



28/7/2011

**Xanadu Mines Ltd (ASX:XAM)
Quarterly Report
Period ended 30 June 2011**

HIGHLIGHTS

- **Nuurstei Coking Coal Project acquired as part of the strategic alliance with Noble Group.**
- **All four drill holes to date intersect significant coal intervals at Nuurstei including an aggregate of 42 metres of coal in the first hole; coal quality analyses expected shortly.**
- **Exploration and resource drilling completed at the Galshar Thermal Coal Project and a resource in accordance with JORC code expected late September.**
- **Khar Tarvaga coal resource registered as part of its conversion to mining licence.**
- **Detailed geological and alteration mapping completed at the Elgen-Zos low sulphidation epithermal gold project in south east Gobi ahead of proposed drilling in September.**
- **Field operations commence at the highly prospective Sharchuluut porphyry copper-gold project.**
- **A\$23.6 million cash on hand at 30 June 2011 to fund exploration and pursue new opportunities.**

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Figure 1: Xanadu Mines Mongolia and Ekhgoviin Chuluu LLC project location map



Coal Exploration Program

Ekhgoviin Chuluu LLC - Noble Joint Venture (XAM 50%)

The Strategic Alliance with Noble Group continues to explore and acquire high priority coking coal opportunities in Mongolia. To date this program has targeted areas of significant known coal resources and focused on the green field exploration opportunities identified via information synthesis and geological mapping. The Joint Venture has identified a number of advanced projects that fit this strategy which can be fast tracked to development. Farm-in agreements on two highly prospective coking coal exploration projects concluded during the quarter included:

- (1) Nuurstei located in the Khuvsgul province of Northern Mongolia; and
- (2) Javkhlant in the south western Gobi Altai province of Mongolia (Figure 1).

Nuurstei Coking Coal Project.

The Nuurstei Coking Coal Project lies within a Carboniferous coal-bearing sedimentary basin, located in the south central part of the Khuvsgul province. The two contiguous licenses lie approximately 13km south-southwest of the Province centre of Murun, and are strategically located only 8km from the proposed Northern Mongolian rail line that will link Murun with the active rail spur at the Erdenet copper centre.

Exploration drilling commenced at the Nuurstei coking coal project in June 2011 with one drill rig operating on a double shift basis. Drilling results to date are encouraging; with the first four diamond drill holes intercepting significant intervals of bright, shiny, hard coal. Laboratory analyses are in progress for the first drill hole and detailed coal quality results will be available early August.

Javkhlant Project

The Javkhlant exploration project is located in the south western Gobi Altai Province of Mongolia (Figure 1), approximately 22km from the Burgastai border crossing point into China and only 200km from the Chinese rail network (Figure 1). The large (1,005 km²) exploration license which lies along Mongolia's southern border with China, is located in the south west Gobi basin known to host premium coking and thermal coal deposits of Permian and Carboniferous age. The highly prospective opportunity was recognised as part of a thorough regional reconnaissance program currently being conducted by Ekhgoviin Chuluu LLC geologists. A comprehensive exploration program is planned to commence at the Javkhlant Project immediately.

Xanadu Projects

Galshar Thermal Coal Project

The Galshar Thermal Coal Project is situated 250km southeast of Ulaanbaatar and 60km from the Bor Undur railway line (Figure 1) within the Cretaceous Choir-Nyalga Coal Basin. The coal seams are contained within the Lower Cretaceous unit of the Khashaat member, which are hosted within the larger Zuun Bayan formation which also includes the Baganuur, Eldev and Shivee Ovoo coal deposits.

Exploration and resource drilling in the immediate Galshar area was completed during the quarter, with a total of 74 diamond and PCD (mud rotary) holes drilled for a total of 8,707.2 metres (Table1). Three of these holes were converted to piezometers for future hydrological investigations. All coal quality samples (totaling 1,632) have been composited and submitted to the SGS laboratory in Ulaanbaatar for analysis. McElroy Bryan Geological Services (MBGS) have been engaged to undertake the resource estimation in accordance with the JORC Code. This process should take 4 to 6 weeks once the coal quality results are received.

Table 1: Drilling completed at Galshar in 2011

Holes Completed	Total Metres Drilled	Total Metres Logged with Geophysics
74	8,707.20	8,409.30

Khar Tarvaga Thermal Coal Project

The Khar Tarvaga ("KT") Thermal Coal Project is located 150km south east of Ulaanbaatar and 35km from the main Trans-Mongolian railway line (Figure 1). Resources and geology of the Khar Tarvaga Project are described in detail in the Xanadu Mines Ltd Prospectus issued November 2010.

During the quarter, the large KT thermal coal resource was registered with the Professional Minerals Council ("PMC") branch of the Mineral Resources Authority at the Ministry of Resources and Energy.

Discussions continue with several groups interested in exploiting the potential of the KT resource. The company will further these discussions and has appointed a Beijing based agency to assist with marketing the project to multinational coal producers including coal to liquid (CTL) and synthetic natural gas (SNG) producers.

Wild Horse Coal Exploration Project

The Wild Horse Coal Exploration Project is located in the Dornogovi Province of southern Mongolia, approximately 750km south-southeast of Ulaanbaatar and about 30km from the Chinese border (Figure 1). Detailed 1:5000 scale mapping over the Wild Horse license was completed during the June 2011 quarter. The Wild Horse project is an early stage exploration project, however work carried-out by Rio Tinto in the past provides 'proof of concept' that the basin contains coal. Wild Horse is a promising early-stage project with the potential for a discovery of a premium coking and/or thermal coal deposit. Drilling at Wild Horse is expected to start in late September 2011.

Project Generation

Detailed regional project generation continues. The objective of this program is to identify strategically located metallurgical coal projects and/or prospective exploration ground. This program is targeting areas of significant known coal resources and focuses on the green field exploration opportunities identified via information synthesis and geological mapping.

Copper-Gold Exploration Program

Sharchuluut Uul Copper-Gold Porphyry Project

During the quarter, exploration commenced at the highly prospective Sharchuluut Uul porphyry copper project, situated in the Bulgan Province of Northern Mongolia, approximately 230km northwest of Ulaanbaatar.

Detailed lithological and alteration mapping over the main prospect at Sharchuluut was completed in June 2011 and a total of 362 grab samples were submitted to the SGS laboratory in Ulaanbaatar. Multi element analysis results are expected in August 2011. Alteration mapping by spectrometer (ASD) suggests that the advanced argillic zone may extend about 1.6km in a NW-SE direction, with a maximum width of about 400m. A total of 141 samples have been analyzed with 290 spectra's collected. Understanding the alteration zoning will help create vectors to mineralisation. Zones of advanced argillic alteration, which constitute lithocaps, are commonplace in the shallow parts of a porphyry copper system.

Logantek Mongolia LLC commenced a detailed ground magnetic survey as part of a comprehensive multidisciplinary geophysical survey directed at locating porphyry centres at depth. Approximately 2,500 contiguous-line kilometers of detailed ground magnetic data have been collected, and the preliminary maps are highly detailed, revealing numerous targets that will be ground checked in early August 2011.

Gold Exploration Program

Elgen-Zos Gold Project

Exploration continued at the Elgen Zos gold project during the quarter and detailed 1:5000 scale geological, structural and alteration/mineralisation maps were completed for the three main prospects. Based on this work, the Zos, Suug and Elgen gold prospects are classified as low sulphidation epithermal type, related to hot springs, of probable Mesozoic age. Tubular algal filamentous textures and sinter surfaces are identified at Zos and Suug. Carbonate pseudomorphs indicative of boiling, occur at <20 m below the sinter. An extensive silica cap (4.3km long and up to 0.5km wide),

comprising of heterolithic collapse breccia (after limestone) and probable eruption breccia occurs at Zos. Alteration mapping confirms that the alteration systems are high level and close to the paleo-surface. Consequently the main exploration is for high-grade gold in quartz-adularia veins at depth.

Logantek Mongolia LLC completed a detailed ground magnetic survey with 1,471.36 contiguous-line kilometres of ground magnetic data acquired. With moderate relief of about 50m at Zos and Suug, the epithermal alteration systems are reasonably well exposed. Structural interpretations based on detailed, mapped distribution of veins and enclosing breccia zones, indicate dilational zones, which will be drill tested. In particular inflexions or dilational jogs are important. Exploration drilling in September 2011 will focus on the Zost and Suug hot springs.

Administration

Currently Xanadu has an experienced team of 24 staff operating from its office in Ulaanbaatar including a team from Noble. The team, led by its chief Geologist and Country Manager, Dr Andrew Stewart, is continually assessing a range of coal and copper/gold opportunities.

During the quarter, safety remained a prime issue for the company and its staff in Mongolia; towards this end a dedicated health and safety officer was appointed to oversee and implement a range of safe workplace procedures and practices to ensure the health and well-being of all staff at their respective workplaces. We are pleased to advise there were no lost time safety issues during the quarter.

For further information:

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Competent Person Statement

Information on the Company's exploration results is sourced from information compiled by Mr. Rod Williams. Mr. Williams is an employee of Xanadu Mines and is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient experience in the areas being reported on to qualify as the "Competent Person" as defined in the 2004 Edition of the "Australasian Code for the Reporting of Mineral Resources and Reserves". Mr. Williams consents to the information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

XANADU MINES LTD

ABN

92 114 249 026

Quarter ended ("current quarter")

30 June 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	10	55
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(2,895) - - (618)	(7,425) - - (2,527)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	357	688
1.5 Interest and other costs of finance paid	-	-
1.6 R&D Tax Offset	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(3,146)	(9,209)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - (152)	(2,185) - (381)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- - -	- - -
1.10 Loans to other entities	(2,039)	(2,219)
1.11 Loans repaid by other entities	-	90
1.12 Other (provide details if material) (a) Proceeds from disposal of controlled entity (b) Cash on hand upon purchase of controlled entity	- - -	- - -
Net investing cash flows	(2,191)	(4,695)
Total operating and investing cash flows (carried forward)	(5,337)	(13,904)
1.13		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(5,337)	(13,904)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	8,327	37,454
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	8,327	37,454
	Net increase (decrease) in cash held	2,990	23,550
1.20	Cash at beginning of quarter/year to date	21,025	677
1.21	Exchange rate adjustments to item 1.20	(446)	(658)
1.22	Cash at end of quarter	23,569	23,569

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	226
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Payment of Director's fees and salaries

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not Applicable.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not Applicable.

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,771
4.2 Development	-
4.3 Production	-
4.4 Administration	442
Total	2,213

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	23,569	10,785
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	10,240
Total: cash at end of quarter (item 1.22)	23,569	21,025

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Nil			
6.2 Interests in mining tenements acquired or increased	13580X 13958X	Purchased by the Noble-Xanadu JV. Xanadu effective ownership 40%.	Nil Nil	40% 40%

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	186,989,835	132,446,693		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	7,165,000 9,688,367	4,900,000 9,688,367	22.5 cents 69.89 cents	22.5 cents 69.89 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	14,000,000 5,240,000		<u>Exercise price</u> \$0.50 \$0.50	<u>Expiry date</u> 31/12/2014 19/12/2014
7.8 Issued during quarter				
7.9 Exercised during quarter	7,165,000	4,900,000	<u>Exercise price</u> \$0.225	<u>Expiry date</u> 21/04/2011
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)		
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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 28 July 2011
Company Secretary

Print name: Brendan Evans

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.