

6 April 2016

Dear Shareholder,

On behalf of the Board of Xanadu Mines Ltd (**Company**), I am pleased to invite you to attend the Company's 2016 Annual General Meeting (**AGM**), which will be held at 11:00am at the offices of Computershare in Sydney on Friday, 6 May 2016.

This letter accompanies a notice of meeting in respect of the AGM (**Notice of Meeting**). The resolutions to be considered at the AGM are set out in the Notice of Meeting and more details are provided in the explanatory memorandum accompanying the Notice of Meeting.

At this year's AGM and in addition to the more standard resolutions, the Company is seeking support from Shareholders for the payment of 2015 short term incentives in shares as a modest cash conservation measure.

I encourage you to read these documents, the Annual Report and Accounts and vote in favour of the resolutions at the AGM.

Shareholders attending the AGM will have the opportunity to ask questions at the AGM. If you are unable to attend the AGM and have a question that you would like to address to the Board or to our external auditor, Ernst & Young, please email your question to our Company Secretary, Janine Rolfe, at info@xanadumines.com by no later than 5:00pm on Friday, 29 April 2016.

I look forward to seeing as many of you as possible at the AGM.

Yours sincerely,



Mark Wheatley
Executive Chairman
Xanadu Mines Ltd



CONTACT

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Executive Chairman
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ASX
XAM

XANADU MINES LTD
ABN 92 114 249 026

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting (**AGM**) of Shareholders of Xanadu Mines Ltd (**Company**) will be held:

Date: Friday, 6 May 2016
Time: 11:00am (Sydney time)
Venue: Computershare Investor Services
Level 4
60 Carrington Street
Sydney NSW 2000

The Explanatory Memorandum accompanying this Notice of Meeting (**Notice of Meeting**) provides additional information on matters to be considered at the AGM. The Explanatory Memorandum and proxy form are part of this Notice of Meeting.

1 REPORTS AND QUESTIONS/COMMENTS

1.1 Consideration of Reports

To receive and consider the Financial Report, the Directors' Report and the Independent Auditor's Report of the Company for the financial year ended 31 December 2015 (**Reports**).

Unless the Company's Share Registry has been notified otherwise, Shareholders have not been sent a hard copy of the Annual Report. All Shareholders can view the Annual Report, which contains the Financial Report for the year ended 31 December 2015, on the Company's website at www.xanadumines.com.

1.2 Questions and Comments

Following consideration of the Reports, the Chairman will give Shareholders attending the AGM a reasonable opportunity to ask questions about or comment about the management of the Company.

The Chairman will also give Shareholders an opportunity to ask the Auditor questions relevant to:

- the conduct of the audit;
- the preparation and content of the Independent Auditor's Report;
- the accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- the independence of the Auditor in relation to the conduct of the audit.

The Chairman will also give the Auditor a reasonable opportunity to answer written questions submitted by Shareholders that are relevant to the content of the Independent Auditor's Report or the conduct of the audit. A list of written questions, if any, submitted by Shareholders will be made available at the start of the AGM and any written answer tabled by the Auditor at the AGM will be made available as soon as practicable after the AGM.

2 DIRECTOR RE-ELECTIONS AND ELECTION

2.1 Re-election of Director – Mr Mark Wheatley, Executive Chairman

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

“That Mr Mark Wheatley, who retires in accordance with clause 11.4 of the Company’s Constitution, offers himself for re-election and being eligible, be re-elected as a Director of the Company.”

2.2 Re-election of Director – Dr Darryl Clark, Independent Non-Executive Director

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

“That Dr Darryl Clark, who retires in accordance with clause 11.4 of the Company’s Constitution, offers himself for re-election and being eligible, be re-elected as a Director of the Company.”

2.3 Election of Director – Dr Andrew Stewart, Executive Director

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

“That Dr Andrew Stewart, having been appointed to fill a casual vacancy under clause 11.8 of the Company’s Constitution, retires as required under clause 11.8 of the Company’s Constitution and offers himself for re-election and, being eligible, be elected as a Director of the Company.”

3 REMUNERATION REPORT

To consider and, if thought fit, pass the following as an advisory resolution of the Company:

“That, the Company’s Remuneration Report for the financial year ended 31 December 2015 (set out in the Directors’ Report) is adopted.”

The Remuneration Report is set out in the Annual Report dated 18 March 2016. Please note that, in accordance with section 250R(3) of the *Corporations Act 2001* (Cth) (**Corporations Act**), the vote on this resolution is advisory only and does not bind the Directors or the Company.

Voting Exclusion Statement

A vote on Resolution 3 must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the key management personnel (**KMP**) whose remuneration is included in the Remuneration Report for the financial year ended 31 December 2015; or
- (b) a closely related party (such as close family members and any companies that the KMP controls) of such a KMP, regardless of the capacity in which the vote is cast.

However, a person described above may cast a vote on Resolution 3 as proxy if the vote is not cast on behalf of a person described in either paragraph (a) or paragraph (b) and either:

- (a) the proxy appointment is in writing and specifies the way the proxy is to vote (for, against, abstain) on a resolution; or
- (b) the vote is cast by the Chair of the meeting as proxy and the appointment of the Chair as proxy:

- (i) does not specify how the proxy is to vote on the resolution; and
- (ii) expressly authorises the Chair of the AGM to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

4 EQUITY INCENTIVE PLAN

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

“That, for the purpose of Listing Rule 7.2, exception 9(b), section 260C(4) of the Corporations Act 2001 (Cth) and for all other purposes, shareholders approve the issue of securities under the Xanadu Mines Limited Equity Incentive Plan on the terms described in the Explanatory Statement that forms part of the Notice of Meeting.”

Voting Exclusion Statement

In accordance with ASX Listing Rule 14.11, the Company will disregard any votes cast on Resolution 4 by any Director of the Company and their associates.

However, the Company need not disregard a vote cast on Resolution 4 if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, a vote must not be cast on Resolution 4 as a proxy by a member of the KMP at the date of the AGM, or a closely related party of those persons, unless it is cast as proxy for a person entitled to vote in accordance with their directions. This restriction on voting undirected proxies does not apply to the Chairman of the meeting because the Company’s proxy appointment expressly authorises the Chairman of the meeting to exercise undirected proxies even if the resolution is connected, directly or indirectly, with the remuneration of the KMP.

5 GRANT OF EQUITY IN LIEU OF CASH CONSIDERATION PAYABLE UNDER THE SHORT TERM INCENTIVE PLAN

5.1 Issue of shares under the Equity Incentive Plan in lieu of cash consideration payable under the Short Term Incentive Payment Plan – Mr Ganbayar Lkhagvasuren

To consider and, if thought fit, to pass the following as an ordinary resolution of the Company:

“That, for the purposes of ASX Listing Rule 10.14, section 260C(4) of the Corporations Act 2001 (Cth), and for all other purposes, the issue of 368,764 ordinary shares to Mr Ganbayar Lkhagvasuren, Executive Director under the Equity Incentive Plan in lieu of cash consideration payable under the Short Term Incentive Payment Plan on the terms described in the Explanatory Memorandum which forms part of the Notice of Meeting, is approved.”

5.2 Issue of shares under the Equity Incentive Plan in lieu of cash consideration payable under the Short Term Incentive Payment Plan – Mr Mark Wheatley

To consider and, if thought fit, to pass the following as an ordinary resolution of the Company:

“That, for the purposes of ASX Listing Rule 10.14, section 260C(4) of the Corporations Act 2001 (Cth), and for all other purposes, the issue of 172,318 ordinary shares to Mr Mark Wheatley, Executive Chairman under the Equity Incentive Plan in lieu of cash consideration payable under the Short Term Incentive Payment Plan on the terms described in the Explanatory Memorandum which forms part of the Notice of Meeting, is approved.”

5.3 Issue of shares under the Equity Incentive Plan in lieu of cash consideration payable under the Short Term Incentive Payment Plan – Dr Andrew Stewart

To consider and, if thought fit, to pass the following as an ordinary resolution of the Company:

“That, for the purposes of ASX Listing Rule 10.14, section 260C(4) of the Corporations Act 2001 (Cth), and for all other purposes, the issue of 622,340 ordinary shares to Dr Andrew Stewart, Chief Executive Officer and Executive Director under the Equity Incentive Plan in lieu of cash consideration payable under the Short Term Incentive Payment Plan on the terms described in the Explanatory Memorandum which forms part of the Notice of Meeting, is approved.”

Voting Exclusion Statement: Resolutions 5.1 to 5.3

In accordance with ASX Listing Rule 14.11, the Company will disregard any votes cast on Resolutions 5.1 to 5.3 by any Director of the Company and their associates.

However, the Company need not disregard a vote cast on Resolutions 5.1 to 5.3 if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, a vote must not be cast on Resolutions 5.1 to 5.3 as a proxy by a member of the KMP at the date of the AGM, or a closely related party of those persons, unless it is cast as proxy for a person entitled to vote in accordance with their directions. This restriction on voting undirected proxies does not apply to the Chairman of the meeting because the Company's proxy appointment expressly authorises the Chairman of the meeting to exercise undirected proxies even if the resolution is connected, directly or indirectly, with the remuneration of the KMP.

BY ORDER OF THE BOARD



Janine Rolfe
Company Secretary
6 April 2016

ENTITLEMENT TO ATTEND AND VOTE

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Board has determined that persons who are registered holders of shares of the Company as at 7:00pm (Sydney time) on Wednesday, 4 May 2016 are entitled to attend and vote at the AGM as a Shareholder.

If more than one joint holder of shares is present at the AGM (whether personally, by proxy or by attorney or by representative) and tenders a vote, only the vote of the joint holder whose name appears first on the register is counted.

Voting by Proxy

If you are a Shareholder entitled to attend and vote, you may appoint an individual or a body corporate as a proxy. If a body corporate is appointed as a proxy, that body corporate must ensure that it appoints a corporate representative in accordance with section 250D of the Corporations Act to exercise its powers as proxy at the AGM.

A proxy does not need to be a Shareholder of the Company.

A Shareholder may appoint up to two proxies and specify the proportion or number of votes each proxy may exercise. If the Shareholder does not specify the proportion or number of votes to be exercised, each proxy may exercise half of the Shareholder's votes.

To be effective, the proxy must be received at the Company's Share Registry no later than 11:00am (Sydney time) on Wednesday, 4 May 2016. Proxies must be received before that time by one of the following methods:

- | | |
|------------------------|--|
| By post: | Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia |
| By facsimile: | 1800 783 447 (within Australia)
+61 3 9473 2555 (outside of Australia) |
| By delivery in person: | Level 4
60 Carrington Street
Sydney NSW 2000 |
| Online: | www.investorvote.com.au (for Shareholders)
www.intermediaryonline.com (Intermediary Online subscribers only) |

To be valid, a proxy must be received by the Company in the manner stipulated above. The Company reserves the right to declare invalid any proxy not received in this manner.

Voting by Attorney

A proxy form and the original power of attorney (if any) under which the proxy form is signed (or a certified copy of that power of attorney or other authority) must be received by no later than 11:00am (Sydney time) on Wednesday, 4 May 2016 being 48 hours before the AGM.

Corporate Representatives

A body corporate that is a Shareholder, or that has been appointed as a proxy, is entitled to appoint any person to act as its representative at the AGM. The appointment of the representative must comply with the requirements under section 250D of the Corporations Act. The representative should bring to the AGM a properly executed letter or other document confirming its authority to act as the company's representative.

A "Certificate of Appointment of Corporate Representative" form may be obtained from the Company's share registry or online www.investorcentre.com under the help tab, "Printable Forms".

IMPORTANT: If you appoint the Chairman of the Meeting as your proxy, or the Chairman becomes your proxy by default, and you do not direct your proxy how to vote on Resolutions 3, 5.1, 5.2 and 5.3, then by submitting the proxy form you will be expressly authorising the Chairman to exercise your proxy on the relevant resolution, even though the resolutions are connected, directly or indirectly, with the remuneration of the KMP.

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of Shareholders of the Company in relation to the business to be conducted at the Company's AGM to be held on Friday, 6 May 2016.

The purpose of this Explanatory Memorandum is to provide Shareholders with information that is reasonably required to decide how to vote upon the resolutions.

Subject to the abstentions noted below, the Directors unanimously recommend that Shareholders vote in favour of all of the resolutions. The Chairman of the AGM intends to vote on all of the resolutions.

All of the resolutions (except Resolution 3) are to be voted on as ordinary resolutions. An ordinary resolution requires a simple majority of votes cast by Shareholders present and entitled to vote on the resolution. Resolution 3 is an advisory resolution and does not bind the Directors or the Company.

The Directors unanimously recommend Shareholders vote in favour of all of the resolutions.

RESOLUTION 2.1: RE-ELECTION OF MR MARK WHEATLEY, EXECUTIVE CHAIRMAN

In accordance with clause 11.4 of the Company's Constitution, Mr Mark Wheatley retires by rotation and, being eligible, offers himself for re-election as Executive Chairman of the Company.

Mark was appointed as an Independent Non-Executive Director of the Company on 9 November 2012. He was appointed Non-Executive Chairman on 25 November 2013 and Executive Chairman on 18 March 2015.

Mark is an experienced resources company CEO, director and chairman with a career spanning more than 30 years in mining and related industries. His executive roles have included BHP, Bankers Trust Australia, Goldfields Limited, AurionGold, and he was Chairman and CEO of Southern Cross Resources Inc. and Managing Director and CEO of BMA Gold Ltd. His independent non-executive board roles have included former Chair of Gold One International Limited, Norton Goldfields Limited and Goliath Gold Limited as well as directorships of St Barbara Mines Limited, Uranium One Inc. and most recently Uranium Resources Inc.

Mark is a member of the Audit Committee and the Safety, Health and Environment Committee.

Mark was appointed Executive Chairman pursuant to the appointment Dr Andrew Stewart as Chief Executive Officer to assist Andrew and the Company with corporate development, funding and to provide an executive presence in Australia.

The Directors, with Mr Wheatley abstaining, unanimously recommend Shareholders vote in favour of Resolution 2.1.

RESOLUTION 2.2: RE-ELECTION OF DR DARRYL CLARK, INDEPENDENT NON-EXECUTIVE DIRECTOR

In accordance with clause 11.4 of the Company's Constitution, Darryl retires by rotation and, being eligible, offers himself for re-election as an Independent Non-Executive Director of the Company.

Darryl was appointed an Independent Non-Executive Director of the Company on 9 November 2012. He is an exploration geologist whose career has taken him throughout Australia, Central Asia and South East Asia for over 20 years. His responsibilities over the last 10 years have involved him in a diverse range of technological, political and cultural environments with unique challenges. During previous corporate roles with both Vale and BHP Billiton, and in consulting roles including SRK, he has been responsible for business development strategies, designing multi-commodity exploration programs and the co-ordination of exploration teams to deliver discovery events. Currently, Darryl is the General Director for the Inkai Joint Venture mining operation in Kazakhstan owned by Cameco Corporation & Kazatomprom.

Darryl is a member of Safety, Health and Environment Committee and the Governance Committee.

The Directors, with Dr Clark abstaining, unanimously recommend Shareholders vote in favour of Resolution 2.2.

RESOLUTION 2.3: ELECTION OF DR ANDREW STEWART, EXECUTIVE DIRECTOR

Andrew was appointed as an Executive Director on 8 March 2016. Under the Company's Constitution, a Director appointed to fill a casual vacancy holds office only until the next general meeting. In accordance with this requirement, Andrew now retires from the Board and offers himself for re-election.

Andrew was appointed as the Chief Executive Officer of the Company on 18 March 2016, having previously served as the Company's Chief Geologist since 2010. Andrew is a geologist with over 15 years' experience in mineral exploration; primarily focussed on project generation, project evaluation and exploration strategy development throughout Asia and Eastern Europe. Andrew has particular expertise in porphyry copper and epithermal gold deposits, but has worked across a diverse range of commodities. He holds a BSc (Hons) from Macquarie University and a PhD from the Centre of Ore Deposits and Exploration Studies at the University of Tasmania. During his time Ivanhoe Mines and Vale Andrew held various technical and management positions in Mongolia and Indonesia and has been involved in several green fields discoveries. After providing technical and program management for Vale in Indonesia and Mongolia, Andrew joined Xanadu Mines as Chief Geologist leading the gold and base metals project generation and evaluation team in Mongolia. In 2015 Andrew became the Chief Executive Officer of Xanadu Mines.

The Directors, with Mr Andrew Stewart abstaining, unanimously recommend that Shareholders vote in favour of Resolution 2.3.

RESOLUTION 3: REMUNERATION REPORT

Section 250R(2) of the Corporations Act requires that the section of the Directors' Report dealing with the remuneration of directors and key management personnel (**KMP**) of the Company (**Remuneration Report**) be put to the vote of Shareholders for adoption by way of a non-binding vote.

Broadly, the Remuneration Report details the remuneration policy for the Company and:

- explains the structure of and rationale behind the Company's remuneration practices and the link between the remuneration of executives and the Company's performance;
- sets out remuneration details for each Director and for each executive with authority and responsibility for directing the affairs of the Company; and
- discusses the relationship between the policy and Company performance.

The Remuneration Report is contained in the Company's Annual Report dated 18 March 2016 (available on the Company's website, www.xanadumines.com).

Following consideration of the Remuneration Report, the Chairman will give Shareholders a reasonable opportunity to ask questions about or make comments on the Remuneration Report. A resolution that the Remuneration Report be adopted will then be put to the vote.

Resolution 3 is an advisory resolution only (as stipulated by section 250R(3) of the Corporations Act) and does not bind the Directors or the Company. However the Board will take the outcome of the vote into account in setting remuneration policy for future years.

A voting exclusion statement is set out under Resolution 3 in the Notice of Meeting.

The Directors abstain, in the interests of corporate governance, from making a recommendation in relation to Resolution 3.

RESOLUTION 4: APPROVAL OF EQUITY INCENTIVE PLAN

The Company seeks Shareholder approval for the approval of the Xanadu Mines Limited Equity Incentive Plan (**EIP**). The EIP was previously approved by Shareholders at the 2013 Annual General Meeting. Resolution 4 seeks to refresh Shareholder approval for a further three years so that securities issues under the EIP are not included within the limit of 15% for of issued shares that can be issued without Shareholder approval.

Background

In line with the Company's remuneration philosophy, the Board believes that an equity-based incentive is a key component if the "at risk" remuneration arrangements for Directors and employees. As such, the Directors of the Company seek authorisation to issue Plan Interests (defined below) under the EIP in accordance with ASX Listing Rule 7.2, exception 9(b) so that any Plan Interests issued under the EIP are excluded from the maximum number of new equity securities that may be issued by the Company in any 12 month period for a period of three years from the date of approval. The Board considers it desirable to maintain this flexibility so that it may access capital under ASX Listing Rule 7.1 through subsequent issues as required.

The Company is also seeking Shareholder approval of the EIP so that it may obtain the benefit of the exemption in section 260C(4) of the Corporations Act for financial assistance provided under an employee share scheme approved by shareholders. The EIP to be approved at the AGM is on the same terms and design of the 2013 EIP approved by Shareholders at the 2013 Annual General Meeting.

Overview of the Equity Incentive Plan

The Board believes that an appropriately designed long-term incentive is an important component of the Group's remuneration arrangements. EIP is a key tool to allow the Group to attract and retain talented Directors, executives, managers and employees and ensure that the interests of Directors and employees are aligned with those of shareholders in creating long-term shareholder value.

The Company's remuneration philosophy is to ensure that the level and composition of remuneration is competitive, reasonable and appropriate to attract, retain and motivate the Directors and employees with the skills required to deliver the Company's strategy.

In order to provide a long-term incentive that continues to align employees and Directors with the Company's strategies, a flexible equity-based plan has been established to allow the Board to grant different types of performance-based awards depending on the prevailing circumstances. The EIP has been designed with maximum flexibility to deliver different securities from time-to-time (depending on the participant base) with performance measures commensurate with the Company's key business drivers at the time of award.

Under the EIP, the Company may grant appropriately structured long-term incentive awards to Eligible Persons (described below). The EIP will provide the Board with flexibility to grant equity incentives to Eligible Persons in the form of Plan Shares, Share Rights or Options (**Plan Interests**) that will vest only on the satisfaction of appropriate hurdles.

The structure of the EIP provides the Board (with the appropriate Shareholder approvals) the flexibility to offer remuneration comprised of both cash and Plan Interests, including for example, issuing Plan Interests in lieu of cash payments, allowing the Board to conserve its cash reserves when it is appropriate to do so (refer to Resolutions 5.1 to 5.3 further below).

A copy of the terms and conditions of the EIP is available on the Company's website, www.xanadumines.com.

A summary of the terms of the EIP is set out below.

Further information about the Company's remuneration governance and executive remuneration policy and framework is set out in the Company's Remuneration Report in the 2015 Annual Report.

Key terms of the EIP

The Board is empowered under the EIP terms and conditions to determine the key terms of any Plan Interest allocated under the EIP.

Eligibility

The EIP is open to eligible persons, namely employees, contractors, consultants and Executive Directors of the Group or any other person whom the Board determines to be eligible to participate in the EIP from time to time (**Eligible Person**).

Participation

Each Eligible Person who acquires a legal or beneficial interest in a Plan Interest (including the legal personal representative of the person) becomes a '**Participant**' in the EIP.

Invitation

An offer by the Board to acquire a Plan Interest and become a Participant in the EIP will be in such form and subject to such conditions as the Board determines.

The invitation will specify the terms attaching to the offer, including each of the following (as applicable):

- the number or value of Plan Interests to which the invitation relates and/or the basis on which the number or value of Plan Interests to which the invitation relates is to be determined;
- the date the Plan Interests will be allotted;
- any amount payable by an Eligible Person to acquire the Plan Interests;
- the date which unvested Plan Interests will lapse or expire (**Expiry Date**);
- any conditions that must be satisfied in relation to a Participant's or the Company's performance during a specified period (**Performance Conditions**);
- any conditions that will result in the forfeiture of a Plan Interest (**Forfeiture Conditions**);
- any conditions that must be satisfied before a Plan Share can be disposed of by a Participant (**Disposal Restrictions**);
- any holding lock period; and
- any exercise price payable by Participants.

Rights of Participants

Unless Forfeiture Conditions are triggered or the Expiry Date reached, Plan Interests remain subject to the terms and conditions of the EIP until all applicable Performance Conditions and Disposal Restrictions are achieved.

If Options or Share Rights have been granted, upon vesting and exercise (as applicable), Participants will receive either a beneficial entitlement to Plan Shares (i.e. subject to Disposal Restrictions) or a legal and beneficial entitlement to Shares (which are no longer held under the EIP). Plan Shares will rank equally with Shares in respect of dividends and voting entitlements.

In respect of a Share Right or Option, a Participant may not participate in:

- (a) new issues of Shares to Shareholders;
- (b) bonus issues of Shares or other securities to Shareholders; or
- (c) any pro-rata issue of Shares or other securities pro-rata to Shareholders,

unless the Option is exercised or the Share Right is converted into Shares or Plan Shares (as the case may be), in each case before the record date for the relevant issue.

The Company will apply for quotation on the official list of the ASX of the Plan Shares or Shares (as the case may be) or upon the exercise of an Option issued or a vested Share Right that vests under the EIP. The Company will not seek official quotation by ASX of any Options or Share Rights.

In the event of a change of control, the Board may in its discretion give written notice to Participants and deal with the EIP Interests by:

- converting Participants' Share Rights to Shares whether or not all conditions have been met;
- permitting the exercise of some or all Options whether or not Vesting Conditions have been met; and/or
- removing any Disposal Restrictions attaching to Plan Shares.

Assignment

Unless the Board determines otherwise, Plan Interests issued under the EIP are not transferable or assignable.

Administration

The EIP will be administered by the Board, which has an absolute discretion to determine appropriate procedures for its administration and resolve questions of fact or interpretation and formulate special terms and conditions (subject to any applicable Listing Rules) in addition to those set out in the EIP.

Termination and Amendment

The EIP may be terminated or suspended at any time by the Board but any such suspension or termination will not affect nor prejudice rights of any Participant holding Plan Interests at that time. The EIP may be amended at any time by the Board.

Technical Information (for the purposes of the ASX Listing Rules)

Since the LTIP was first approved in 2013, the Company has issued 14,450,000 Plan Interests under the EIP.

The Board unanimously recommends that Shareholders vote in favour of the approval of the Xanadu Mines Limited Equity Incentive Plan.

RESOLUTIONS 5.1 TO 5.3 GRANT OF EQUITY IN LIEU OF CASH CONSIDERATION PAYABLE UNDER THE SHORT TERM INCENTIVE PLAN

Please refer to the Company's Remuneration Report in the 2015 Annual Report for details on the Company's approach to Remuneration which includes fixed and at risk remuneration. At risk remuneration includes an annual Short Term Incentive Payment Plan (**STIPP**) and longer term equity incentive based awards.

Broadly, details of the STIPP are as follows:

Short Term Incentive Payment Plan

The STIPP gives the Company the ability to grant appropriately structured short-term incentive awards to Eligible Executives (defined below).

The objectives of the STIPP include:

- focus employees on the achievements of annual key safety, financial and business targets that the Board believes will lead to sustained and improved business performance; and
- reward and recognise superior performance.

Key Terms of the STIPP

The Board is empowered under the STIPP to set KPIs for the Eligible Executives that apply to the award of incentives under the STIPP.

Eligibility

The STIPP is open to Executive Management, including the Executive Chairman, Chief Executive Officer, Chief Financial Officer and Executive Director (**Eligible Executives**). Executive service contracts recognise the potential for the award of short-term incentives linked to specific performance criteria.

Participation

KPIs are developed for Eligible Executives that are consistent with the Company's business plan. Details of the KPIs are included in the Remuneration Report in the Company's Annual Report and broadly include:

- (a) safety performance;
- (b) advancing exploration at Kharmagtai and Oyut Ulaan;
- (c) compliance and community
- (d) business development;
- (e) company management;
- (f) funding; and
- (g) a discretionary component,

and these are allocated to each Eligible Executive based on their specific responsibilities.

Terms

The maximum award achievable is determined as a percentage of the fixed remuneration for each Eligible Executive.

Administration

Generally awards made under the STIPP are payable in cash but in order to preserve the Company's cash position, the Board can propose from time to time that awards to be made under the STIPP be awarded in shares under the EIP, instead of cash. In respect of the year ended 31 December 2015, the Board has resolved to deliver the STIPP payment to Management in the form of shares under the EIP in lieu of cash consideration payable.

As noted above, the structure of the EIP provides the Board (with the appropriate shareholder approvals) the flexibility to offer remuneration comprised of both cash and Plan Interests, including for example, issuing Plan Interests in lieu of cash payments, allowing the Board to conserve its cash reserves when it is appropriate to do so.

FY2015 STIPP Award

Following advice received by the Company's Governance Committee and Board approval on 16 March 2016, in respect of the year ended 31 December 2015, and pursuant to Shareholder approval, the Board intends to make the following awards under the STIPP to its Executive Management so as to preserve cash reserves.

The number of shares to be issued is calculated by dividing the STIPP bonus by 12.5 cents, being the issue price used by the Company during its capital raising in December 2015. The issue price is a premium over the share price at the end of the year so the higher placement price is used.

Director	Annual STIPP Base	Annual STIPP Base Prorated	Maximum Bonus Potential	STIPP Rating	STIPP Bonus	STIPP Shares
Mark Wheatley	A\$200,000	A\$157,800	30%	45%	A\$21,540	172,318
Andrew Stewart	US\$260,000	US\$260,000	50%	45%	A\$77,793 ¹	622,340
Ganbayar Lkhagvasuren	MNT 322,010,400	MNT 322,010,400	30%	70%	A\$46,096 ²	368,764
TOTAL					A\$145,429	1,163,422

¹ Equivalent to US\$58,500; FX 0.752 USD/AUD (the average FX for the year ended 31 December 2015)

² Equivalent to MNT 67,622,184; FX 1,467 MNT/AUD (the average FX for the year ended 31 December 2015)

Technical information for the purposes of the ASX Listing Rules

In accordance with the requirements of ASX Listing Rule 10.15, the following information is provided with respect to Resolutions 5.1 to 5.3:

- Mark Wheatley, Andrew Stewart and Ganbayar Lkhagvasuren are all Directors of the Company.
- The number of Shares to be awarded to Mark Wheatley, Andrew Stewart and Ganbayar Lkhagvasuren has been calculated by dividing the value of the applicable STIPP award by 12.5 cents (being the placement price for the 31 December 2015 placement aligning with the 31 December 2015 performance period assessable of Executive Management):
 - Mark Wheatley: \$21,540 / 12.5 cents = 172,318 Shares
 - Andrew Stewart: \$77,793 / 12.5 cents = 622,340 Shares
 - Ganbayar Lkhagvasuren: \$46,096 / 12.5 cents = 368,764 Shares
- The award of equity is made under the EIP. The names of all persons referred to in ASX Listing Rule 10.14 who received securities under the EIP since the last approval are as follows:
 - 2013 Annual General Meeting**
 - Mr George Lloyd was issued 4,000,000 Share Rights for nil financial consideration
 - Mr Ganbayar Lkhagvasuren was issued 1,800,000 Share Rights for nil financial consideration
 - 2014 Extraordinary General Meeting**
 - Mr Mark Wheatley was issued 1,500,000 Share Rights for nil financial consideration
 - Dr Darryl Clark was issued 1,000,000 Share Rights for nil financial consideration
 - 2014 Annual General Meeting**
 - Mr Barry Lavin was issued 1,000,000 Share Rights for nil financial consideration
 - 2015 Extraordinary General Meeting**
 - Mr Marcus Engelbrecht was issued 1,000,000 Share Rights for nil financial consideration
 - Dr Andrew Stewart was issued 1,800,000 Share Rights for nil financial consideration in 2013 prior to his appointment as an Executive Director.
- Under the terms of the EIP, all Directors are entitled to participate in the EIP, that is each of the following persons:
 - Mr Mark Wheatley
 - Dr Andrew Stewart
 - Ms Hannah Badneach
 - Mr Ganbayar Lkhagvasuren
 - Mr Marcus Engelbrecht
 - Dr Darryl Clark
 - Mr Barry Lavin

However, only Executive Directors, Mr Mark Wheatley, Dr Andrew Stewart and Mr Ganbayar Lkhagvasuren are eligible to participate in the STIPP.
- A voting exclusion statement is set out under Resolutions 5.1 to 5.3 in the Notice of Meeting.
- There is no loan attaching to the offer under the EIP.

- The Company is expected to award the Shares shortly after the AGM but in any event within one year after the AGM.
- If approval is given for the issue of securities under ASX Listing Rule 10.14, approval is not required under Listing Rule 7.1.



XANADU MINES

XANADU MINES LTD
ABN 92 114 249 026

Lodge your vote:



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XAM

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form



Vote and view the annual report online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I999999999

PIN: 99999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



For your vote to be effective it must be received by 11:00am (Sydney time) Wednesday 4 May 2016

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the Meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Default to Chairman of the Meeting: Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted as set out in this Proxy Form, including where the Item is connected directly or indirectly with the remuneration of key management personnel of Xanadu Mines Ltd.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the Meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

IND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Xanadu Mines Ltd hereby appoint

☐ the Chairman of the Meeting

OR

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the directions set out below (or if no directions have been given, to vote as the proxy sees fit, to the extent permitted by law) at the Annual General Meeting of Xanadu Mines Ltd to be held at Computershare Investor Services, Level 4, 60 Carrington Street, Sydney NSW 2000 on Friday, 6 May 2016 at 11:00am (Sydney time) (Meeting) and at any adjournment or postponement of that Meeting.

Chairman of the Meeting is authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Items 3, 4, 5.1 to 5.3 (except where I/we have indicated a different voting intention below) even though Items 3, 4, 5.1 to 5.3 are connected directly or indirectly with the remuneration of a member of key management personnel of Xanadu Mines Ltd.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Items 3, 4, 5.1 to 5.3 by marking the appropriate boxes in Step 2 below.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
2.1 Re-election of Director - Mr Mark Wheatley, Executive Chairman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Re-election of Director - Dr Darryl Clark, Independent Non-Executive Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Election of Director - Dr Andrew Stewart, Executive Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Equity Incentive Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Cash Preservation Related Resolutions

5.1 Issue of shares under the STIPP - Mr Ganbayar Lkhagvasuren	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.2 Issue of shares under the STIPP - Mr Mark Wheatley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.3 Issue of shares under the STIPP - Dr Andrew Stewart	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date