

23 December 2016

AWARDS UNDER THE XANADU EQUITY INCENTIVE PLAN

Xanadu Mines Ltd (**ASX: XAM** – “Xanadu” or “Company”) refers to its announcement earlier today regarding the appointment of Mathew Brown as Chief Geologist of Xanadu.

1,800,000 fully paid Share Rights have been issued to the Chief Geologist under the Company’s Equity Incentive Plan. Subject to the achievement of vesting conditions, the Share Rights may vest and convert to fully paid ordinary shares on a one-for-one basis for nil financial consideration over a term of three years. Further details are set out in the attached Appendix 3B.

In addition, and consistent with the Xanadu remuneration philosophy described in the Company’s Remuneration Report, the Board has resolved to issue a total of 6.5 million Share Rights to Directors Ganbayar Lkhagvasuren (4 million), Mark Wheatley (1.5 million) and Darryl Clark (1 million), subject to shareholder approval at the Company’s 2017 Annual General Meeting (AGM). The three year term of Share Rights previously approved by Shareholders for Mr Lkhagvasuren, Mr Wheatley and Dr Clark has expired, with each Share Right vested or lapsed as the case maybe.

The structure of the Share Rights awards proposed for Directors is consistent with the approach recently used for the Managing Director & Chief Executive Officer.

For the purposes of ASX Listing Rule 3.10.3, the following summary is provided:


Share Rights for Mr Wheatley and Dr Clark may vest in the three tranches subject to the following conditions (each a Vesting Condition):

- one-third of Share Rights subject to share price performance hurdle of 30 cents, based on a 1 month VWAP up to and including 23 December 2017 (Tranche 1).
- one-third of Share Rights subject to share price performance hurdle of 40 cents, based on a 1 month VWAP up to and including 23 December 2018 (Tranche 2).
- one-third of Share Rights subject to share price performance hurdle of 50 cents, based on a 1 month VWAP up to and including 23 December 2019 (Tranche 3).

The same hurdles apply to Mr Lkhagvasuren however Tranches 1, 2 and 3 are 1 million, 1 million and 2 million Share Rights, respectively.

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XAM

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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 – and Mongolia is emerging as a globally significant copper province.

If the Vesting Conditions in Tranche 1 are not met, the Tranche 1 Share Rights will be subject to the Tranche 2 Vesting Conditions. If the Vesting Conditions in Tranche 1 or 2 are not met, the Tranche 1 and 2 Share Rights will be subject to the Tranche 3 Vesting Conditions. If the Tranche 3 Vesting Conditions are not satisfied, the Tranche 1, 2 and 3 Share Rights will lapse.

Upon exercise, vested Share Rights will convert to fully paid ordinary shares on a one-for-one basis for nil financial consideration.

Vested Share Rights may be exercisable up to 15 years after the date of grant.

If a control event occurs prior to shareholder approval at Xanadu's 2017 AGM, the Company will pay each of Mr Lkhagvasuren, Mr Wheatley and Dr Clark a cash amount equal to the equity value of the Share Rights that would have vested in respect of each participant at the price payable of the control event.

If a control event occurs after the Share Rights have been approved by shareholders and granted, the Share Rights which vest will be determined having regard to the price per share paid by the bidder. *For example only, if the price payable per share as part of the control event is 45 cents per share, then Tranche 1 and Tranche 2 Share Rights will automatically vest.*

Further details will be set out in the Notice of 2017 AGM.

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Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 01/07/96 Origin: Appendix 5 Amended 01/07/98, 01/09/99, 01/07/00, 30/09/01, 11/03/02, 01/01/03, 24/10/05, 01/08/12, 04/03/13

Name of entity

Xanadu Mines Ltd

ABN

92 114 249 026

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

1 +Class of +securities issued or
to be issued

Share Rights (unquoted) (SRs)

2 Number of +securities issued
or to be issued (if known) or
maximum number which may
be issued

1,800,000

+ See chapter 19 for defined terms.

3 Principal terms of the +securities (e.g. if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)

SRs may vest in the three tranches subject to the following conditions (each a Vesting Condition):

- 600,000 SRs subject to share price performance hurdle of 30 cents, based on a 1 month VWAP up to an including 23 December 2017 (Tranche 1).
- 600,000 SRs subject to share price performance hurdle of 40 cents, based on a 1 month VWAP up to an including 23 December 2018 (Tranche 2).
- 600,000 SRs subject to share price performance hurdle of 50 cents, based on a 1 month VWAP up to an including 23 December 2019 (Tranche 3).

If the Vesting Conditions in Tranche 1 are not met, the Tranche 1 SRs will be subject to the Tranche 2 Vesting Conditions.

If the Vesting Conditions in Tranche 1 or 2 are not met, the Tranche 1 and 2 SRs will be subject to the Tranche 3 Vesting Conditions.

If the Tranche 3 Vesting Conditions are not satisfied, the Tranche 1, 2 and 3 SRs will lapse.

Upon exercise, vested SRs convert to fully paid ordinary shares on a one-for-one basis for nil financial consideration.

Vested SRs may be exercisable up to 15 years after the date of grant.

If a control event occurs, the SRs which vest will be determined having regard to the price per share paid by the bidder. *For example only, if the price payable per share as part of the control event is 45 cents per share, then Tranche 1 and Tranche 2 SRs will automatically vest.*

+ See chapter 19 for defined terms.

4	Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities?	N/A
	<p>If the additional +securities do not rank equally, please state:</p> <ul style="list-style-type: none"> • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment 	
5	Issue price or consideration	SR are issued for nil financial consideration under the Xanadu Equity Incentive Plan (as approved by Shareholders).
6	Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)	Issue of long-term equity incentive to the Chief Geologist.
6a	Is the entity an +eligible entity that has obtained security holder approval under rule 7.1A?	No
	If Yes, complete sections 6b – 6h in relation to the +securities the subject of this Appendix 3B, and comply with section 6i	
6b	The date the security holder resolution under rule 7.1A was passed	N/A
6c	Number of +securities issued without security holder approval under rule 7.1	N/A
6d	Number of +securities issued with security holder approval under rule 7.1A	N/A

+ See chapter 19 for defined terms.

6e	Number of +securities issued with security holder approval under rule 7.3, or another specific security holder approval (specify date of meeting)	N/A
6f	Number of +securities issued under an exception in rule 7.2	N/A
6g	If +securities issued under rule 7.1A, was issue price at least 75% of 15 day VWAP as calculated under rule 7.1A.3? Include the +issue date and both values. Include the source of the VWAP calculation.	N/A
6h	If +securities were issued under rule 7.1A for non-cash consideration, state date on which valuation of consideration was released to ASX Market Announcements	N/A
6i	Calculate the entity's remaining issue capacity under rule 7.1 and rule 7.1A – complete Annexure 1 and release to ASX Market Announcements	N/A
7	<p>+Issue dates</p> <p>Note: The issue date may be prescribed by ASX (refer to the definition of issue date in rule 19.12). For example, the issue date for a pro rata entitlement issue must comply with the applicable timetable in Appendix 7A.</p> <p>Cross reference: item 33 of Appendix 3B.</p>	23 December 2016

+ See chapter 19 for defined terms.

	Number	+Class
8	511,218,639	Fully paid ordinary shares

	Number*	+Class
9	300,000	SRs (individual KPIs, 1/2/17)
	350,000	SRs (\$0.1870, 1/6/17)
	333,333	SRs (\$0.1755, 16/6/17)
	1,000,000	SRs (\$0.3121, 18/9/17)
	600,000	SRs (\$0.30, 23/12/17)
	300,000	SRs (individual KPIs, 1/2/18)
	333,334	SRs (\$0.2281, 16/6/18)
	600,000	SRs (\$0.40, 23/12/18)
	600,000	SRs (\$0.50, 23/12/19)
	15,000,000	Options Series A (14/1/2019)
20,000,000	Options Series B (14/1/2019)	

10	Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)	N/A
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Part 2 - Pro rata issue

11	Is security holder approval required?	N/A
12	Is the issue renounceable or non-renounceable?	N/A
13	Ratio in which the +securities will be offered	N/A
14	+Class of +securities to which the offer relates	N/A
15	+Record date to determine entitlements	N/A
16	Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	N/A

+ See chapter 19 for defined terms.

17	Policy for deciding entitlements in relation to fractions	N/A
18	Names of countries in which the entity has security holders who will not be sent new offer documents Note: Security holders must be told how their entitlements are to be dealt with. Cross reference: rule 7.7.	N/A
19	Closing date for receipt of acceptances or renunciations	N/A
20	Names of any underwriters	N/A
21	Amount of any underwriting fee or commission	N/A
22	Names of any brokers to the issue	N/A
23	Fee or commission payable to the broker to the issue	N/A
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of security holders	N/A
25	If the issue is contingent on security holders' approval, the date of the meeting	N/A
26	Date entitlement and acceptance form and offer documents will be sent to persons entitled	N/A
27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	N/A
28	Date rights trading will begin (if applicable)	N/A

+ See chapter 19 for defined terms.

29	Date rights trading will end (if applicable)	N/A
30	How do security holders sell their entitlements <i>in full</i> through a broker?	N/A
31	How do security holders sell <i>part</i> of their entitlements through a broker and accept for the balance?	N/A
32	How do security holders dispose of their entitlements (except by sale through a broker)?	N/A
33	+Issue date	N/A

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

34 Type of +securities
(tick one)

(a) +Securities described in Part 1

(b) All other +securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

Tick to indicate you are providing the information or documents

35 If the +securities are +equity securities, the names of the 20 largest holders of the additional +securities, and the number and percentage of additional +securities held by those holders

+ See chapter 19 for defined terms.

- 36 If the +securities are +equity securities, a distribution schedule of the additional +securities setting out the number of holders in the categories
 1 - 1,000
 1,001 - 5,000
 5,001 - 10,000
 10,001 - 100,000
 100,001 and over
- 37 A copy of any trust deed for the additional +securities

Entities that have ticked box 34(b)

- 38 Number of +securities for which +quotation is sought N/A
- 39 +Class of +securities for which quotation is sought N/A
- 40 Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities?

 If the additional +securities do not rank equally, please state:
 • the date from which they do
 • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment
 • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment
- N/A
- 41 Reason for request for quotation now N/A
 Example: In the case of restricted securities, end of restriction period

 (if issued upon conversion of another +security, clearly identify that other +security)

+ See chapter 19 for defined terms.

42 Number and +class of all +securities quoted on ASX (including the +securities in clause 38)

Number	+Class
N/A	N/A

Quotation agreement

1 +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

2 We warrant the following to ASX.

- The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.
- There is no reason why those +securities should not be granted +quotation.
- An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.
- If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

4 We give ASX the information and documents required by this form. If any information or document is not available now, we will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.

Sign here:



Company Secretary

Date: 23 December 2016

Print name: Janine Rolfe

+ See chapter 19 for defined terms.

Appendix 3B – Annexure 1

Calculation of placement capacity under rule 7.1 and rule 7.1A for eligible entities

Introduced 01/08/12 Amended 04/03/13

Part 1

Rule 7.1 – Issues exceeding 15% of capital	
<i>Step 1: Calculate “A”, the base figure from which the placement capacity is calculated</i>	
<i>Insert</i> number of fully paid +ordinary securities on issue 12 months before the +issue date or date of agreement to issue	374,678,226
<p><i>Add</i> the following:</p> <ul style="list-style-type: none"> • Number of fully paid +ordinary securities issued in that 12 month period under an exception in rule 7.2 • Number of fully paid +ordinary securities issued in that 12 month period with shareholder approval • Number of partly paid +ordinary securities that became fully paid in that 12 month period <p><i>Note:</i></p> <ul style="list-style-type: none"> • <i>Include only ordinary securities here – other classes of equity securities cannot be added</i> • <i>Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	<p>6,471,407</p> <p>67,872,905</p> <p>0</p>
<i>Subtract</i> the number of fully paid +ordinary securities cancelled during that 12 month period	0
“A”	449,022,538

+ See chapter 19 for defined terms.

Step 2: Calculate 15% of “A”	
“B”	0.15 <i>[Note: this value cannot be changed]</i>
Multiply “A” by 0.15	67,353,380
Step 3: Calculate “C”, the amount of placement capacity under rule 7.1 that has already been used	
<p>Insert number of ⁺equity securities issued or agreed to be issued in that 12 month period <i>not counting</i> those issued:</p> <ul style="list-style-type: none"> • Under an exception in rule 7.2 • Under rule 7.1A • With security holder approval under rule 7.1 or rule 7.4 <p><i>Note:</i></p> <ul style="list-style-type: none"> • <i>This applies to equity securities, unless specifically excluded – not just ordinary securities</i> • <i>Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	<p>0</p> <p>0</p> <p>1,364,000 (1/04/2016)</p> <p>60,832,101 (24/06/16)</p>
“C”	62,196,101
Step 4: Subtract “C” from [“A” x “B”] to calculate remaining placement capacity under rule 7.1	
<p>“A” x 0.15</p> <p><i>Note: number must be same as shown in Step 2</i></p>	67,353,380
<p>Subtract “C”</p> <p><i>Note: number must be same as shown in Step 3</i></p>	62,196,101
<p>Total [“A” x 0.15] – “C”</p>	<p>5,157,279</p> <p><i>[Note: this is the remaining placement capacity under rule 7.1]</i></p>

+ See chapter 19 for defined terms.

Part 2: N/A

Rule 7.1A – Additional placement capacity for eligible entities	
Step 1: Calculate “A”, the base figure from which the placement capacity is calculated	
“A” <i>Note: number must be same as shown in Step 1 of Part 1</i>	
Step 2: Calculate 10% of “A”	
“D”	0.10 <i>Note: this value cannot be changed</i>
Multiply “A” by 0.10	
Step 3: Calculate “E”, the amount of placement capacity under rule 7.1A that has already been used	
Insert number of +equity securities issued or agreed to be issued in that 12 month period under rule 7.1A <i>Notes:</i> <ul style="list-style-type: none"> • <i>This applies to equity securities – not just ordinary securities</i> • <i>Include here – if applicable – the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>Do not include equity securities issued under rule 7.1 (they must be dealt with in Part 1), or for which specific security holder approval has been obtained</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	
“E”	

+ See chapter 19 for defined terms.

Step 4: Subtract “E” from [“A” x “D”] to calculate remaining placement capacity under rule 7.1A	
“A” x 0.10 <i>Note: number must be same as shown in Step 2</i>	
Subtract “E” <i>Note: number must be same as shown in Step 3</i>	
Total [“A” x 0.10] – “E”	<i>Note: this is the remaining placement capacity under rule 7.1A</i>

+ See chapter 19 for defined terms.