



QUARTERLY ACTIVITIES REPORT PERIOD ENDED 31 MARCH 2013

Highlights:

- **Mongolia revises foreign investment regime**
 - **Comprehensive review of operations and cost structure underway**
 - **Board and senior management restructure substantially complete**
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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 31 March 2013.

REGULATORY ENVIRONMENT

On 19 April the Mongolian Parliament approved amendments to the May 2012 Strategic Entities Foreign Investment Law (SEFIL). The Mongolian Parliament also approved the regulations regarding the application process for approval for foreign investment. Government representatives have engaged with the business community and other stakeholders at a number of forums to explain the new rules.

The government has carefully set out a road-map for the development of foreign investment. This latest step will see the removal of parliamentary approval for private sector transactions and opens up applications for foreign investment approval which have been suspended since May 2012. We have been following this issue closely and are well-prepared to implement the new procedures, particularly in relation to the Oyut Ulaan agreement disclosed in May 2012.

This is a positive development for the Mongolian economy and continued development of the Mongolian mining sector. As stated in the last half-yearly report, we regard the recent debate as a healthy part of a vigorous democracy and development of all resource-rich nations. We believe that exploration companies and the global mining industry have a lot to contribute to Mongolia and we have every confidence in the future.

EXPLORATION ACTIVITY

There was limited fieldwork conducted this quarter due to the winter conditions and heavy late-spring snowfall. However, we have used the time to review our project portfolio in detail and develop our business development and exploration strategy for year ahead.



OPERATIONS REVIEW

Despite the encouraging foreign investment regulatory developments, we are aware of broader macroeconomic conditions as they affect the company. There is clear evidence that the global mining industry has shifted its focus from expansion by investment in new projects to productivity of its core assets and managing costs.

A detailed review of the company's operations and exploration strategy commenced in March and will be an ongoing process. The initial objectives are to reduce administrative costs and to prioritise projects based on their potential to create value for shareholders. This will be evidenced in a reduction in quarterly operating costs and the relinquishment or reduction of some licenses.

In the coming months we will more clearly articulate our strategy to focus on copper-gold projects, including the types of deposits that we believe present the best value enhancing opportunities. We will review potential and existing projects dispassionately and are willing to exit a project where we believe another operator or partner may be in a better position to add value. For example, we have already announced our intention to divest our thermal coal assets.

Management are determined to see this focus on the return on shareholder capital through a continuous review of the project portfolio and cost management become an intrinsic part of the Xanadu culture.

BOARD & MANAGEMENT RESTRUCTURE

There have been significant changes to the Board and senior management over the last six months. Three new Directors joined the Board in late 2012 bringing valuable commercial, legal and geological experience with them. Effective from 25 February 2013, Mr George Lloyd was appointed as the company's new CEO. The restructured Board and management team will bring renewed rigour and energy to the operations and business development strategy. The Board and senior management are fully committed to the comprehensive operations review discussed above.

For further information:

George A. Lloyd

Chief Executive Officer

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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 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")

31 March 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(470)	(3,466)
(b) development	-	-
(c) production	-	-
(d) administration	(682)	(2,188)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	151	361
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	(1,001)	(5,295)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	(4,917)
(b) equity investments	-	-
(c) other fixed assets	(24)	(156)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
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	(24)	(3,843)
Total operating and investing cash flows (carried forward)	(1,025)	(9,138)
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)	(1,025)	(9,138)
	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	(1,025)	(9,138)
1.20	Cash at beginning of quarter/year to date	7,459	15,723
1.21	Exchange rate adjustments to item 1.20	(57)	(208)
1.22	Cash at end of quarter	6,377	6,377

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	179
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

Add notes as necessary for an understanding of the position.

	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	232
4.2 Development	-
4.3 Production	-
4.4 Administration	593
Total	825

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	1,829	1,959
5.2 Deposits at call	4,548	5,500
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	6,377	7,459

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.

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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

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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		<u>Exercise price</u>	<u>Expiry date</u>
	<i>(description and conversion factor)</i>	14,000,000	\$0.50	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			
7.9	Exercised during quarter			
7.10	Expired during quarter			

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7.11	Debtures <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 April 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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