

Manager Company Announcements
Company Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2001

By Electronic Lodgement – 7 pages
6 June 2013

OYUT ULAAN COPPER GOLD PROJECT RECONNAISSANCE DRILLING RESULTS

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- **Intersections of up to 170m of over 1.00% copper equivalent**
 - **Gold-rich copper porphyry mineralisation remains open along strike and at depth**
 - **Excellent potential to define significant a resource at a very low discovery cost**
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Xanadu Mines Ltd (**ASX: XAM – “Xanadu”**) is pleased to announce the results of its reconnaissance drilling program at the Oyut Ulaan copper and gold project in the South Gobi region of Mongolia (Figure 1). Xanadu advises that four drill holes intersected thick zones of gold-rich porphyry copper mineralisation. Significant results are as follows;

- **ODDH003** intersected 132.0 metres @ 1.07% CuEq. from surface (including 44.0m @ 1.75% CuEq.);
- **ODDH005** intersected 170.5 metres @ 0.76% CuEq. from surface (including 100.65m @ 1.01% CuEq.);
- **ODDH006** intersected 48.5 metres @ 1.70% CuEq. from 29.50 metres (including 25.7m @ 2.75% CuEq.); and
- **ODDH007** intersected 108.2 metres @ 0.80% CuEq. from 45.50 metres (including 36.0m @ 1.06% CuEq.).

The drilling program consisted of 10 diamond drill holes totalling around 2,500 metres. The program focused on the Diorite prospect (Figure 2) and targeted zones of sub cropping stockwork gold and copper mineralisation hosted in a series of potassic altered monzonite porphyries. The drilling program results are attached as Appendix 1 and selected cross sections as Appendix 2.

Drilling at the Diorite Prospect has only tested a relatively small part of the strongly mineralised Oyut Ulaan Intrusive Complex (OUIIC). Porphyry mineralisation at several prospects remains open and several favourable geophysical targets remain untested along strike from the porphyry mineralisation. The mineralisation extends, and could amalgamate, at depth at each prospect.

The nature of the mineralising dykes, their irregular intrusion geometry, and the patchy distribution of stockwork mineralisation at both prospects are features typically found in the shallower parts of porphyry systems.

Xanadu's CEO, George Lloyd, said "The high gold grades and strong potential for further porphyry-style mineralisation is highly encouraging. We are at the advanced stages of planning an extensive exploration program to further define the resource potential of the Oyut Ulaan project."

Xanadu has recently released details of the amended Oyut Ulaan acquisition terms. The implementation of the original proposal was delayed by changes in Mongolia's foreign investment law. The Mongolian Parliament recently approved amendments to the law allowing for the acquisition to proceed.

The Oyut Ulaan exploration program will commence on completion of the acquisition including the approval of Xanadu shareholders and the Government of Mongolia. A general description of the Oyut Ulaan copper-gold porphyry project is included in Appendix 3.

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Information on the Company's exploration results is sourced from information compiled by Dr. Andrew Stewart. Dr. Stewart is an employee of Xanadu Mines 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.

ABOUT XANADU MINES

Xanadu Mines Ltd is a Mongolian exploration company focused on advancing its portfolio of highly prospective copper-gold projects. The company has also partnered with the Noble Group of Hong Kong in a coking coal joint venture and holds two thermal coal assets.

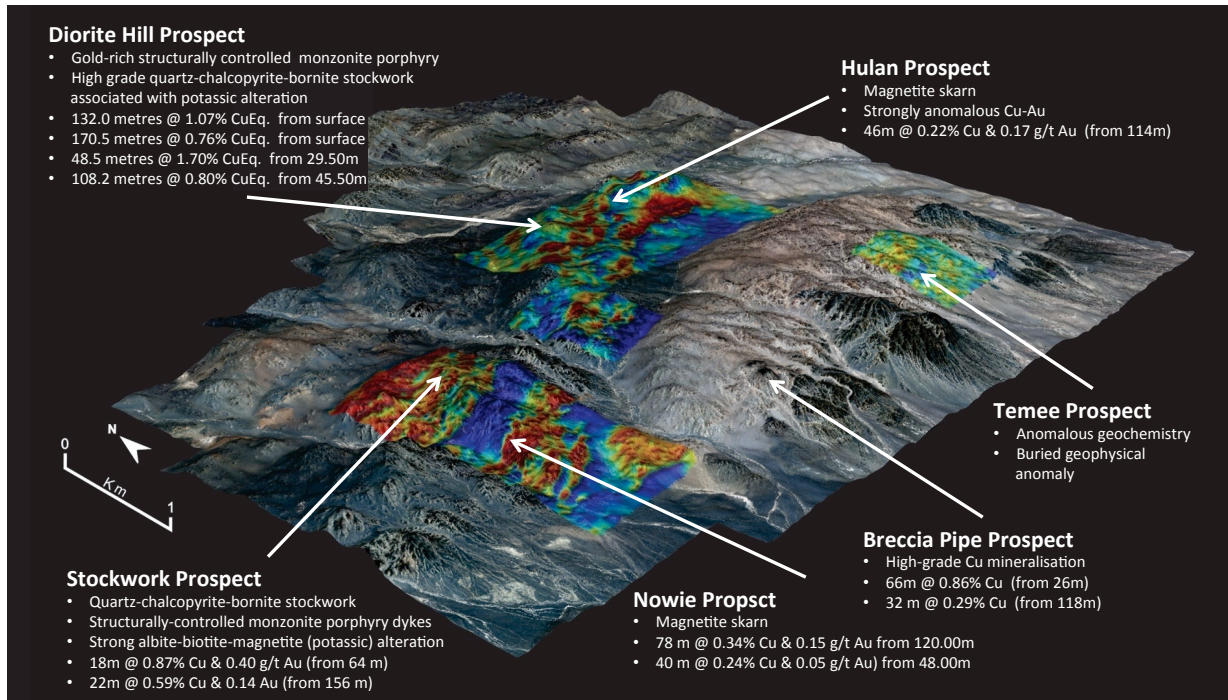


Figure 1: Oyu Ulaan porphyry copper project, showing the main prospects.

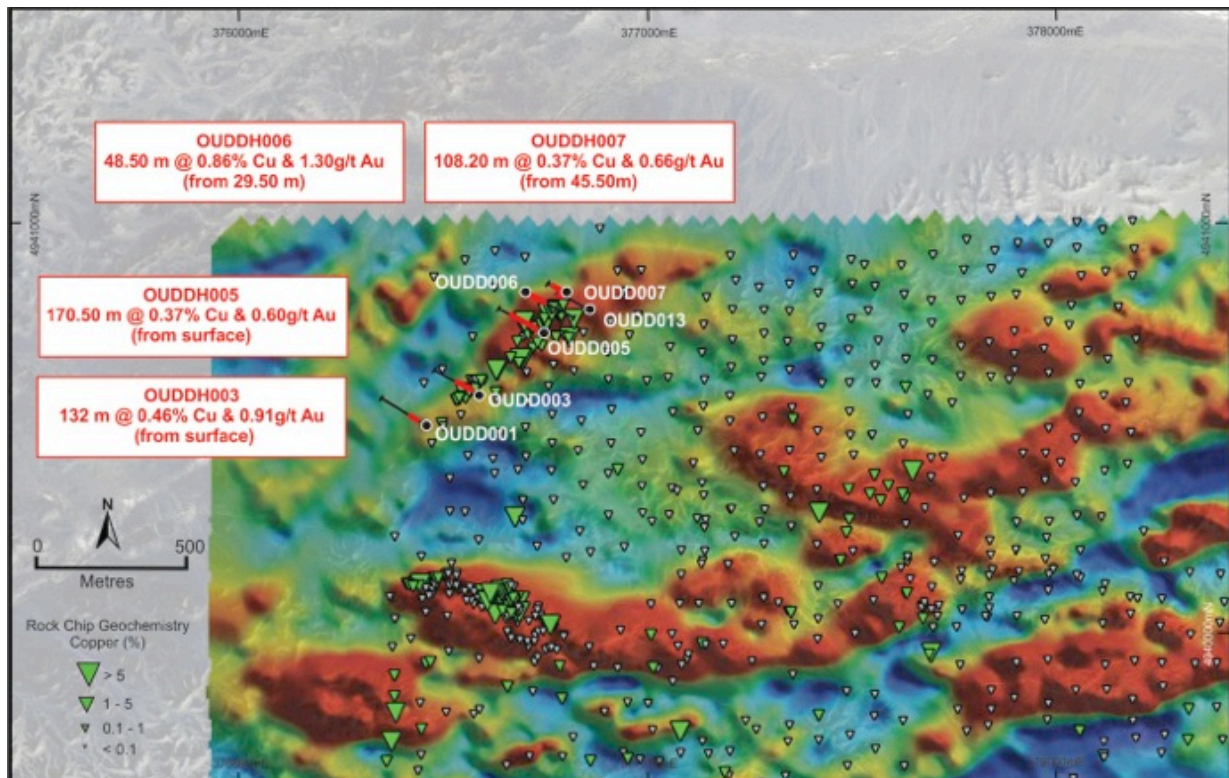


Figure 2: Diorite prospect drilling results, geochemistry and magnetic survey.

APPENDIX 1: DRILLING PROGRAM RESULTS

Results of the Oyut Ulaan reconnaissance drilling program are summarised below.

Table 1: Drilling completed at Oyut Ulaan in 2012:

PROSPECT	DESCRIPTION	HOLE TYPE	HOLES COMPLETED	TOTAL METRES DRILLED
Diorite	Exploration	DDH	6	1505.10
Stockwork	Exploration	DDH	3	803.00
Aplite	Exploration	DDH	1	200.00
Total			10	2508.10

Table 2: Holes completed at the Oyut Ulaan project in 2012:

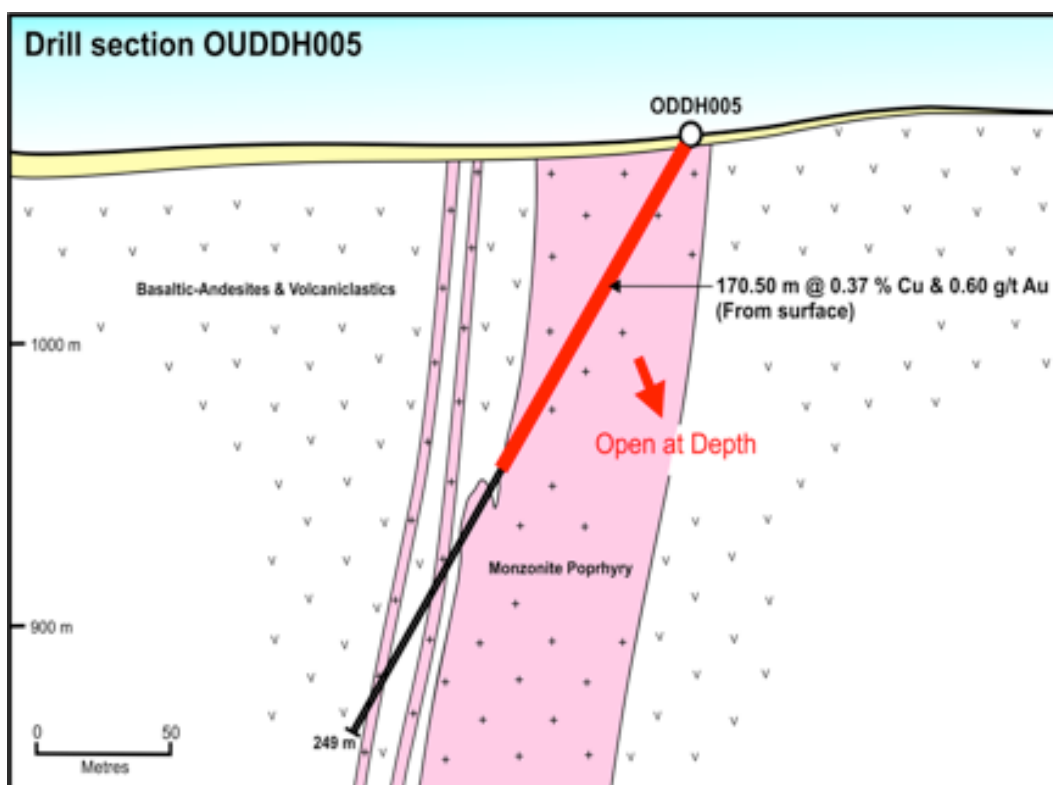
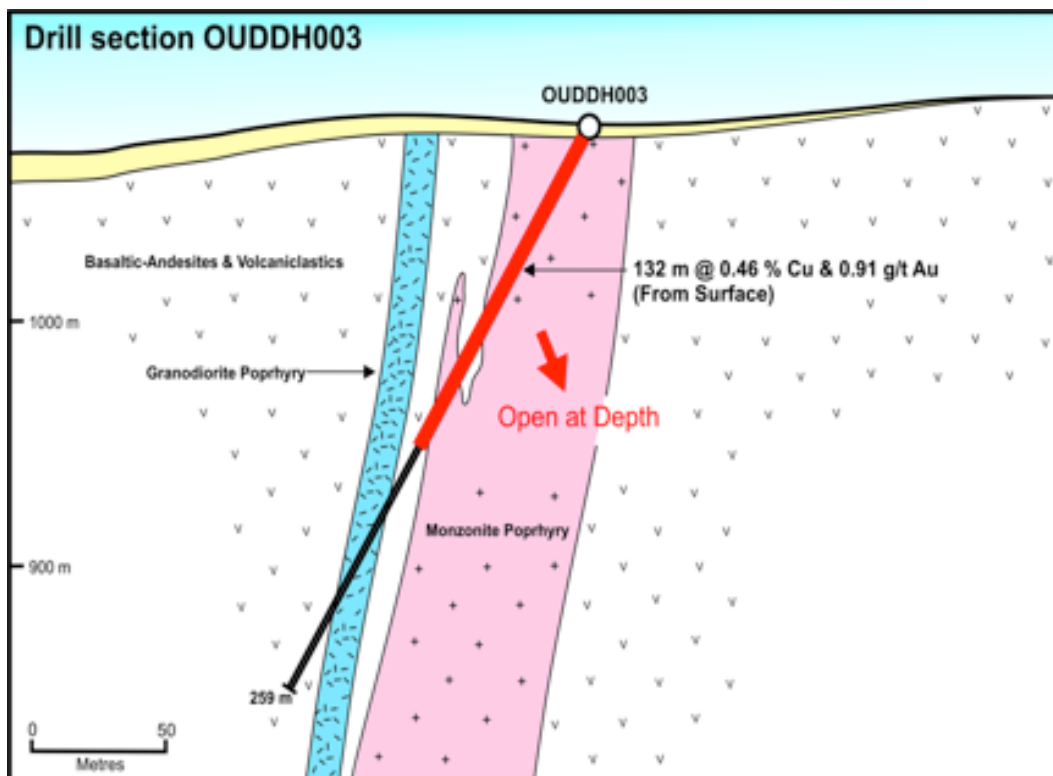
HOLE ID	PROSPECT	UTM EASTING	UTM NORTHING	DEPTH	ANGLE	AZIMUTH
ODDH001	Diorite	376458	4940505	235.00	-55	300
ODDH003	Diorite	376587	4940581	258.50	-60	300
ODDH005	Diorite	376746	4940732	249.00	-57	296
ODDH006	Diorite	376694	4940832	266.60	-60	116
ODDH007	Diorite	376810	4940820	196.00	-70	300
ODDH013	Diorite	376862	4940784	300.00	-70	300
ODDH010	Stockwork	373674	4939277	303.00	-60	183
ODDH011	Stockwork	373676	4939207	250.00	-55	186
ODDH012	Stockwork	373623	4939205	250.00	-55	180
ODDH014	Aplite	365859	4937936	200.00	-60	24

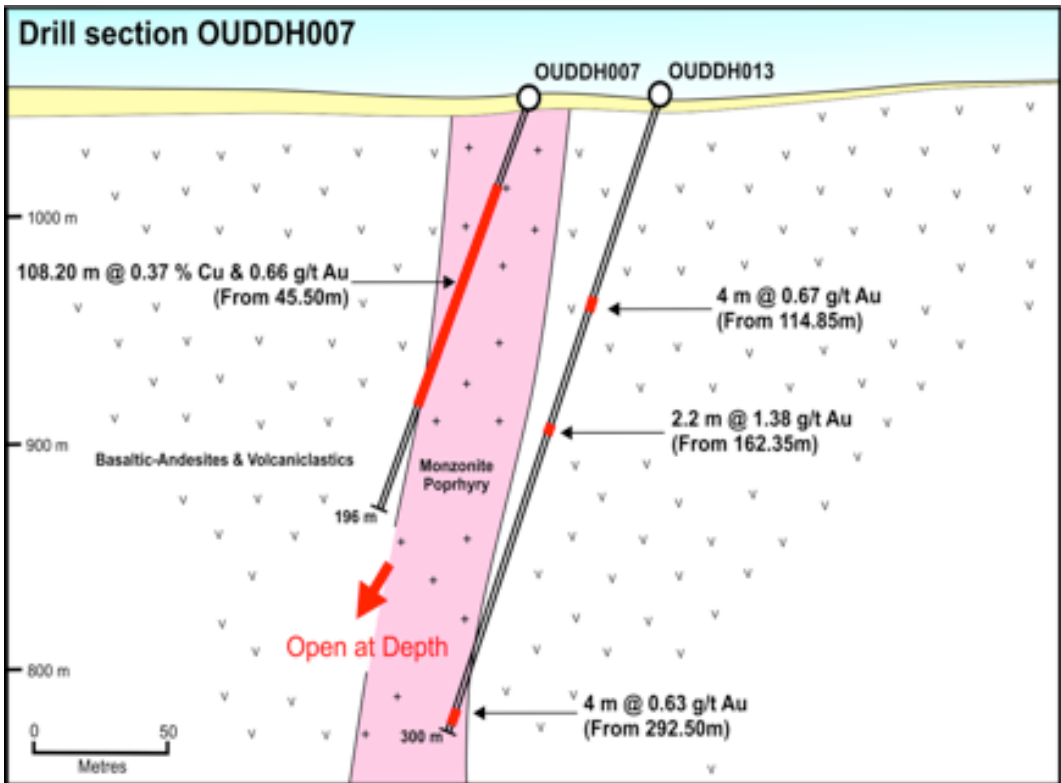
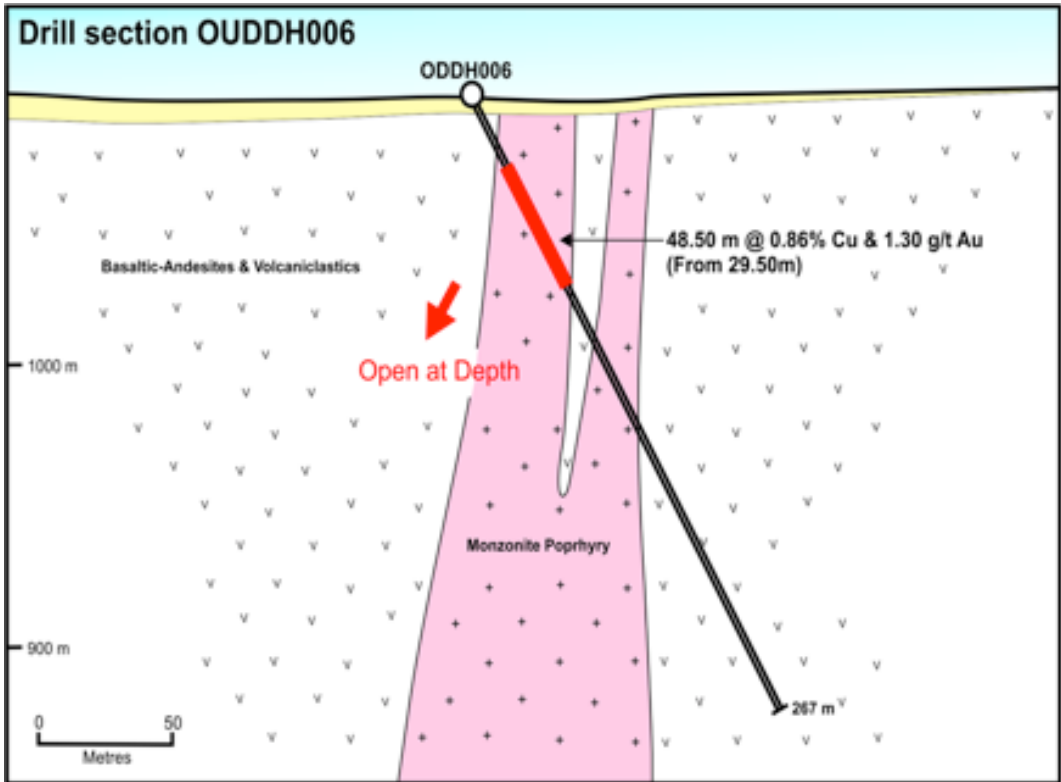
Table 3: Significant drill intercepts from Diorite and Stockwork:

HOLE ID	DEPTH FROM (m)	DEPTH TO (m)	Interval (m)	Gold (g/t)	Silver (g/t)	Copper (%)	CuEq (%)
ODDH003	0.00	132.00	132.00	0.91	3.17	0.46	1.07
including	8.00	52.00	44.00	1.56	3.72	0.73	1.75
ODDH005	0.00	170.50	170.50	0.60	1.15	0.37	0.76
including	11.35	112.00	100.65	0.82	1.75	0.48	1.01
ODDH006	29.50	78.00	48.50	1.30	1.85	0.86	1.70
including	47.40	73.10	25.70	2.20	3.16	1.35	2.75
ODDH007	45.50	153.70	108.20	0.66	1.86	0.37	0.80
including	90.30	126.30	36.00	0.88	2.07	0.49	1.06
ODDH012	60.40	117.40	57.00	0.06	1.37	0.43	0.49

The copper equivalent (CuEq) calculation represents the total metal value for each metal, multiplied by the conversion factor, summed and expressed in equivalent copper percentage. Grades have not been adjusted for metallurgical or refining recoveries and the copper equivalent grades are of an exploration nature only and intended for summarising grade. The copper equivalent calculation is intended as an indicative value only. The following copper equivalent conversion factors and long-term price assumptions have been adopted: Copper Equivalent Formula (CuEq) = Cu% + Ag (g/t) x 0.012 + Au (g/t) x 0.625
Assumptions- Cu (US\$7,500/t), Ag (US\$30/oz) and Au (US\$1,500/oz).

APPENDIX 2: OYUT ULAAN CROSS SECTIONS





APPENDIX 3: ABOUT THE OYUT ULAAN PROJECT

The Oyut Ulaan porphyry copper-gold 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 porphyry copper project covers a large district (approximately 40 square kilometres) comprising numerous mineralised porphyry centres. 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).

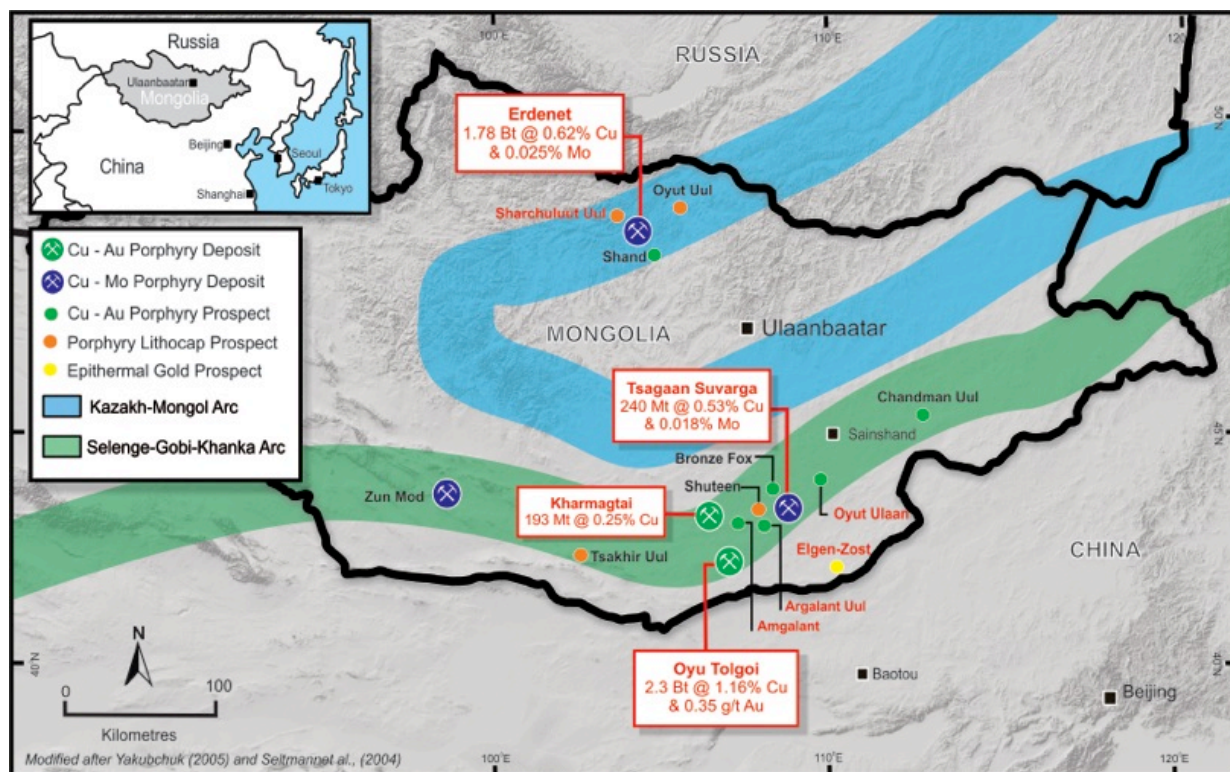


Figure: Mongolian copper belts showing the main deposits and prospects.

The gold-copper porphyry potential of the Oyut Ulaan district has only been fully recognised in the last 30 years. Prior to this, Bronze Age workers extracted gold and copper from high-grade veins. Between 2001 and 2007 Ivanhoe Mines Mongolia carried several phases of geological mapping, surface geochemistry, trenching and limited shallow drilling aimed at identifying shallow porphyry mineralisation. Between 2009 and 2011 Temujin Mining Corporation drilled several drill holes, confirming the presence of gold-rich porphyry mineralisation.

The Oyut Ulaan copper-gold district lies within the eastern part of the Mandalovoo island-arc terrane, of southern Mongolia. This terrane is one of numerous elongate, fault-bounded stratotectonic units comprising Middle Devonian-Late Permian intrusive, volcanic and sedimentary rocks. The belt developed during several episodes of magmatism in the Silurian-Middle Devonian and Late Devonian to Permian. The southern Mongolian Palaeozoic magmatic belt hosts most of the known porphyry and intrusion-related mineralisation in the South Gobi, including the Oyu Tolgoi copper-gold porphyry, the Kharmagtai copper-gold porphyry deposits, and the Tsagaan Suvarga copper-molybdenum porphyry.