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Xanadu Mines (XAM)

Thermal coal assets progress

Recommendation
Spec Buy (unchanged)
Price
\$0.40
Target (12 months)
\$0.70 (previously \$0.64)

Expected Return

Capital growth	75%
Dividend yield	0%
Total expected return	75%

Company Data & Ratios

Enterprise value	\$52.4m
Market cap	\$74.8m
Issued capital	187m
Free float	50%
Avg. daily vol. (52wk)	387k
12 month price range	\$0.35-\$0.59
GICS sector	

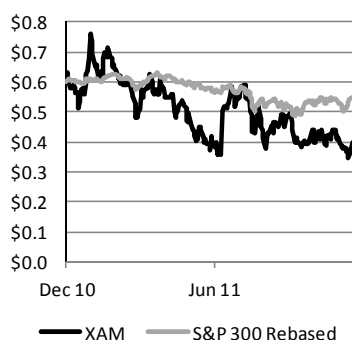
Materials

Bell Potter Securities acted as lead manager to the IPO of XAM in December 2010, raising \$24m and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.41	0.43	
Absolute (%)	-1.23	-6.98	
Rel market (%)	-3.32	-8.06	

Absolute Price



SOURCE: IRESS

170Mt JORC thermal coal resource added to XAM inventory

XAM has announced an initial JORC thermal coal resource of 170Mt at its 100% owned Galshar Coal Project in Mongolia. Galshar is located 350km southwest of Ulaanbaatar and 65km from a rail-spur on the trans-Mongolian railway, connecting to China. The coal is lower grade, sub-bituminous thermal coal, suited to domestic generation or coal upgrading technologies.

Mining license for Khar Tarvaga thermal coal project

XAM also recently announced that its 100% owned Khar Tarvaga thermal coal project has been granted a 30-year mining license. This project has a 327Mt sub-bituminous open pit thermal coal resource around 36km from the trans-Mongolian railway.

Positive news flow illustrates XAM's in-country expertise

These announcements are a positive for XAM and we have upgraded our target price to \$0.70/sh (previously \$0.64/sh) and maintain our Spec Buy rating. We expect there to be significant growth in domestic and Chinese demand for lower rank coals. The Galshar and Khar Tarvaga assets are well positioned to supply this demand. The announcements also illustrate XAM's ability to progress assets in Mongolia.

Noble coal alliance and Cu/Au projects XAM's main game

XAM's main growth assets are: the coking coal exploration 50:50 joint venture with Noble Group; its Sharchuluut Uul (100% XAM) copper-molybdenum porphyry exploration prospect; and its Elgen-Zos (XAM earning 80%) epithermal gold prospect.

Investment view – Spec Buy, target price of \$0.70/sh

XAM's portfolio of high quality, early stage minerals prospects in Mongolia, its joint venture with Noble and its ability to progress assets up the value chain highlights its in-country Mongolian geological and management expertise. XAM is adequately funded to pursue its exploration program with cash of \$22m at the end of September 2011.

XAM workflow / timeline of news releases

- Late-2011/early-2012: Drill results from Javkhalant met coal project;
- Late-2011/early-2012: Drill/assay results from Elgen-Zos gold prospect;
- Early-2012: Coal quality from Javkhalant met coal project; and
- March 2012: Commence drilling at Sharchuluut Uul copper-molybdenum project.

SOURCE: BELL POTTER SECURITIES ESTIMATES

Xanadu Mines Ltd (XAM)

Summary of key XAM assets

Ekhgoviin Chuluu LLC - Noble Strategic Alliance (50%): Hard coking coal focus

A Noble Group (50%) and XAM (50%) Mongolian-based joint venture, Ekhgoviin Chuluu LLC (EC), focussed on acquiring and developing coking coal prospects. The alliance aims to leverage off XAM's in-country experience and geological knowledge. The alliance will also look at acquiring and developing potential iron ore and ferro alloy assets.

Nuurstei (EC earning up to 80% for XAM 40%): Hard coking coal prospect

XAM announced the Nuurstei earn-in in mid-June and has since completed a drill program and preliminary coal quality analysis. The drill program confirmed the extension at depth of a 7km coal sub-crop, intersecting 42m of coal from 70m. The Nuurstei project covers an area of more than 3,000Ha (30 square kilometres) near the Khuvsgul provincial centre town of Murun in north-western Mongolia.

Javkhlant (EC earning up to 80% for XAM 40%): Coking & thermal coal prospect

In July 2011, XAM announced that EC had entered an agreement to farm-in to up to 80% of the Javkhlant exploration project. This +1,000 square kilometre exploration license is located in the south western Gobi basin, adjacent to the Mongolia-Chinese border. This region is known to host premium coking and thermal coal deposits.

Khavtsgait (EC 100%): Coking coal prospect

In November 2011, XAM announced that EC had acquired 100% of the Khavtsgait coal project in northern Mongolia. This exploration license covers approximately 2,869Ha (29 square kilometres) and is located around 60km east of Murun and 230km west of existing rail infrastructure at Erdenet.

Sharchuluut Uul (100%): Porphyry copper prospect

488km² exploration license located 40km northwest of the Erdenet copper-molybdenum deposit. Erdenet has operated since the 1970s, producing copper at rates of around 133ktpa. Mapping has identified a 7km² zone of porphyry related alteration and highly anomalous copper, similar to that at Erdenet. Previous drilling by Japan International Cooperation Agency (JICA) & Metal Mining Agency of Japan (MMAJ) intersected geology consistent with the outer zone of a porphyry copper system.

Elgen Uul – Zos Uul (earning 80%): Epithermal gold prospect

Geophysics, structural mapping, alteration mapping, and surface geochemistry supports the potential for three shallow level epithermal gold systems.

Galshar (100%): Thermal coal resource of 170Mt

Sub-bituminous, high moisture thermal coal resource of 170Mt. Coal quality has the potential to support local electricity generation or as feed to coal upgrading technologies.

Khar Tarvaga (100%): Thermal coal resource of 327Mt and granted mining license

Sub-bituminous, high moisture, low energy thermal coal resource. XAM has applied for a mining license for Khar Tarvaga. Coal quality has the potential to support local electricity generation or as feed to coal upgrading technologies including coal to liquids.

Valuation summary

Our base case valuation of XAM is \$0.70/sh.

Table 1 – XAM base valuation summary		Previous	New
Ekhgoviin Chuluu LLC (50%)	Assumes 50% of a 500Mt hard coking coal target valued at US\$0.15/t	37.5	37.5
Sharchuluut Uul (100%) \$m	Estimate based on recent copper-gold porphyry transaction	15.0	15.0
Elgen-Zos (earning 80%) \$m	Estimate	7.0	7.0
Khar Tarvaga (100%) \$m	327Mt @ EV/Resource of A\$0.08	19.6	26.2
Galshar (100%) \$m	200Mt @ EV/Resource of A\$0.10	12.0	17.0
Other projects \$m	Estimate	5.0	5.0
Enterprise value \$m		96.1	107.7
Cash \$m	at September 2011	22.4	22.4
Equity value \$m		118.5	130.1
Shares m		187.0	187.0
Equity value \$/sh		0.64	0.70
Share price \$/sh		0.40	0.40
Upside to price target %		60%	74%

SOURCE: BELL POTTER SECURITIES ESTIMATES

XAM's key assets



Ekhgoviin Chuluu LLC (50%)

Ekhgoviin Chuluu LLC (EC) is a Noble Group (50%) and XAM (50%) Mongolian-based joint venture focussed on acquiring and developing met coal prospects. The strategic alliance aims to leverage off XAM's in-country experience and geological knowledge. EC will also look at acquiring and developing potential iron ore and ferro alloy assets.

To date, EC has acquired three met coal projects, two projects in the northern Mongolian province of Khuvsgul and one project in the south western Gobi Altai province along Mongolia's southern border with China.

Nuurstei (EC earning up to 80% for XAM 40%)

XAM announced the Nuurstei earn-in on 15 June 2011. The project covers an area of over 3,000Ha (30 square kilometres) and is located in the north-western Mongolia province of Khuvsgul, 13km south-southwest of the provincial centre Murun. Murun is around 390km west of the Erdenet mining city which host a copper-molybdenum operation and rail infrastructure through to Russia.

Earn-in terms: US\$1.5m exploration for 60%, JORC commitment for a further 20%

Under the terms of the agreement, EC can earn-in up to 80% equity of the Nuurstei coking coal licenses. To earn 80% equity, over a four year period EC must spend up to US\$1.5m on exploration to earn 60%, then commit to completing a JORC resource to earn a further 20%.

Promising initial drill results hit 42m of high quality coking coal from 70m

In late June 2011, XAM announced that its initial drill hole at the Nuurstei Project had intersected 42m of coal from a down-hole depth of 70m. In total, XAM completed 10 holes (3,682m) at Nuurstei. The Nuurstei formation is interpreted to contain at least 16 coal seams, which range in thickness from 12m to less than 1m.

Preliminary coal quality analysis of the first diamond drill hole at Nuurstei indicated characteristics consistent with high quality coking coals:

- a low to medium volatile coal (13-20% ad);
- that coal contains low total moisture and low sulphur (0.4% ad);
- that ash varied from 19.03 to 39.38% (ad) and calorific values range from 5,000-6,800Kcal/kg (ad); and
- the coal recorded CSN values of 4-8.5.

Khavtsgait (EC 100% for XAM 50%)

XAM announced the acquisition of the Khavtsgait coal project in late November 2011. This exploration license covers approximately 2,869Ha (29 square kilometres) and is located in the Khuvsgul province around 60km east of Murun and 230km west of Erdenet.

The highly prospective exploration license overlies an early to middle Mesozoic aged coal bearing sedimentary basin. Similarly aged basins in northern Mongolia host premium hard coking coal deposits, including the Ovoot Coking Coal Project (100% AKM).

Nuurstei & Khavtsgait are adjacent to AKM's proposed railway

The Nuurstei and Khavtsgait projects are located close to AKM's proposed Ovoot to Erdenet rail link. We think that the development of this rail link is likely, with several projects and prospects having the potential to underwrite its capacity. These projects

include AKM's Ovoot Project (potentially 12Mtpa coking coal); the Burenhaan Phosphate Project (Mongolian Mineral Deposits of Strategic Importance) and other minerals prospects in the region (see Figure 2).

Figure 2 – Other AKM asset locations



SOURCE: AKM

Javkhlant (EC earning up to 80% for XAM 40%)

XAM announced the Javkhlant earn-in on 22 July 2011. The Javkhlant Project has a significant ground position (over 1,000 square kilometres) in the south western Gobi Altai Province of Mongolia. The Project is adjacent to the Mongolia-Chinese border and around 200km from a Chinese rail network at Hami (see Figure 1).

Earn-in terms: US\$230,000 drilling to earn 60%, JORC commitment for a further 20%

Under the terms of the agreement, EC can earn-in up to 80% equity of the Javkhlant coal exploration license over a two year period. EC must spend US\$230,000 on drilling to earn the first 60%, followed by a commitment to complete a JORC resource to earn a further 20%.

Located in the south west Gobi basin, known to host premium coal deposits

The Javkhlant exploration licenses are prospective for high quality coking and thermal coals. Mapping and trenching has identified numerous coal and carbonaceous mudstone subcrops which occur over a strike of approximately 40km. On 21 November 2011, XAM announced that a 4,000m RC scout drill program had commenced at Javkhlant to test the numerous coal subcrops.

Ekhgoviin Chuluu LLC Strategic Alliance background

In February 2011, XAM announced it had formed a Strategic Alliance with Noble, Ekhgoviin Chuluu LLC. The core focus of EC is to acquire, prove and develop coking coal prospects in Mongolia. Secondary focuses are other steel-making raw materials: iron ore, and ferro alloys.

Key terms of the Strategic Alliance are:

- XAM and Noble will participate in the Strategic Alliance through a joint venture company with each party holding and funding a 50% interest;
- The agreement included a placement of ordinary shares to Noble of up to 9,688,367 shares at \$0.70/sh totalling \$6.8m, increasing Noble's equity interest in XAM to 9.9% (completed 14 April 2011);
- Funds from the placement will be used exclusively to contribute to XAM's 50% share of the Strategic Alliance. That is, the Strategic Alliance had initial funding of over \$13.5m;
- Andrew Stewart (see Appendix), XAM Manager - Mongolia and Chief Geologist, is a Director of the joint venture company and is currently leading the target generation and exploration program. Noble's appointed director has a legal and commercial background; and
- No existing XAM assets were vended into the joint venture. However, XAM will continue to progress these existing coal, base metals and precious metal assets.

Sharchuluut Uul (100%)

Early stage porphyry copper prospect

- Sharchuluut Uul is a 488km² exploration license located around 250km northwest of Ulaanbaatar and around 40km northwest of the Erdenet copper-molybdenum deposit;
- The license area is relatively un-explored;
- The license has excellent access to road, railway and copper ore processing infrastructure; and
- Access to infrastructure enables a year-round exploration campaign.

Historical exploration identified a 7 sq km alteration zone

Between 1999-2004, Japan International Cooperation Agency (JICA) & Metal Mining Agency of Japan (MMAJ):

- Identified a 7km² zone of porphyry related alteration and highly anomalous copper, similar to that at Erdenet, through regional reconnaissance mapping, airborne magnetics and radiometrics; and
- Intersected geology consistent with the outer zones of a porphyry copper system with four diamond drill holes to depths of 500m.

XAM has access to this previous exploration data.

XAM work to date: mapping, magnetic and gravity surveys

XAM has completed detailed lithological and alteration mapping over the main prospect at Sharchuluut Uul, confirming a zone of anomalous copper, molybdenum, gold, silver and barium. The company has also completed a detailed ground magnetic survey identifying signatures consistent with porphyry targets. A gravity survey was also recently completed with the data expected to be available by the end of 2011.

Work flow / timeline of news releases: Drilling from March 2012

We expect XAM to commence a diamond drill program to test targets at depths greater than 500m from March 2012.

Erdenet copper-molybdenum mine (Mongolian-Russian JV)

Erdenet Mining Corporation (EMC) operates a copper-molybdenum mine and processing facility in the Erdenet Ovoo area of Mongolia. EMC is a joint venture between the State Property Committee of Mongolian Government (51%) and the Russian Government (49%).

Initial Resource of 2,370Mt at 0.38% copper and 0.013% molybdenum

Erdenet is a giant copper-molybdenum porphyry deposit which had an initial resource of 2,370Mt grading 0.38% copper and 0.013% molybdenum. Recent estimates suggest the remaining resource is around 1,200Mt grading 0.51% copper and 0.012% molybdenum.

Producing since 1978, now at 133ktpa copper for next 40 years

The Erdenet concentrator was commissioned in 1978 with a capacity of 4Mtpa. This plant has been continuously upgraded and now mills ore at a rate of around 25Mtpa grading 0.63% copper and 0.019% molybdenum. Erdenet produces around 590ktpa concentrate grading 22-23% copper at an overall recovery of 85%. Copper in concentrate is around 133ktpa. At current production levels, Erdenet has a mine life of around 40 years.

Other projects

Elgen Uul - Zos Uul (earning 80%) - epithermal gold prospect

The Elgen-Zos prospects are in southern Mongolia around 750km south-southeast of Ulaanbaatar and 30km from the Chinese border. Out-cropping and sub-cropping mineralisation at these prospects is interpreted to represent the upper levels of three separate low sulphidation epithermal systems enriched in gold. All three systems are currently un-drilled and untested.

Mineralisation at Elgen-Zos is expected to be of a similar style to the Gosowong (Indonesia, Newcrest), Pajingo (Australia, Conquest Mining) and Chatree (Thailand, Kingsgate Consolidate) deposits.

Work completed: detailed geophysics, mapping & 3D modelling

XAM has completed detailed geophysics, structural mapping, alteration mapping and three dimensional modelling at Elgen-Zos. Previous tenement holders have completed some geochemical sampling. Logantek Mongolia LLC has recently completed a detailed induced polarisation survey.

Next Steps: Drilling commenced, results expected in next few months

Exploration drilling commenced on the Zost and Suug targets in September 2011. The first hole at Suug was drilled to a depth of 446m and intersected a broad zone of moderately to strongly quartz-sericite-clay altered volcanoclastics and hydrothermal breccias, with narrow intervals of quartz-adularia-sulphide veining. We expect assays to be reported within the next few months.

Galshar (100%) – thermal coal resource of 170Mt

The Galshar project is located 350km southwest of Ulaanbaatar and 65km from a rail-spur on the trans-Mongolian railway at the Bor Ondor fluorite mine.

170Mt Resource

XAM has delineated a resource of 170Mt for the Galshar project. Previous owners of this asset (Erdene) had delineated a non-JORC resource of 230Mt (158.1Mt Measured). However, this resource included 30Mt currently not covered by XAM's exploration licenses.

Coal seam thicknesses range 0.5-13m with minor folding/faulting. The resource comprises 70Mt of Indicated and a further 100Mt of Inferred, all of which are at depths of less than 120m and amenable to open cut mining.

Coal quality: Sub-bituminous, low ash, high moisture

Galshar coal is sub-bituminous with an average air dried calorific value of over 3,800kcal/kg. On a dry ash free basis, the calorific value is over 6,600kcal/kg. Galshar coal is relatively low ash (averaging <15% as received) and low sulphur (averaging 0.5% as received).

This coal quality could support local electricity generation or feed coal upgrading technologies.

Next step: Mining license application

XAM has commenced the necessary permit process for a Mining License at the Galshar Project.

Khar Tarvaga (100%) – thermal coal resource of 327Mt

The Khar Tarvaga project is located 150km southwest of Ulaanbaatar and 45km from the trans-Mongolian railway. The current JORC compliant resource is 327Mt (172Mt indicated, 155Mt inferred). Nearby prospects (Bor Tolgoi and Tugrug) have the potential to increase this resource to 1Bt.

Coal quality: Sub-bituminous, low ash, high moisture

The coal at Khar Tarvaga is sub-bituminous, high-moisture, low energy thermal coal. This coal has the potential to support local electricity generation or as a feed to coal upgrading technologies including coal to liquids. There is significant potential for a coal to liquids project at Khar Tarvaga given a tight supply of diesel to support mining growth in Mongolia.

Next Step: Mining license by late-2011

XAM has applied for a mining license for the Khar Tarvaga project.

Wild Horse (100%) – coal prospect

Located adjacent to the Elgen-Zos prospect, the Wild Horse coal prospect is located in a Jurassic aged basin of 20km by 5km. Two previous drill holes by Rio Tinto Ltd have intersected 1.5m coal seams. XAM has no coal quality data for the prospect. However, given the age of the basin there is potential for high quality thermal coal or semi-soft coking coal.

XAM capital structure

XAM issued capital, market capitalisation & enterprise value

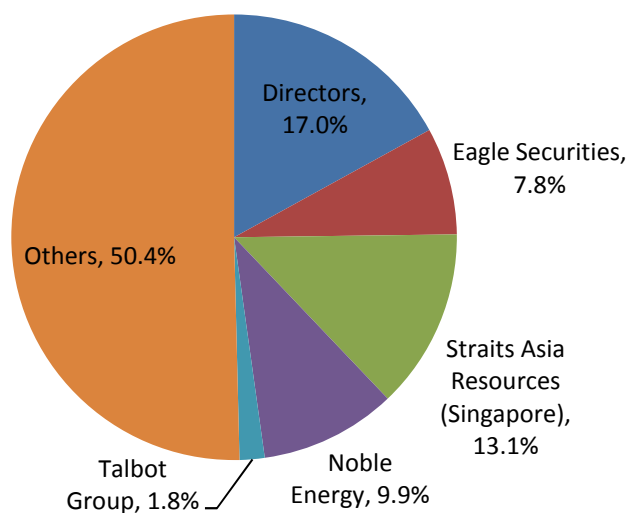
Table 2 – Issued Capital, Market Capitalisation & Enterprise Value

Issued shares quoted m	135.6
Issued shares restricted m	51.4
Total issued shares m	187.0
Share price A\$	0.40
Market cap (undiluted) A\$m	74.8
Net cash A\$m	22.4
EV (undiluted) A\$m	52.4
Options (ex at \$0.50-1.80/sh) m	19.2
Issued shares (diluted) m	206.2
Market cap (diluted) A\$m	80.4
Net cash + exercised options A\$m	37.3
EV (diluted) A\$m	43.1

SOURCE: IRESS, XAM AND SOUTHERN CROSS EQUITIES

XAM major shareholders

Figure 3 – Major Shareholders



SOURCE: XAM

Appendix 1: Mongolian coal exposures

Table 3 - Mongolian coal comps

	EV A\$m	Resource Mt	Target Mt	Total resource target Mt	EV/Tonne JORC A\$/t	EV/Tonne total target A\$/t	Coal quality	Project stage
Aspire Mining (ASX: AKM)	251	331		331	\$0.76	\$0.76		
Ovoot (100%)		331		331			Coking, 80% yield, 8% ash prod	Development
Jilchigbulag							Coking prospect	Exploration
Nuramt (100%)							Coking prospect	Exploration
Shanagan JV (earn in 50%)							Thermal prospect	Exploration
Zavkhan Iron Ore (earn in 70%)							Iron ore prospect	Exploration
Guildford Coal (ASX: GUF)	272	926	20-512	1,192	\$0.29	\$0.23		
South Gobi (earn in 70%)			0-582	291			Coking & thermal prospect	Exploration
Middle Gobi (earn in 70%)			29-149	89			Thermal	Exploration
Hughenden, Australia (100%)		926		926			Thermal	Exploration
Hunnu Coal (ASX: HUN)	431	844	1,200-1,750	1,320	\$0.51	\$0.33		
Tsant Uul Project (100%)		167	100-200	167			Coking (ash 18-39%)	Development
Unst Khudag (100%)		676	700-800	750			Thermal prospect	Exploration
Gobi Altai (70%)			150-250	200			Coking	Exploration
Altai Nuurs Coal JV (70%)			250-500	375			Hard coking coal	Exploration
Mongolia Energy Corporation (SEHK: 276)	649	155		155	\$4.19	\$4.19		
Khushuut (100%)		155		155			Coking	Ramp up to 5Mtpa
Base metals tenements								
Oil & gas interests								
Mongolia Mining Corporation (SEHK: 975)	2,538	578		578	\$4.39	\$4.39		Prod'n -7Mtpa
Ukhaa Khudag (UHG) - Coking (100%)		329		329			Hard coking	
Ukhaa Khudag (UHG) - Thermal (100%)		249		249			Thermal	
SouthGobi Resources Ltd (TSX: SGQ, SEHK: 1878)	1,122	536		536	\$2.09	\$2.09		
Ovoot Tolgoi (100%)		185		185			Semi-soft coking	Prod'n 4Mtpa
Soumber Deposit (100%)		127		127			Hard coking	Development
Ovoot Tolgoi Underground Deposit (100%)		178		178			Semi-soft coking	Development
Tsagaan Tolgoi (100%)		45		45			Thermal	Exploration
Xanadu Mines (ASX: XAM)	61	497		527	\$0.12	\$0.12		
Nuurstei (XAM/Noble earning 80% for XAM 40%)							Coking prospect	Exploration
Javkhilant (XAM/Noble earning 80% for XAM 40%)							Coking & thermal prospect	Exploration
Khavtsgait (XAM/Noble 100% for XAM 50%)							Coking prospect	Exploration
Khar Tarvaga (100%)		327		327			Thermal (sub-bituminous)	Development
Galshar (100%)		170		170			Thermal (sub-bituminous)	Exploration

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Appendix 2: Mongolian Minerals Laws

2006 Minerals Law

The 2006 Minerals Law became effective on 26 August 2006, replacing the 1997 Minerals Law. The Department of Geological and Mining Cadastre (DGMC, formerly the Cadastral Registration Center), records the holders of minerals license rights under the 2006 Minerals Laws.

Exploration license tenures: Maximum of 9 years

Exploration licenses granted on or after 26 August 2006 have an initial three year term. Holders may then apply for extensions to the license for two successive periods of three years. Exploration licenses issued prior to 26 August 2006 also had an initial term of three years, with two extensions of two years each available. In some cases, three year extensions for these earlier exploration licenses have been allowed.

Table 4: Exploration license fees and commitments

	US\$/Ha per year
Annual fees	
Initial term - Year 1	0.10
Initial term - Year 2	0.20
Initial term - Year 3	0.30
First extension (3 years)	1.00
Second extension (3 years)	1.50
Minimum expenditure requirements	
Initial term - Year 1	nil
Initial term - Year 2	0.50
Initial term - Year 3	0.50
First extension (3 years)	1.00
Second extension (3 years)	1.50

SOURCE: MONGOLIAN MINING CORPORATION PROSPECTUS

Mining licenses: Initial 30 year term

Exploration license holders may apply for a mining license within the exploration license area. A mining license holder has the right to conduct mining and construct infrastructure within the license area to support this mining activity. Mining licenses have an initial term of 30 years and are renewable for two successive 20 year periods. Coal mining licenses have a annual per hectare fee of US\$5.00. Only Mongolian legal entities are entitled to hold mining licenses.

Deposits of strategic importance: Definition

A mineral deposit of strategic importance is defined as a mineral resource which may have the potential to impact national security, or the economic and social development of the country at the national and regional levels. A mineral resource that is generating or has the potential to generate more than 5% of Mongolia's GDP in any given year is also considered a deposit of strategic importance. Either the Government of Mongolia or Parliament may initiate proposals to declare a mineral resource as a deposit of strategic importance.

Deposits of strategic importance: State participation

The State is entitled to participate in an equity interest of up to 50% for Mineral deposits of strategic importance which have been defined (quantity and grade) by state funded exploration. For deposits of strategic importance defined by exploration not funded by the state, the State is entitled to 34% equity. The company which holds a deposit of strategic importance must also list at least 10% of its shares on the Mongolian Stock Exchange.

Royalty and taxation regimes

Coking coal royalty rates vary between 5% and 10%

Royalty rates for coking coal in Mongolia vary between 5% and 10%, depending on whether the coal has been processed and the level of a reference price. The reference price on which royalties are calculated is a domestic Chinese price, published on www.coalworld.net.

In April 2011, the domestic Chinese price for unwashed coking coal was US\$119/t and for washed coal was US\$206/t. The seaborne benchmark hard coking coal price averaged US\$300/t.

Table 5: Coking coal reference prices and royalty rates in Mongolia

Unprocessed coal US\$/t		Washed coal US\$/t	
0-25	5.0%	0-100	5.0%
25-50	6.0%	100-130	6.0%
50-75	7.0%	130-160	6.5%
75-100	8.0%	160-190	7.0%
100-125	9.0%	190-210	7.5%
Above 125	10.0%	Above 210	8.0%

SOURCE: AKM

Taxes

- Corporate tax rates in Mongolia are 10% on the first MNT3 billion (US\$2.4m) of taxable income and 25% on taxable income over this threshold;
- A VAT of 10% is payable on all goods sold, work performed and services provided within Mongolia; and
- A duty of 5% is applied to goods imported into Mongolia. Certain petroleum products and motor vehicles are subject to additional excise taxes.

Appendix 3: Management

Board of Directors

Brian Thornton (Executive Chairman)

Brian is the founding Chairman of XAM, with over 25 years experience in mining investment. He has previously acted as an advisor to the mining sector in Australia, Indonesia, Papua New Guinea and the Pacific Rim. Brian is based in Sydney.

Rodney Williams (Director – Technical)

Rodney is a Geologist with over thirty years experience throughout Australia, Indonesia and Africa in mineral exploration, project evaluation, project development and mining. Prior to commencing his own geological consulting business he was employed by WMC Ltd and Electrolytic Zinc in base metal exploration, CSR Ltd in evaluation of base metal and precious metal projects and Ashton Mining as group development geologist.

Ronald Heeks (Non Executive Director)

Ronald is a Geologist with over 25 years experience in mining projects in Australia, Laos, Thailand, Brazil, Ghana and Indonesia. Prior to joining Xanadu, Ronald was Resident Manager at Whim Creek Copper Mines. He was also employed by Straits Resources Limited and Straits Asia Resources Ltd, initially as Chief Geologist, Indonesia and finally as General Manager. In those roles he was responsible for the restart of the Mt Muro gold operation and the development of the Sebuk coal operation.

Hannah Badenach (Non Executive Director)

Ms Badenach was appointed to the XAM board in October 2011. Ms Badenach is Vice President of Asset Development & Operations at Noble Resources Limited and a lawyer, having practiced law for several years in Asia, including two years in Mongolia, starting in 2004 with Lynch & Mahoney, one of Mongolia's leading law firms. Ms Badenach was Managing Director of QGX Mongol LLC from 2006, and was responsible for the general management of the company in Mongolia until the company was sold in 2008.

Ganbayar Lkhagvasuren (Non Executive Director – Mongolia)

A Director since August 2006, he has an extensive network of high level contacts in government and business in Mongolia.

Robert Westphal (Non Executive Director)

Appointed to the Board on 2 September 2010, Robert is a Chartered Accountant and a former partner of Ernst & Young. He is a Director of Washington H. Soul Pattison & Company Limited and Souls Private Equity Limited, both ASX listed companies. Robert is also a director of a number of private companies.

Senior Management

Andrew Stewart (Manager – Mongolia & Chief Geologist)

Andrew has over seven years in-country experience in Mongolia. He has held senior positions with Ivanhoe (2001-05) and worked on the early stages of the Oyu Tolgoi copper-gold porphyry project. Andrew then worked for Vale (2005-10) on projects in Mongolia, China and Indonesia. Andrew's previous focus has been early stage copper-gold porphyry projects. He is based in Mongolia with his family.

Brendan Evans (Chief Financial Officer & Company Secretary)

Mr Evans is a Chartered Accountant with over 12 years experience in taxation, business services and commerce. He has worked in the United Kingdom and Australia for a number

of large organisations and has considerable resource industry experience. Mr Evans has a Bachelor of Commerce from the University of Newcastle and is a member of the Institute of Chartered Accountants of Australia and the Institute of Chartered Secretaries of Australia.

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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