

13 March 2015

CHAIRMAN'S LETTER

Xanadu Mines Ltd (**ASX: XAM – “Xanadu”**) has lodged its Full Year Statutory Accounts for 31 December 2014. The Chairman's Letter is attached to this announcement; highlights include:

- this is a shortened financial year as Xanadu transitions to a 31 December year end;
- the primary focus of the period was adding value to the Kharmagtai copper-gold project with around 12,500 metres of diamond drilling completed in the six months to late November 2014;
- the exploration team has made outstanding progress extending the mineralisation around the three central outcropping prospects at Kharmagtai and there are many indications that we are defining a major copper-gold system;
- the drilling results significantly expanded the project's scale, increase its development potential and demonstrate that the licence area remains significantly under explored;
- the Oyut Ulaan copper-gold project has several common characteristics with the Kharmagtai project. Xanadu will continue exploration at Oyut Ulaan over 2015, potentially positioning Xanadu with two of the most exciting emerging copper exploration projects in North Asia;
- Xanadu raised approximately \$15.3 million of new equity funds through a private placement approved by shareholders at the November AGM and a subsequent rights issue which recently closed placing Xanadu in a strong position to add value through exploration activities;
- the Kharmagtai deferred consideration has been reduced from US\$10.0 million to around US\$3.8 million including the 5 March 2015 subscription funds and the repayment date has been extended to 31 July 2016; and
- the year end cash balance was \$7.5 million.

Xanadu has an exciting and challenging year ahead of it in 2015. The Company is starting in a strong position and has the capacity to add value to its Kharmagtai and Oyut Ulaan copper-gold projects through exploration.

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 **ASX**
XAM

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.

Dear Shareholder

Xanadu's primary focus over this shortened financial year was adding value to our Kharmagtai copper-gold project through exploration drilling. This was a significant change to our activities in previous periods following a comprehensive restructuring including the Kharmagtai and Oyut Ulaan project acquisitions. Xanadu has completed its exit from coal and other non-core assets and now has a strong focus on its Mongolian copper-gold strategy. The transition to a 31 December year end is another step in this process as we align our Australian corporate reporting and full year audit with our Mongolian reporting obligations and field activities.

We are very excited by the results from our first drilling campaign at the Kharmagtai project. Our exploration team has made outstanding progress and there are many indications that we are defining a major copper-gold system. Xanadu completed around 12,500 metres of diamond drilling at Kharmagtai in the six months up to late November 2014. This drilling effectively extended the mineralisation around the three central outcropping prospects - Altan Tolgoi, Tsagaan Sudal and Zesen Uul – where the mineralisation remains open.

These drilling results significantly expanded the project's scale and increase its development potential. The delineation of a mineralised tourmaline breccia unit and also the addition of the Pigeon prospect under shallow cover in the eastern portion of the licence demonstrated that the licence area remains significantly under explored. The presence of the mineralised tourmaline breccia in particular is a major breakthrough for our exploration team and is analogous with the world class Rio Blanco – Los Bronces copper system. The potential for the discovery of additional porphyry centres remains high. The geophysical methods employed by Xanadu in areas under shallow cover have worked well to date and surface geochemistry and geology have highlighted additional new target areas.

The Oyut Ulaan and Sharchuluut copper projects add depth to the company's exploration portfolio. The Oyut Ulaan copper-gold project shares several common geological characteristics with the more advanced Kharmagtai project, only some 260 kilometres to the west. Xanadu encountered multiple significant intersections of shallow, gold-rich, copper stockwork mineralisation over its 2013 drilling campaign at Oyut Ulaan. Our geologists have also noted the presence of similar tourmaline breccia units to those encountered at Kharmagtai. Xanadu will continue its exploration program at Oyut Ulaan over 2015, potentially positioning your Company with two of the most exciting emerging copper exploration projects in North Asia.

We are encouraged by our success in attracting new capital to the Company in this reporting period. Xanadu raised around of \$15.3 million of new equity funds through a private placement approved by shareholders at the November AGM and a subsequent rights issue which recently closed. This has led to the significant reduction in the Kharmagtai deferred consideration payments from US\$10.0 million to around US\$3.8 million including the 5 March 2015 subscription funds and will allow the Company to fund exploration activities. The Company has also been successful in extending the repayment date for the Kharmagtai deferred consideration to 31 July 2016. We welcomed new cornerstone shareholders, the Singapore-based Asia Capital & Advisers Pte Ltd and its associates, to our register and major shareholder Noble Resources has again shown its strong support for the Company by contributing new funds.

We have a strong sense of conviction regarding Mongolia's potential as an emerging natural resources province and the prospectivity of the South Gobi copper belt. Mongolia and investors have faced a number of challenges as the country's mining sector and regulatory framework evolve. We acknowledge the sovereign risk related issues that are an intrinsic part of investing in Xanadu. Some recent events have negatively impacted investor confidence, not helped by a softening of commodity prices, yet we continue to see many signs of progress and our commitment to, and belief in, minerals exploration in Mongolia is as strong as ever.

Lastly, I would like to acknowledge the efforts of our Board, management and all staff. The team has been ambitious and worked relentlessly in repositioning the Company and implementing the Kharmagtai exploration program. We have remained positive in what has been a tough environment for junior miners. Our people have acted with a high level of conviction and professionalism as they work their way through the challenges of exploration. Xanadu's people also continued to place an emphasis on sustaining a strong safety and environmental performance. Our responsibility to our staff, communities and the environment are a priority for the Company and integral to our future success.

Xanadu has an exciting and challenging year ahead of it in 2015. We are starting in a strong position with the financial capacity to add value to the Kharmagtai and Oyut Ulaan copper-gold projects through exploration. The results from this work will help your Company stand out from its peers at a time when investors are seeking high quality assets.

Mark Wheatley

Mark Wheatley
Non-Executive Chairman
13 March 2015

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