



# QUARTERLY ACTIVITIES REPORT

FOR THE QUARTER ENDING 31 MARCH 2014

Xanadu Mines Ltd is an exploration company that has assembled a significant exploration portfolio across Mongolia's porphyry belts.

These belts are part of the larger Central Asian Orogenic Belt - one of the last great exploration frontiers known to host large copper porphyry deposits – and Mongolia is emerging as a globally significant copper province.

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## HIGHLIGHTS

- Xanadu reaches two significant milestones in the implementation of its copper strategy
  - US\$14 million Kharmagtai copper-gold project acquisition announced
  - Oyut Ulaan copper-gold project acquisition completed
- Xanadu is prepared to commence drilling at Kharamgtai in early June
- Over US\$10 million of new funding to complete the Kharmagtai acquisition and commence drilling
- Xanadu's geologists identify numerous distinct, untested apophyses that represent walk-up drill targets
- Xanadu continues to reduce operating costs and allocate capital to value-adding exploration activities

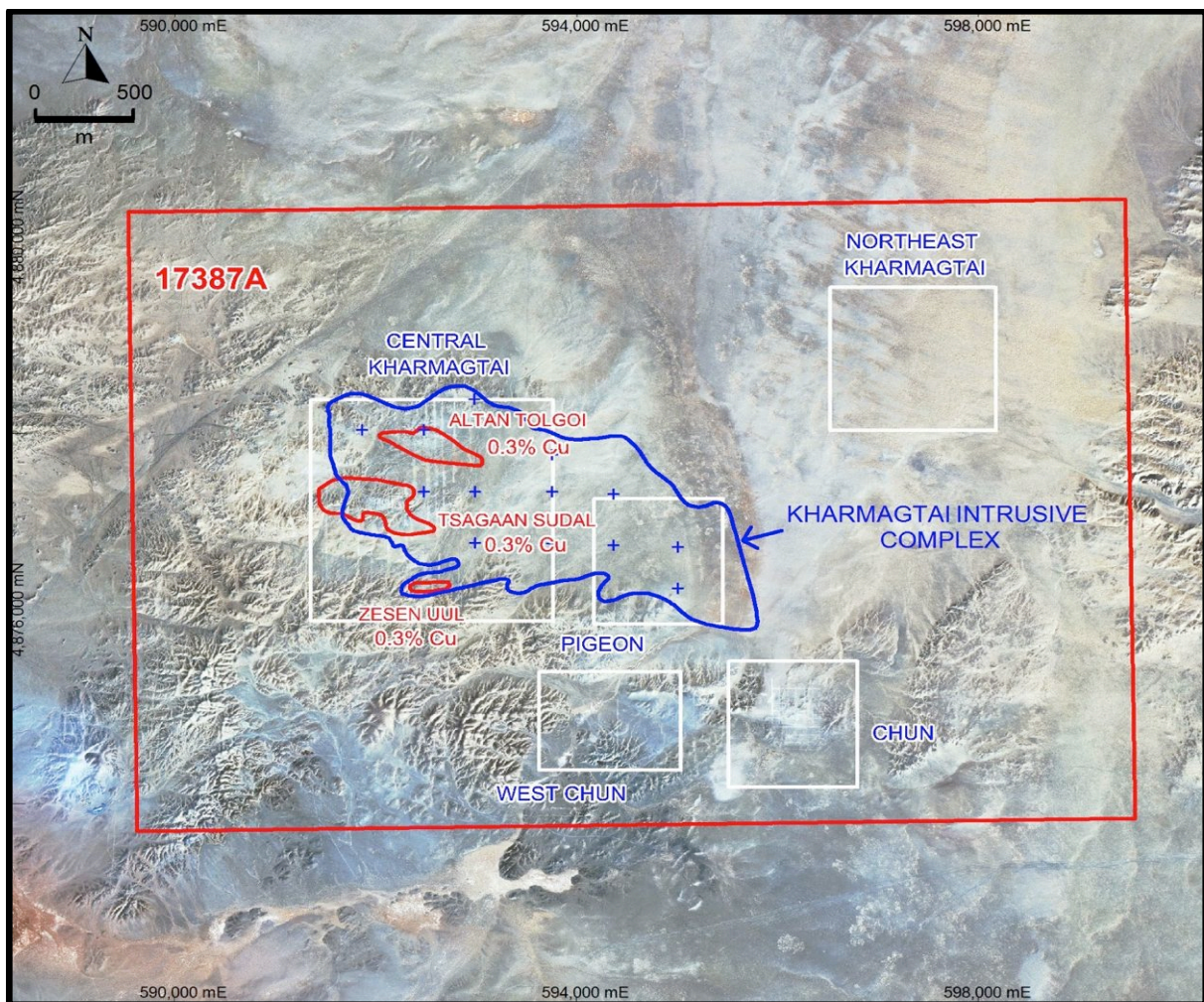
Xanadu Mines Ltd (**ASX: XAM** – “**Xanadu**”) is pleased to provide shareholders with an update of operations for the three months to 31 March 2014.

Xanadu reached two very significant milestones in the most recent quarter with the announcement of the acquisition of a 90% interest in the Kharmagtai copper-gold project by the Mongol Metals LLC joint venture company for US\$14 million from Turquoise Hill Resources Ltd and the completion of the acquisition of the Oyut Ulaan copper-gold project.

The Kharmagtai and Oyut Ulaan acquisitions establish Xanadu as having one of the most highly prospective copper exploration portfolios in Mongolia. These are significant steps towards fulfilling our strategy to build a competitive, mid-tier copper operation.

## KHARMAGTAI PROJECT

The Kharmagtai copper-gold porphyry project is located approximately 120km north of the world-class Oyu Tolgoi copper-gold project and 420km south-southeast of Ulaanbaatar. The project represents one of the most advanced copper-gold exploration projects in the South Gobi porphyry belt.



**Figure 1: Kharmagtai Project Licence Map**

# QUARTERLY REPORT



Xanadu announced on 3 February 2014 the details of an initial Exploration Target covering three prospects at Kharmagtai:

	Tonnes (000's)	Gold (g/t)	Copper (%)
<b>Exploration Target</b>	200,000 to 450,000	0.25 to 0.30	0.25 to 0.30
<b>High-grade Target</b>	50,000 to 80,000	0.60 to 0.80	0.40 to 0.50

The potential quantity and grade of the Exploration Target is conceptual in nature. There has been insufficient exploration to estimate a Mineral Resource under the JORC 2012 Code and it is uncertain if further exploration will result in the estimation of a Mineral Resource.

In addition, Xanadu's due diligence and reconnaissance core logging since being granted access to the project site has highlighted excellent potential for significant new discoveries outside of the current Exploration Target at Kharmagtai. The Exploration Target and potential for new discoveries are supported by the exploration programs that were carried out at Kharmagtai by the previous owners from 2002 to 2011 and an independent technical report prepared by Mining Associates Pty Limited ("**Mining Associates**").

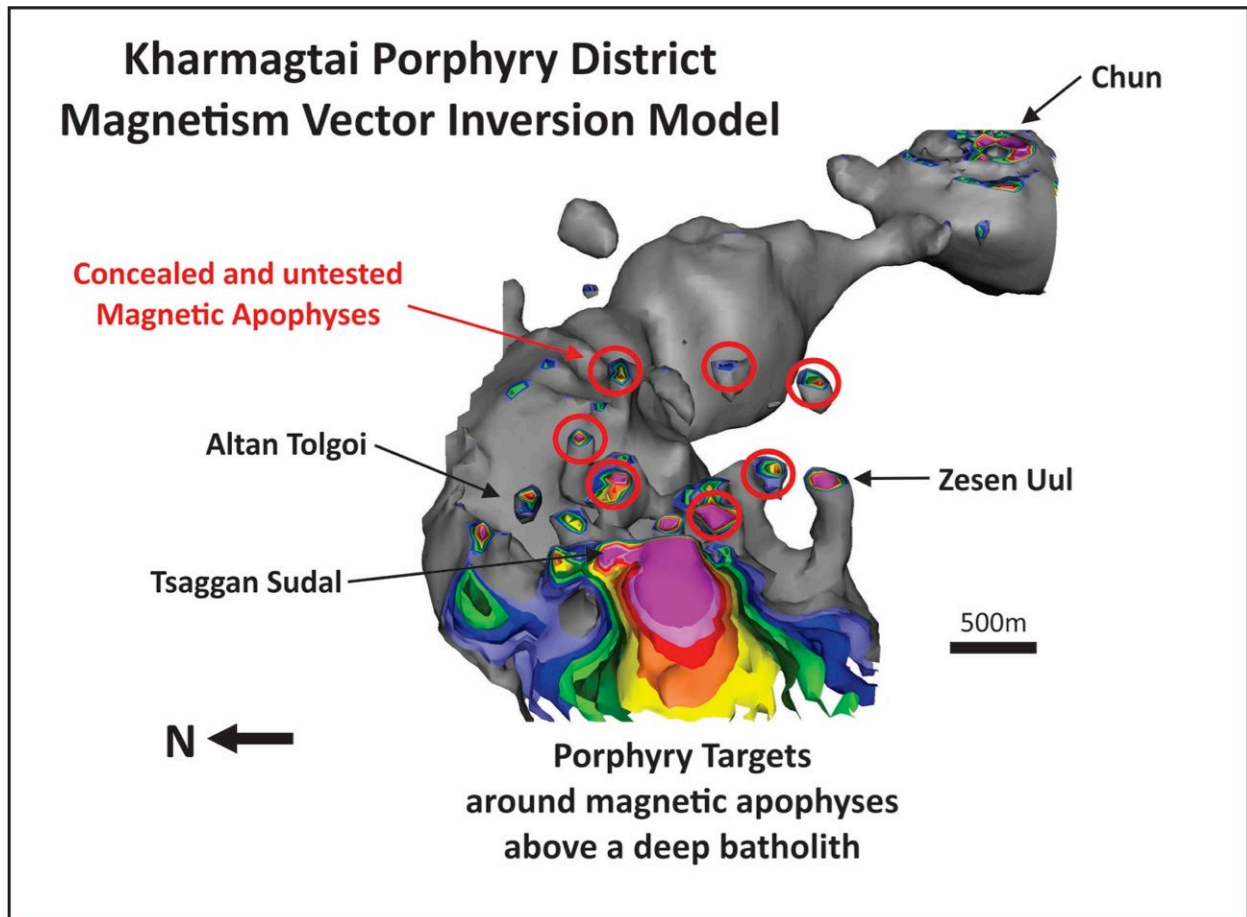
Xanadu has called an Extraordinary General Meeting ("**EGM**") of shareholders to be held on 16 May 2014 to seek approval for the Kharmagtai acquisition.

## KHARMAGTAI EXPLORATION

The Kharmagtai porphyry district is related to a subsurface elliptical composite porphyritic quartz monzodiorite intrusive complex covering approximately 5 to 6 square kilometres. Exploration programs carried out thus far at Kharmagtai have identified three areas (Altan Tolgoi, Tsagaan Sudal and Zesen Uul) which host significant porphyry copper-gold mineralisation related to composite porphyry stocks formed in the roof of the Kharmagtai Intrusive Complex. All the mineralised stocks are tightly confined to northwest trending structures along the margin of the Kharmagtai Intrusive Complex. At least 70 percent of the complex concealed by shallow Quaternary cover to the east with substantial exploration potential.

The high-grade porphyry mineralisation at Kharmagtai is typically characterised by high temperature laminated and contorted quartz-bornite veins with high Cu:Au ratios similar to the underground high-grade Ridgeway copper-gold deposit in Australia. The geophysical signature of porphyry mineralisation is coincident with magnetic and moderate chargeability highs and correspond with a well-developed magnetite-biotite alteration and magnetite veins.

Reconnaissance drill core logging, alteration mapping and geophysical inversion modelling that has been recently completed by Xanadu indicates that historical drilling has only tested a small part of the porphyry system. Notable are numerous distinct, untested apophyses that represent walk-up drill targets (Figure 2) that are not included in the current Exploration Target.



**Figure 2: Kharmagtai Porphyry Magnetism Vector Inversion Model**

Based on a newly developed conceptual model, ongoing exploration will focus on the strike extension of the magnetic lineaments and the margins of the Kharmagtai Intrusive Complex (structural corridor). All the mineralisation remains open eastwards and to date shows no signs of appreciable diminution in metal content. The observed eastward increase in the number of intrusive phases noted could be taken to signify that the core of the system may be centred under the shallow sedimentary cover to the east, where a number of distinct circular magnetic highs are located.

Xanadu is in the late stages of preparing its diamond drilling program for Kharmagtai which will commence in early June.

## INDEPENDENT REPORTS

Grant Thornton Corporate Finance Pty Limited (“**Grant Thornton**”) prepared an Independent Expert’s Report for the EGM Notice of Meeting. Grant Thornton concluded that the Kharmagtai transaction is fair and reasonable for Xanadu’s non-associated shareholders. Grant Thornton noted that the present value of the acquisition consideration falls towards the low end of the valuation range:

	Valuation Range (US\$’000)		
	Low	Preferred	High
Oyut Ulaan shares*	9,500	15,750	30,000
Present value of consideration	12,109	12,109	12,109
<b>Difference</b>	<b>(2,609)</b>	<b>3,641</b>	<b>17,891</b>

\* includes valuation of project and related property, plant and equipment including the permanent, winterised Kharmagtai exploration camp.

Grant Thornton in turn engaged Mining Associates as the Independent Technical Expert to prepare a geological review and estimate a preferred valuation range for the Kharmagtai project:

	Valuation Range (US\$’000)	
	Minimum	Maximum
Market Approach	16,700	19,000
Cost Approach	14,000	29,000
Empirical Approach	9,000	17,000
<b>Preferred Valuation</b>	<b>15,000</b>	<b>29,000</b>

Mining Associates noted that three historic mineral resource estimates have been undertaken at Kharmagtai, the first in 2005 by Ivanhoe Mines Mongolia Inc (“**Ivanhoe**”), again in 2007 by Ivanhoe and lastly in 2012 by AMC Consultants Pty Ltd. None of the estimates were publicly released. The later two estimates were prepared in accordance with NI43-101 Guidelines and are summarised below:

	2007 Resource Estimate			2012 Resource Estimate		
	tonnes (000’s)	Au (g/t)	Cu (%)	tonnes (000’s)	Au (g/t)	Cu (%)
Measured	13,952	0.66	0.45	33,572	0.63	0.48
Indicated	23,449	0.35	0.31	17,593	0.46	0.48
Inferred	147,686	0.17	0.32	81,933	0.24	0.29
<b>Total</b>	<b>185,087</b>	<b>0.23</b>	<b>0.33</b>	<b>133,098</b>	<b>0.37</b>	<b>0.36</b>

Mining Associates did not directly use the historic mineral resource estimates in its valuation as these estimates do not comply with the JORC 2012 Code. However, Mining Associates did note “if an economic reserve or resource is subsequently identified then this valuation will be dramatically low relative to any later valuations.”

Xanadu also notes the following for the purposes of ASX Listing Rules 5.12.1 to 5.12.8:

- the historic estimates are based on the most recent and most relevant data available which has been summarised in the JORC Table 1 (Appendix 2);
- the estimates are historical estimates and are not reported in accordance with the JORC Code;
- a competent person has not done sufficient work to classify the historical estimates as mineral resources in accordance with the JORC Code; and
- it is uncertain that following evaluation and/or further exploration work that the historical estimates will be able to be reported as mineral resources in accordance with the JORC Code.

## CAPITAL MANAGEMENT

Xanadu has arranged over US\$10.0 million of new funds in relation to the Kharmagtai transaction. These new funds include:

- A\$1.7 million of private placement proceeds;
- US\$4.0 million loan facility with the Noble Group;
- US\$4.0 million of equity for the Mongol Metals LLC joint venture company; and
- the sale and leaseback of the company’s Ulaanbaatar office building for around US\$640,000 including 18 months rent-in-kind.

Xanadu has also significantly reduced operating costs and re-allocated capital employed within the business via initiatives such as the disposal of the thermal coal projects and Ulaanbaatar office building towards value-adding exploration activities over the last 12 months.

These funds together with Xanadu’s disciplined capital management place Xanadu in a strong position to complete the Kharmagtai acquisition, commence the Kharmagtai drilling program and reduce the time required to define a shallow high-grade JORC compliant resource for the Kharmagtai project.

## FINANCIAL POSITION

Xanadu had A\$1.524 million of cash on hand as at 31 March 2014. The net decrease in cash over the period was A\$1.276 million. Key costs incurred over the quarter include the US\$600,000 payment for the completion of the Oyut Ulaan project acquisition and transaction costs in relation the Kharmagtai project.

## COMPETENT PERSON

The information in this report relating to Exploration Results and Exploration Targets is based on information compiled or reviewed by Dr. Andrew Stewart, who is an employee of Xanadu Mines and is a Member of the Australasian Institute of Geoscientists. Dr. Andrew Stewart has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as the “Competent Person” as defined in the 2012 Edition of the “Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves”. Dr. Andrew Stewart consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

## APPENDIX 1: TENEMENTS HELD AS AT 31 MARCH 2014

Set out below is the relevant information in relation to Xanadu's mining tenements as required under ASX Listing Rule 5.3.3.

Tenement No.	Tenement Name	Location	Change in interest (%)	Interest as at 31 March (%)
MV-017129	Oyut Ulaan	Dornogovi Province	65%	90%
13670x	Sharchuluut	Bulgan Province	-	100%
13703x	Elgen Uul	Dornogovi Province	-	80%
13711x	Zos Uul	Dornogovi Province	-	80%
14451x	Suuju	Dornogovi Province	-	80%
15004x	Wild Horse	Dornogovi Province	-	80%
14160x	Khurem	Dornogovi Province	-	100%
MV-016871	Khar Tarvarga	Kov Province	(100%)	-
MV-017279	Galshar	Dornogovi Province	(100%)	-
MV-017280	Galshar	Dornogovi Province	(100%)	-
MV-017294	Galshar	Dornogovi Province	(100%)	-
13958x	Nuurstei	Northern Mongolia	-	30%
13580x	Nuurstei	Northern Mongolia	-	30%
15352x	Khus	Dornogovi Province	-	50%

## APPENDIX 2: JORC Code, 2012 Edition - TABLE 1

Data provided by Turquoise Hill Resources Ltd and verified by XAM.

### SECTION 1 - SAMPLING TECHNIQUES AND DATA

(Criteria in this section apply to all succeeding sections).

Criteria	JORC Code Explanation	Commentary
<b>Sampling techniques</b>	<ul style="list-style-type: none"> <li>Nature and quality of sampling.</li> <li>Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used.</li> <li>Aspects of the determination of mineralisation that are Material to the Public Report.</li> </ul>	<ul style="list-style-type: none"> <li>Representative 2 meter samples were taken from ½ PQ, HQ and NQ diameter diamond core.</li> <li>Visual checks by geologists of sampling confirm sample intervals.</li> <li>Only assay result from recognised, independent assay laboratories are reported.</li> </ul>
<b>Drilling techniques</b>	<ul style="list-style-type: none"> <li>Drill type and details.</li> </ul>	<ul style="list-style-type: none"> <li>Diamond drilling of NQ, HQ and PQ diameters with standard and triple tube sample recovery has been the primary drilling method.</li> </ul>
<b>Drill sample recovery</b>	<ul style="list-style-type: none"> <li>Method of recording and assessing core and chip sample recoveries and results assessed.</li> <li>Measures taken to maximise sample recovery and ensure representative nature of the samples.</li> <li>Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material.</li> </ul>	<ul style="list-style-type: none"> <li>Diamond core recoveries averaged 97% overall in mineralised zones.</li> <li>In localized areas of faulting and/or fracturing the recoveries decrease; however this is a very small percentage of the overall mineralised zones.</li> <li>Recovery measurements were collected during all drilling programs. The methodology used for measuring recovery is standard industry practice.</li> <li>Analysis of recovery results vs. grade indicates no significant trends indicating bias of grades due to diminished recovery and / or wetness of samples.</li> </ul>
<b>Logging</b>	<ul style="list-style-type: none"> <li>Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies.</li> <li>Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc) photography.</li> <li>The total length and percentage of the relevant intersections logged.</li> </ul>	<ul style="list-style-type: none"> <li>Diamond drill core samples are logged for geology, alteration and mineralisation using a standardised logging system.</li> <li>Rock quality data (RQD) is collected from all diamond drill core.</li> <li>Diamond drill core was photographed after being logged by a geologist.</li> <li>All diamond drill cores have been logged by a competent geologist.</li> </ul>

Criteria	JORC Code Explanation	Commentary
<b>Sub-sampling techniques and sample preparation</b>	<ul style="list-style-type: none"> <li>• If core, whether cut or sawn and whether quarter, half or all core taken.</li> <li>• If non-core, whether riffled, tube sampled, rotary split, etc and whether sampled wet or dry.</li> <li>• For all sample types, the nature, quality and appropriateness of the sample preparation technique.</li> <li>• Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples.</li> <li>• Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling.</li> <li>• Whether sample sizes are appropriate to the grain size of the material being sampled.</li> </ul>	<ul style="list-style-type: none"> <li>• Diamond drill core is cut in half with a diamond saw, following a line marked by the geologist.</li> <li>• The rock saw is regularly flushed with fresh water.</li> <li>• Sample intervals are a constant 2m interval down-hole in length.</li> <li>• Routine sample preparation and analyses of diamond drill core samples were carried out by SGS Mongolia LLC (SGS Mongolia), who operates an independent sample preparation and analytical laboratory in Ulaanbaatar.</li> <li>• All samples were prepared to meet standard quality control procedures as follows: Crushed to 90% passing 3.54 mm, split to 1kg, pulverised to 90% - 95% passing 200 mesh (75 microns) and split to 150g.</li> <li>• Certified reference materials (CRMs), blanks and pulp duplicates were randomly inserted to manage the quality of data.</li> <li>• Sample sizes are well in excess of standard industry requirements.</li> </ul>
<b>Quality of assay data and laboratory tests</b>	<ul style="list-style-type: none"> <li>• The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total.</li> <li>• For geophysical tools, spectrometers, handheld XRF instruments, etc, the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc.</li> <li>• Nature of quality control procedures adopted (eg standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (ie lack of bias) and precision have been established.</li> </ul>	<ul style="list-style-type: none"> <li>• All samples were routinely assayed by SGS Mongolia for gold, copper, silver, lead, zinc, arsenic and molybdenum.</li> <li>• Au is determined using a 30g fire assay fusion, cupelled to obtain a bead, and digested with Aqua Regia, followed by an atomic absorption spectroscopy (AAS) finish, with a lower detection (LDL) of 0.01 ppm.</li> <li>• Cu, Ag, Pb, Zn, As and Mo were routinely determined using a three-acid-digestion of a 0.3g sub-sample followed by an AAS finish (AAS21R). Samples are digested with nitric, hydrochloric and perchloric acids to dryness before leaching with hydrochloric acid to dissolve soluble salts and made to 15ml volume with distilled water. The LDL for copper using this technique was 2ppm. Where copper is over-range (&gt;1% Cu), it is analysed by a second analytical technique (AAS22S), which has a higher upper detection limit (UDL) of</li> </ul>

Criteria	JORC Code Explanation	Commentary
		<p>5% copper.</p> <ul style="list-style-type: none"> <li>Quality assurance was provided by introduction of known certified standards, blanks and duplicate samples on a routine basis.</li> <li>Assay results outside the optimal range for methods were re-analysed by appropriate methods.</li> <li>Ore Research Pty Ltd certified copper and gold standards have been used as a part of QAQC procedures.</li> <li>QAQC monitoring is an active and ongoing processes on batch by batch basis by which unacceptable results are re-assayed as soon as practicable.</li> </ul>
<b>Verification of sampling and assaying</b>	<ul style="list-style-type: none"> <li>The verification of significant intersections by either independent or alternative company personnel.</li> <li>The use of twinned holes.</li> <li>Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols.</li> <li>Discuss any adjustment to assay data.</li> </ul>	<ul style="list-style-type: none"> <li>All assay data QAQC is checked prior to loading into the data base.</li> <li>No twinned drill holes exist.</li> <li>The data is managed XAM geologists.</li> <li>The data base and geological interpretation is managed by XAM.</li> <li>No adjustment to assay data.</li> </ul>
<b>Location of data points</b>	<ul style="list-style-type: none"> <li>Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation.</li> <li>Specification of the grid system used.</li> <li>Quality and adequacy of topographic control.</li> </ul>	<ul style="list-style-type: none"> <li>All drill holes have been surveyed with a differential global positioning system (DGPS) to within 10cm accuracy.</li> <li>All drill holes have been down hole surveyed to collect the azimuth and inclination at specific depths. Two principal types of survey method have been used over the duration of the drilling programs including Eastman Kodak and Flexit.</li> <li>UTM WGS84 48N grid.</li> <li>The DTM is based on 1 m contours with an accuracy of <math>\pm 0.01</math> m.</li> </ul>
<b>Data spacing and distribution</b>	<ul style="list-style-type: none"> <li>Data spacing for reporting of Exploration Results.</li> <li>Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied.</li> <li>Whether sample compositing has been applied.</li> </ul>	<ul style="list-style-type: none"> <li>Drilling has been completed on nominal north-south sections, commencing at 100m spacing and then closing to 50m for mineralised zones.</li> <li>Vertical spacing of intercepts on the mineralised zones similarly commences at 100m spacing and then closing to 50m for mineralised zones.</li> <li>Drilling has predominantly occurred with angled holes approximately 70°</li> </ul>

Criteria	JORC Code Explanation	Commentary
		<p>to 60° inclination below the horizontal and either drilling to north or south, depending on the dip of the target mineralised zone.</p> <ul style="list-style-type: none"> <li>Holes have been drilled to 1,000m vertical depth.</li> <li>The data spacing and distribution is sufficient to establish geological and grade continuity.</li> <li>Sample composite lengths of 5m on sample lengths of 2m have been applied.</li> </ul>
<b>Orientation of data in relation to geological structure</b>	<ul style="list-style-type: none"> <li>Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.</li> <li>If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.</li> </ul>	<ul style="list-style-type: none"> <li>Drilling has been predominantly completed on north-south section lines across the strike of the known mineralised zones and from either the north or the south depending on the dip.</li> <li>Vertical to south dipping mineralised zones were predominantly drilled to the north.</li> <li>Scissor drilling (drilling from both north and south), as well as vertical drilling, has been used in key mineralised zones to achieve unbiased sampling of possible structures and mineralised zones.</li> </ul>
<b>Sample security</b>	<ul style="list-style-type: none"> <li>The measures taken to ensure sample security.</li> </ul>	<ul style="list-style-type: none"> <li>Samples are dispatched from site via company employees to the Laboratories.</li> <li>Samples are signed for at the Laboratory with confirmation of receipt emailed through.</li> <li>Samples are then stored at the lab and returned to a locked storage site.</li> </ul>
<b>Audits or reviews</b>	<ul style="list-style-type: none"> <li>The results of any audits or reviews of sampling techniques and data</li> </ul>	<ul style="list-style-type: none"> <li>Internal audits of sampling techniques and data management on a regular basis, to ensure industry best practice is employed at all times.</li> <li>External review and audit have been conducted by the following groups</li> <li>2012 – AMC Consultants Pty Ltd. was engaged to conduct an Independent Technical Report which reviewed drilling and sampling procedures. It was concluded that sampling and data record was to an appropriate standard.</li> </ul>

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Criteria	JORC Code Explanation	Commentary
		<ul style="list-style-type: none"><li>2013 - Mining Associates Ltd. was engaged to conduct an Independent Technical Report to review drilling, sampling techniques and QAQC. Methods were found to conform to international best practise.</li></ul>

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## SECTION 2 – REPORTING OF EXPLORATION RESULTS

(Criteria in this section apply to all succeeding sections).

Criteria	JORC Code Explanation	Commentary
<b>Mineral tenement and land tenure status</b>	<ul style="list-style-type: none"> <li>Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings.</li> <li>The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area.</li> </ul>	<ul style="list-style-type: none"> <li>The Project comprises 1 Mining Licence (MV-17387A).</li> <li>The Kharmagtai mining license MV-17387A is 100% owned by Oyut Ulaan LLC. THR Oyu Tolgoi Ltd (a wholly owned subsidiary of Turquoise Hill Resources Ltd) (“THR”) owns 90% of Oyut Ulaan LLC. The remaining 10% is owned by Quincunx Ltd (“Quincunx”).</li> <li>The Mongolian Minerals Law (2006) and Mongolian Land Law (2002) govern exploration, mining and land use rights for the project.</li> </ul>
<b>Exploration done by other parties</b>	<ul style="list-style-type: none"> <li>Acknowledgment and appraisal of exploration by other parties.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed exploration was conducted by Quincunx Ltd, Ivanhoe Mines Ltd and Turquoise Hill Resources Ltd including extensive surface mapping diamond drilling, surface geochemistry and geophysics.</li> </ul>
<b>Geology</b>	<ul style="list-style-type: none"> <li>Deposit type, geological setting and style of mineralisation.</li> </ul>	<ul style="list-style-type: none"> <li>The mineralisation is characterised as porphyry copper-gold type.</li> <li>Porphyry copper-gold deposits are formed from magmatic hydrothermal fluids typically associated with felsic intrusive stocks that have deposited metals as sulphides both within the intrusive and the intruded host rocks. Quartz stockwork veining is typically associated with sulphides occurring both within the quartz veinlets and disseminated throughout the wall rock. Porphyry deposits are typically large tonnage deposits ranging from low to high grade and are generally mined by large scale open pit or underground bulk mining methods. The prospects at Kharmagtai are atypical in that they are associated with intermediate intrusions of diorite to quartz diorite composition; however the deposits are in terms of gold significant, and similar to other gold-rich porphyry deposits.</li> </ul>
<b>Drill hole Information</b>	<ul style="list-style-type: none"> <li>A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all material drill holes: easting and northing of the drill hole collar, elevation or RL Reduced Level – elevation above sea level in</li> </ul>	<ul style="list-style-type: none"> <li>Diamond drill holes are the principal source of geological and grade data for the Project.</li> </ul> <p>See figures above.</p>

Criteria	JORC Code Explanation	Commentary																																																																								
	<p>metres) of the drill hole collar, dip and azimuth of the hole, down hole length and interception depth, hole length.</p> <ul style="list-style-type: none"><li>If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case.</li></ul>	<table><tr><th></th><th></th><th colspan="2">Diamond Drilling</th></tr><tr><th>Year</th><th>Prospect</th><th>No. of Holes</th><th>Metres</th></tr><tr><td rowspan="4">2002</td><td>AT</td><td>18</td><td>6,234.90</td></tr><tr><td>TS</td><td>17</td><td>6,233.80</td></tr><tr><td>ZU</td><td>41</td><td>10,175.50</td></tr><tr><td>Regional Targets</td><td>7</td><td>2,429.60</td></tr><tr><td>2003</td><td>AT</td><td>18</td><td>5,127.00</td></tr><tr><td rowspan="2">2004</td><td>AT</td><td>22</td><td>8,519.25</td></tr><tr><td>Regional Targets</td><td>6</td><td>2,234.00</td></tr><tr><td rowspan="3">2005</td><td>AT</td><td>2</td><td>495.55</td></tr><tr><td>TS</td><td>4</td><td>1,415.40</td></tr><tr><td>ZU</td><td>2</td><td>844.25</td></tr><tr><td rowspan="4">2007</td><td>AT</td><td>4</td><td>1,538.30</td></tr><tr><td>TS</td><td>1</td><td>496.20</td></tr><tr><td>ZU</td><td>1</td><td>300.00</td></tr><tr><td>Regional Targets</td><td>9</td><td>2,804.10</td></tr><tr><td rowspan="4">2011</td><td>AT</td><td>7</td><td>5,890.60</td></tr><tr><td>TS</td><td>2</td><td>1,781.20</td></tr><tr><td>ZU</td><td>1</td><td>549.70</td></tr><tr><td>Regional Targets</td><td>9</td><td>6,824.10</td></tr><tr><td>Total</td><td></td><td>171</td><td>63,893.45</td></tr></table>			Diamond Drilling		Year	Prospect	No. of Holes	Metres	2002	AT	18	6,234.90	TS	17	6,233.80	ZU	41	10,175.50	Regional Targets	7	2,429.60	2003	AT	18	5,127.00	2004	AT	22	8,519.25	Regional Targets	6	2,234.00	2005	AT	2	495.55	TS	4	1,415.40	ZU	2	844.25	2007	AT	4	1,538.30	TS	1	496.20	ZU	1	300.00	Regional Targets	9	2,804.10	2011	AT	7	5,890.60	TS	2	1,781.20	ZU	1	549.70	Regional Targets	9	6,824.10	Total		171	63,893.45
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Data Aggregation methods	<ul style="list-style-type: none"><li>In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (eg cutting of high grades) and cut-off grades are usually Material and should be stated.</li><li>Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail.</li><li>The assumptions used for any reporting of metal equivalent values should be clearly stated.</li></ul>	<ul style="list-style-type: none"><li>A nominal cut-off of 0.1% Cu is used for identification of potentially significant intercepts for reporting purposes.</li><li>Most of the reported intercepts are shown in sufficient detail to allow the reader to make an assessment of the balance of high and low grades in the intercept.</li><li>Samples have been composited to two metre lengths honouring the geological domains and adjusted where necessary to ensure that no residual sample lengths have been excluded (best fit).</li><li>No metal equivalent values are used.</li></ul>																																																																								
Relationship between mineralisation on widths	<ul style="list-style-type: none"><li>These relationships are particularly important in the reporting of Exploration Results.</li><li>If the geometry of the mineralisation</li></ul>	<ul style="list-style-type: none"><li>Mineralised structures are variable in orientation, and therefore drill orientations have been adjusted from place to place in order to allow</li></ul>																																																																								

Criteria	JORC Code Explanation	Commentary
<b>and intercept lengths</b>	<p>with respect to the drill hole angle is known, its nature should be reported.</p> <ul style="list-style-type: none"> <li>If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (eg 'down hole length, true width not known').</li> </ul>	<p>intersection angles as close as possible to true widths.</p> <ul style="list-style-type: none"> <li>Exploration results have been reported as an interval with 'from' and 'to' stated in tables of significant economic intercepts. Tables clearly indicate that true widths will generally be narrower than those reported.</li> </ul>
<b>Diagrams</b>	<ul style="list-style-type: none"> <li>Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported. These should include, but not be limited to a plan view of drill hole collar locations and appropriate sectional views.</li> </ul>	<ul style="list-style-type: none"> <li>See figures above.</li> </ul>
<b>Balanced reporting</b>	<ul style="list-style-type: none"> <li>Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results.</li> </ul>	<ul style="list-style-type: none"> <li>Exploration results have been reported at a range of grades, predominantly above a minimum for potentially significant intercepts for reporting purposes.</li> </ul>
<b>Other substantive exploration data</b>	<ul style="list-style-type: none"> <li>Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples – size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances.</li> </ul>	<ul style="list-style-type: none"> <li>Extensive work in this area has been done in the past.</li> <li>Detailed geological mapping and rock chip, geochemistry (2,960 rock-chip samples).</li> <li>A total of 119 trenches (65,636m) were completed.</li> <li>Geophysics included gradient array IP (289 km<sup>2</sup>), ground magnetics (589 km<sup>2</sup>), ground gravity (39 km<sup>2</sup>) and aerial magnetics and aerial gravity.</li> <li>A total of 208 Reverse Circulation drill holes were completed (27,747m) regionally.</li> </ul>
<b>Further work</b>	<ul style="list-style-type: none"> <li>The nature and scale of planned further work.</li> <li>Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive.</li> </ul>	<ul style="list-style-type: none"> <li>The mineralisation is open at depth and along strike.</li> <li>Proposed exploration activities designed to test the validity of the exploration target and increase the current drill density comprises between 15,000 to 20,000m of diamond drilling. An increase in drilling density would be likely to improve the current level of understanding of the overall morphology of the mineralisation and may support estimation of a Mineral Resource.</li> </ul>

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

XANADU MINES LTD

ABN

92 114 249 026

Quarter ended ("current quarter")

31 March 2014

### 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	(698)	(1,455)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(555)	(1,860)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	11	115
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	9
<b>Net Operating Cash Flows</b>		<b>(1,242)</b>	<b>(3,191)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	(27)	(716)
	(b) equity investments	-	-
	(c) other fixed assets	(7)	(7)
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	-	-
1.12	Other (provide details if material)	-	-
<b>Net investing cash flows</b>		<b>(34)</b>	<b>(723)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(1,276)</b>	<b>(3,914)</b>

+ See chapter 19 for defined terms.

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,276)	(3,914)
<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>	(1,276)	(3,914)
1.20	Cash at beginning of quarter/year to date	2,841	5,642
1.21	Exchange rate adjustments to item 1.20	(41)	(204)
1.22	<b>Cash at end of quarter</b>	1,524	1,524

### Payments to directors of the entity, associates of the directors, 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	154
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

+ See chapter 19 for defined terms.

**Appendix 5B**

**Mining exploration entity and oil and gas exploration entity quarterly report**

- 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.

### 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	80
4.2 Development	302
4.3 Production	-
4.4 Administration	691
<b>Total</b>	<b>1,073</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	624	941
5.2 Deposits at call	900	1,900
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,524</b>	<b>2,841</b>

+ See chapter 19 for defined terms.

## Changes in interests in mining tenements and petroleum tenements

		Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	MV-016871 MV-017279 MV-017280 MV-017294	Direct Direct Direct Direct	100% 100% 100% 100%	Nil Nil Nil Nil
6.2	Interests in mining tenements and petroleum tenements acquired or increased	MV-017129	Direct	65%	90%

## 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> (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>*Ordinary securities</b>	205,256,390	205,256,390		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	5,000,000	5,000,000	Nil	Nil Issue of shares pursuant to the acquisition of the Oyut Ulaan Copper-Gold Project as approved by shareholders at the 2013 AGM
7.5	<b>*Convertible debt securities</b> (description)				

+ See chapter 19 for defined terms.

## Mining exploration entity and oil and gas exploration entity quarterly report

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)	14,000,000 5,240,000 1,000,000 1,000,000 1,000,000 1,000,000 1,000,000 3,300,000 1,800,000 4,000,000		Exercise price \$0.50 \$0.50 \$0.60 \$1.20 \$1.80 \$0.70 \$1.00 )Nil subject to )share price )hurdle	Expiry date 31/12/2014 19/12/2014 30/06/2016 30/06/2016 30/06/2016 31/12/2014 31/12/2014 21/5/2016 21/5/2016 26/2/2016
7.8	Issued during quarter	15,000,000 20,000,000		)Nil subject to )JORC resource )hurdle	14/1/2019 14/1/2019
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> (totals only)				
7.12	<b>Unsecured notes</b> (totals only)				

## Compliance statement

- 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 5).
- This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

Company secretary

Date: 29 April 2014

Print name: Janine Rolfe

+ See chapter 19 for defined terms.

## 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 and petroleum 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 or petroleum 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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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