



Xanadu Mines Ltd Annual Report 2013



Directors

Denis Gately

Non-Executive Chairman

George Lloyd

Managing Director

Brian Thornton

Non-Executive Director

Ganbayar Lkhagvasuren

Executive Director

Hannah Badenach

Non-Executive Director

Robert Westphal

Non-Executive Director

Mark Wheatley

Non-Executive Director

Darryl Clark

Non-Executive Director

Company Secretary

Mark Langan

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Solicitors

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50 Bridge Street
Sydney NSW 2000

Share Registry

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

Auditors

Ernst & Young
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Sydney NSW 2000

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ASX CODE (XAM)

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Chairman's Report

FOR THE YEAR ENDED 30 JUNE 2013

Dear Shareholder

The past year has presented Xanadu with a number of external and internal challenges. We have responded by taking steps to adapt to the business environment and ensure the Company is stronger and can continue to unlock the potential of its top-ranked exploration projects.

We have been adversely affected by a number of external events, particularly the current challenges faced by the global mining industry and political and regulatory uncertainty in Mongolia.

The past year was a very difficult one for investors in the minerals exploration industry, not just in Mongolia, but globally. Xanadu has had to meet not only the challenge of political and regulatory uncertainty in Mongolia, but also a global reduction in market appetite for exploration risk and in the available exploration capital.

Despite these challenges we have great confidence in the outlook for our host country and chosen commodities. The Government of Mongolia has promised reform of foreign investment and mining sector legislation. Mining and exploration will continue to play an important role in Mongolia's development. Copper supply fundamentals look to strongly favour the opportunities presented in Mongolia.

These adverse external events only bring into sharper focus the importance of effective capital and exploration management for a company such as ours.

We have completed a comprehensive review of our exploration portfolio and cost structure. The full year loss is 9.41 cents per share versus a loss of 3.73 cents per share last year. A large proportion of the loss is attributable to the impairment of assets. The Company's thermal coal assets in particular have been heavily impaired following a critical review of their development and commercial potential.

We have placed a strong emphasis on capital management to ensure our valuable funds are directed towards activities that have the greatest potential to create shareholder value in this business climate. This includes the reprioritisation of our exploration and business development program towards copper and gold and to projects that are more advanced.

The southeast of Mongolia is quickly being transformed into a globally significant copper province and the Company has assembled an enviable exploration portfolio over the last two years. We remain confident that our portfolio of metal assets provides our well-credentialed team in Mongolia with the best possible opportunity to make a valuable discovery.

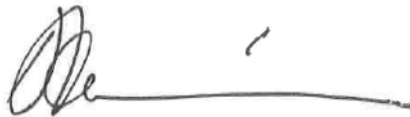
We have also restructured the board and senior management. Three new independent Directors joined the Board in November 2012 bringing valuable commercial, legal and geological experience with them. Effective from 25 February 2013, Mr George Lloyd joined the Company as CEO and was appointed Managing Director effective 26 August 2013. Management's objectives are to pursue low cost, high impact exploration with a disciplined approach to business development and capital management.

Your company is in a stronger position to advance its porphyry exploration projects and in particular continue to define the gold-rich porphyry copper mineralisation identified at Oyut Ulaan.

We are excited by the initial exploration results from our Oyut Ulaan project. This is a very appropriate target for a company at Xanadu's stage of development and has the potential to define a significant near-surface, high-grade resource. We are in the midst of a second phase of exploration at the time of writing and look forward to advancing this project in the year ahead.

In closing, I would like to reiterate our commitment to Mongolia. Exploration and mining is a complex, long-term endeavour that that can have a profoundly positive impact at a local and national level when managed responsibly. We embrace the challenges of responsible and sustainable minerals development in partnership with our community and government stakeholders.

Finally, I would like to thank our staff. They have shown great dedication and fortitude during these difficult business conditions.



Denis Gately
Non-Executive Chairman

30 September 2013

Directors' Report

The Directors submit their report for Xanadu Mines Ltd ("Xanadu" or "the Company") and its controlled entities for the year ended 30 June 2013 (together referred to as the "consolidated entity").

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. The Directors were in office for the entire period unless otherwise stated.

Denis Gately (Non-Executive Chairman)
(Appointed 9 November 2012)
BA, LLB(Syd), FAICD

Denis Gately is a commercial/corporate lawyer, with over 30 years experience in the resources sector. He was a partner in the international law firm Minter Ellison for 22 years, and established (and worked in) its Hong Kong office. He led the firm's resources and energy industry group – and was managing partner of its Brisbane office and a member of its board.

He was a director of Gloucester Coal Ltd and chaired the independent board committee which oversaw its recent merger with Yancoal Australia Ltd (ASX:YAL) and is currently the chair of listed explorer Alligator Energy Ltd (ASX:AGE).

George Lloyd (Chief Executive Officer Appointed 25 February 2013)
(Managing Director Appointed 26 August 2013)
B.E. (Hons), MBA

George has a background in engineering, corporate finance and direct investment primarily in the natural resources and related sectors. He has accumulated significant experience in Mongolia and been instrumental in funding and corporate transactions for coal, copper and mining services companies in Mongolia. His earlier roles include research and investments at a Singapore-based hedge fund, business development at Wesfarmers Limited and corporate finance with Grant Samuel & Associates. George has a B.E. (Honours) from the University of New South Wales, an M.B.A. from the Australian Graduate School of Management (UNSW) and he attended the NYU Stern School of Business International Management Program.

Brian Thornton (Non-Executive Director)
B.Ec, F.Fin

Brian is the former Executive Chairman of Xanadu Mines which he founded in 2005. For the past 25 years has acted as an adviser to the minerals sector in Australia, Indonesia, China and the Pacific Rim advising some of the largest ASX listed companies involved in the gold, base metals, coal and industrial mineral sectors. Prior to stepping down from his executive duties in November 2012, Brian had been responsible for fundraising, corporate development, investor relations and negotiations with government. He is a significant shareholder in Xanadu and an active investor in the Australian minerals sector.

Ganbayar Lkhagvasuren (Executive Director)
M.IBL

A Director since August 2006 he has an extensive network of high level contacts in government and business in Mongolia. He is responsible, as Executive Director of all Mongolian subsidiaries, in conjunction with the Country Manager and Chief Geologist for the day to day operations of the Mongolian companies.

Robert Westphal (Non-Executive Director)
B. Com, F.C.A, F.Fin, MAICD

Robert Westphal was appointed as a Non-Executive Director of Xanadu Mines Ltd on 2 September 2010. He is Chairman of the Audit Committee, a member of the Remuneration and Nomination Committee and a Director of Coalridge Limited. Robert is also a Director of Washington H. Soul Pattinson and Company Limited, Souls Private Equity Limited, Ampcontrol Pty Limited and a number of other private companies. Robert is a Chartered Accountant and a former partner of Ernst & Young retiring from the partnership on 31 March 2005. He has extensive experience in financial analysis, mergers and acquisition, company valuations, corporate governance and leadership.

Hannah Badenach (Non-Executive Director)
B. Laws (Hons), B. Arts

Ms Badenach is Director Mongolia at Noble Resources International Pte Ltd (Noble) and a lawyer having practiced for several years, including 2 years in Mongolia with Lynch & Mahoney. Hannah has extensive Mongolian, commercial and business development experience, having managed QGX LLC until the company was sold in 2008 and now developing and running Noble's business in Mongolia.

Mark Wheatley (Non-Executive Director)
(Appointed 9 November 2012)
BE (Chem Eng Hons 1), MBA

Mark is an experienced resources company director with a career spanning more than 30 years in mining and related industries. His independent non-executive board roles have included former Chair of Gold One International, Norton Goldfields and Goliath Gold as well as directorships of St Barbara Mines Limited and Uranium One Inc. His wide ranging corporate and technical resource sector skills have deepened the skill base of Xanadu as the company moves forward with its copper gold development strategy in Mongolia. Mark is the Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee.

Darryl Clark (Non-Executive Director)
(Appointed 9 November 2012)
B.Sc (Honours) Phd (Economic Geology) FAusIMM

Darryl is an exploration geologist whose career has taken him throughout Australia, Central Asia and South East Asia for over 20 years. His responsibilities over the last 10 years have involved him in a diverse range of technological, political and cultural environments with unique challenges. During previous corporate roles with both Vale and BHP Billiton, and in consulting roles including SRK, he has been responsible for business development strategies, designing multi-commodity exploration programs and the co-ordination of exploration teams to deliver discovery events. Currently, Dr Clark is the Vice President of Exploration for Cameco Corporation in Canada. Darryl is a member of both the Audit and Remuneration and Nomination Committees.

Rodney Williams (Non-Executive Director)
(Resigned 31 October 2012)
BSc (Hons), Dip GeoSc, F Fin, MAusIMM, MAIG

Ronald Heeks (Non-Executive Director)
(Resigned 31 October 2012)
BApp.Sc (Geology)

Company Secretary

Mark Langan (Appointed 5 September 2012)
CA, B Bus

Mr Langan is a Chartered Accountant with over 25 years experience in public practice and commerce. He has worked in listed companies in the Asia Pacific region in the property and services sectors. Mr Langan has a Bachelor of Business from the University of Technology majoring in accounting with a sub major in business law. He is a member of the Institute of Chartered Accountants of Australia.

Brendan Evans (Resigned 5 September 2012)
B. Com, ICAA, CSA

Corporate Structure

Xanadu is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in Note 16 of the financial statements.

Directors' Interests in the Shares and Options of the Company and Related Bodies Corporate

As at the date of this report, the interests of the Directors in the shares of the Company were:

Name	Special Responsibilities	Ordinary Shares	Options Over Ordinary Shares
D Gately	Non-Executive Chairman	75,000	–
G Lloyd	Managing Director	–	–
B Thornton	Non-Executive Director	20,737,369	6,400,000
Ganbayar L	Executive Director	14,389,565	3,000,000
H Badenach	Non-Executive Director	–	–
R Westphal	Non-Executive Director, Chairman of the Audit Committee and member of the Remuneration Committee	255,000	2,000,000
M Wheatley	Non-Executive Director, Chairman of the Remuneration Committee and member of the Audit Committee	200,000	–
D Clark	Non-Executive Director, member of the Audit and Remuneration Committees	90,000	–
Earnings Per Share		2013	2012
Basic earnings per share (cents)		(9.41)	(3.73)

Nature of Operations and Principal Activities

The principal activities of the entities within the consolidated entity during the year were on exploration and development of its various mineral exploration projects in Mongolia.

Review of Operations

The last financial year was one of substantial challenge and change for the Company. Most significantly, from a business development and exploration perspective, the Company restructured and exchanged contracts to purchase the Oyut Ulaan project.

There has also been substantial change among the directors and senior management. This has led to a re-evaluation of the Company's strategy and exploration focus and cost structure. The Company has recognised impairments and writedowns of \$17.0 million (2012: \$4.9 million) for a comprehensive loss of \$19.8 million (2012: \$7.0 million) reflecting a shift away from a multi-commodity strategy and a clear focus on advancing its porphyry copper projects.

The Company and Noble Group of Hong Kong continue to work closely together, including at the Ekhgoviin Chuluu coking coal joint venture, and are actively reviewing new business development opportunities to leverage our broader capabilities and create value for shareholders.

Oyut Ulaan Project (Xanadu 90%)

The Oyut Ulaan porphyry copper project is located 450 kilometres southeast of Ulaanbaatar, and approximately 60 kilometres west of the regional centre of Sainshand and the Trans Mongolian Railway. The district is located within the Central Asian fold belt, one of the largest orogenic belts in the world and extending for over 5,000 kilometres. Contained within this fold belt is the Kazakh-Mongol arc, which developed during in the Silurian-Middle Devonian and Late Devonian to Permian and hosts most of the known porphyry and intrusion-related mineralisation in the South Gobi. Porphyry mineralisation at Oyut Ulaan is associated with late-stage monzonite and quartz diorite porphyry dykes and stocks emplaced on the flanks of the Oyut Ulaan Intrusive Complex (OUIIC).

The Company first announced the Oyut Ulaan acquisition on 10 May 2012. A mining licence was granted for the project in September 2012. The initial implementation of the acquisition agreement was delayed by changes in Mongolia's foreign investment law. On 6 June 2013, the Company agreed to new acquisition terms that substantially de-risk the acquisition by materially reducing the upfront consideration in exchange for the issue of performance share options contingent on JORC resource targets. The Company is currently working through the Government of Mongolia approval process and will seek shareholder approval for the performance share options in due course.

In June 2013 the Company announced the results of its reconnaissance-drilling program at Oyut Ulaan. The drilling program consisted of 10 diamond drill holes totalling around 2,500 metres. The program focused on the Diorite prospect and targeted zones of sub cropping stockwork copper and gold mineralisation hosted in a series of potassic altered monzonite porphyries.

Five drill holes intersected significant zones of gold-rich porphyry copper mineralisation, being:

Hole ID	Depth from (m)	Depth to (m)	Interval (m)	Gold (g/t)	Silver (g/t)	Copper (%)
ODDH003	0.00	132.00	132.00	0.91	3.17	0.46
<i>Including</i>	<i>8.00</i>	<i>52.00</i>	<i>44.00</i>	<i>1.56</i>	<i>3.72</i>	<i>0.73</i>
ODDH005	0.00	170.50	170.50	0.60	1.15	0.37
<i>Including</i>	<i>11.35</i>	<i>112.00</i>	<i>100.65</i>	<i>0.82</i>	<i>1.75</i>	<i>0.48</i>
ODDH006	29.50	78.00	48.50	1.30	1.85	0.86
<i>Including</i>	<i>47.40</i>	<i>73.10</i>	<i>25.70</i>	<i>2.20</i>	<i>3.16</i>	<i>1.35</i>
ODDH007	45.50	153.70	108.20	0.66	1.86	0.37
<i>Including</i>	<i>90.30</i>	<i>126.30</i>	<i>36.00</i>	<i>0.88</i>	<i>2.07</i>	<i>0.49</i>
ODDH012	60.40	117.40	57.00	0.06	1.37	0.43

Further details of the drilling program results can be found in the 6 June 2013 release to the ASX.

Sharchuluut Project (Xanadu 100%)

The Sharchuluut copper porphyry project is located within the Bulgan Province of Northern Mongolia, approximately 230 kilometres northwest of Ulaanbaatar. The project consists of a cluster of porphyry related prospects occurring within a 15-kilometre-long, northwest oriented corridor characterised by the erosional remnants of an advanced argillic lithocap. It is at the north-western extremity of the Erdenet Trend, which hosts Mongolia's largest operating copper mine, the large Erdenet copper molybdenum deposit.

The first phase of exploration drilling was completed at the Sharchuluut Uul porphyry copper project in July 2012. Five drill holes were completed for around 4,000 metres with all drill holes reaching their target depths. No economic intercepts were encountered. Interpretation of the results suggests the alteration system (lithocap) is impressive in size, possibly extending east-west over a 2 kilometre strike length and up to 400 m thick in multiple advanced argillic zones which may overlie a porphyry intrusion.

In March 2013 the Company relinquished the northern portion of the Sharchuluut copper porphyry project. The relinquished area is equivalent to around half of the original license area and was considered not prospective due to the presence of basement sedimentary rocks and to reduce exposure to a Water Buffer Zone. The Mineral Resource Authority of Mongolia has approved the relinquishment.

The Company retains 100% equity of this licence, it has the flexibility to joint venture its interests in order to share risk while still retaining significant upside from any discovery.

Elgen Zost Project (Xanadu 80%)

The Elgen-Zost Gold Project is located within the Dornogovi Province of southern Mongolia, approximately 680 kilometres south-southeast of Ulaanbaatar. The project consists of three low sulphidation epithermal prospects, Elgen Uul, Suug and Zost, Uul. These prospects occur within a 35-kilometre-long, east-west oriented corridor of alteration and mineralisation which is associated with Early Mesozoic extensional rifting and bimodal volcanism.

The Company completed a drill program of around 7,000 metres in late 2012. Several discreet hypothermal breccia zones were encountered at Zos Uul but were found to be of relatively low gold grades (up to 1.47 g/t Au). Quartz textures, anomalous gold-arsenic-stibnite-mercury mineralisation and quartz-adularia veining indicate potential for a gold discovery. However, considerably more detailed exploration and structural interpretation is required to understand the potential for economic mineralisation.

Ekhgoviin Chuluu Joint Venture (Xanadu 50%)

The Ekhgoviin Chuluu joint venture with Noble Group ("EC") has acquired interests in four coking coal exploration projects (Nuurstei, Khavtsgait, Javkhlant and Khus). The Nuurstei project is regarded as having the greatest potential with coal quality analysis indicating low moisture, moderate ash, a high CSN (swell) and low volatility. This confirms that Nuurstei is a hard coking coal. EC disposed of its interest in Javkhlant subsequent to the financial year-end.

Board and Management Restructure

In September 2012 the Company appointed Mr Mark Langan as Chief Financial Officer and Company Secretary. The board was strengthened in November 2012 with the appointment of a new Independent Non-Executive Chairman and two new Independent Non-Executive Directors. Mr Denis Gately was appointed Chairman and has over 30 years of experience as a commercial and corporate lawyer in the resources sector primarily with Minter Ellison. New Independent Non-Executive Director, Mr Mark Wheately, is 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). New Independent Non-Executive Director, Dr Darryl Clark, is 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.

This was followed in February 2013 with the appointment of Mr George Lloyd as the Company's new CEO. Mr Lloyd is an engineer with substantial natural resources advisory and investment experience and was confirmed as Managing Director in August 2013.

The restructured Board and management team bring valuable commercial, legal and geological experience to the Company. The Board and senior management are committed to the comprehensive operations review discussed above.

Financial Performance

The Company realised a loss of \$19.8 million for the year ending 30 June 2013 (2012: \$7.0 million). The recognition of impairments and writedowns of \$17.0 million (2012: \$4.9 million) contributed a large proportion of the loss. This was the result of a review of the Company's operations that commenced in March 2013 and in particular a re-evaluation of the prospects of the Company's coal projects. This review will be an on-going process and its focus has shifted to the reduction in operating costs and the allocation of future exploration expenditure.

The Company recognised capitalised acquisition and exploration costs of \$5.6 million for the Oyut Ulaan project and invested a further \$3.4 million (2012: \$5.3 million) in other exploration activities, primarily at the Sharchuluut porphyry copper and Elgen Zost gold projects. The Company also decided to reclassify its thermal coal assets from assets classified as held for sale to deferred exploration expenditure prior to their impairment. The Company recognised total assets of \$20.0 million versus \$40.0 million in 2012 reflecting the impairments and investments in our metals projects.

The Company had other operating expenses of \$3.1 million (2012: \$3.6m). While this represents a net reduction from the prior year it is noted that most of the reduction was in share based payments and a result of the Company's significant share price decline over the period. Administration expenses increased to \$1.7 million (2012: \$1.4 million) and this increase can in large part be explained by additional short-term advisor costs, including legal and recruiting, that were incurred as part of the management restructure and operations review.

Political and Regulatory Risks

The Company's operations are subject to various levels of government controls and regulations in the countries where it operates, including Australia and Mongolia. These laws and regulations include matters relating to land tenure, drilling, production practices, environmental protection, royalties, various taxes and levies including income tax, foreign trade and investment and government approval of license transfers and other regulatory approvals that are subject to change from time to time. Current legislation is generally a matter of public record and the Company cannot predict what additional legislation or amendments may be proposed that will affect the Company's operations or when any such proposals, if enacted, might become effective. There is no certainty regarding obtaining government approvals. Changes in government policy or laws and regulations could adversely affect the Company's results of operations and financial condition. The Company will continue to actively monitor any risk relating to Mongolia's regulatory and political environment.

Exchange Rate and Commodity Price Risks

All of the Company's current operations are located in Mongolia. The Company's operating and capital costs are generally denominated in U.S. dollars and/or Mongolian Tugriks. A substantial portion of the Company's remuneration costs is denominated in Australian dollars. Fluctuations in exchange rates may have a negative impact on the Company's financial results and could have a material adverse impact on the Company's operations. Commodity prices are unstable and are subject to fluctuation. At this stage the Company's projects do not generate any operating revenues. However, commodity prices, and in particular the copper price, may impact the feasibility and valuation of the Company's projects.

Capital Management

The Company's cash position as of the 30 June 2013 was \$5.6 million (2012: \$15.7 million). The Company had negative cash flow for the financial year ended June 2013 and may need to seek additional capital in order to continue with its exploration program. There can be no assurance that additional capital will be available or available on acceptable terms. Capital management is a priority of management and the Company retains the flexibility to further reduce its cost base while preserving its top-ranked exploration projects if required.

Information on the Company's exploration results is sourced from information compiled by Dr. Andrew Stewart. Dr. Stewart is an employee of Xanadu Mines Ltd and is a Member of the Australasian Institute of Geoscientists and has sufficient experience in the areas being reported on to qualify as the "Competent Person" as defined in the 2004 Edition of the "Australasian Code for the Reporting of Mineral Resources and Reserves". Dr. Stewart consents to the information in the form and context in which it appears.

Review of Financial Condition

The consolidated entity recorded an operating loss after income tax and non-controlling interests of \$19,449,391 (2012 Loss: \$7,004,066). Income tax expense for the year is \$0 (2012: \$0).

Capital Structure

As at the date of signing this report, the Company had 199,256,390 fully paid ordinary shares and 27,540,000 options and performance share rights over ordinary shares on issue. Details of the terms of the options and performance share rights are outlined in Note 14 of the financial statements.

Dividends

No dividend was paid or declared during the year ended 30 June 2013.

Cash From Operations

The net cash outflow from operations of \$2,711,000 was marginally higher than the cash outflow in the previous year of \$2,659,000. The cash outflow was due to payments to suppliers and employees.

The net cash outflow from operations was funded by carried forward cash reserves of \$15,724,000. The cash balance at year end was \$5,642,000.

Significant Changes in the State of Affairs

There are no significant changes to the state of affairs of the Company.

Significant Events After the Balance Date

On 25 August 2013 George Lloyd completed his probationary period and was appointed to the role of Managing Director on 26 August 2013. Other than the above, there are no other significant events that have occurred after the balance sheet date.

Likely Developments and Expected Results

The Directors foresee that the 2013/2014 financial year will focus on exploration at the Company's copper projects in Mongolia and reviewing new business development opportunities to maximise shareholder value.

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.

Performance Share Rights and Options Issued Over/In Respect of Ordinary Shares

As at the date of this report, there were 27,540,000 unissued performance share rights and options.

Date Options and Performance Shares Rights Granted	Expiry Date	Exercise Price of Options and Performance Share Rights	Number
27 May 07	31 Dec 14	\$0.50	14,000,000 ¹
19 Dec 07	19 Dec 14	\$0.50	5,240,000 ¹
1 Jul 11	30 Jun 16	\$0.60–\$1.80	3,000,000 ¹
11 Nov 11	31 Dec 14	\$0.70–\$1.00	2,000,000 ¹
22 May 13	23 May 16	Nil	3,300,000 ²

1 Options.

2 Performance Share Rights vesting according to the vesting hurdles set out in the Remuneration Report.

Indemnification and Insurance of Directors and Officers

The Company has entered into Director and Officer Protection Deeds (“D&O Deed”) with each Director and the Company Secretary (“Officers”). Under the D&O Deed, the Company indemnifies the Officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the Officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the D&O Deed.

Also pursuant to the D&O Deed, the Company must insure the Officers against liability and provide access to all board papers relevant to defending any claim brought against the Officers in their capacity as officers of the Company. The Company has paid insurance premiums of \$36,497 (2012: \$31,606) in respect of liability for any current and future Directors, Company Secretary, executives and employees of the Company. This amount is payable in total and no specific amount is included in the Directors’ remuneration.

Non-Audit Services

Other services in relation to tax advice were provided by Ernst & Young during the financial year. The fees were \$18,740 (2012 – \$26,878) for those services.

The Directors are satisfied that:

- (a) the non-audit services provided during the financial year by Ernst & Young as the external auditor were compatible with the general standard of independence for auditors imposed by the Act; and
- (b) any non-audit services provided during the financial year by Ernst & Young as the external auditor did not compromise the auditor independence requirements of the Act for the following reasons:
 - (i) all non-audit services are reviewed and approved by the Chief Executive Officer prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
 - (ii) the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Indemnification of Auditor

To the extent permitted by law, the company has agreed to indemnify the auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit. No payment has been made to indemnify the auditors during the financial year.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for key management personnel (KMP) of the Company, in connection with the management of the affairs of the entity and its subsidiaries, during the year to 30 June 2013.

KMP have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including Directors of the Company and other executives. KMP comprise the Directors of the Company and executives of the Company and the consolidated entity including the most highly remunerated executives.

Remuneration Policy

The Company's remuneration policies are reflected in the Charter of the Remuneration Committee. It is the Company's objective to provide maximum shareholder benefit from the retention of higher quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions.

The Company's remuneration policy is to establish competitive remuneration (including performance incentives) consistent with long term development and success, to ensure remuneration is fair and reasonable (taking into account all relevant factors, and within appropriate controls or limits), that performance and remuneration are appropriately linked, that all remuneration packages are reviewed annually or on an ongoing basis in accordance with management's remuneration packages, and that retirement benefits or termination payments (other than notice periods) will not be provided or agreed other than in exceptional circumstances.

Currently, the remuneration of the Company's KMP including any component of the remuneration that consists of securities in the Company is not formally linked to the performance of the Company. The rationale for this approach is that the Company is in development phase, and it is currently not appropriate to link remuneration to factors such as profitability. It is anticipated that this will change once the Company transitions into its operational phase.

Remuneration Committee

The Remuneration Committee of the Xanadu Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and executives. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality board and executive team. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Non-Executive Director Remuneration

The aggregate cash remuneration 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.

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 to Non-Executive Directors of comparable companies when undertaking the annual review as well as additional time commitment of Directors who serve on one or more sub committees and assistance to the Company with new investment opportunities.

Non-Executive Directors are encouraged by the Board to hold shares purchased on market in accordance with the Company's 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. The remuneration of Non-Executive Directors for the year ended 30 June 2013 is detailed under the remuneration section of this report.

Executive Remuneration

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- > reward executives for company and individual performance;
- > align the interests of executives with those of shareholders;
- > link reward with the strategic goals and performance of the Company; and
- > ensure total remuneration is competitive by market standards.

Executive remuneration comprises:

- > base pay and benefits;
- > short term incentives; and
- > long term incentives through equity based compensation.

Fixed Remuneration

Base pay and benefits

Base pay is structured as a total employment cost package that may be delivered as a combination of cash and salary sacrifice superannuation at the executive's discretion.

Executives are offered a competitive base pay. Reference is made to industry benchmarks to ensure that the base pay is set to reflect the market for a comparable role. Base pay is reviewed annually, or upon promotion, to ensure the executive's pay is competitive with comparable positions of responsibility. There are no guaranteed base pay increases included in any executive contracts.

Variable Remuneration – Short Term and Long Term Incentives

During the year, the Board revised executive service contracts to recognise the potential for the award of short term incentives linked to specific performance criteria to be developed. In addition, performance share rights with share price performance hurdles were introduced to replace the issue of options. The incentives issued during the period are set out below.

Name	2013	Prior years
Mr Denis Gately Non-Executive Chairman (Appointed 9 November 2012)	Nil	n/a
Mr George Lloyd Chief Executive Officer, (Appointed 25 February 2013) and Managing Director (Appointed 26 August 2013)	Nil Subsequent to confirmation of his appointment as CEO and Managing Director at the completion of his probationary period, the Board proposes that subject to shareholder approval at the next annual general meeting, Mr Lloyd be invited to participate in the company's short and long term incentive plans. The details of these plans will be set out in the Notice of Meeting provided to shareholders.	n/a
Mr Brian Thornton Non-Executive Director	Nil	Granted 6,400,000 options that are subject to the following conditions: > 6,000,000 unlisted options exercisable at \$0.50 on or before 31 December 2014; and > 400,000 unlisted options exercisable at \$0.50 on or before 19 December 2014.
Mr Ganbayar Lkhagvasuren Executive Director	Nil The Board proposes that subject to shareholder approval at the next annual general meeting, Mr Lkhagvasuren be invited to participate in the company's short term and long term incentive plans. The details of these plans will be set out in the Notice of Meeting provided to shareholders.	Granted 3,000,000 options that are subject to the following conditions: > 2,000,000 unlisted options exercisable at \$0.50 on or before 31 December 2014; and > 1,000,000 unlisted options exercisable at \$0.50 on or before 19 December 2014.
Mr Robert Westphal Non-Executive Director	Nil	Granted 2,000,000 options that are subject to the following conditions: > 1,000,000 unlisted options exercisable at \$0.70 on or before 31 December 2014; and > 1,000,000 unlisted options exercisable at \$1.00 on or before 31 December 2014.
Ms Hannah Badenach Non-Executive Director	Nil	Nil
Mr Mark Wheatley Non-Executive Director (Appointed 9 November 2012)	Nil	n/a
Dr Darryl Clark Non-Executive Director (Appointed 9 November 2012)	Nil	n/a
Dr Andrew Stewart Chief Geologist and Country Manager	Granted 1,800,000 performance share rights on 22 May 2013 that are subject to the following conditions: > 600,000 unlisted performance share rights to be granted after 23 May 2014 if a price hurdle of \$0.1105 is met; > 600,000 unlisted performance share rights to be granted after 23 May 2015 if a price hurdle of \$0.1437 is met; and > 600,000 unlisted performance share rights to be granted after 23 May 2016 if a price hurdle of \$0.1870 is met;	Granted 3,000,000 options on 1 July 2011 that are subject to the following conditions: > 1,000,000 unlisted options exercisable at \$0.60 on or before 30 June 2016; > 1,000,000 unlisted options exercisable at \$1.20 on or before 30 June 2016; > 1,000,000 unlisted options exercisable at \$1.80 on or before 30 June 2016.

Variable Remuneration – Short Term and Long Term Incentives (continued)

Name	2013	Prior years
Mr Mark Langan Chief Financial Officer and Company Secretary (Appointed 5 September 2012)	Granted 1,500,000 performance share rights on 22 May 2013 that are subject to the following conditions: > 500,000 unlisted performance share rights to be granted after 23 May 2014 if a price hurdle of \$0.1105 is met; > 500,000 unlisted performance share rights to be granted after 23 May 2015 if a price hurdle of \$0.1437 is met; and > 500,000 unlisted performance share rights to be granted after 23 May 2016 if a price hurdle of \$0.1870 is met.	n/a

The combination of exercise price, vesting hurdles and long dated rights and options were designed as an incentive to perform for the longer term. Refer to note 12 for further information on the vesting hurdles. Other than the above, the Company has not issued any other long term incentives to executives. During the period, no performance share rights or options were exercised by KMP of the Company.

Employment Contract – Mr George Lloyd

The Managing Director and Chief Executive Officer, Mr George Lloyd, is employed under contract. Mr Lloyd's remuneration is an annual salary package of \$265,000. Subsequent to confirmation of his appointment as CEO and Managing Director at the completion of his probationary period, the Board proposes that subject to shareholder approval at the next annual general meeting, Mr Lloyd be invited to participate in the company's short and long-term incentive plans. The details of these plans will be set out in the Notice of Meeting provided to shareholders.

> In the event of termination of Mr Lloyd's employment other than in the case of misconduct, the company must give a minimum of 6 months notice prior to termination prior to the second anniversary of employment and the notice period will be 9 months thereafter. The Company may, at its discretion, provide the Executive with payment of 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 the Executive any right to receive such a payment.

Employment Contract – Mr Ganbayar Lkhagvasuren

The Executive Director in Mongolia, Mr Ganbayar Lkhagvasuren, is employed under contract. Mr Lkhagvasuren's remuneration is an annual salary package of US\$145,000 including compulsory taxes and social insurance applicable as an employee in Mongolia. In addition, Mr Lkhagvasuren holds 3,000,000 options. The Board proposes that subject to shareholder approval at the next annual general meeting, Mr Lkhagvasuren be invited to participate in the company's short and long term incentive plans. The terms of the present contract are:

> In the event of Mr Lkhagvasuren's employment being terminated other than in the case of misconduct, Mr Lkhagvasuren must give a minimum of 3 months notice prior to termination, and the Company must give 3 months notice prior to termination. The Company may, at its discretion, provide Mr Lkhagvasuren with payment of 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.

Employment Contract – Dr Andrew Stewart

The Chief Geologist and Country Manager, Dr Andrew Stewart, is employed under contract. Dr Stewart's remuneration is an annual salary package of US\$260,000 plus the compulsory taxes and social insurance applicable as an employee in Mongolia. Dr Stewart also received a rental allowance of US\$30,000 per annum. In addition, Dr Stewart holds 4,800,000 options and performance share rights. The terms of the present contract are:

> 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 9 months notice prior to termination. The Company may, at its discretion, provide Dr Stewart with payment of 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 the Dr Stewart any right to receive such a payment.

Employment Contract – Mr Mark Langan

The Chief Financial Officer and Company Secretary, Mr Mark Langan, is employed under contract. Mr Langan's remuneration is an annual salary package of \$170,000 plus superannuation. In addition, Mr Langan holds 1,500,000 performance share rights. The terms of the present contract are:

> In the event of termination of Mr Langan's employment other than in the case of misconduct, Mr Langan must give a minimum of 3 months notice prior to termination, and the Company must give 3 months notice prior to termination. Where the employment is terminated by the Company due to a change in control Mr Langan is entitled to a severance payment of 9 months base salary. The Company may, at its discretion, provide Mr Langan with payment of 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 the Executive any right to receive such a payment.

Details of Remuneration

Details of the remuneration of each Director of Xanadu and each of the executives of the Company and the consolidated entity who received the highest remuneration for the year ended 30 June 2013 are set out in the following tables.

Key Management Personnel of Xanadu Mines Ltd

	Primary Salary and Fees \$	Non Monetary Benefits \$	Post Employment Superannuation \$	Termination Benefits \$	Equity Performance Share Rights \$	Performance Share Rights as % of total	Total \$
30 June 2013							
D Gately ² Non-Executive Chairman Appointed 9 November 2012	56,575	–	5,092	–	–	–	61,667
B Thornton ^{1,2} Non-Executive Director	245,648	–	22,108	–	–	–	267,756
R Williams Non-Executive Director Resigned 31 October 2012	21,000	–	1,890	–	–	–	22,890
Ganbayar L Executive Director – Mongolia	108,764	–	15,756	–	–	–	124,520
R Heeks Non-Executive Director Resigned 31 October 2012	63,106	–	–	–	–	–	63,106
H Badenach Non-Executive Director	–	–	–	–	–	–	–
R Westphal ² Non-Executive Director	72,636	–	6,537	–	–	–	79,173
M Wheatley ² Non-Executive Director Appointed 9 November 2012	41,177	–	3,706	–	–	–	44,883
D Clark ² Non-Executive Director Appointed 9 November 2012	40,719	–	3,665	–	–	–	44,384
G Lloyd Chief Executive Officer Appointed 25 February 2013 and Managing Director Appointed 26 August 2013	93,429	–	–	–	–	–	93,429
B Evans Chief Financial Officer and Company Secretary Resigned 5 September 2012	36,509	–	3,286	–	–	–	39,795
M Langan Chief Financial Officer and Company Secretary Appointed 5 September 2012	144,936	–	13,044	–	2,051	1.3%	160,031
A Stewart Chief Geologist and Country Manager	315,945	32,092	32,544	–	2,461	0.6%	383,042
Total	1,240,444	32,092	107,628	–	4,512	1.9%	1,384,676

1 B Thornton was an executive until 31 March 2013.

2 Non-Executive Director and Board Committee fees were reduced on 1 April 2013.

Directors' Report

CONTINUED

Key Management Personnel of Xanadu Mines Ltd (continued)

	Primary Salary and Fees \$	Non Monetary Benefits \$	Post Employment Superannuation \$	Termination Benefits \$	Equity Options \$	Options as % of total	Total \$
30 June 2012							
B Thornton Executive Chairman	309,575	-	27,862	-	-	-	337,437
R Perry Director, CFO and Company Secretary	23,392	-	7,714	60,000	-	-	91,106
R Williams Technical Director	131,000	-	11,790	-	-	-	142,790
Ganbayar L Executive Director – Mongolia	133,736	-	11,249	-	-	-	144,985
R Heeks Non-Executive Director	68,912	-	6,815	-	-	-	75,727
H Badenach Non-Executive Director	-	-	-	-	-	-	-
R Westphal Non-Executive Director	92,250	-	8,303	-	255,251	72%	355,804
B Evans CFO and Company Secretary	153,000	-	13,770	-	122,198	42%	288,968
A Stewart Chief Geologist and Country Manager	206,068	29,478	24,084	-	457,248	64%	716,878
Total	1,117,933	29,478	111,587	60,000	834,697	39%	2,153,695

Share Based Compensation

As at the date of this report, current KMP of the Company had been granted 17,700,000 incentive options and performance share rights. Of these 11,400,000 have a strike price of greater than \$0.50 and will expire in December 2014.

Rewards derived from at risk remuneration

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:

	2013	2012
Profit/(Loss) attributable to the group (000's)	(18,744)	(7,004)
Share price at year end (cents)	3.8	18.5
Basic EPS (cents per share)	(9.41)	(3.73)
Diluted EPS (cents per share)	(9.41)	(3.73)

End of Remuneration Report (Audited)

Directors' Meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows.

	Directors' Meetings held whilst a Director	Directors' Meetings	Audit	Remuneration
Number of Meetings Held		12	4	2
D Gately – Appointed 9 November 2012	8	8	–	–
B Thornton	12	12	–	–
R Williams – Resigned 31 October 2012	2	2	–	–
R Heeks – Resigned 31 October 2012	2	1	1	–
Ganbayar L	12	9	–	–
R Westphal	12	11	4	2
H Badenach	12	12	–	–
M Wheatley – Appointed 9 November 2012	8	8	3	2
D Clark – Appointed 9 November 2012	8	7	3	2

Committee Membership

As at the date of this report, the Company had an Audit Committee and a Remuneration and Nomination Committee.

Members of the Committees during the year were:

Audit	Remuneration and Nomination
R Westphal (Chairperson)	M Wheatley (Chairperson) (Appointed 9 November 2012)
M Wheatley (Appointed 9 November 2012)	R Westphal
D Clark (Appointed 9 November 2012)	D Clark (Appointed 9 November 2012)
R Heeks (Resigned 31 October 2012)	R Heeks (Resigned 31 October 2012)

Corporate Governance

The Directors recognise the importance of the highest standards of corporate governance and accountability, and support and adhere to the policies and practices set out in the Corporate Governance Statement in this report.

Auditor Independence and Non Audit Services

Section 370C of the Corporation Act 2001 requires our auditors, Ernst & Young, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is disclosed on page 20 of this report and forms part of this Directors' Report for the year ended 30 June 2013.

Non Audit Services

During the year Ernst & Young, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:


- > all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- > the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, Ernst & Young, and their related practices for non-audit services provided during the year are set out in Note 19.

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars where indicated as such.

Signed in accordance with a resolution of the Directors.



Denis Gately
Non-Executive Chairman

30 September 2013

1. Introduction

As an ASX listed company, Xanadu is required to report on the extent to which the Company has followed the governance recommendations set out by the ASX Corporate Governance Council (the Recommendations) during the reporting period. Set out below is a summary of the extent to which the Company has adopted the Recommendations and where it has not, the reasons for departures/ variance from the Recommendations.

1.1. Disclosure of Corporate Governance Practices Summary Statement

	ASX P and R ¹	If not, why not ²		ASX P and R ¹	If not, why not ²
Recommendation 1.1	✓		Recommendation 4.2	✓	
Recommendation 1.2	✓		Recommendation 4.3	✓	
Recommendation 1.3 ³	n/a	n/a	Recommendation 4.4 ³	n/a	n/a
Recommendation 2.1	✓		Recommendation 5.1	✓	
Recommendation 2.2	✓		Recommendation 5.2 ³	n/a	n/a
Recommendation 2.3	✓		Recommendation 6.1	✓	
Recommendation 2.4	✓		Recommendation 6.2 ³	n/a	n/a
Recommendation 2.5	✓		Recommendation 7.1	✓	
Recommendation 2.6 ³	n/a	n/a	Recommendation 7.2	✓	
Recommendation 3.1	✓		Recommendation 7.3	✓	
Recommendation 3.2		✓	Recommendation 7.4 ³	n/a	n/a
Recommendation 3.3	✓		Recommendation 8.1	✓	
Recommendation 3.4	✓		Recommendation 8.2	✓	
Recommendation 3.5 ³	n/a	n/a	Recommendation 8.3	✓	
Recommendation 4.1	✓		Recommendation 8.4 ³	n/a	n/a

1 Indicates where the Company has followed the Recommendations.

2 Indicates where the Company has provided "if not, why not" disclosure.

3 Indicates an information based Recommendation. Information based Recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

1.2. Website Disclosures

Further information about the Company's charters, policies and procedures may be found at the Company's website at www.xanadumines.com, under the section marked Corporate Governance. A list of those disclosed charters, policies and procedures which are referred to in this Corporate Governance Statement, together with the Recommendations to which they relate, are set out below.

Charters	Recommendation(s)
Board	1.3
Audit Committee	4.4
Remuneration and Nomination Committee	8.3
Policies and Procedures	
Remuneration Policy	1.2, 2.5
Code of Conduct	3.1
Communications and Continuous Disclosure Policy	5.1, 5.2, 6.1, 6.2
Risk Oversight and Management Policy	7.1, 7.4

2. Essential Principles of Good Corporate Governance

2.1. Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Board and senior management of the Company are committed to acting responsibly, ethically and with high standards of integrity as the Company strives to create shareholder value. The Board accepts responsibility for the overall corporate governance of the Company and has consequently developed and adopted corporate governance practices and policies that have been implemented throughout management.

The Company has established the functions reserved to the Board and has set out those functions in its Board Charter. The Board's primary role is the optimisation of Company performance and protection and enhancement of shareholder value. Its functions and responsibilities includes setting strategic and policy direction, monitoring performance against strategy, identifying principal risks and opportunities and ensuring risk management systems are established and reviewed, approving and monitoring financial reports, capital management, compliance, significant business transactions and investments, appointing senior management and monitoring performance, remuneration, development and succession, adopting procedures to ensure the business of the Company is consistent with Company values, continuous disclosure compliance, ensuring effective shareholder communication, overseeing the Company's commitment to sustainable development and the environment, ensuring the Board remains appropriately skilled, reviewing and approving corporate governance systems and enhancing and protecting the Company's reputation.

The Company has established the functions delegated to senior executives and has set out these functions in its Board Charter. The Board has delegated the authority and responsibility to manage and administer the Company's general operations to its Managing Director, and its financial operations to its Chief Financial Officer. The Company has in place formal letters of engagement for its senior management, setting out in further detail the responsibilities specifically delegated to them.

Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

A copy of the "Policy for the Evaluation of the Board, Committees and Senior Executives" appears on the Company's website. It includes detail of the processes for performance evaluation of Key Executives, Directors and the Board is available on the Company's website.

The Policy provides that the performance of senior executives and Directors will be regularly reviewed against appropriate measures and sets out the mechanisms for reviewing and evaluating the performance of senior executives and Directors.

Recommendation 1.3:

Companies should provide the information indicated in the "Guide to reporting on Principle 1."

The Remuneration Committee conducted an evaluation of senior executives in March 2013. The performance evaluation was undertaken in accordance with the process disclosed above.

2.2. Principle 2: Structure the Board to add value

Recommendation 2.1:

A majority of the Board should be independent Directors.

At the commencement of the Reporting Period, the Company did not have a majority of independent Directors. On 9 November 2012, Mr Denis Gately, Mr Mark Wheatley and Dr Darryl Clark were appointed as Directors, all of whom satisfy the criteria of independent, together with Mr Robert Westphal. The non-independent directors of the Board are Mr Brian Thornton, Ms Hannah Badenach and Mr Ganbayar Lkhagvasuren. Accordingly, the Board has had a majority of independent Directors from 9 November 2012.

Recommendation 2.2:

The Chair should be an independent Director.

At the beginning of the Reporting Period the Chair of the Board was Mr Brian Thornton. Mr Brian Thornton was not considered independent due to his role as an Executive and as a substantial shareholder of the Company. Following the appointment of Mr Denis Gately as independent Director and Chairman on 9 November 2012 the Chair is now an Independent Director.

Recommendation 2.3:

The roles of the Chair and Managing Director should not be exercised by the same individual.

At the beginning of the Reporting Period the Chairperson of the Board was Mr Brian Thornton. Mr Brian Thornton was also the Company's Chief Executive Officer. Mr Brian Thornton was replaced as Chair on 9 November 2012. Mr Brian Thornton continued as Acting Chief Executive Officer until the appointment of Mr George Lloyd on 25 February 2013. Mr Brian Thornton remains a Non-Executive Director. Accordingly from 9 November 2012 the roles of the Chair and Managing Director have not been exercised by the same individual.

Recommendation 2.4:

The Board should establish a Nomination Committee.

The Board has established a Nomination and Remuneration Committee:

The Company's "Nomination and Remuneration Charter" is available on the Company's website. This document sets out the roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non committee members to attend meetings of the Nomination and Remuneration Committee.

Recommendation 2.5:

Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

A summary of the processes for performance evaluation of Key Executives, Directors and the Board is available on the Company's website. This information is contained in the "Policy for the Evaluation of the Board, Committees and Senior Executives" and the "Nomination and Remuneration Charter".

The Audit Committee and the Nomination and Remuneration Committee each conducts a self-assessment annually in accordance with the respective Charters for those Committees. These Charters are available on the Company's website.

Recommendation 2.6:

Companies should provide the information indicated in the "Guide to reporting on Principle 2."

Skills, Experience, Expertise and Term of Office of each Director

The composition of the Board has been determined on the basis of providing the Company with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. The names and further information regarding the skills, experience, qualifications, relevant expertise and term of office of the Directors are set out in the Directors' Report.

Statement concerning availability of Independent Professional Advice

The Company's Non-Executive Directors have the right, at the Company's cost, to seek independent professional advice in carrying out of their duties as Directors.

Identification of Independent Directors

The independent Directors of the Company during the Reporting Period were:-

- > Mr Ron Heeks (Resigned 31 October 2012)
- > Mr Robert Westphal
- > Mr Denis Gately (Appointed 9 November 2012)
- > Mr Mark Wheatley (Appointed 9 November 2012)
- > Dr Darryl Clark (Appointed 9 November 2012)

These Directors are independent as they are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles and Recommendations and the Company's materiality thresholds. The materiality thresholds are set out below.

Company's Materiality Thresholds

The Company applies the concept of materiality as outlined by the Australian Accounting Standards Board.

Nomination Matters

The Company's Corporate Governance plan contains a "Nomination and Remuneration Committee Charter" which is available on the Company's website. This sets out the roles and responsibilities of the Nomination and Remuneration Committee.

Selection and (Re)-Appointment of Directors

In determining candidates for the Board, the Nomination Committee follows a prescribed procedure whereby it considers the balance of independent Directors on the Board as well as the skills and qualifications of potential candidates that will best enhance the Board's effectiveness.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Under the Company's constitution, a director must retire from office at the end of the third annual general meeting following their appointment, or 3 years, whichever is the longer.

2.3. Principle 3: Promote ethical and responsible decision-making**Recommendation 3.1:**

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company's Corporate Governance Plan contains a "Code of Conduct" which is available on the Company's website. This discloses the practices necessary to maintain confidence in the integrity of the Company and its subsidiaries, the practices necessary for the Company to fulfil its legal obligations, the responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour; and clarifies the standards of ethical behaviour required of the Board, senior executives and all Employees and encourage the observance of those standards.

The Board monitors implementation of the Code of Conduct. Breaches are reported by employees or contractors to a supervisor and by management or Directors to the Board or the Chair.

Recommendation 3.2:

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

Notification of Departure:

The Company does not have a formal policy concerning diversity.

Given the small size of the Company workforce and the history of the Company to date, the Board has determined that it is not currently practicable to implement a policy concerning diversity. The Board will further consider the establishment of a diversity policy as the Company grows, both overseas and in Australia.

Recommendation 3.3:

Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

Given the small size of the Company workforce and the history of the Company to date, at this time the Board has determined that it is not practicable to implement a policy concerning diversity. The Board will further consider the establishment of a diversity policy as the Company grows, both overseas and in Australia.

Recommendation 3.4:

Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

The Company currently has 17% female employees in the whole organisation and has 1 female in a senior geological position. The Company has 1 female Non-Executive Director currently on the Board.

Recommendation 3.5:

Companies should provide the information indicated in the "Guide to reporting on Principle 3."

Please refer to the section above marked Website Disclosures.

2.4. Principle 4: Safeguard integrity in financial reporting**Recommendation 4.1:**

The Board should establish an Audit Committee.

The Company has established an Audit Committee.

Recommendation 4.2:

The Audit Committee should be structured so that it:

- > consists only of Non-Executive Directors
- > consists of a majority of independent Directors
- > is chaired by an independent Chair, who is not Chair of the Board
- > has at least three members.

At the beginning of the Reporting Period the Audit Committee consists of a majority of independent Directors but had only two members. Mr Robert Westphal acted as Chairman, is considered independent, and is not Chairman of the full board of Directors. From 9 November 2012, the Audit Committee comprised Mr Robert Westphal, Mr Mark Wheatley and Dr Darryl Clark who are Non-Executive Directors.

Recommendation 4.3:

The Audit Committee should have a formal charter.

The Company has adopted an Audit Committee Charter.

Recommendation 4.4:

Companies should provide the information indicated in the "Guide to reporting on Principle 4."

The Audit Committee held four meetings during the Reporting Period. The following table identifies those Directors who are members of the Audit Committee:

Name

Robert Westphal
Ron Heeks (Resigned 31 October 2012)
Mark Wheatley (Appointed 9 November 2012)
Darryl Clark (Appointed 9 November 2012)

Details of each of the Director's qualifications and attendance at the Audit Committee meeting are set out in the Directors' Report. All Directors are financially literate and have an understanding of the industry in which the Company operates. Further, Mr Robert Westphal, a chartered accountant, has formal financial and accounting qualifications and experience.

The Company has not established (and therefore has not made publicly available) a formal Procedure for Selection, Appointment and Rotation of External Auditor.

The performance of the external auditor is reviewed on an ongoing basis by the Board and any changes implemented where the Board considers such changes are required.

2.5. Principle 5: Make timely and balanced disclosure**Recommendation 5.1:**

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company's "Communications and Continuous Disclosure Policy" is available on the Company's website. This document is designed to:

- > ensure that all investors have equal and timely access to material information concerning the Company;
- > that Company announcements are factual and presented in a clear and balanced way requiring disclosure of negative and positive information;
- > ensure compliance with ASX Listing Rules and accountability at a senior executive level for that compliance;
- > promote effective communication with shareholders and encourage effective participation at general meetings of the Company;
- > ensure that employees of the Company and subsidiaries are aware of the importance of providing full and timely disclosure of activities to shareholders and the market; and
- > set out the framework and strategy for achieving the above goals.

Recommendation 5.2:

Companies should provide the information indicated in the "Guide to reporting on Principle 5."

Please refer to the section above marked Website Disclosures.

2.6. Principle 6: Respect the rights of shareholders**Recommendation 6.1:**

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company has in place a Communications and Continuous Disclosure Policy. The policy reflects the Company's commitment to dealing fairly, transparently and promptly with shareholders, encouraging and facilitating participation at meetings and dealing promptly with enquiries. The key aspects of the policy are:

- > diligent compliance with the Company's disclosure and trading policies;
- > ensuring that the external auditors attend the Company's annual general meetings and are available to answer shareholder questions;
- > prompt, transparent compliance with statutory reporting and meeting obligations, including detailed and full disclosure in relation thereto; and
- > effective use of the Company's website, electronic communication and its share registry to keep shareholders up to date and to deal with enquiries.

The Company's communications policy is reviewed annually.

Recommendation 6.2:

Companies should provide the information indicated in the "Guide to reporting on Principle 6."

Please refer to the section above marked Website Disclosures.

2.7. Principle 7: Recognise and manage risk**Recommendation 7.1:**

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Company has in place a risk oversight and management policy which sets out systems for risk oversight, management and internal control.

This risk management policy was adopted in October 2010. The key aspects of it are:

- > the Board oversees the establishment and implementation of risk management;
- > the Audit Committee is delegated the function and responsibility to establish, implement and maintain the Company's risk management systems and frameworks; and
- > the Company's senior management are delegated the tasks of management of operational risk and the implementation of risk management strategies.

The Board approves risk management systems and reviews them and their implementation annually. The Company's risk profile, assessed and determined on the basis of the Company's businesses in mineral exploration, is reviewed annually. The Board regularly considers risk management at its meetings.

The Company's risk management systems and control frameworks include the Board's ongoing monitoring of management and operational performance, a comprehensive system of budgeting, forecasting and reporting to the Board, regular presentations to the Board by management on the management of risk, approval procedures for significant capital expenditure above threshold levels, the functioning of the Audit Committee, comprehensive written policies on specific activities and corporate governance, regular communication between Directors on compliance and risk and consultation and review between the Board and external accountants.

The Board recognises that material risks facing the Company are the more significant areas of uncertainty or exposure to the Company that could adversely affect the achievement of the Company's objectives and successful implementation of its business strategies.

The material risks, both financial and non-financial, facing the Company are as follows:

- > protection of the Company's assets;
- > maintenance of proper financial and accounting records;
- > reliability of financial information;
- > compliance with key performance indicators;
- > financial markets;
- > retaining key personnel; and
- > technical risk.

The Board considers these identified material risks as part of its annual risk management review or on an as required basis upon advice from the Audit Committee including, where appropriate, as a result of regular interaction with management and other relevant staff.

Recommendation 7.2:

The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. Further, the Board has received a report from management as to the effectiveness of the Company's management of its material business risks.

Recommendation 7.3:

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board requires assurance from the Managing Director and Chief Financial Officer that the declaration in relation to section 295A of the Corporations Act is founded in a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.

Recommendation 7.4:

Companies should provide the information indicated in the "Guide to reporting on Principle 7."

The Board has received the report from management under Recommendation 7.2.

The Board has received assurance from the Managing Director (or equivalent) and the Chief Financial Officer (or equivalent) under Recommendation 7.3.

2.8. Principle 8: Remunerate fairly and responsibly**Recommendation 8.1:**

The Board should establish a Remuneration Committee.

The Company has established a Remuneration Committee.

Recommendation 8.2:

The Remuneration Committee should be structured so that it:

> *consists of a majority of independent Directors*

> *is chaired by an independent Chair*

> *has at least three members.*

At the beginning of the Reporting Period the Remuneration Committee comprised a majority of independent Directors but had only two members. Mr Robert Westphal acted as Chairman, is considered independent, and is not Chairman of the full board of Directors. From 9 November 2012, the Remuneration Committee comprised Mr Mark Wheatley Chairman, Mr Robert Westphal and Dr Darryl Clark who are Non-Executive Directors.

Recommendation 8.3:

Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives.

Non-Executive Directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for Non-Executive Directors is not linked to the operating performance of the Company. From time to time and where appropriate, the Company issues equity based incentives to Non-Executive Directors.

Pay and rewards for Executive Directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and these are reviewed annually to ensure market competitiveness.

Recommendation 8.4:

Companies should provide the information indicated in the "Guide to reporting on Principle 8."

Details of remuneration, including the Company's policy on remuneration, are contained in the Remuneration Report which forms part of the Directors' Report. The Company's remuneration policies are reflected in the Company's Remuneration Committee Charter. These policies are to establish competitive remuneration, including performance incentives, consistent with long term development and success, to ensure remuneration is fair and reasonable, taking into account all relevant factors, and within appropriate controls or limits, ensure performance and remuneration are appropriately linked, that all remuneration packages are reviewed annually or on an ongoing basis in accordance with management's remuneration packages and that retirement benefits or termination payments (other than notice periods) will not be provided or agreed other than in exceptional circumstances.

The Remuneration Committee held two meetings during the Reporting Period. The following table identifies those Directors who are members of the Remuneration Committee:

Name

Robert Westphal

Ron Heeks (Resigned 31 October 2012)

Mark Wheatley (Appointed 9 November 2012)

Darryl Clark (Appointed 9 November 2012)

Details of each of the Director's attendance at the Remuneration Committee meeting are set out in the Directors' Report. There are no termination or retirement benefits for Non-Executive Directors (other than for superannuation).

During the Reporting Period the Company did not publicly disclose its policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes. However, the Company's position is that such transactions are prohibited.

Auditor's Independent Declaration



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

In relation to our audit of the financial report of Xanadu Mines Limited for the financial year ended 30 June 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
30 September 2013

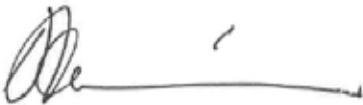
Directors' Declaration

1. In the opinion of the Directors:

- (a) the accompanying financial statements, notes and additional disclosures 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 30 June 2013 and its performance for the year then ended; and
 - (ii) complying with Accounting Standards (includes the Australian Accounting Interpretations) and 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.
- (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2013.

The declaration is signed in accordance with a resolution of the Board of Directors.



Denis Gately
Non-Executive Chairman
30 September 2013



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Independent auditor's report to the members of Xanadu Mines Limited

Report on the financial report

We have audited the accompanying financial report of Xanadu Mines Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit 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.

Opinion

In our opinion:

- a. the financial report of Xanadu Mines Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

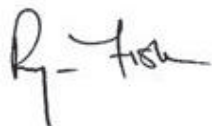
We have audited the Remuneration Report included in directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Xanadu Mines Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Ryan Fisk
Partner
Sydney
30 September 2013

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	CONSOLIDATED	
		2013 \$'000s	2012 \$'000s
REVENUES	4 (a)	318	774
Other income	4 (b)	583	844
Depreciation and amortisation expense		(153)	(96)
Deferred Exploration Costs written off	4 (c)	(17,048)	(4,949)
Finance Costs		(2)	–
Other expenses	4 (d)	(3,147)	(3,577)
LOSS BEFORE INCOME TAX EXPENSE		(19,449)	(7,004)
Income tax expense	5	–	–
NET LOSS AFTER TAX FOR THE PERIOD		(19,449)	(7,004)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX			
Items that may be classified subsequently to profit or loss			
Exchange difference on translation of foreign operations		(334)	–
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(19,783)	(7,004)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTED TO:			
Owners of the parent		(19,077)	(7,004)
Non-controlling interest		(706)	–
		(19,783)	(7,004)
Basic earnings per share (cents per share)	7	(9.41)	(3.73)
Diluted earnings per share (cents per share)	7	(9.41)	(3.73)

The accompanying notes form part of these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2013

	Notes	CONSOLIDATED	
		2013 \$'000s	2012 \$'000s
ASSETS			
Current Assets			
Cash and cash equivalents	8	5,642	15,724
Prepayments and other assets		73	349
Other receivables	9	142	1,746
		5,857	17,819
Assets classified as held for sale	11(b)	-	7,699
Total Current Assets		5,857	25,518
Non Current Assets			
Property, plant and equipment	10	1,223	1,200
Deferred exploration expenditure	11(a)	12,955	13,233
Intangible assets		-	2
Total Non Current Assets		14,178	14,435
Total Assets		20,035	39,953
LIABILITIES			
Current Liabilities			
Trade and other payables	13	200	340
Total Current Liabilities		200	340
Total Liabilities		200	340
Net Assets		19,835	39,613
EQUITY			
Issued capital	14(a)	56,591	56,591
Reserves	14(b)	6,010	6,339
Accumulated losses		(43,155)	(24,412)
Parent entity interest		19,446	38,518
Non-controlling interest		389	1,095
Total Equity		19,835	39,613

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	CONSOLIDATED	
		2013 \$'000s	2012 \$'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(2,711)	(2,659)
Net cash used in operating activities	8	(2,711)	(2,659)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		393	652
Proceeds on disposal of exploration and evaluation expenditure		–	259
Proceeds on disposal of plant and equipment		52	–
Acquisition of exploration and evaluation assets		(5,621)	(938)
Purchase of property, plant and equipment		(170)	(215)
Loan repaid by joint venture partner	9	1,230	–
Exploration and evaluation expenditure		(3,450)	(5,540)
Net cash used in investing activities		(7,566)	(5,782)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(2)	–
Net cash provided by financing activities		(2)	–
Net (decrease)/increase in cash and cash equivalents		(10,279)	(8,439)
Cash and cash equivalents at beginning of year		15,724	23,586
Effects of exchange rate changes on cash		197	577
Cash and Cash Equivalents at end of year	8	5,642	15,724

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2013

CONSOLIDATED	Issued Capital \$'000s	Accumulated Losses \$'000s	Option Reserve \$'000s	Acquisition Reserve \$'000s	Foreign Currency Translation Reserve \$'000s	Non-controlling Interest \$'000s	Total Equity \$'000s
At 1 July 2011	53,594	(17,408)	5,336	-	-	557	42,079
Loss for the period	-	(7,004)	-	-	-	-	(7,004)
Total comprehensive loss for the period	-	(7,004)	-	-	-	-	(7,004)
Recognition of share-based payments	-	-	835	-	-	-	835
Shares issued during the year	2,997	-	-	-	-	-	2,997
Non-controlling interest in subsidiary	-	-	-	-	-	706	706
Asset acquisition reserve	-	-	-	168	-	(168)	-
Balance at 30 June 2012	56,591	(24,412)	6,171	168	-	1,095	39,613
Loss for the period	-	(18,743)	-	-	-	(706)	(19,449)
Other comprehensive income	-	-	-	-	(334)	-	(334)
Total comprehensive loss for the period	-	(18,743)	-	-	(334)	(706)	(19,783)
Recognition of share-based payments	-	-	5	-	-	-	5
Balance at 30 June 2013	56,591	(43,155)	6,176	168	(334)	389	19,835

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

1. Corporate Information

Xanadu Mines Ltd ("the Company") was incorporated on 12 May 2005 and is the ultimate holding company for the group. The financial report of the Company and its controlled entities for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the Directors on 30 September 2013.

Xanadu Mines Ltd is a company limited by shares incorporated and domiciled in Australia, whose shares are publically traded on the Australian Securities Exchange ("ASX").

The nature of the operations and principal activities of the Group are described in the Directors' report.

2. Statement of Significant Accounting Policies

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on the basis of historical cost, except for the financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Unless otherwise indicated all amounts are presented in Australian dollars.

All values are rounded to the nearest thousand dollars (\$'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.

(b) Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows:

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting period are still relevant to the Company. These have been considered below.

Relevant amendments to standards effective for year ends 30 June 2013 and later:

Deferred Tax: Recovery of Underlying Assets [AASB 112]

These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 and 1049]

This standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.

Relevant standards issued but not yet effective:

Consolidated Financial Statements [AASB 10]

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

Joint Arrangements [AASB 11]

AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly-controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

Disclosure of Interests in Other Entities [AASB 12]

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.

Fair Value Measurement [AASB 13]

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

Employee Benefits [AASB 119]

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

Remove Individual KMP Disclosure Requirements [AASB 124]

This amendment deletes from AASB 124 individual KMP disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

Application of Tiers of Australian Accounting Standards [AASB 1053]

This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The following entities apply Tier 1 requirements in preparing general purpose financial statements:

- (a) For-profit entities in the private sector that have public accountability (as defined in this standard)
- (b) The Australian Government and State, Territory and Local governments the following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:
 - (a) For-profit private sector entities that do not have public accountability
 - (b) All not-for-profit private sector entities
 - (c) Public sector entities other than the Australian Government and State, Territory and Local governments.

Offsetting Financial Assets and Financial Liabilities [AASB 2012-3]

AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

Financial Instruments [AASB 9]

AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.

- (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity’s business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

- (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
 - The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
 - The remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances.

(c) Statement of Compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(d) Business combinations and asset acquisitions

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group’s operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

The acquisition of assets is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

(e) Principles of Consolidation

The consolidated financial statements comprise the financial statements of Xanadu Mines Ltd ('the company') and its subsidiaries as at 30 June 2013 ('the Group').

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Xanadu Mines Ltd has control.

(f) Foreign currency translation

Functional currency transactions are translated into Australian dollars at exchange rates ruling at the date of those transactions. At balance date, foreign currency monetary items are translated into Australian dollars at exchange rates ruling at that date. The functional and presentation currency of the Group is Australian dollars, with the exception of Ekhgoviin Chuluu LLC where the functional currency is MNT.

Exchange differences relating to monetary items are brought to account in the income statement in the period in which they arise. Non-monetary items are translated using the exchange rate as at the date of the initial transaction.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset.

Major depreciation periods are:

	2013	2012
Plant and equipment	2–10 years	2–10 years
Motor Vehicles	4–5 years	4–5 years
Land and buildings	40 years	40 years

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

(h) Employee benefits

Wages and salaries

Liabilities for wages and salaries, annual leave and sick leave are recognised and are measured as the amount unpaid at balance date at pay rates expected to apply at the time of settlement in respect of employees' services up to that date.

(i) Impairment of financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

(j) Deferred exploration and evaluation expenditure

Costs carried forward

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.

Amortisation

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

(k) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date. i.e. the date that the Group commits to purchase the asset.

(l) Investment in Joint Venture

The Group has interests in joint ventures that are jointly controlled entities. A joint venture entity is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled entity involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in a jointly controlled entity using the proportionate consolidation method as neither joint venture party has control of the entity.

(m) 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.
- > the impact of changes in environmental legislation

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.

(n) Trade and other receivables

Trade receivables are on 28 day terms. Other receivables range from 7 to 21 day terms or on demand.

Receivables are recognised initially at fair value, usually based on the transaction cost or face value. An allowance for impairment of receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due. Bad debts are written off as incurred.

(o) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to Xanadu. Trade accounts payable are normally settled within 30 days.

(p) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(r) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer

(ii) Interest income

Revenue 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.

(s) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- > except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- > in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in companies, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- > except where the deferred income tax asset relating to the deductible temporary difference arises from the initial

recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- > in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in companies, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(t) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- > where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- > receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(u) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(v) Share-based payment transactions

In addition to consulting fees and salaries, the Group provides benefits to certain Directors and employees of the Group in the form of share-based payment transactions, whereby Directors and employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The cost of equity-settled transactions with employees (including Directors) is 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.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions, if any, are fulfilled.

The cumulative expenses recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period, if any, has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised is recognised immediately. However, if a new award is substituted for the cancelled award and designated a replacement award on the date it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(w) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- > costs of servicing equity (other than dividends) and preference share dividends;
- > the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- > other non discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. Significant Accounting Judgements, Estimates and Assumptions

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Significant accounting judgements

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 10.

Carrying values of exploration assets

The Group applies judgements in determining the carrying value of exploration assets in particular in determining which exploration costs should be capitalised or expensed. The Group assesses impairment of such assets at each reporting date by evaluating conditions specific to the Group.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date they were granted. The fair value is determined by independent written valuation. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Notes to the Financial Statements

CONTINUED

	CONSOLIDATED	
	2013	2012
	\$'000s	\$'000s
4. Revenues and Expenses		
(a) Revenue		
Interest	318	769
Rental and other revenue	–	5
	318	774
(b) Other income		
Net foreign currency gains	531	577
Profit on sale of property, plant and equipment	52	8
Profit on sale of tenements	–	259
	583	844
(c) Deferred exploration and evaluation costs write off		
Deferred exploration and evaluation costs write off	17,048	4,949
(d) Other expenses		
Administration expenses	1,662	1,366
Bad Debt written off	91	–
Loss on sale of property, plant and equipment	–	16
Employment and consultancy expenses:		
– wages and management fees	1,389	1,360
– share-based payments	5	835
	3,147	3,577

	CONSOLIDATED	
	2013	2012
	\$'000s	\$'000s
5. Income Tax		
Reconciliation to Income Tax Expense on Accounting Loss		
The prima facie income tax expense on pre tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:		
Accounting loss before income tax	(19,449)	(7,004)
Tax at Australian tax rate of 30% (2012 – 30%)	(4,270)	(2,101)
Tax at Mongolian tax rate of 25% (2012 – 25%)	(1,303)	(1,442)
Non Deductible Expenses		
Tax effect at Australian rates of expenses not allowable for tax purposes	15	254
Tax effect at Mongolian rates of expenses not allowable for tax purposes	28	17
Tax expense resulting from capital raising costs recognised in equity	–	–
Current year tax benefits not recognised	5,530	3,272
	–	–

Tax losses

The Group has not booked as a deferred tax asset any tax losses in view of the inherent uncertainty as to whether the Group will be able to utilise those losses in the future.

6. Segment Reporting

The consolidated entity operates predominantly in the minerals exploration sector. The principal activity of the consolidated entity is exploration for copper, gold 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 11 of the annual 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 which is disclosed in Note 4 and 11. The non-current assets of the group, excluding \$21,575 (2012: \$43,631) attributable to the parent entity, are located in Mongolia.

	CONSOLIDATED	
	2013 Cents Per Share	2012 Cents Per Share
7. Earnings Per Share		
Basic and diluted earnings per share attributable to equity holders of the parent	(9.41)	(3.73)
	\$'000s	\$'000s
Loss used in calculation of total basic loss per share	18,744	7,004
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	199,256,390	187,986,618
Effect of dilution:		
– share options	–	–
Weighted average number of ordinary shares adjusted for the effect of dilution	199,256,390	187,986,618

The basic and diluted earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

	CONSOLIDATED	
	2013 \$'000s	2012 \$'000s
8. Cash and Cash Equivalents		
Cash at bank and on hand	5,642	15,724
Cash at bank earns interest at floating rates based on daily bank deposit rates.		
Reconciliation of Loss for the Year to Net Cash Flows from Operating Activities		
Loss for the year	(19,449)	(7,004)
Depreciation of assets	153	96
Finance income	(393)	(769)
Finance cost	(2)	–
Employee benefits – Share based payments	5	835
(Gain)/Loss on disposal of Property Plant and Equipment	(52)	16
Deferred exploration and evaluation costs write offs	17,048	4,949
Profit on sale of tenements	–	(259)
Net foreign currency gains	(531)	(577)
(Increase)/decrease in assets:		
– current receivables	649	24
Increase/(Decrease) in liabilities:		
– current payables	(139)	30
Net Cash from Operating Activities	(2,711)	(2,659)

Notes to the Financial Statements

CONTINUED

	2013	2012
	\$'000s	\$'000s
9. Other Receivables		
Sundry debtors	128	507
GST recoverable	14	9
Other receivables	–	1,230
	142	1,746

Sundry debtors relate to interest on term deposits accrued but not yet received, refund of goods and services tax payments due and other current loans. Balances within sundry debtors do not contain impaired assets and are not past due. It is expected that these balances will be received in full. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Details regarding the liquidity risk are disclosed in note 15.

Other receivables is recognition of a loan owed by Joint Venture partner Noble Group as a result of the purchase of the Nuurstei Project on 15 June 2011. The joint venture was required to pay total consideration of US\$6.5 million consisting of US\$4 million cash and US\$2.5 million in Xanadu shares (payable 15 June 2012). The receivable recognises 50% of the value of Xanadu Mines Ltd shares at reporting date. The loan was settled in July 2012 when Noble Group paid Xanadu US\$1.25 million in cash representative of 50% of the value of shares issued as part of the consideration on the purchase of the Nuurstei Project.

10. Property, Plant and Equipment

	Land \$'000s	Plant and Equipment \$'000s	Capital Work in Progress \$'000s	Motor Vehicles \$'000s	Total \$'000s
Year ended 30 June 2013					
At 30 June 2012, net of accumulated depreciation	757	226	–	217	1,200
Additions	–	86	–	88	174
Disposals	–	–	–	–	–
Depreciation charge	–	(93)	–	(58)	(151)
At 30 June 2013, net of accumulated depreciation	757	219	–	247	1,223
At 30 June 2013					
At cost	757	437	–	364	1,558
Accumulated depreciation	–	(218)	–	(117)	(335)
Net carrying amount	757	219	–	247	1,223
Year ended 30 June 2012					
At 30 June 2011, net of accumulated depreciation	754	192	–	148	1,094
Additions	3	102	–	110	215
Disposals	–	(16)	–	–	(16)
Depreciation charge	–	(52)	–	(41)	(93)
At 30 June 2012, net of accumulated depreciation	757	226	–	217	1,200
At 30 June 2012					
At cost	757	394	–	426	1,577
Accumulated depreciation	–	(168)	–	(209)	(377)
Net carrying amount	757	226	–	217	1,200

Notes to the Financial Statements

CONTINUED

	CONSOLIDATED	
	2013 \$'000s	2012 \$'000s
11(a). Deferred Exploration Expenditure		
Costs incurred in respect of current mining leases (net of costs expensed)	12,955	13,233
Opening balance at 1 July	13,233	18,483
– Acquisition of tenements	5,621¹	2,064 ¹
– Direct exploration expenditure	3,450	5,334
– Transferred from assets classified as held for sale	7,699²	–
– Expenditure written off on relinquishment of exploration licences	(3,428)³	–
– Expenditure subject to impairment written off during the year	(13,620)⁴	(4,949) ²
	12,955	20,932
– Transferred to assets classified as held for sale	–	(7,699) ³
Total Exploration Expenditure at 30 June	12,955	13,233

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on the successful development and commercial exploitation or sale of the respective areas.

Year ended 30 June 2013

- 1 During the year ended 30 June 2013 Xanadu Mines Ltd acquired through a subsidiary 25% of the shares in Vantage LLC which is the owner of the Oyut Ulaan project, together with the right to earn up to 90% subject to Mongolian Government approvals and the payment of US\$600,000.
- 2 The assets previously classified as held for sale are no longer classified as held for sale as a sale in the short term is not highly probable in the current market.
- 3 The expenditure written off during the year includes the write off of capitalised exploration expenditure on the relinquishment of a portion of the Sharchuluut tenement and the relinquishment of all of the tenements for Tugrug, Tugrug Nuur, Takhilgat Uul, Shiruun Ukhaa, and a tenement that forms part of the Galshar project.
- 4 The expenditure subject to impairment includes the capitalised exploration expenditure on Suuj, Zoost, Argalant, Amgalant, and three of the smaller Galshar tenements, to reduce the carrying value to nil. The tenements for Khar Tarvaga and the remaining Galshar tenement were written down from \$7,699,000 to carrying values of \$100,000 and \$400,000 respectively. These values are the best estimates available taking into account the current market and economic circumstances. With regard to the company's investment in the joint venture known as Ekhgoviin Chuluu LLC, an impairment has been recorded amounting to \$4,750,000 (2012:Nil) reducing the carrying value to \$850,000 for the Nuurstei tenement. This value is the best estimates available taking into account the current market and economic circumstances.

Year ended 30 June 2012

- 1 During the year ended 30 June 2012, Xanadu Mines Ltd acquired 51% of DGDM LLC (renamed Xanadu South Gobi Copper LLC) for total consideration of US\$750,000 (AU\$734,331). The vendor received shares in Xanadu Mines Ltd as consideration for the 51% and Xanadu recorded a non-controlling interest of US\$720,588 (AU\$705,527). Please refer to note 21 for more details. Xanadu Mines Ltd also acquired a share of the Javkhalant, Khavsgait and Khus Projects as part of its strategic alliance with the Noble Group. The total value of consideration recognized at 30 June 2012 was US\$635,877 (AU\$623,777).
- 2 The expenditure written off during 2012 relates to the impairment of capitalised exploration expenditure on the Hutag Uul, Hust Uul tenements, to reduce the carrying value to nil. Furthermore the Tugrug tenement was written off to reduce the carrying value to its recoverable amount.
- 3 During 2012, Xanadu decided to seek offers of interest in the Khar Tarvaga and Galshar thermal coal projects. The decision came after a strategic review recommended increased focus on Xanadu's coking coal and copper/gold opportunities in Mongolia. As a result, these assets were transferred to assets classified as held for sale. There is no gain or loss impact in the income statement in relation to assets held for sale.

	CONSOLIDATED	
	2013	2012
	\$'000s	\$'000s
11(b). Assets Classified as Held for Sale		
Costs incurred in respect of current mining leases (net of costs expensed)	–	7,699
Opening balance at 1 July	7,699	–
– Transferred to deferred exploration expenditure	(7,699)¹	–
	–	–
– Transferred to assets classified as held for sale	–	7,699
Total Exploration Expenditure at 30 June	–	7,699

1 The assets previously classified as held for sale are no longer classified as held for sale as a sale in the short term is not highly probable in the current market.

	2013	Weighted Average	2012	Weighted Average
	2013	Exercise Price	2012	Exercise Price
	No.	\$	No.	\$
12. Share Based Payment Plan				
Outstanding performance share rights and options at the beginning of the year	25,740,000	\$0.65	19,240,000	\$0.50
Issued during the year	3,300,000	\$0.00¹	6,500,000	\$1.09
Forfeited during the year	1,500,000	–	–	–
Exercised during the year	–	–	–	–
Outstanding at the end of the year	27,540,000	\$0.54	25,740,000	\$0.65
Exercisable at the end of the year	24,240,000		25,740,000	

1 Performance rights that vest if share price hurdles are met, hence exercise price is nil.

The outstanding balance as at 30 June 2013 is represented by:

- > 14,000,000 options over ordinary shares with an exercise price of \$0.50 each, exercisable until 31 December 2014;
- > 5,240,000 options over ordinary shares with an exercise price of \$0.50 each, exercisable until 19 December 2014;
- > 1,000,000 options over ordinary shares with an exercise price of \$0.60 each, exercisable until 30 June 2016;
- > 1,000,000 options over ordinary shares with an exercise price of \$1.20 each, exercisable until 30 June 2016;
- > 1,000,000 options over ordinary shares with an exercise price of \$1.80 each, exercisable until 30 June 2016;
- > 1,000,000 options over ordinary shares with an exercise price of \$0.70 each, exercisable until 31 December 2014; and
- > 1,000,000 options over ordinary shares with an exercise price of \$1.00 each, exercisable until 31 December 2014.
- > 1,100,000 performance share rights to be granted after 23 May 2014 if a share price hurdle of \$0.1105 is met;
- > 1,100,000 performance share rights to be granted after 23 May 2015 if a share price hurdle of \$0.1437 is met; and
- > 1,100,000 performance share rights to be granted after 23 May 2016 if a share price hurdle of \$0.1870 is met;

The weighted average remaining contractual life for the performance share rights and options outstanding as at 30 June 2013 is between one and two years (2012: 2 and 3 years). The range of exercise prices for performance share rights and options outstanding at the end of the year was \$0.00 – \$1.80 (2012: \$0.50-\$1.80). 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 share rights were granted. The fair value of performance share rights granted during the year was \$71,665.

Notes to the Financial Statements

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12. Share Based Payment Plan (continued)

The performance share rights vest where the closing price of the employer shares on any 3 consecutive trading days during the period from the grant date to the day immediately preceding the vesting date exceeds the hurdle price.

The following table lists the inputs to the models used when granting performance share rights during the year ended 30 June 2013:

Grant Date: 22 May 2013

Number of performance share rights	1,100,000	1,100,000	1,100,000
Vesting Date	23 May 2014	23 May 2015	23 May 2016
Expected volatility (%)	90%	90%	90%
Risk-free interest rate (%)	2.85%	2.85%	2.85%
Expected life of right (years)	3.0	3.0	3.0
Share price vesting Hurdle (cents)	11.05	14.37	18.7
Exercise price (cents)	Nil	Nil	Nil
Grant date share price (cents)	4.1	4.1	4.1

The expected life of the rights is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

	Notes	CONSOLIDATED 2013 \$'000s	2012 \$'000s
Trade payables	(i)	110	63
Accrued expenses		90	113
Other payable	(ii)	-	164
		200	340

(i) Trade payables and other creditors are non- interest bearing and are normally settled on 30 day terms.

(ii) Other payables in 2012 represents a commitment to fund exploration at licences held by Xanadu South Gobi Copper LLC per the terms of the acquisition agreement signed 23 January 2012 to the value of US\$250,000 (AU\$238,000) less exploration spent on the Project to 30 June 2012 of AU\$74,000.

14. Contributed Equity and Reserves

	CONSOLIDATED 2013 \$'000s	2012 \$'000s
(a) Ordinary shares		
Issued and fully paid (net of transaction costs)	56,591	56,591
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		
	No.	\$'000s
Movement in ordinary shares on issue:		
At 1 July 2012	199,256,390	56,591
At 30 June 2013	199,256,390	56,591

14. Contributed Equity and Reserves (continued)

(b) Reserves

	Option Reserve \$'000s
Reserves	
At 1 July 2011	5,336
Share-based payments – employee benefits	835
Acquisition reserve	168
At 30 June 2012	6,339
Share-based payments – employee benefits	5
Foreign currency translation reserve	(334)
At 30 June 2013	6,010

Refer to the Statement of Changes in Equity for a reconciliation of movements in accumulated losses.

Nature and Purpose of Reserves

Option reserve

This reserve is used to record the value of equity benefits provided to Directors, employees and external service providers as part of their fees and remuneration.

Acquisition reserve

During the year ended 30 June 2012, the Group acquired additional minority interest and received a non-cash discount on acquisition of non controlling interest of AU\$167,604 relating to Altan Xanadu LLC. This amount has been calculated by comparing the consideration paid to the value of non controlling interest at the date of purchase with the excess/discount recorded within this reserve.

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.

Capital Management

Management controls the capital of the Group in order to maximise the return to shareholders and ensure that the Group can fund its operations and continue as a going concern.

Management effectively manages the Group's capital by assessing the Group'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.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

	2013 No	2013 Weighted Average Exercise Price \$
Outstanding options at the beginning of the year	25,740,000	\$0.65
Issued during the year	3,300,000 ¹	\$0.00
Exercised during the year	–	–
Forfeited during the year	(1,500,000)	–
Outstanding at the end of the year	27,540,000	\$0.54
Exercisable at the end of the year	24,240,000	

1 Performance Share Rights.

15. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and short term deposits, receivables and payables.

The Group manages its exposure to key financial risks in accordance with its risk management policy with the objective to ensure that the financial risks inherent in exploration activities are identified and managed accordingly.

The main financial risks that arise in the normal course of business for the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. Management employs different methods to measure and mitigate the different risks to which the Group is exposed. These include monitoring exposure to foreign exchange risk and assessments of market forecast for interest rate, foreign exchange and commodity prices. Liquidity risk is managed by development of rolling budgets and forecasts.

Primary responsibility for identification and control of financial risks lies with the Executive Chairman and Chief Financial Officer, under the authority of the Board. The Board is abreast of these risks and agrees any policies that may be implemented to manage the risks identified.

The following table outlines the Group's financial instruments:

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

	Carrying amount \$'000s	Fair Value \$'000s	Average Interest Rate %
30 June 2013			
<i>Financial assets</i>			
Cash and cash equivalents	5,642	5,642	3.22
Other receivables	141	141	-
	5,783	5,783	
<i>Financial liabilities</i>			
Trade and other payables	857	857	-
Net exposure	4,926	4,926	

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

30 June 2012

Financial assets

Cash and cash equivalents	15,724	15,724	3.60
Other receivables	1,746	1,746	-
	17,470	17,470	

Financial liabilities

Trade and other payables	340	340	-
Net exposure	17,130	17,130	

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

15. Financial Risk Management Objectives and Policies (continued)

Financial risk management

The consolidated entity's principal financial instruments comprise cash, short-term deposits, receivables, payables and loans. The main purpose of these financial instruments is to raise finance for its operations. The consolidated entity has financial instruments such as debtors and creditors, which arise directly from its operations.

The consolidated entity manages its exposure to key financial risks, including interest rate, credit and liquidity risks in accordance with the consolidated entity's policy. The objective of the policy is to support the delivery of the consolidated entity's financial targets whilst protecting future financial security.

The main risks arising from financial instruments are interest rate risk, credit risk and liquidity risk and they are summarised below.

(a) Capital risk management

The consolidated entity considers its capital to comprise its ordinary shares and its retained earnings.

The consolidated entity manages its capital to ensure it will be able to continue as a going concern, and to maintain a sufficient funding base. The Board reviews and agrees policies for managing the capital structure when considering each major project investment. The consolidated entity has no debt and hence has a nil gearing ratio.

In making decisions to adjust its capital structure, the consolidated entity considers not only its short term position, but also its long term operational and strategic objectives.

(b) Foreign currency risk

As a result of significant operations in Mongolia and the majority of expenditure being denominated in United States Dollars, the Group's balance sheet can be affected significantly by movements in the US\$/A\$ exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by holding part of its cash reserves in US Dollars.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

As at 30 June 2013, the consolidated entity had the following exposure to AUD/USD foreign currency movements:

	CONSOLIDATED	
	2013	2012
	\$'000s	\$'000s
<i>Financial assets</i>		
Cash and cash equivalents	584	2,571
Other receivables	–	1,530
	584	4,101
<i>Financial liabilities</i>		
Trade and other payables	–	282
Net exposure	584	3,819

15. Financial Risk Management Objectives and Policies (continued)

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

At 30 June 2013, had the Australian Dollar moved, as illustrated in the table below, with all other variables remaining constant, equity and results would have been affected as follows:

	EQUITY AND PROFIT AFTER TAX HIGHER/(LOWER)	
	2013 \$'000s	2012 \$'000s
<i>Effect on cash balances denominated in USD:</i>		
<i>Consolidated</i>		
AUD/USD +10%	(52)	288
AUD/USD -5%	31	(84)

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

(c) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

(d) Interest rate risk

The consolidated entity's exposure to market risk for changes in interest rates relates primarily to its cash held in variable interest accounts.

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

	CONSOLIDATED	
	2013 \$'000s	2012 \$'000s
<i>Financial assets</i>		
Cash and cash equivalents	5,642	15,724
	5,642	15,724
<i>Financial liabilities</i>		
Interest bearing loans and borrowings	-	-
Net exposure	5,642	15,724

15. Financial Risk Management Objectives and Policies (continued)

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

At 30 June 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, the consolidated entity's post-tax profit and equity would have been affected as follows:

	POST TAX PROFIT HIGHER/(LOWER)	
	2013 \$'000s	2012 \$'000s
<i>Consolidated</i>		
+1% (100 basis points)	56	157
-0.5% (50 basis points)	(28)	(78)

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

(e) Liquidity risk

Liquidity risk arises from the consolidated entity's management of working capital. It is the risk that the consolidated entity will encounter difficulty in meeting its financial obligations as they fall due.

The consolidated entity's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least twelve months.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations, and forward expenditure commitments, under all reasonably expected circumstances.

At balance date, all financial liabilities are interest free and are payable within 30 days.

16. Investments

The consolidated financial statements include the financial statements of Xanadu Mines Ltd and the subsidiaries and jointly controlled entities listed in the following table:

	Country of Incorporation	% Equity Interest		Investment (\$'000s)	
		2013	2012	2013	2012
Xanadu Mines Mongolia LLC	Mongolia	100	100	13	13
Xanadu Exploration Mongolia LLC	Mongolia	100	100	431	431
Xanadu Coal Mongolia LLC	Mongolia	100	100	12	12
Xanadu Metals Mongolia LLC	Mongolia	100	100	12	12
Xanadu Energy Resources Mongolia LLC	Mongolia	100	100	111	111
Altan Xanadu LLC	Mongolia	80	80	105	105
Xanadu Copper Mongolia LLC	Mongolia	100	100	2,186	2,186
Xanadu Mines Singapore Pte Ltd	Singapore	100	100	-	-
Xanadu South Gobi Copper LLC	Mongolia	51	51	495	495
Coalridge Limited ¹	British Virgin Islands	50	50	7,079	5,700
Ekhgoviin Chuluu LLC ¹	Mongolia	50	50	48	48
BlackRock LLC ¹	Mongolia	30	30	4,112	3,174
Interglobal LLC ¹	Mongolia	40	40	474	118
Enkh Tunkh Delkhii LLC	Mongolia	-	-	-	-
CEADM LLC ¹	Mongolia	50	50	731	379

1 Refer to Note 23 for more details regarding interests in jointly controlled entities.

Notes to the Financial Statements

CONTINUED

17. Commitments and Contingencies

Commitments in relation to exploration licences contracted at the reporting date but not recognised as liabilities within one year are \$362,480 (2012: \$290,158). 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 years time.

During the year the company entered into an agreement to acquire a 90% interest in the Oyut Ulaan copper-gold project and acquired a 25% interest. Future commitments under the agreement to acquire a further 65% include a payment of US\$600,000 and the issue of 5,000,000 shares to the vendor upon Mongolian Government and shareholder approval. There is also a commitment to issue of series A and B performance shares contingent on the recognition of a JORC resource of up to 900,000 tonnes contained copper equivalent.

No other commitments or contingencies existed at 30 June 2013.

18. Parent Entity Disclosures

Information relating to Xanadu Mines Ltd:

	2013 \$'000s	2012 \$'000s
Financial position		
Assets		
Current assets	5,682	15,328
Non-current assets	14,065	24,362
Total assets	19,747	39,690
Liabilities		
Current liabilities	88	77
Non-current liabilities	-	-
Total liabilities	88	77
Net assets	19,835	39,613
Issued capital	56,591	56,591
Share-based payments reserve	6,175	6,170
Retained earnings	(42,931)	(23,148)
Total equity	19,835	39,613
Financial performance		
Loss for the year	(19,923)	(7,934)
Other comprehensive income/ (loss)	-	-
Total comprehensive income/ (loss)	(19,923)	(7,934)

(a) Guarantees – Nil.

(b) Contingent liabilities – Nil.

(c) Commitments – Nil.

19. Auditors' Remuneration

The auditors of Xanadu are Ernst & Young.

	2013 \$	2012 \$
Amounts received or due and receivable by Ernst & Young for:		
An audit or review of the financial report of the entity and any other entity in the consolidated Group	89,400	83,797
Other services in relation to the consolidated entity		
– tax services	18,740	26,878
– other non-audit services	–	–
	18,740	26,878

20. Related Party Transactions

(a) Details of Key Management Personnel

D Gately	Non-Executive Chairman (Appointed 9 November 2012)
G Lloyd	Managing Director (Appointed 26 August 2013)
B Thornton	Non-Executive Director
R Williams	Non-Executive Director (Resigned 31 October 2012)
R Heeks	Non-Executive Director (Resigned 31 October 2012)
Ganbayar L	Executive Director
R Westphal	Non-Executive Director
H Badenach	Non-Executive Director
M Wheatley	Non-Executive Director (Appointed 9 November 2013)
D Clark	Non-Executive Director (Appointed 9 November 2013)
A Stewart	Chief Geologist and Manager Mongolia
B Evans	Chief Financial Officer and Company Secretary (Resigned 5 September 2012)
M Langan	Chief Financial Officer and Company Secretary (Appointed 5 September 2012)

(b) Compensation of Key Management Personnel

	2013 \$	2012 \$
<i>Key Management Personnel</i>		
Short-term	1,272,536	1,147,411
Post-employment Superannuation	107,628	171,587
Value of share options	4,512	834,697
	1,384,676	2,153,695

Please refer below and to further information contained within the audited remuneration report in the Director's Report.

(c) The following table sets out the interests of Directors in the Company:

		Ordinary Shares	Options Over Ordinary Shares
D Gately	Non-Executive Chairman (Appointed 9 November 2012)	75,000	–
G Lloyd	Managing Director (Appointed 26 August 2013)	–	–
B Thornton	Non-Executive Director	20,737,369	6,400,000
R Williams	Non-Executive Director (Resigned 31 October 2012)	4,475,000	3,400,000
Ganbayar L	Executive Director	14,389,565	3,000,000
R Heeks	Non-Executive Director (Resigned 31 October 2012)	84,200	2,000,000
R Westphal	Non-Executive Director	255,000	2,000,000
H Badenach	Non-Executive Director	–	–
M Wheatley	Non-Executive Director (Appointed 9 November 2012)	200,000	–
D Clark	Non-Executive Director (Appointed 9 November 2012)	90,000	–

Notes to the Financial Statements

CONTINUED

20. Related Party Transactions (continued)

(d) Option and Performance Share Right Holdings of Key Management Personnel

30 June 2013	Balance at	Granted as	Options	Net	Balance at	Vested at 30 June 2013		
	Beginning	Remuner-			End of	Total	Not	Exercisable
	of Period	ation	Exercised	Change	Period ¹		Exercisable	Exercisable
	1 July			Other	30 June			
	2012				2013			
Key Management Personnel								
B Thornton	6,400,000	–	–	–	6,400,000	6,400,000	–	6,400,000
R Williams ²	3,400,000	–	–	–	3,400,000	3,400,000	–	3,400,000
Ganbayar L	3,000,000	–	–	–	3,000,000	3,000,000	–	3,000,000
R Heeks	2,000,000	–	–	–	2,000,000	2,000,000	–	2,000,000
R Westphal	2,000,000	–	–	–	2,000,000	2,000,000	–	2,000,000
H Badenach	–	–	–	–	–	–	–	–
D Gately ³	–	–	–	–	–	–	–	–
G Lloyd ³	–	–	–	–	–	–	–	–
M Wheatley ³	–	–	–	–	–	–	–	–
D Clark	–	–	–	–	–	–	–	–
A Stewart	3,000,000	1,800,000 ⁴	–	–	4,800,000	4,800,000	1,800,000 ⁴	3,000,000
B Evans ²	1,500,000	–	–	(1,500,000)	–	–	–	–
M Langan ³	–	1,500,000 ⁴	–	–	1,500,000	1,500,000	1,500,000 ⁴	–
Total	21,300,000	3,300,000⁴	–	(1,500,000)	23,100,000	23,100,000	3,300,000⁴	19,800,000

1. All holdings are held by the individual or entities which he or she controls.
2. Resigned during the year.
3. Appointed during the year.
4. Performance Share Rights.

30 June 2012	Balance at	Granted as	Options	Net	Balance at	Vested at 30 June 2012		
	Beginning	Remuner-			End of	Total	Not	Exercisable
	of Period	ation	Exercised	Change	Period ¹		Exercisable	Exercisable
	1 July			Other	30 June			
	2011				2012			
Key Management Personnel								
B Thornton	6,400,000	–	–	–	6,400,000	6,400,000	–	6,400,000
R Pery ²	3,400,000	–	–	–	3,400,000	3,400,000	–	3,400,000
R Williams	3,400,000	–	–	–	3,400,000	3,400,000	–	3,400,000
Ganbayar L	3,000,000	–	–	–	3,000,000	3,000,000	–	3,000,000
R Heeks	2,000,000	–	–	–	2,000,000	2,000,000	–	2,000,000
R Westphal	–	2,000,000	–	–	2,000,000	2,000,000	–	2,000,000
H Badenach ³	–	–	–	–	–	–	–	–
A Stewart	–	3,000,000	–	–	3,000,000	3,000,000	–	3,000,000
B Evans ³	–	1,500,000	–	–	1,500,000	1,500,000	–	1,500,000
Total	18,200,000	6,500,000	–	–	24,700,000	24,700,000	–	24,700,000

1. All holdings are held by the individual or entities which he or she controls.
2. Resigned during 2012.
3. Appointed during 2012.

20. Related Party Transactions (continued)

(e) Shareholdings of Key Management Personnel

	Balance 1 July 2012	Granted as Remuneration	On Exercise of Options	Net Change Other ¹	Balance 30 June 2013 ²
30 June 2013	Ord	Ord	Ord	Ord	Ord
Directors					
D Gately	–	–	–	75,000	75,000
B Thornton	20,553,657	–	–	183,712	20,737,369
R Williams ³	4,475,000	–	–	–	4,475,000
Ganbayar L	14,389,565	–	–	–	14,389,565
R Heeks ³	84,200	–	–	–	84,200
R Westphal	255,000	–	–	–	255,000
H Badenach	–	–	–	–	–
M Wheatley	–	–	–	200,000	200,000
D Clark	–	–	–	90,000	90,000
A Stewart	–	–	–	–	–
B Evans ³	110,000	–	–	–	110,000
M Langan	–	–	–	–	–
Total	39,867,422	–	–	548,712	40,416,134

1. On market share purchases during the period.
2. All holdings are held by the individual or entities which he or she controls.
3. Mr Williams, Mr Heeks and Mr Evans resigned during the year.

	Balance 1 July 2011	Granted as Remuneration	On Exercise of Options	Net Change Other ¹	Balance 30 June 2012 ²
30 June 2012	Ord	Ord	Ord	Ord	Ord
Directors					
B Thornton	20,289,538	–	–	264,119	20,553,657
R Perry ³	3,355,874	–	–	–	3,355,874
R Williams	4,475,000	–	–	–	4,475,000
Ganbayar L	3,520,000	–	–	10,869,565	14,389,565
R Heeks	84,200	–	–	–	84,200
R Westphal	255,000	–	–	–	255,000
H Badenach ⁴	–	–	–	–	–
A Stewart	–	–	–	–	–
B Evans	78,000	–	–	32,000	110,000
Total	32,057,612	–	–	11,165,684	43,223,296

1. On market share purchases during the period.
2. All holdings are held by the individual or entities which he or she controls.
3. Mr Perry resigned as a Director during 2012.
4. Ms Badenach became a Non-Executive Director during 2012.

(f) Other Transactions with Key Management Personnel

- (i) Insurance brokering services were provided by InterRISK Australia Pty Ltd, a company of which Robert Westphal is a Director. The value of the premium paid to InterRISK Pty Ltd during the year was \$54,081 (2012: \$48,257).
- (ii) Office and support services were provided by Farrington Corporate Services Pty Ltd, a company of which Brian Thornton is a Director. The value of the services provided by Farrington Corporate Services Pty Ltd during the year was \$51,914 (2012:Nil).

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

21. Acquisition of Subsidiaries

Asset Acquisitions

No Subsidiaries were acquired during the year.

During 2012 the company Acquired Xanadu South Gobi Copper LLC.

On 23 January 2012 Xanadu purchased 51% of the issued shares in Mongolian company DGDM LLC. The name of the company was subsequently changed to Xanadu South Gobi Copper LLC.

The net assets acquired in the asset acquisition are as follows:

	Acquiree's carrying amount before acquisition \$'000s	Fair value \$'000s
Net assets acquired:		
Deferred Exploration Expenditure	–	1,440
	–	1,440
Deferred Exploration Expenditure		1,440
Non-controlling interest recognized on acquisition		(706)
Total consideration		734

Deferred Exploration Expenditure arose in the asset acquisition because the cost of the purchase included exploration potential premium paid to acquire the assets.

The vendor received shares in Xanadu Mines Ltd as consideration to the value of US\$500,000 (AU\$496,000) and also a commitment from Xanadu Mines Ltd to spend US\$250,000 (AU\$238,000) on exploration at the licences. There was no cash outflow related to the transaction.

22. Events After the Balance Sheet Date

On 25 August 2013 George Lloyd completed his probationary period and was appointed to the role of Managing Director on 26 August 2013. Other than the above, there are no other significant events that have occurred after the balance sheet date.

23. Interest in Jointly Controlled Entity

In the 2011 year Xanadu and Noble Group (SGX:N21) executed a formal agreement for a strategic alliance to explore and develop coking coal, iron ore and ferro alloy opportunities in Mongolia. Both Xanadu and Noble participate in the Strategic Alliance through a joint venture company Ekhgoviin Chuluu LLC ("EC") with each party holding a 50% interest.

The investment in Joint Venture recognises Xanadu's interest in Coalridge Limited which in turn has an interest in EC. Both Noble and Xanadu have an equal interest and hence control is not held by either party.

As at 30 June 2013, the consolidated entity recognised the following joint venture assets in its statement of financial position:

	2013	2012
	\$'000s	\$'000s
Financial position		
Assets		
Current assets	204	512
Non-current assets	5,683	5,009
Total assets	5,887	5,521
Liabilities		
Current liabilities	80	79
Non-current liabilities	-	-
Total liabilities	80	79
Financial performance		
Profit/(Loss) for the year	(895)	(259)

- (i) Xanadu Mines Ltd has no further commitment to the joint venture as at 30 June 2013.
- (ii) No assets employed in the jointly controlled entity were impaired during the 2013 year, although the parent entity has made a provision for impairment to reduce the carrying value of the interest in the joint venture to \$850,000.

ASX Additional Information

FOR THE YEAR ENDED 30 JUNE 2013

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 2 October 2013.

(a) Distribution of Equity Securities

The number of shareholders, by size of holding, in each class of share are:

	Listed Ordinary Shares	
	Number of Holders	Number of Shares
1 – 1,000	30	14,243
1,001 – 5,000	189	605,344
5,001 – 10,000	149	1,243,102
10,001 – 100,000	471	17,583,915
100,001 – and over	160	179,809,786
	999	199,256,390
The number of shareholders holding less than a marketable parcel of shares are:	224	645,479

(b) Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are:

	Listed Ordinary Shares	
	Number of Shares	Percentage of Shares
1 Sakari Energy Trading Pte Ltd	24,642,332	12.37
2 Ravenca Limited	17,848,199	8.96
3 Mr Ganbayar Lkhagvasuren	14,389,565	7.22
4 Eagle Securities Limited	11,367,765	5.71
5 Bikini Atoll Investments Pty Ltd	7,260,000	3.64
6 Farrington Corporate Services Pty Ltd <Farrington Super Fund>	6,826,100	3.43
7 Lujeta Pty Ltd <The Margaret Account>	5,916,421	2.97
8 J S Meek	5,900,000	2.96
9 JP Morgan Nominees Australia Limited <Cash Income Account>	4,613,464	2.32
10 Bellarine Gold Pty Ltd <Ribblesdale Super Fund Account>	4,016,635	2.02
11 Talbot Group Holdings Pty Ltd <Talbot Equities Account>	3,000,000	1.51
12 Norvale Pty Ltd <Norvale Employees S/F Account>	2,970,276	1.49
13 Dwyper Consulting Pty Ltd	2,428,000	1.22
14 Bannaby Investments Pty Ltd <Super Fund Account>	2,300,000	1.15
15 Hillgrove Resources Limited	2,285,000	1.15
16 Capricorn Mining Pty Ltd	2,100,000	1.05
17 Yarandi Investments Pty Ltd <Griffith Family No 2 Account>	2,061,016	1.03
18 Lujeta Pty Ltd <The Margaret Account>	2,000,000	1.00
19 Australian Investors Pty Ltd	1,950,000	0.98
20 HSBC Custody Nominees (Australia) Limited	1,745,117	0.88
	125,619,890	63.04

(c) Substantial Shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Number of Shares	Percentage of Ordinary Shares	Preference Shares
Sakari Energy Trading Pte Ltd	24,642,332	12.37	–
Brian Thornton and associated interests	20,737,369	10.41	–
Noble Group Companies including Ravenca Limited	18,511,994	9.29	–
Ganbayar Lkhagvasuren	14,389,565	7.22	–
Eagle Securities Limited	11,369,431	5.71	–

(d) Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Unquoted Securities (and names of holders with more than 20% of equity in securities in each case)

Class	Number of Securities	Number of Holders	Holdings with More Than 20%
Options over ordinary shares exercisable at \$0.50 on or before 31 December 2014	14,000,000	4	Mr Brian Thornton 6,000,000 options Mr Roger Perry 3,000,000 options Mr Rod Williams 3,000,000 options
Options over ordinary shares exercisable at \$0.50 on or before 19 December 2014	5,240,000	17	Mr Ron Heeks 2,000,000 options Mr Ganbayar Lkhagvasuren 1,000,000 options
Options over ordinary shares exercisable at \$0.60–\$1.80 on or before 30 June 2016	3,000,000	1	Dr Andrew Stewart 3,000,000 options
Options over ordinary shares exercisable at \$0.70–\$1.00 on or before 31 December 2014	2,000,000	1	Mr Robert Westphal 2,000,000 options
Performance share rights vesting on or before 23 May 2016	3,300,000	2	Dr Andrew Stewart 1,800,000 options Mr Mark Langan 1,500,000 options

(f) Securities Exchange Listing

Quotation has been granted for 199,256,390 ordinary shares of the Company on all Member Exchange of the ASX Limited.

(g) Schedule of Mining Tenements

Area of Interest	Tenements
Mongolia	
Xanadu Metals Mongolia LLC	14160X
Xanadu Coal Mongolia LLC	14451X, 15004X
Altan Xanadu LLC	13703X, 13711X
Xanadu Energy Resources LLC	9383X, 15292X, 12553X
Xanadu Copper Mongolia LLC	13760X
Xanadu South Gobi Copper LLC	15259X, 15157X
BlackRock LLC	13958X, 13580X
Ekhgoviin Chuluu LLC	15142X
Interglobal LLC	13168X
Xanadu Mines Singapore Pte Ltd	MV-017129



Xanadu Mines Ltd

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