stibnite and arsenic minerals, together with the predominance of chalcedony and amorphous silica confirm that the level intersected by drilling is some 100-200 vertical metres above the potential gold rich zone. A detailed structural analysis will be conducted to understand the potential continuation of known mineralisation at depth and along strike at Elgen-Zost in 2013.

- Amgalant & Argalant Uul (earning 80%): These copper – gold porphyry projects lie in the central part of the highly prospective South Gobi Porphyry. The large exploration licenses (Amgalant – 109 square kilometres, Argalant Uul – 895 square kilometres) remain relatively under explored and occur in a shallowly eroded porphyry-type environment. At Argalant, a total of 507 line kilometres of ground magnetics data were collected during the period. Initial exploration has identified numerous coincident geochemical and geophysical anomalies similar to the footprints recognised at Oyu Tolgoi and could indicate the presence of porphyry mineralisation at depth. Follow up work will commence on these 2 very prospective licenses during the 2013 field season.
- Ekhgoviin Chuluu LLC (50%): The Strategic Alliance with Noble Group continues to evaluate and acquire high priority coking coal opportunities in Mongolia. This program has targeted areas of significant known coal resources and focused on green field exploration opportunities identified via information synthesis and geological mapping. Ekhgoviin Chuluu (EC) has four exploration projects in Mongolia, all of which are focused on coking coal (Nuurstei, Khavtsgait, Javkhlant and Khus). During the period EC geologists at Nuurstei (EC 80%) collected channel samples from coal seams within the current mine pit including a small 30 kg bulk sample which was sent to the SGS lab in Mongolia. Results of coal quality analysis indicated the Nuurstei raw coal was a low moisture (6.13%), moderate ash `~27%, had a high CSN (swell) of 8 and low volatility (19.18%). These attributes confirm that Nuurstei is a premium hard coking coal project. At Khus (EC 51%) , a newly acquired project, a 17 hole drilling and sampling program indicated the potential for bituminous coal with up to 9 metre apparent seam thicknesses. Further work is expected to be carried out at Khus in 2013. At Javkhlant, a detailed 1:5000 scale mapping program of 4 coal outcrop target areas was completed to better understand the basin structure and development history. Over 600 stream sediment and rock chip samples were collected with no discernible anomalies to suggest presence of base, precious metals or other minerals.

Board renewal was a feature of the half with the appointment of a new Non-Executive Chairman, Denis Gately who has over 30 years of experience as a commercial/corporate lawyer in the resources sector primarily with Minter Ellison. In addition two other Non-Executive Directors have been appointed, namely Mark Wheatley an experienced Company Director with a career spanning more than 30 years in mining and related industries, most recently as Chairman of gold producer Gold One International (ASX: GDO) and Norton Goldfields (ASX: NGF); also joining the Board is Dr Darryl Clark, an experienced exploration geologist with over 20 years of experience in Australia, Central and South East Asia who is currently Vice President–Exploration for Cameco Corporation. All of these appointments add a significant new pool of talent to the Board of Xanadu.

Xanadu's cash position as of the 31st December 2012 was AUD$7.5 million cash to fund exploration and working capital.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Xanadu announced that George Lloyd has been appointed Chief Executive Officer commencing 25 February 2013. George is based in Hong Kong and has over 12 years of corporate finance and direct investment experience in the natural resources sector in emerging markets. Xanadu's founder, Brian Thornton, will continue as Non-Executive Director and will work closely with George to facilitate a smooth transition in the leadership of the company.

On 2 March 2013 the Mongolian Parliament passed the necessary regulations to enable the implementation of SEFIL. It now remains for the relevant ministers to sign the Regulations into law. Once this is done the Company will proceed to complete its acquisition of the project known as Oyut Ulaan.

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

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 7.

Signed in accordance with a resolution of the Board of Directors.

Denis Gately

Chairman

Dated: 15 March 2013

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

In relation to our review of the half-year financial report of Xanadu Mines Limited for the half-year ended 31 December 2012, 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

15 March 2013

Consolidated Statement of Comprehensive Income for the Half-Year Ended 31 December 2012

	Notes	31-Dec-12 $'000s	31-Dec-11 $'000s
Revenue	**4(a)**	210	435
Total revenue		**210**	**435**
Other income / (expenses)	**4(b)**	44	487
Depreciation and amortisation expense		(68)	(44)
Administrative expenses	**4(c)**	(1,854)	(2,349)
Deferred exploration and evaluation expenditure written off	**4(d)**	(533)	(4,376)
Loss before income tax		**(2,201)**	**(5,847)**
Income tax expense		-	-
Loss after income tax		**(2,201)**	**(5,847)**
Other comprehensive loss, net of tax		-	-
		(2,201)	**(5,847)**
Total comprehensive loss for the period attributable to:			
Owners of the parent		(2,201)	(5,847)
Non-controlling interest		-	-
		(2,201)	**(5,847)**
Loss per share for loss attributable to the ordinary equity holders of the parent			
Basic loss per share (cents per share)		(1.10)	(3.13)
Diluted loss per share (cents per share)		(1.10)	(3.13)

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

Consolidated Statement of Financial Position as at 31 December 2012

	Notes	31-Dec-12 $'000s	30-Jun-12 $'000s
ASSETS			
Current assets			
Cash and cash equivalents	**5**	7,459	15,724
Prepayments and other assets		65	349
Other receivables		202	1,746
		7,726	**17,819**
Assets classified as held for sale	**6**	7,451	7,699
Total current assets		**15,177**	**25,518**
Non current assets			
Deferred exploration and evaluation costs	**7**	21,617	13,233
Property, plant and equipment		1,267	1200
Intangible assets		-	2
Total non current assets		**22,884**	**14,435**
Total assets		**38,061**	**39,953**
LIABILITIES			
Current liabilities			
Trade and other payables		649	340
Total current liabilities		**649**	**340**
Total liabilities		**649**	**340**
Net assets		**37,412**	**39,613**
Equity			
Issued capital	**8**	56,591	56,591
Reserves	**9**	6,339	6,339
Accumulated losses		(26,613)	(24,412)
Parent entity interest		36,317	38,518
Non-controlling interest		1,095	1,095
Total equity		**37,412**	**39,613**

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 2012

	31-Dec-12 $'000s	31-Dec-11 $'000s
Cash flows from operating activities		
Payments to suppliers and employees	(1,496)	(1,087)
Interest paid	(8)	-
Net cash flows used in operating activities	**(1,504)**	**(1,087)**
Cash flows from investing activities		
Interest received	275	289
Acquisition of exploration and evaluation assets	(4,918)	-
Purchase of property, plant and equipment and intangible assets	(131)	(65)
Loans repaid from other entities	1,230	-
Deferred exploration and evaluation costs	(3,269)	(3,545)
Net cash flows used in investing activities	**(6,813)**	**(3,321)**
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	(8,317)	(4,408)
Net foreign exchange differences	52	487
Cash and cash equivalents at beginning of period	15,724	23,586
Cash and cash equivalents at end of period	**7,459**	**19,665**

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 2012

	Attributable to equity holders					
	Issued capital $'000s	**Share-based compensation reserve $'000s**	**Acquisition reserve $'000s**	**Accumulated losses $'000s**	**Non-Controlling Interest $'000s**	**Total $'000s**
Balance as at 1 July 2011	55,594	5,336	-	(17,408)	557	42,079
Total comprehensive loss for the period	-	-	-	(5,847)	-	(5,847)
Transactions with owners in their capacity as owners						
Share-based payments	-	484	-	-	-	484
Asset acquisition reserve	-	-	168	-	(168)	-
Balance as at 31 December 2011	55,594	5,820	168	(23,255)	389	36,716
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

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 2012

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 2012 was authorised for issue in accordance with a resolution of the directors on 15 March 2013.

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 condensed financial report for the half year ended 31 December 2012 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.

It is recommended that the half year financial report be read in conjunction with the annual report for the year ended 30 June 2012 and considered together with any public announcements made by Xanadu Mines Ltd during the half year ended 31 December 2012 in accordance with continuous disclosure obligations of the ASX listing rules.

(b) Significant Accounting Policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

No new standards or interpretations have been issued (either effective or not yet effective) which are considered to have a material impact on the financial statements or performance of the Company.

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 Notes 6 and 7 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 2012

4. REVENUE AND EXPENSES

	31-Dec-12 $'000s	31-Dec-11 $'000s
(a) Revenue		
Finance income	210	430
Other income	-	5
Total revenue	**210**	**435**
(b) Other income / (expense)		
Net foreign currency gains/ (losses)	52	487
Interest paid	(8)	-
Total other income / (expense)	**44**	**487**
(c) Administrative expenses		
Share based payments	-	484
Salaries and directors fees	728	1,115
Administration expense	1,126	750
Total administrative expenses	**1,854**	**2,349**
(d) Deferred exploration and evaluation expenses written off		
Deferred exploration written off – Galshar and Tugrug	533	4,376
Total deferred exploration and evaluation expenses written off	**533**	**4,376**

5. CASH AND CASH EQUIVALENTS

	31-Dec-12 $'000s	30-Jun-12 $'000s
Cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	7,459	15,724
	7,459	**15,724**

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

6. ASSETS CLASSIFIED AS HELD FOR SALE (CURRENT)

	31-Dec-12 $'000s	30-Jun-12 $'000s
Costs incurred in respect of mining leases classified as held for sale (net of costs expensed)	7,451	7,699
Reconciliation of movement in assets classified as held for sale in current period		
Balance at 1 July 2012	7,699	
Additions	285	
Expenditure written off during the year	(533)	
Balance at 31 December 2012	**7,451**	

During the second half of the 2012 financial year, Xanadu decided to seek offers of interest in the Khar Tarvaga and Galshar thermal coal projects. As a result these assets were transferred to assets classified as held for sale. The sale of these assets has been delayed by the issues referred to in the Chairman's Report. There was no gain or loss impact in the income statement in relation to assets held for sale.

The expenditure written off during the year relates to the capitalised exploration expenditure on three licences at Galshar and one at Tugrug that were deemed to have no value and were relinquished during the period.

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

	31-Dec-12 $'000s	30-Jun-12 $'000s
Costs incurred in respect of current mining leases (net of costs expensed)	21,617	13,233
Reconciliation of movement in deferred exploration and evaluation expenditure in current period		
Balance at 1 July 2012	13,233	
Additions	8,384	
Expenditure written off during the year	-	
	21,617	
Transferred to assets classified as held for sale	-	
Balance at 31 December 2012	**21,617**	

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

8. CONTRIBUTED EQUITY

	31-Dec-12 $'000s	30-Jun-12 $'000s
(a) Issued and paid up capital		
Ordinary shares fully paid (199,256,390 shares on issue)	56,591	56,591

(b) Options

At the balance date there were 24,240,000 options 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
	24,240,000		

9. RESERVES

	31-Dec-12 $'000s	30-Jun-12 $'000s
Share-based compensation reserve	6,171	6,171
Asset acquisition reserve	168	168
Total reserves	**6,339**	**6,339**

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

Balance at 1 July 2012	6,171
Expense arising from amortisation of equity settled share based payment transactions	-
Balance at 31 December 2012	6,171

10. EVENTS AFTER BALANCE SHEET DATE

Xanadu announced that George Lloyd has been appointed Chief Executive Officer commencing 25 February 2013. George is based in Hong Kong and has over 12 years of corporate finance and direct investment experience in the natural resources sector in emerging markets. Xanadu's founder, Brian Thornton, will continue as Non-Executive Director and will work closely with George to facilitate a smooth transition in the leadership of the company.

On 2 March 2013 the Mongolian Parliament passed the necessary regulations to enable the implementation of the Strategic Entity Foreign Investment Law (SEFIL). It now remains for the relevant ministers to sign the Regulations

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

into law. Once this is done the Company will proceed to complete its acquisition of the project known as Oyut Ulaan.

On 12 March 2013 the Company entered into an agreement to vary the terms of the joint venture known as Xanadu South Gobi Copper LLC to extend the time required for the spending commitments to earn up to 80% of the joint venture from 31 December 2012 to a date yet to be determined but not prior to 12 March 2014.

Other than the above, no events have occurred subsequent to balance date which would materially affect the operations or financial results of the Company.

11. COMMITMENTS AND CONTINGENCIES

Commitments in relation to exploration licences contracted at the reporting date but not recognised as liabilities within one year are $390,894 (2011: $293,300).

The company has a commitment to fund its 50% share of Ekhgoviin Chuluu LLC which is the joint venture vehicle for the Strategic Alliance with the Noble Group for US$1m; this is in relation to the expansion of the area of the exploration licence known as Nuurstei which is controlled by the joint venture. The timing of this payment will be determined by conclusion of the necessary judicial and regulatory processes in Mongolia. The timing of this is uncertain.

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

12. 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 $57,617.

(b) Office accommodation and 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 $31,450.

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 financial position as at 31 December 2012 and its performance, for the half year ended on that date of the consolidated entity; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(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

Denis Gately
Chairman

Dated : 15 March 2013

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Independent review report to 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 statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes, and the directors' declaration.

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

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 2012 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 2012 and of its performance for the six months 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
15 March 2013