



30/10/2012

**Xanadu Mines Ltd (ASX: XAM)  
Quarterly Activities Report  
Period ended 30<sup>th</sup> September 2012**

**HIGHLIGHTS**

- Exploration drilling completed at the Sharchuluut Uul porphyry project
- Preliminary reconnaissance exploration and ground magnetics completed on the Amgalant and Argalant Uul porphyry copper-gold exploration licenses, located in the South Gobi.
- Exploration Drilling commenced on the Elgen Zost epithermal gold project in the South East Gobi with assay results expected mid-November.
- The advanced, highly prospective Oyut Ulaan porphyry copper gold project continues to progress with completion of the acquisition now awaiting government approval under the new Foreign Investment law.
- A\$11.161 million cash on hand at 30 September 2012 to fund exploration and working capital.

**EKHGOVIIN CHULUU LLC (Joint Venture Company Xanadu/Noble Group)**

- Field work carried out at Nuurstei and Khavtsgait including bulk sampling for coal quality testing.
- At Javkhlant in the south west Gobi, a mapping and stream sediment program over a number of coal outcrop target areas commenced.

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Figure 1: Xanadu Mines Mongolia project location map.

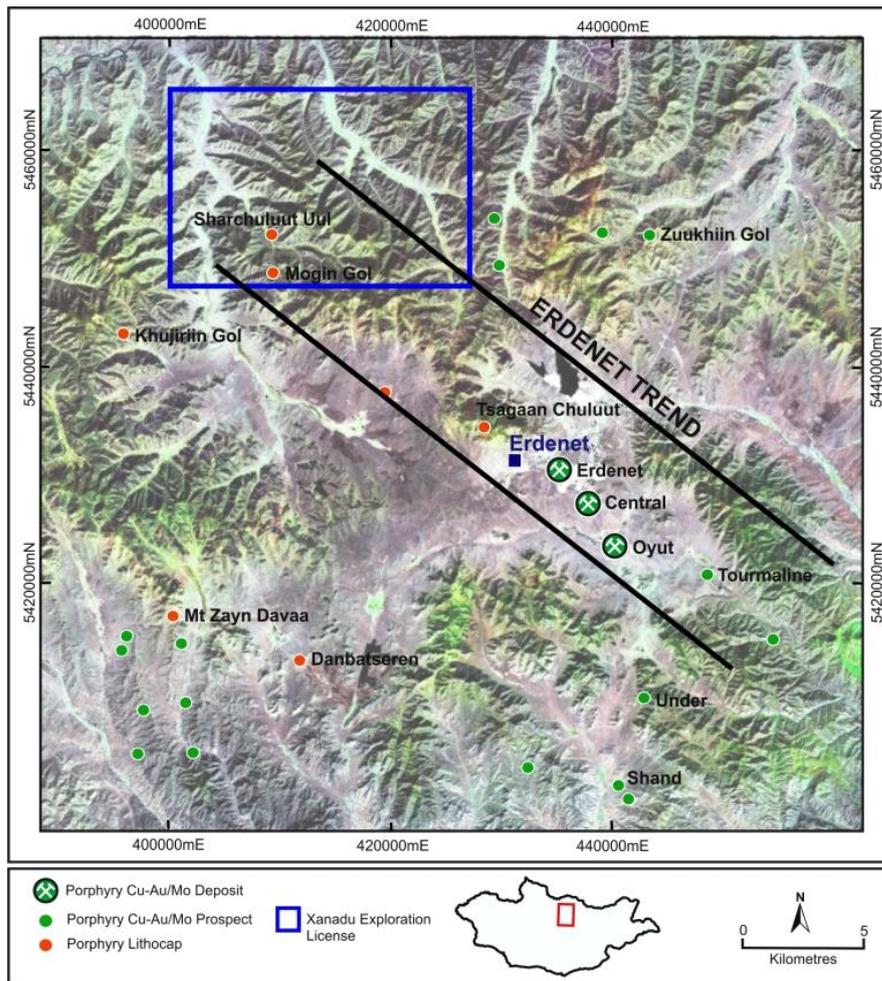
### SHARCHULUUT UUL COPPER PROJECT (Xanadu 100%)

The Sharchuluut Uul (Yellow Mountain) copper-gold-molybdenum porphyry project is located within the Bulgan Province of Northern Mongolia, approximately 230 kilometres northwest of Ulaanbaatar (Figure 1). The project consists of a cluster of five porphyry-related prospects: Sharchuluut Uul, Bukhin Gol, Salkhit Khushuu, Modon Khushuu and Khamartyn, which occur within a 15-kilometre-long, northwest oriented corridor of porphyry-related alteration and mineralisation at the north-western extremity of the Erdenet Trend, which hosts Mongolia's largest operating copper mine, the large Erdenet copper-molybdenum deposit (1.78 Bt @ 0.62% Cu, 0.025% Mo; Figure 2).

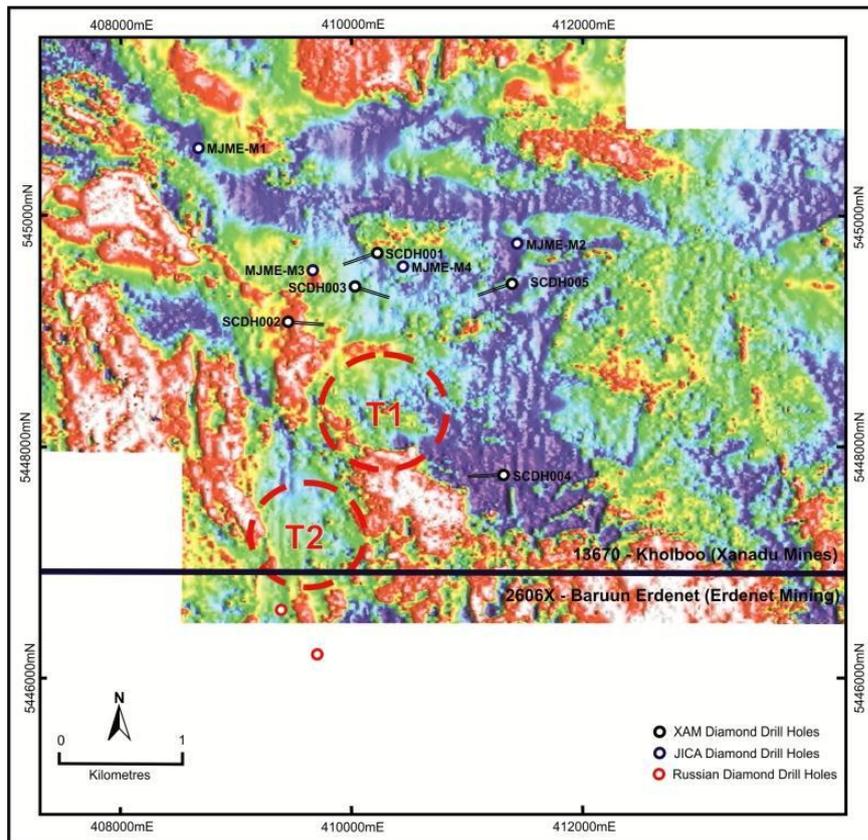
The Sharchuluut Uul prospect is characterised by the erosional remnants of an advanced argillic lithocap. Several prominent siliceous ledges occur within massive chalcedonic silicification, residual silica, quartz-alunite-diaspore and quartz-pyrophyllite. The lithocap is underlain by sodic illite-pyrite, and laterally enclosed by green andesitic volcanic rock (chlorite-epidote). Alteration and field relationships suggest a high level of formation above a deeper porphyry intrusion.

The first phase of exploration drilling was completed at the Sharchuluut Uul porphyry copper project in July. Five drill holes were completed for a total of 3908.40 metres with all drill holes reaching their target depths. Assays have been received for the five drill holes but no economic intercepts were encountered. Although drilling to date has shown that the Sharchuluut alteration system (lithocap) is impressive in size, vector IP (Figure 3 and 4) suggests it may extend east-west with at least 2 kilometres strike length (east-west) and be up to 400 m thick in multiple advanced argillic zones, dipping up to 50 degrees to the north. This could infer that the porphyry source for the advanced argillic alteration zone potentially lies to the south, or possibly along strike of the lithocap.

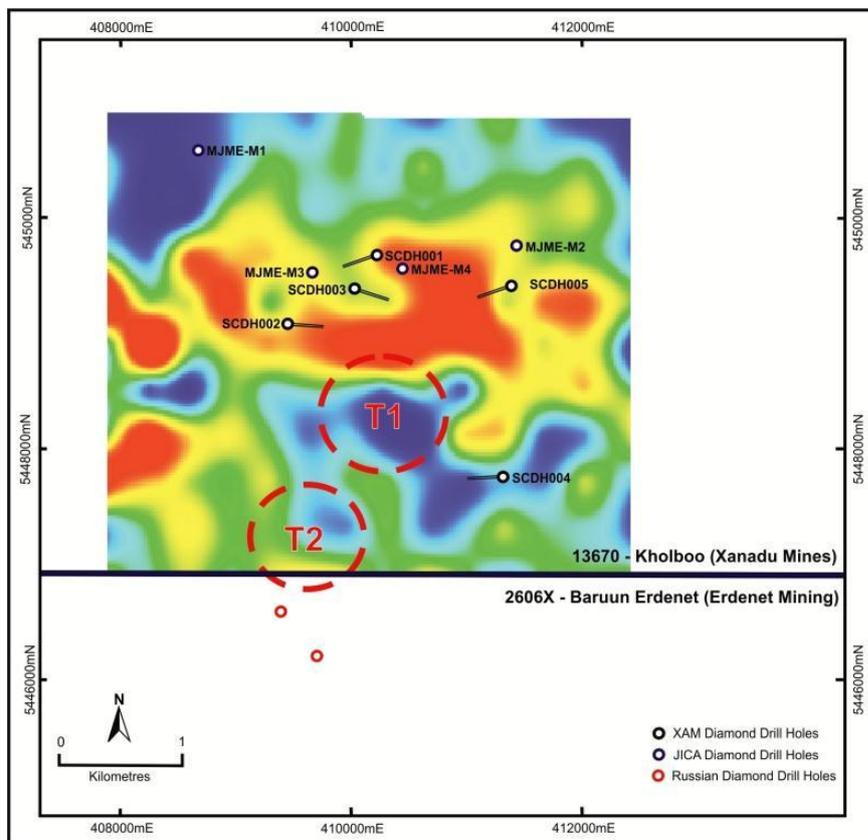
Large Triassic granodiorite and granite bodies (of similar age to the large Erdenet porphyry Cu-Mo deposit) occur to the east and north of the Sharchuluut prospect, but are relatively unaltered and unmineralized. The Sharchuluut lithocap is large, and to form the acid fluids required, a large volume of hydrothermal fluid accompanying high level intrusions, must undergo phase separation to form vapor and hypersaline brine. This in turn is expected to result in extensive quartz vein formation (and possibly porphyry style mineralization), none of which has been found in the area. While the porphyry source has not yet been discovered by regional mapping or drilling, a large intrusion about 4km<sup>2</sup> in area could underlie the area south of the Sharchuluut lithocap as interpreted in Figures 3 and 4 (T1 and T2 targets).



**Figure 2:** Regional ASTER image, showing the Erdenet porphyry copper trend. The Sharchuluut Uul project occurs at the northwest end of the Erdenet Trend.



**Figure 3:** Ground magnetic image, showing the location of the first five drill holes completed at the Sharchuluut copper prospect. T1 and T2 represent untested targets.



**Figure 4:** Vector IP (phase) map over the central area at Sharchuluut. T1 and T2 represent untested targets.

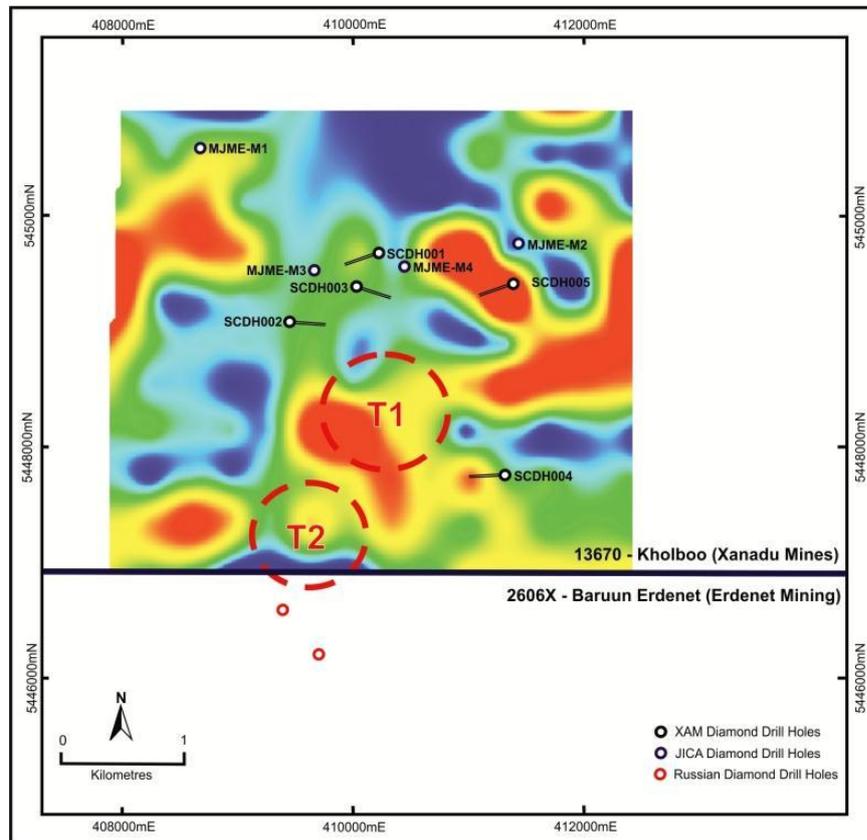


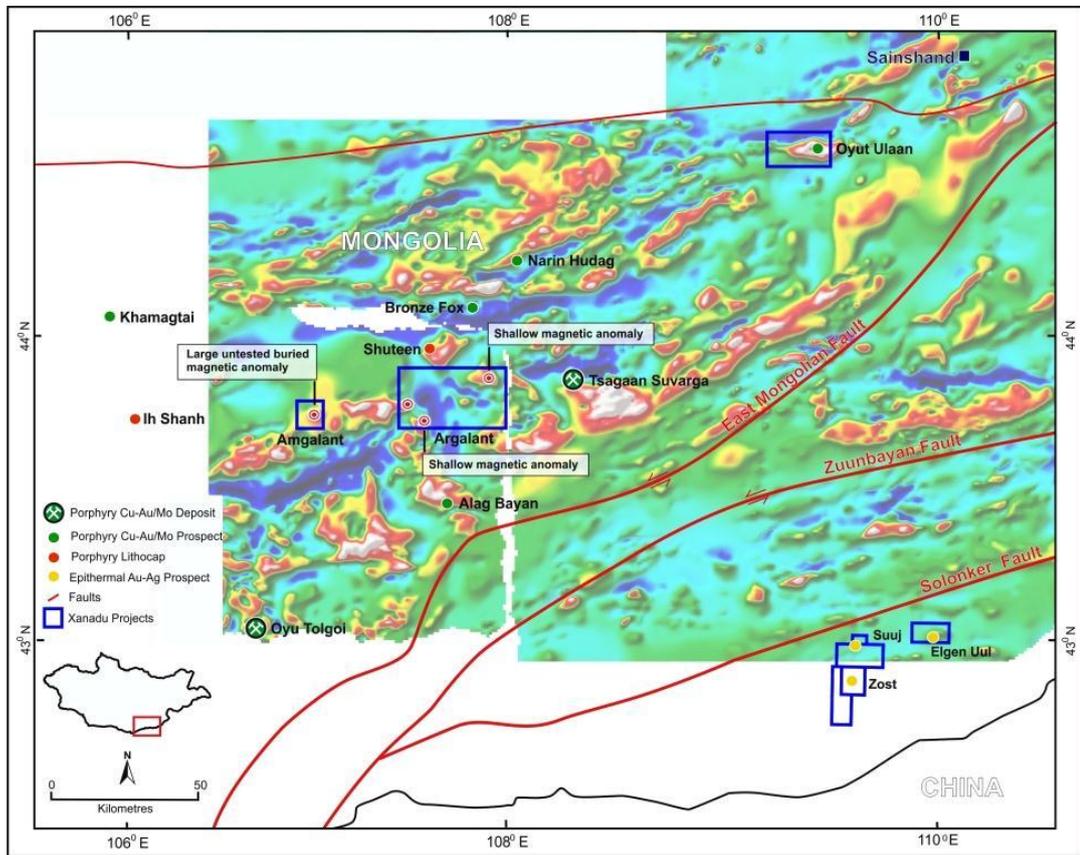
Figure 5: Vector IP (resistivity) map over the central area at Sharchuluut. T1 and T2 represent untested targets.

### AMGALANT & ARGALANT UUL COPPER-GOLD PORPHYRY PROJECT (Xanadu earning 80%)

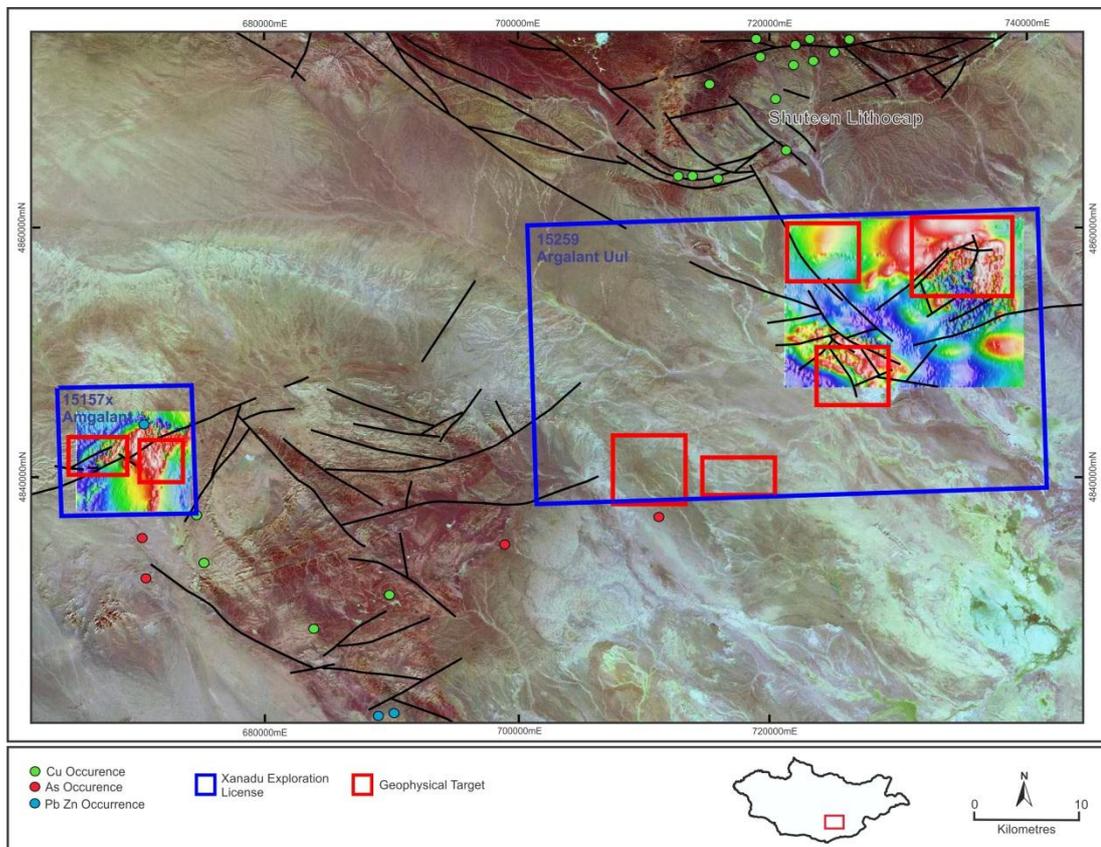
The Amgalant and Argalant Uul copper-gold porphyry projects are located within the Omnogovi Province of Southern Mongolia, approximately 480 kilometres south-southeast of Ulaanbaatar. They lie in the central part of the highly prospective South Gobi Porphyry and occur approximately 110 kilometres northeast of the proven Oyu Tolgoi Copper-gold deposit and less than 40 kilometres west of the large Tsagaan Suvarga copper-molybdenum deposit (Figure 6), currently under development by MAK Group.

The large exploration licenses (Amgalant – 109 square kilometres; Argalant Uul – 895 square kilometres) remain relatively under explored, and occur in a shallowly eroded porphyry-type environment. At Argalant a total of 507 line kilometres of ground magnetics data were collected during the quarter (Figure 7).

Detailed geological mapping (1:10000 scale) was also completed on both projects and a total of 256 and 501 rock chip samples were collected over both Amgalant and Argalant (Figure 8 and 9) respectively. Initial exploration has identified numerous coincident geochemical and geophysical anomalies similar to the footprints recognised at Oyu Tolgoi and could indicate the presence of porphyry mineralisation at depth.



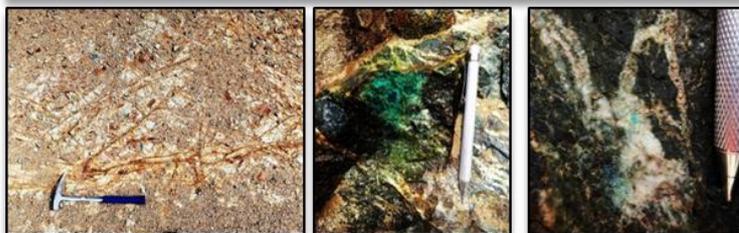
**Figure 6:** Regional Landsat image. The Amgalant and Argalant Uul copper-gold porphyry projects are located within the Omnogovi Province of Southern Mongolia



**Figure 7:** Ground magnetic data from the Amgalant and Argalant Uul copper-gold porphyry projects.



**Figure 8:** Argalant Uul copper-gold porphyry project.



**Figure 9:** Amgalant copper-gold porphyry project.

### **OYUT ULAAN PORPHYRY COPPER–GOLD PROJECT (Xanadu earning 100%)**

The Oyut Ulaan project (OU) is situated approximately 275 kilometres north east of the Oyu Tolgoi porphyry copper deposit and only 60 kilometres from the emerging industrial centre of Sainshand and the main Trans Mongolian railway line (see Figure 1). Prior to Xanadu's option to acquire the project, there was only limited exploration work on OU, firstly by Ivanhoe Mines (2001 -2009) and latterly Temujin Mining Corp, a private Canadian company. Despite the current impasse caused by the new Strategic Entity Investment Law of Mongolia (SEFIL), which has caused a delay in the completion of the transaction, Xanadu's geologists have continued to advance their understanding of this exceptional opportunity ahead of the final approvals being received under the new SEFIL. On approval, this should enable the company to capitalise on OU's exploration potential.

### **ELGEN-ZOST GOLD PROJECT (Xanadu earning 80%)**

The Elgen-Zost Gold Project is located within the Dornogovi Province of southern Mongolia, approximately 680 kilometres south-southeast of Ulaanbaatar. The precious metal exploration project is strategically located 30 kilometres north from the Mongolian-Chinese border, and the international border crossing at Mandal. The Project consists of a three low to intermediate 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 temporally associated with Early Mesozoic extensional rifting and bimodal volcanism.

During the quarter a program of exploration drilling commenced in September at Elgen-Zost. A key target, Zost, hosts a silicified breccia outcrop zone trending north–northeast over 4.3 kilometres and up to 400 metres wide. Assay results from the 23 holes completed to date should be available early to mid-November.

### **EKHGOVIIN CHULUU LLC – XANADU NOBLE JOINT VENTURE (Xanadu 50%)**

The Strategic Alliance with Noble Group continues to evaluate and explore high priority coking coal opportunities in Mongolia. This program has targeted areas of significant known coal resources and focused on green field exploration opportunities identified via information synthesis and geological mapping. Ekhgoviin Chuluu (EC) currently has four exploration projects in Mongolia, (Figure 10) all of which are focused on coking coal (Nuurstei, Khavtsgait, Javkhlant and Khus).

During the quarter EC geologists completed exploration at Nuurstei and Khavtsgait and recently commenced exploration at Javkhlant. At Khavtsgait, the team commenced a program of re-opening old exploration trenches, carried out detailed mapping of trenches and collected coal samples for coal quality testing. Coal samples are currently under analysis.

At Nuurstei our EC's geologists collected channel samples from coal seams within the current mine pit and a small 12kg bulk sample to be submitted for testing.

At Javkhlant, the EC team commenced a detailed 1:5000 scale mapping program of 4 coal-outcrop target areas to better understand the basin structure and development history. Over 600 stream sediment and rock chip samples have been collected so far and will be evaluated once the program is completed.



**Figure 10:** Ekhgoviin Chuluu LLC project location map.

**GALSHAR COAL PROJECT (Xanadu 100% subject to a royalty to Erdene Mongol XXK)**

The Galshar coal project comprises three contiguous exploration licences (EL 15292X, EL 12553X and EL 9383X) covering 131km<sup>2</sup> (13,152 ha) in the Choir-Nyalga Coal Basin. The Galshar coal project is next to a previously working coal mine and nearby to an active fluorite mine, and is in an ideal location for development being strategically located within 65 kilometres from the nearest rail spur at the Bor Undor fluorite mine. The permitting process for the granting of a Mining License at the Galshar Project has commenced and is expected to be completed in the coming months.

## **CORPORATE**

Xanadu is progressing with the divestment of its two thermal coal assets, Khar Tarvarga and Galshar to focus its attention on both its copper and gold portfolio and coking coal joint venture with Noble Group. A number of parties are in discussions with Xanadu on the assets.

Xanadu's cash position as of the 30<sup>th</sup> September 2012 was A\$11.161 million to fund exploration and working capital.

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### ***Competent Person Statement***

*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.*

# 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 September 2012

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(1,518)	(1,518)
(b) development	-	-
(c) production	-	-
(d) administration	(496)	(496)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	122	122
1.5 Interest and other costs of finance paid	-	-
1.6 R&D Tax Offset	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(1,892)</b>	<b>(1,892)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	(3,748)	(3,748)
(b) equity investments	-	-
(c) other fixed assets	(39)	(39)
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	1,230
1.12 Other (provide details if material)		
(a) Proceeds from disposal of controlled entity	-	-
(b) Cash on hand upon purchase of controlled entity	-	-
<b>Net investing cash flows</b>	<b>(2,557)</b>	<b>(2,557)</b>
Total operating and investing cash flows (carried forward)	<b>(4,449)</b>	<b>(4,449)</b>
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)	(4,449)	(4,449)
	<b>Cash flows related to financing activities</b>		
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)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(4,449)	(4,449)
1.20	Cash at beginning of quarter/year to date	15,723	15,723
1.21	Exchange rate adjustments to item 1.20	(113)	(113)
1.22	<b>Cash at end of quarter</b>	11,161	11,161

**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	162
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	2,183
4.2 Development	-
4.3 Production	-
4.4 Administration	493
<b>Total</b>	<b>2,676</b>

### 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	5,661	7,724
5.2 Deposits at call	5,500	8,000
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>11,161</b>	<b>15,724</b>

### 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			
6.2 Interests in mining tenements acquired or increased	3534X	Oyut Ulaan	Nil	25%

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**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 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	199,256,390	147,816,634		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	14,000,000 5,240,000 1,500,000 1,500,000 1,500,000 1,000,000 1,000,000		<u>Exercise price</u> \$0.50 \$0.50 \$0.60 \$1.20 \$1.80 \$0.70 \$1.00	<u>Expiry date</u> 31/12/2014 19/12/2014 30/06/2016 30/06/2016 30/06/2016 31/12/2014 31/12/2014
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				

+ See chapter 19 for defined terms.

7.11	<b>Debentures</b> <i>(totals only)</i>		
7.12	<b>Unsecured notes</b> <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: .....  
Company Secretary

Date: 30 October 2012

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.