

6 October 2014

XANADU SECURES FUNDING THROUGH A\$13.6M PLACEMENT & ANNOUNCES RIGHTS ISSUE

HIGHLIGHTS:

- Xanadu to place A\$13.6 million of new shares at 12.26 cents per share
- Xanadu will invite existing Shareholders to participate in a rights issue at 12.26 cents per share prior to allotment of the new placement shares
- The new funds will place Xanadu in a strong financial position to advance its Mongolian copper-gold porphyry portfolio
- The new funds will be primarily applied to the Kharmagtai project for exploration and evaluation activities, prepare a JORC compliant resource statement and pay-down the deferred consideration for the Kharmagtai acquisition

INTRODUCTION:

Xanadu Mines Ltd (**ASX: XAM – “Xanadu”**) is pleased to announce that it has entered binding subscription agreements with a private vehicle and two equity investment funds managed by Asia Capital & Advisors Pte Ltd (“**ACA**”) and Khan Investment Management (“**Khan**”) (the “**Placement**”). The Placement will raise A\$13.6 million at a subscription price of 12.26 cents per share. The subscription price represents a 7 day volume weighted average price of all Xanadu shares as traded on the ASX up to and including Friday 3 October 2014. The Placement is subject to Shareholder approval under ASX Listing Rules and Corporations Act.

Xanadu intends to conduct a pro rata non-renounceable rights issue at the same price, on terms to be decided, prior to the allotment of shares to the new investors in order to allow existing Shareholders to participate in the fund raising activity (together, the “**Transaction**”).

Xanadu’s Chairman, Mark Wheatley, said: “We are pleased that ACA and Khan have decided to join our shareholding group and we welcome them warmly. This Transaction will allow us to substantially increase our equity in the Mongol Metals LLC joint venture and fund the exploration and evaluation of the exciting Kharmagtai project. Thanks also have to go to our exploration and support teams whose efforts over our short period of ownership of this project have been outstanding.”

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

TRANSACTION TERMS:

The key Transaction terms include:

- the placement of 111,226,455 Xanadu shares at a price of 12.26 cents per share for total proceeds of A\$13.6 million to the privately owned vehicle CAAF Ltd and two equity funds managed by ACA and Khan including the Khan Mongolia Equity Fund;
- one-half of the net proceeds from the Transaction will be applied to pay-down the deferred consideration owing to Turquoise Hill Resources Ltd up to the aggregate amount of US\$10 million as part of the Kharmagtai project acquisition approved by Shareholders in May 2014;
- the remainder of the Transaction proceeds will be allocated primarily to the exploration and evaluation activities of the Kharmagtai project;
- Xanadu has agreed to offer ACA the opportunity to participate as advisory manager in subsequent private placements for an amount up to the prorated interest of their investors for a period commencing in 2015 until October 2016; and
- Xanadu will invite ACA to nominate a person for appointment as a Director of the Xanadu Board within 12 months of the allotment of the Placement shares for approval in the first instance by the Board and then by Shareholders.

Xanadu will seek approval of the Placement by Shareholders for the purposes of both ASX Listing Rule 7.1 and section 611 (exception 7) of the Corporations Act at the 2014 Annual General Meeting to be scheduled for late November (“**AGM**”). The Notice of Meeting will be released later this month and will contain further details about the Transaction.

Xanadu will implement a non-renounceable rights issue following the AGM and before the Placement shares are allotted to allow existing Shareholders to participate in this important fund raising event for the company. The details of the rights issue will be announced in due course.

Xanadu anticipates that it will be fully funded for at least the next 12 months based on the current group budget, including the Kharmagtai exploration and evaluation program, upon successful completion of the Transaction.

KHARMAGTAI FUNDING:

Xanadu has added substantial value to the Kharmagtai project since the recent completion of its acquisition in May 2014, especially with the discovery of the new tourmaline breccia zone at East Altan Tolgoi. The new funds from the Transaction will primarily be applied to:

- the pay-down the US\$10 million of deferred acquisition consideration for the Kharmagtai project increasing Xanadu’s equity interest in the Mongol Metals LLC joint venture;
- the continuation of the exploration and evaluation activities at the Kharmagtai project including further diamond drilling to extend and define the current high-grade, copper-gold mineralisation and test new exploration targets at Kharmagtai; and
- prepare a JORC compliant resource statement and scoping study for the Kharmagtai project.

ABOUT ASIA CAPITAL & ADVISORS:

ACA is a pan-Asian investment management and private equity specialist. ACA is a Registered Fund Management Company regulated by the Monetary Authority of Singapore. Founded in 2011 by Mr Francis Rozario, ACA seeks to support financial institutions and investment funds by creating the conditions for successful future performance through a combination of knowledge, capital and people.

ABOUT KHAN INVESTMENT MANAGEMENT:

Khan Investment Management Ltd, founded in 2011 by Mr Travis Hamilton, is a single country-focused Mongolian investment specialist providing global investors with access to a wide range of investment and business opportunities in Mongolia. The Khan Mongolia Equity Fund is one of the first open-ended investment vehicles providing international investors with access to the Mongolian market.

ABOUT XANADU MINES LTD:

Xanadu Mines Ltd is a copper-gold exploration company. The Company is active across the Mongolian section of the Central Asian Orogenic Belt, which are the exploration frontiers known to host copper porphyry deposits. The Company has two licences that are prospective for copper and gold and in the South Gobi region of Mongolia. Xanadu's flagship project, Kharmagtai, is a shallow copper-gold porphyry deposit, located some 120 km from Oyu Tolgoi, and purchased from Turquoise Hill Resources in 2014 for US\$14 million including US\$10 million of deferred cash consideration.

For further information, please contact:

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