

19 February 2015

XANADU COMMENCES EXPLORATION AT THE OYUT ULAAN COPPER-GOLD PROJECT

Xanadu Mines Ltd (**ASX: XAM – “Xanadu”**) is pleased to announce that following a highly successful program in 2014, that its planned activities in 2015 will cover its Kharmagtai and Oyut Ulaan copper-gold projects. Xanadu has commenced exploration activities at the Oyut Ulaan copper-gold project where we found outcropping high-grade gold and copper during initial works in 2013. This exciting field program has commenced earlier than expected due to favourable weather conditions in Mongolia.

Oyut Ulaan is located within the Dornogovi Province of southern Mongolia, approximately 420 kilometres southeast of Ulaanbaatar. It is strategically located within the South Gobi Copper Belt (Figure 1) (which hosts the world class Oyu Tolgoi copper-gold project) and 260 kilometres east of Xanadu’s flagship Kharmagtai copper-gold project. Oyut Ulaan consists of multiple co-genetic porphyry copper–gold centres, mineralised tourmaline breccia pipes and copper-gold / base metal magnetite skarns, which occur within the central part of Mining Licence 17129A (Oyut Ulaan).

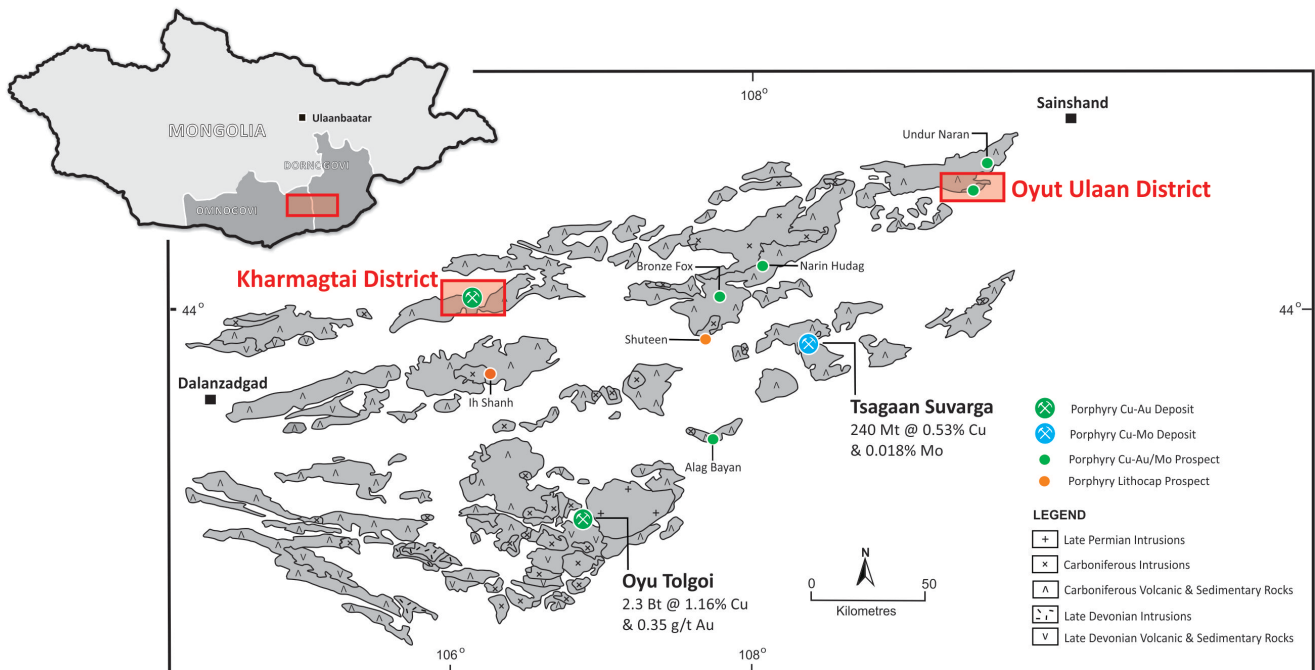


Figure 1: Location of the Kharmagtai and Oyut Ulaan copper-gold projects within Mongolia’s South Gobi Copper Belt.

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Xanadu Mines Ltd (**ASX: XAM**) 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 – with Mongolia emerging as a globally significant copper province.

Xanadu's previous exploration programs at Oyut Ulaan delivered excellent results and the company plans to investigate two of the most prospective areas of mineralisation, Diorite Hill and Stockwork Hill in the first part of the program (Figure 2):

- the Diorite Hill Prospect is a broad zone of strong quartz stockwork veining with copper mineralisation ranging from 0.3 to 1.5% copper, and is associated with high-grade gold mineralisation ranging from 0.5 to >5g/t gold. The stockwork mineralisation is approximately 40 to 80 metres wide, at least 550 metres long and at least 200 metres deep. The mineralisation is characterised by high gold grades, with per cent copper to grams/tonne gold ratios typically exceeding 1:2; and
- the Stockwork Hill Prospect consists of a narrow, discontinuous zone of quartz veining with mineralisation in the range of 0.1 to 0.8% copper and 0.3 to 0.6g/t gold. The mineralisation is at least 800 metres long, 150 metres wide and at least 200 metres deep.

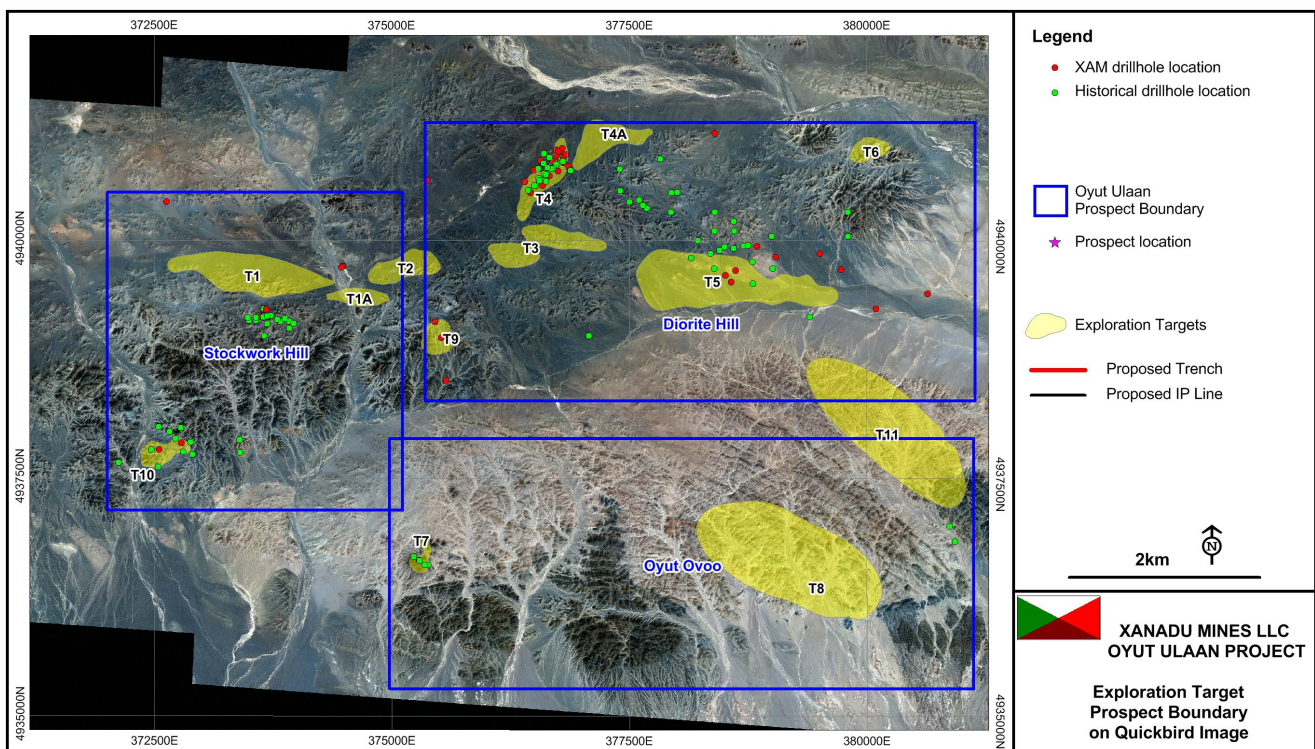


Figure 2: Oyut Ulaan copper-gold project historic exploration and prospects.

Mineralisation remains open at depth and along strike at both prospects. Weakly malachite stained outcrops and rare quartz veins indicate that the Diorite Hill Prospect may continue for 300 metres along strike to the northeast of current drilling. Quartz veins also outcrop 400 metres to the east of current drilling at the Stockwork Hill Prospect. The geology, strength of alteration and style of mineralisation suggest that the mineralisation will extend at depth.

The thin nature of the mineralising dykes, their irregular intrusion geometry and the patchy distribution of stockwork mineralisation in the Diorite Hill and Stockwork Hill prospects are all features typically found in the shallower parts of porphyry systems where narrow dykes and patchy mineralisation branch out above a mineralised stock.

The tourmaline breccia complex at the Oyut Ovoo Prospect (Figure 2) has close similarities to the very strongly mineralised tourmaline breccia dyke complex recently discovered at Xanadu's Kharmagtai copper-gold project (refer to Xanadu's Quarterly Activities Report released 30 January 2015) in that it appears to be a large (several kilometres long) and variably mineralised breccia dyke complex. The large areas of tourmaline breccia that crop out at the Oyut Ovoo Prospect are yet to be drill-tested and if they are mineralised at depth, then a significant increase in the resource potential of the district is predicted.



The current exploration program has been designed primarily to test potential extensions to high-grade porphyry mineralisation along strike from the Diorite Hill and Stockwork Hill prospects and test the outcropping variably mineralised breccia dyke complex. The program includes approximately 2,000 metres of surface trenching plus the acquisition of high-resolution ground magnetics and induced polarisation data. The program has been developed around a realistic geological model and will contribute to defining a shallow resource estimate at Oyut Ulaan.

Xanadu's Chairman, Mark Wheatley, said "Oyut Ulaan is a very exciting prospect, our last exploration program at Oyut Ulaan encountered spectacular results including multiple intersections with economic grades of copper-gold mineralisation from surface. It represents a great opportunity for Xanadu to utilise its local experience to explore for a large deposit, close to surface and of economic grade."

Mark Wheatley added "Xanadu is in the highly attractive position of having two excellent project opportunities located in one of the world's most prospective regions and the funds to explore them over what will be an exciting and challenging 2015 for the Company."

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APPENDIX 1: OYUT ULAAN TABLE 1 (JORC 2012)

Set out below is Section 1 and Section 2 of Table 1 under the JORC Code, 2012 Edition for the Oyut Ulaan project. Data provided by Xanadu. This Table 1 updates the JORC Table 1 disclosure dated 31 January 2014.

1.1 JORC TABLE 1 - SECTION 1 - SAMPLING TECHNIQUES AND DATA

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

Criteria	JORC Code Explanation	Commentary
Sampling techniques	<ul style="list-style-type: none"> Nature and quality of sampling. Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used. Aspects of the determination of mineralisation that are Material to the Public Report. 	<ul style="list-style-type: none"> Representative 2 metre samples were taken from trenches (costeans) excavated through colluvial cover to bedrock. Representative 2 meter samples were taken from ½ PQ, HQ and NQ diameter diamond drill core. Visual checks by geologists of sampling confirm sample intervals. Only assay result results from recognised, independent assay laboratories were used in reporting after QAQC was verified.
Drilling techniques	<ul style="list-style-type: none"> Drill type and details. 	<ul style="list-style-type: none"> Diamond drilling of PQ, HQ and NQ diameters has been the primary drilling method.
Drill sample recovery	<ul style="list-style-type: none"> Method of recording and assessing core and chip sample recoveries and results assessed. Measures taken to maximise sample recovery and ensure representative nature of the samples. 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. 	<ul style="list-style-type: none"> Diamond core recoveries averaged 98% overall in mineralised zones. In localised areas of faulting and/or fracturing the recoveries decrease; however this is a very small percentage of the overall mineralised zones. Analysis of recovery results vs. grade indicates no significant trends. Indicating bias of grades due to diminished recovery and / or wetness of samples
Logging	<ul style="list-style-type: none"> 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. Whether logging is qualitative or 	<ul style="list-style-type: none"> Diamond drill core samples and trenches are logged for geology, alteration and mineralisation using a standardised logging system. Rock quality data (RQD) is collected from all diamond drill core.



Criteria	JORC Code Explanation	Commentary
	<p>quantitative in nature. Core (or costean, channel, etc) photography.</p> <ul style="list-style-type: none"> The total length and percentage of the relevant intersections logged. 	<ul style="list-style-type: none"> Diamond drill core and trenches were photographed after being logged by a geologist. All diamond drill cores and trenches have been logged by a competent geologist.
<p>Sub-sampling techniques and sample preparation</p>	<ul style="list-style-type: none"> If core, whether cut or sawn and whether quarter, half or all core taken. If non-core, whether riffled, tube sampled, rotary split, etc and whether sampled wet or dry. For all sample types, the nature, quality and appropriateness of the sample preparation technique. Quality control procedures adopted for all sub-sampling stages to maximize representivity of samples. 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. Whether sample sizes are appropriate to the grain size of the material being sampled. 	<ul style="list-style-type: none"> Trench channel samples are taken from the base of the trench wall (about 10cm above the floor). Samples are approximately 3 kg. The sample is collected with a plastic sheet and tray. Diamond drill core is cut in half with a diamond saw, following the line marked by the geologist. The rock saw is regularly flushed with fresh water. Sample intervals are a constant 2m interval down-hole in length. Routine sample preparation and analyses of diamond drill core and trench samples were carried out by SGS Mongolia LLC (SGS Mongolia) and ALS Mongolia LLC (ALS Geochemistry Mongolia) who operate independent sample preparation and analytical laboratories in Ulaanbaatar. All samples were prepared to meet standard quality control procedures as follows: crushed to 70% less than 2mm, riffle split off 1kg, pulverize split to better than 85% passing 200 mesh (75 microns) and split to 150g. Certified reference materials (CRMs), blanks and pulp duplicate were randomly inserted to manage the quality of data. Sample sizes are well in excess of standard industry requirements.
<p>Quality of assay data and laboratory tests</p>	<ul style="list-style-type: none"> The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total. For geophysical tools, spectrometers, handheld XRF instruments, etc, the parameters used in determining the 	<ul style="list-style-type: none"> All samples were routinely assayed by by SGS Mongolia LLC (SGS Mongolia) and ALS Mongolia LLC (ALS Geochemistry Mongolia) who operate independent sample preparation and analytical laboratories in Ulaanbaatar. Gold is determined using 30g fire assay



Criteria	JORC Code Explanation	Commentary
	<p>analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc.</p> <ul style="list-style-type: none"> 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. 	<p>with aqua regia digestion, followed by an atomic absorption spectroscopy (AAS) finish, with a lower detection (LDL) of 0.01 ppm.</p> <ul style="list-style-type: none"> 48 elements by four-acid-digestion, ICP-MS and ICP-AES (ME-MS61 and ME-MS61m). Four acid digestion is considered near total digestion. Quality assurance was provided by introduction of known certified standards, blanks and duplicate samples on a routine basis. Assay results outside the optimal range for methods were re-analysed by appropriate methods. Ore Research Pty Ltd certified copper and gold standards have been implemented as a part of QAQC procedures, as well as coarse and pulp blanks, and certified matrix matched copper-gold standards. QAQC monitoring is an active and ongoing process on batch by batch basis by which acceptable results is re-assayed as soon as practicable.
Verification of sampling and assaying	<ul style="list-style-type: none"> The verification of significant intersections by either independent or alternative company personnel. The use of twinned holes. Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols. Discuss any adjustment to assay data. 	<ul style="list-style-type: none"> All assay data QAQC is checked prior to loading into the data base. The data is managed XAM geologists. No twinned drill holes exist, given the early stage of the exploration project. The data base and geological interpretation is collectively managed by XAM.
Location of data points	<ul style="list-style-type: none"> 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. Specification of the grid system used. Quality and adequacy of topographic 	<ul style="list-style-type: none"> All drill hole collars and trenches have been surveyed with a differential global positioning system (DGPS) to within 10cm accuracy. All diamond 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

Criteria	JORC Code Explanation	Commentary
	control.	<p>over the duration of the drilling programs including Eastman Kodak and Flexit.</p> <ul style="list-style-type: none"> • UTM WGS84 49N grid. • The DTM is based on 1 m contours with an accuracy of ± 0.01 m.
Data spacing and distribution	<ul style="list-style-type: none"> • Data spacing for reporting of Exploration Results. • 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. • Whether sample compositing has been applied. 	<ul style="list-style-type: none"> • Trenching has been completed on nominal northwest-southeast and north-south trending sections on widely spaced lines. Channel sampling every 2m of the 1m wide trench. • Drilling has been completed on nominal northwest-southeast and north-south trending sections, on 100m spacing within mineralised zones. • Vertical spacing of intercepts on the mineralised zones similarly commences at 100m spacing for mineralised zones. • Drilling has predominantly occurred with angled holes approximately 70° to 60° inclination below the horizontal and either drilling to north or south, depending on the dip of the target mineralised zone. • Holes have been drilled to 400m vertical depth. • The data spacing and distribution is not sufficient to establish geological and grade continuity appropriate for the a Mineral Resource estimation. • Samples have not been composited.
Orientation of data in relation to geological structure	<ul style="list-style-type: none"> • Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type. • 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. 	<ul style="list-style-type: none"> • Drilling and trenching has been predominantly completed on northwest trending section lines across the strike of the known mineralised zones and from either the north or the south depending on the dip. • Vertical dipping mineralised zones were predominantly drilled to the northwest or north. • Scissor drilling (drilling from both north and south) has been used in key mineralised zones to achieve unbiased sampling of



Criteria	JORC Code Explanation	Commentary
		possible structures and mineralised zones.
Sample security	<ul style="list-style-type: none">The measures taken to ensure sample security.	<ul style="list-style-type: none">Samples are dispatched from site through via company employees to the Laboratories.Samples are signed for at the Laboratory with confirmation of receipt emailed through.Samples are then stored at the lab and returned to a locked storage site.
Audits or reviews	<ul style="list-style-type: none">The results of any audits or reviews of sampling techniques and data	<ul style="list-style-type: none">Internal audits of sampling techniques and data management on a regular basis, to ensure industry best practice is employed at all times.

1.2 JORC TABLE 1 -SECTION 2 - REPORTING OF EXPLORATION RESULTS

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

Criteria	JORC Code Explanation	Commentary
Mineral tenement and land tenure status	<ul style="list-style-type: none"> Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, over riding royalties, native title interests, historical sites, wilderness or national park and environmental settings. 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. 	<ul style="list-style-type: none"> The Project comprises 1 Mining Licences (MV-17129A). Xanadu now owns 90% of Vantage LLC, the 100% owner of the Oyut Ulaan mining license. The Mongolian Minerals Law (2006 and Mongolian Land Law (2002) govern exploration, mining and land use rights for the project.
Exploration done by other parties	<ul style="list-style-type: none"> Acknowledgment and appraisal of exploration by other parties. 	<ul style="list-style-type: none"> Previous exploration was conducted by Ivanhoe Mines Ltd and Vantage LLC including surface mapping and geochemistry, diamond drilling and geophysics.
Geology	<ul style="list-style-type: none"> Deposit type, geological setting and style of mineralisation. 	<ul style="list-style-type: none"> The mineralisation is characterised as porphyry copper-gold type. 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 Oyut Ulaan are atypical in that they are associated with intermediate intrusions of diorite to quartz diorite composition, however the deposits are in terms of contained gold significant, and similar gold-rich porphyry deposits globally.
Drill hole information	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> No new drill hole data is reported.



Criteria	JORC Code Explanation	Commentary
	<p>above sea level in 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"> 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. 	
<p>Data aggregation methods</p>	<ul style="list-style-type: none"> 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. 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. The assumptions used for any reporting of metal equivalent values should be clearly stated. 	<ul style="list-style-type: none"> A nominal cut-off of 0.1% Cu is used for identification of potentially significant intercepts for reporting purposes. 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. 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).
<p>Relationship between mineralisation on widths and intercept lengths</p>	<ul style="list-style-type: none"> These relationships are particularly important in the reporting of Exploration Results. If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported. 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'). 	<ul style="list-style-type: none"> Mineralised structures are variable in orientation, and therefore drill orientations have been adjusted from place to place in order to allow intersection angles as close as possible to true widths. 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.
<p>Diagrams</p>	<ul style="list-style-type: none"> Appropriate maps and sections (with scales) and tabulations of intercepts should 	<ul style="list-style-type: none"> See figures in main report.



Criteria	JORC Code Explanation	Commentary
	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.	
Balanced reporting	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Exploration results have been reported at a range of grades, predominantly above a minimum for potentially significant intercepts for reporting purposes.
Other substantive exploration data	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Extensive work in this area has been done, and is reported separately Detailed geological mapping Surface geochemistry (1,253 rock-chip samples). Geophysics includes ground magnetics (332 km). Diamond drill includes 17 holes (5000 metres).
Further work	<ul style="list-style-type: none"> The nature and scale of planned further work. Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive 	<ul style="list-style-type: none"> The mineralisation is open at depth and along strike. A multi-disciplinary exploration program is planned to test areas previously drilled with high-grade, near-surface results, which have the potential to host further mineralisation at depth and along strike; and test the many untested geophysical and geochemical anomalies remain within the Oyut Ulaan area district, as there is a strong possibility of discovering additional mineralised porphyry centres. Exploration on going.