



QUARTERLY ACTIVITIES REPORT PERIOD ENDED 30 JUNE 2013

Highlights:

- **Xanadu enters amended definitive documents for the Oyut Ulaan copper gold project**
 - **Oyut Ulaan drilling intersects significant gold-rich porphyry copper mineralisation**
 - **Mapping and rock chip sampling program underway at the Sharchuluut project**
 - **Operations review identifies cost savings**
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Xanadu Mines Ltd (**ASX: XAM – “Xanadu”**) is pleased to provide shareholders with an update of operations for the three months to 30 June 2013.

OYUT ULAAN AGREEMENT

Xanadu announced that it entered into definitive documents to complete the acquisition of the Oyut Ulaan copper-gold porphyry project from Temujin Mining Corp on 6 June 2013. The acquisition was first announced on 10 May 2012 and its initial implementation delayed by changes in Mongolia’s foreign investment regulations.

The new terms substantially de-risk the acquisition for Xanadu by materially reducing the upfront share consideration in exchange for a modest cash payment and the issuance of performance share options contingent on JORC resource targets. Temujin’s acceptance of performance-based consideration is a strong sign of confidence in both the project’s potential and improving business conditions in Mongolia.

Xanadu is currently working through the Government of Mongolia approval process and will seek Xanadu shareholder approval in due course. The Oyut Ulaan acquisition terms are summarised in Appendix 1.

OYUT ULAAN EXPLORATION

Xanadu announced the results of its reconnaissance drilling program at Oyut Ulaan on 6 June 2013. 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 gold and copper mineralisation hosted in a series of potassic altered monzonite porphyries. Four drill holes intersected thick zones of gold-rich porphyry copper mineralisation. A summary of the drilling program results are attached as Appendix 2.

A substantial exploration program has been planned for Oyut Ulaan. The bulk of the exploration program is expected to commence following completion of the acquisition including the approval of Xanadu shareholders and the Government of Mongolia. An overview of Oyut Ulaan is included in Appendix 3 and additional information can be found in Xanadu’s latest presentation.



SHARCHULUUT COPPER PROJECT

During the quarter Xanadu relinquished the northern portion of the Sharchuluut copper porphyry project, 40 kms to the north west of the Erdenet copper mine. 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.

Xanadu's exploration team mobilised to Sharchuluut in July. The purpose of the fieldwork was to undertake further mapping and rock chip sampling to follow-up on 2012 exploration results. The Sharchuluut project is characterised by the erosional remnants of an advanced argillic lithocap, and field relationships suggest a high level of formation above a porphyry intrusion.

OPERATIONS REVIEW

A detailed review of Xanadu's operations and exploration strategy commenced in March 2013. Xanadu has implemented initial cost reductions including relocating its Sydney office to smaller premises. Xanadu has completed a comprehensive review of its exploration license portfolio. As a result, Xanadu has commenced a process to either sell or relinquish licenses that are not aligned with the company's strategy.

CORPORATE

At 30 June Xanadu had cash of \$5,603,000 and issued capital of 199,256,390 fully paid shares.

For further information:

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Information on Xanadu'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.



APPENDIX 1: OYUT ULAAN ACQUISITION TERMS

Xanadu to earn 90% of the share capital of Vantage LLC (“Vantage”) from Temujin Mining Corp (“Temujin”) upon and subject to Xanadu:

- (a) taking over all exploration, engineering, administrative and other activities and the costs in connection with developing the project (completed);
- (b) advancing MNT 680,000,000 for the mining licence application (completed);
- (c) payment of six hundred thousand United States Dollars (US\$600,000) at completion; and
- (d) issuing five million (5,000,000) Xanadu shares at completion;
- (e) issuing 15 million Series A and 20 million Series B Performance Share Options; and
- (f) completion of the acquisition being approved by Xanadu shareholders and the Foreign Investment Regulation and Registration Division of the Mongolian Ministry of Economic Development.

The terms of the Performance Share Options include:

- (a) Series A: the definition of a JORC Code compliant resource of at least three hundred thousand (300,000) tonnes of contained copper equivalent; and
- (b) Series B: the definition of a JORC Code compliant resource of at least nine hundred thousand (900,000) tonnes of contained copper equivalent.

Xanadu also agrees to incur minimum expenditure on the project of:

- (a) one million United States Dollars (US\$1,000,000) before the date which is 18 months after approval by the Government of Mongolia; and
- (b) three million United States Dollars (US\$3,000,000) (inclusive of the US\$1,000,000 initial commitment) before the date which is 30 months after approval by the Government of Mongolia.

Xanadu will circulate a Notice of Meeting to call a General Meeting at which Xanadu shareholders will consider and vote on the issuance of the Performance Share Options (and issuance of the Performance Shares upon exercise of the Performance Share Options if necessary) to Temujin or to any shareholder of Temujin as directed.



APPENDIX 2: 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 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).

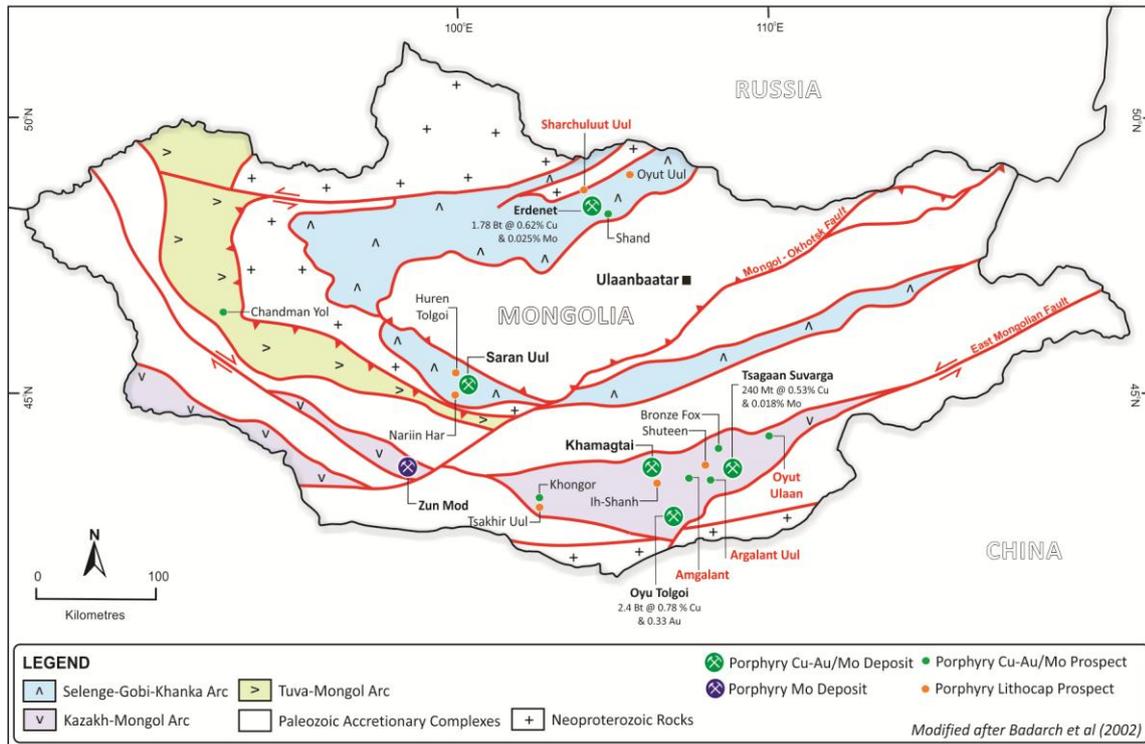


Figure: Mongolian copper belts showing the main deposits and prospects.

The copper-gold 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-out 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 holes, confirming the presence of gold-rich porphyry mineralisation.

The Oyut Ulaan district is located within the Central Asian fold belt, one of the largest orogenic belts in the world and extending for over 5000 kilometres. Contained within this fold belt is the Kazakh-Mongol arc, which is one of numerous elongated, fault-bounded stratotectonic units, comprising Middle to Late Palaeozoic sedimentary and volcanic rocks. The belt developed during several episodes of magmatism in the Silurian-Middle Devonian and Late Devonian to Permian. The Kazakh-Mongol arc hosts most of the known porphyry and intrusion-related mineralisation in the South Gobi, including the Oyu Tolgoi copper-gold porphyry, the Khamagtai copper-gold porphyry deposits, and the Tsagaan Suvarga copper-molybdenum porphyry.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

XANADU MINES LTD

ABN

92 114 249 026

Quarter ended ("current quarter")

30 June 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(250)	(4,152)
(b) development	-	-
(c) production	-	-
(d) administration	(705)	(2,893)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	32	393
1.5 Interest and other costs of finance paid	-	(2)
1.6 R&D Tax Offset	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(923)	(6,654)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	(4,917)
(b) equity investments	-	-
(c) other fixed assets	(20)	(176)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	53	53
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	1,230
1.12 Other (provide details if material)		
(a) Proceeds from disposal of controlled entity	-	-
(b) Cash on hand upon purchase of controlled entity	-	-
Net investing cash flows	33	(3,810)
Total operating and investing cash flows (carried forward)	(890)	(10,464)
1.13		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(890)	(10,464)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(890)	(10,464)
1.20	Cash at beginning of quarter/year to date	6,377	15,723
1.21	Exchange rate adjustments to item 1.20	116	344
1.22	Cash at end of quarter	5,603	5,603

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	136
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Payment of Director's fees and salaries

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not Applicable.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not Applicable.

+ See chapter 19 for defined terms.

Financing facilities available

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	214
4.2 Development	-
4.3 Production	-
4.4 Administration	659
Total	873

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,055	1,829
5.2 Deposits at call	4,548	4,548
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	5,603	6,377

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Nil		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

6.2 Interests in mining
tenements acquired or
increased

Nil			
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+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	199,256,390	199,256,390		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 *Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	14,000,000		<i>Exercise price</i> \$0.50	<i>Expiry date</i> 31/12/2014
	5,240,000		\$0.50	19/12/2014
	1,000,000		\$0.60	30/06/2016
	1,000,000		\$1.20	30/06/2016
	1,000,000		\$1.80	30/06/2016
	1,000,000		\$0.70	31/12/2014
	1,000,000		\$1.00	31/12/2014
7.8 Issued during quarter	3,300,000		Nil subject to share price hurdle	21/5/2016
7.9 Exercised during quarter				
7.10 Expired during quarter				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.11	Debentures <i>(totals only)</i>		
7.12	Unsecured notes <i>(totals only)</i>		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date 30 July 2013
 Company Secretary

Print name: Mark Langan

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.