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XANADU COMMENCES DRILLING AT OYUT ULAAN COPPER GOLD PROJECT

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- **Second phase exploration program commences**
 - **Diamond core drilling, ground magnetics and trenching planned**
 - **Targeting extensions of previously announced porphyry mineralisation**
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Xanadu Mines Ltd (**ASX: XAM – “Xanadu”**) is pleased to announce that it has commenced the second phase of exploration at its Oyut Ulaan copper gold porphyry project, located in the South Gobi region of Mongolia.

The exploration program includes around 1,500 m of diamond core drilling, 350 line-kms of ground magnetics and 1,000 m of trenching. The drilling will target extensions to the gold-rich porphyry copper mineralisation identified by the reconnaissance drilling announced on 6 June 2013. Fieldwork should be completed by early-October with results to follow shortly thereafter.

The previous drilling results are repeated in Appendix 2 and selected cross sections 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.

APPENDIX 1: 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).

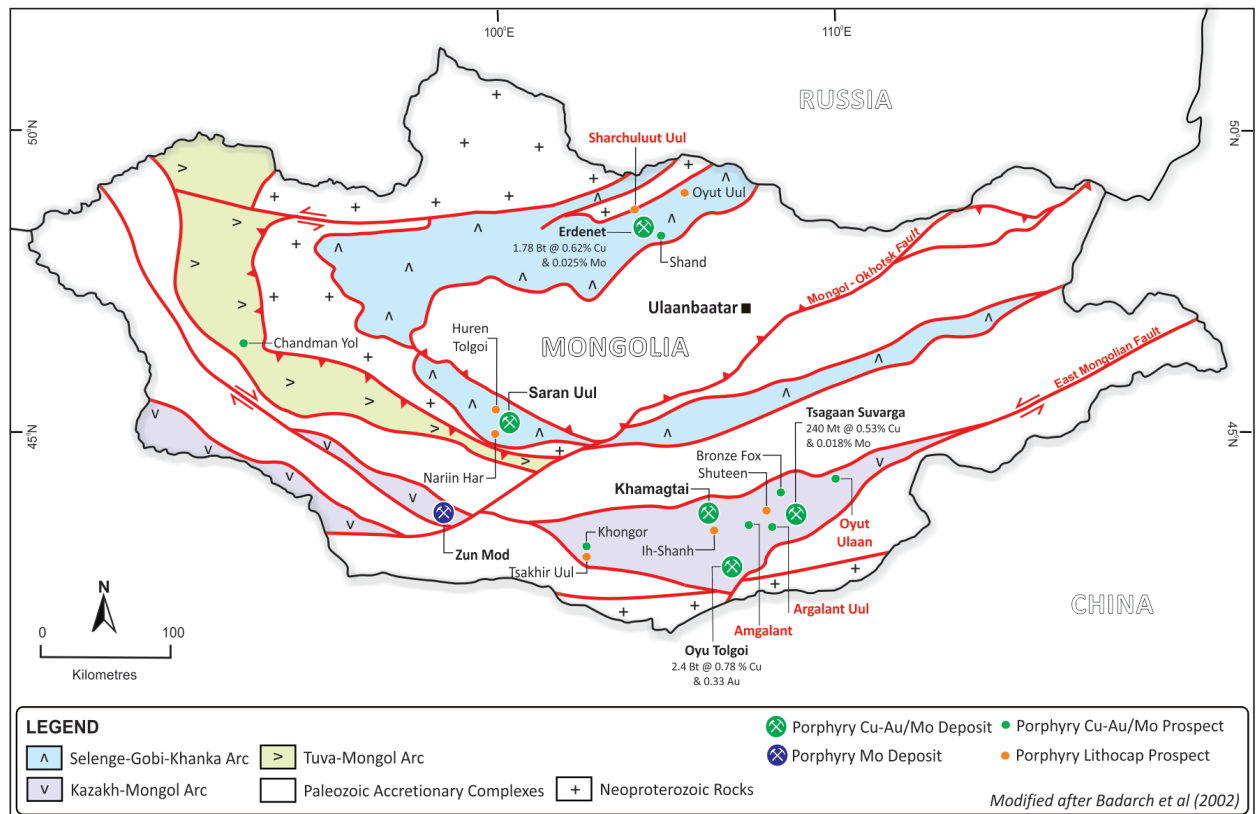


Figure: Mongolian copper belts showing the main deposits and prospects.

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 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 Khamagtai copper-gold porphyry deposits, and the Tsagaan Suvarga copper-molybdenum porphyry.

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
OUIDDH001	Diorite	376458	4940505	235.00	-55	300
OUIDDH003	Diorite	376587	4940581	258.50	-60	300
OUIDDH005	Diorite	376746	4940732	249.00	-57	296
OUIDDH006	Diorite	376694	4940832	266.60	-60	116
OUIDDH007	Diorite	376810	4940820	196.00	-70	300
OUIDDH013	Diorite	376862	4940784	300.00	-70	300
OUIDDH010	Stockwork	373674	4939277	303.00	-60	183
OUIDDH011	Stockwork	373676	4939207	250.00	-55	186
OUIDDH012	Stockwork	373623	4939205	250.00	-55	180
OUIDDH014	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 (%)
OUIDDH003	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
OUIDDH005	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
OUIDDH006	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
OUIDDH007	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
OUIDDH012	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: OYUT ULAAN CROSS SECTIONS

