



27 January 2011

ASX Announcement

- **Quarterly Report**
- **Period ending 31 December 2010**

Highlights

- Xanadu (ASX : XAM) completes capital raising of A\$24m
- ASX listing on the 21st December 2010
- Commencement of Scoping Study – Galshar Coal Project
- Earns 51% in the highly prospective Elgen-Zos Gold Project in the South East Gobi
- US\$6m exploration Budget approved for 2011 including an aggressive expansion in the evaluation of coking coal opportunities.
- Discussions continue with several international groups interested in exploiting the potential of the Khar Tavaga coal project

Coal Projects

Galshar Coal Project

As previously announced a scoping study commenced into options and costs for moving the Galshar coal project forward into a mining operation.

Discussions have been held with a number of mining and engineering consultants to allow for the selection of a Project Team to evaluate the project economics. It is expected that the team will comprise international standard mining, engineering, hydrological metallurgical and environmental consultants based in Australia and Mongolia. The team will be coordinated and managed by Xanadu.

Selection of consultants to assist with the study will be finalised in the near term, and it is expected that the study will then take some four months to complete. At this time a prefeasibility study (PFS) will be commenced to gain a tighter control on costs and process methodology.

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It is currently expected that Galshar will be a conventional truck and shovel open pit with initial coal transfer by road truck to the rail line, some 65 kilometres away. The scoping study will evaluate the construction of a rail spur from the open pit to further reduce operational costs and reduce environmental issues. Marketing options, beneficiation potential, hydrology, mining methodology and transport will form the basis of the scoping study and, if positive, will provide a firm basis on which to move the project forward.

As part of the scoping study, drilling of the currently identified coal seams will also commence to further refine the geological model and increase the quality definition to bring the model into line with JORC Code criteria. It is expected that some 7500 metres of drilling will be required for this task and drilling is expected to commence in early to mid February, as winter recedes.

Concurrent with the scoping study, an aggressive exploration program aimed at delineating further resources within the entire project area will begin in late February. Currently only a small area of the total ground holding has been explored and an ongoing wide-spaced drilling program will systematically work through the known coal basin targeting further coal resources. This program will continue for most of the 2011 Mongolian field season.

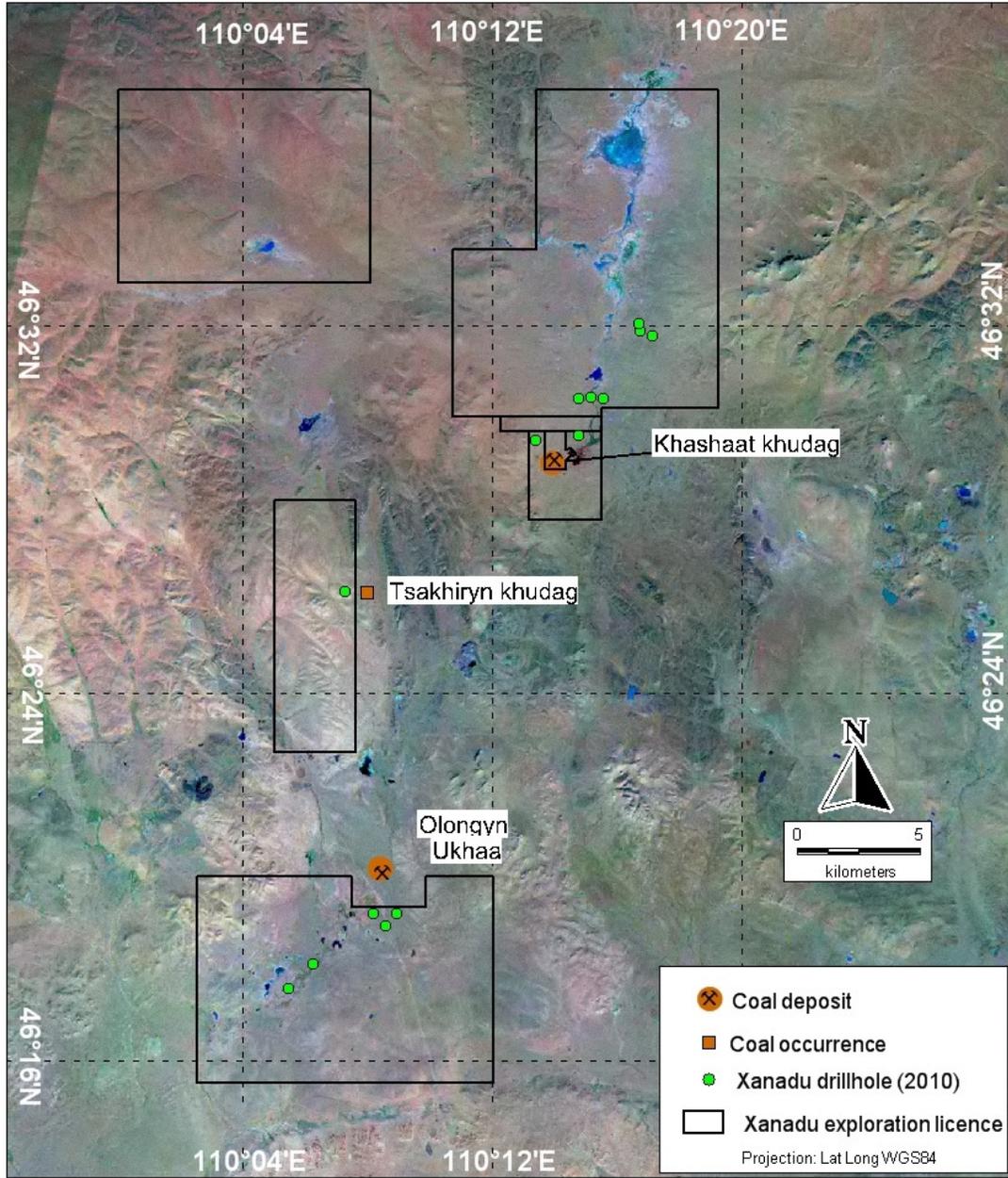
A scout diamond core drilling program was completed on five of the licences that make up the project (Figure 1). Table 1 below indicates the holes drilled and the results for all coal seam of greater than 1m in thickness.

Within licence 9026x drilling targeted the basin hosting the Olongyn Ukhua coal seam located to the north of the licence. The basin takes the form of a shallow syncline with a plunge to the north east. Aggregate coal thicknesses (>1m coal) amounted to 17metres, 13.5 metres and 8.3 metres respectively in the three holes drilled into the basin. Examination of satellite imagery suggests the southern limb of the basin extends into the north eastern corner of the licence. The other two holes drilled on licence 9026x to test areas of oxidized coal showings did not intersect any significant coal.

The single hole drilled on licence 9028x was abandoned due to drilling difficulties. This hole was targeted on the down dip projection of oxidized coal showing on the eastern side of the licence.

Three holes were drilled to confirm the expected east and western limits of the main Galshar coal seam. Two holes located no significant coal, drilling into either volcanic rocks or basement rocks. The third hole, 10XGD017, located an aggregate of 5.3m of >1m coal thickness between 37 and 47m depth. Two exploration holes drilled 3 kilometres north northeast of the Galshar coal recorded a best result of 1.7 metres of coal in hole 10XGD016.

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GALSHAR PROJECT - Licences, Coal deposits, occurrence on Landsat Image

Figure 1: Galshar Project

XANADU DRILLING Dec Quarter 2010

Table 1: Summary of Galshar Drill Results (Analytical Results for Coal Seams $\geq 1m$)

Hole_ID	Sample Interval			ANALYSIS	TM_ARB	IM_ADB	Ash_ARB	Ash_ADB	Ash_DB	VM_ADB	FC_ADB	GCV_ADB	GCV_DB	Tot S_ADB	Rel Density
	From	To	Intercept	METHOD	ASTM3302	ISO11722	ISO1171	ISO1171	ISO1171	ISO562	ISO1213-2	ISO1928	ISO1928	ISO19579	AS 1038.21
	m	m	m	UNITS	AR,%	AD,%	AR,%	AD,%	DB,%	AD,%	AD,%	AD,KCAL/KG	DB,KCAL/KG	AD,%	AD,G/CM3
10XGD007	23.8	26.8	3.0		35.45	22.35	21.83	26.14	33.75	33.28	18.24	3,212	4,130	1.04	1.62
	62.0	68.0	6.0		31.91	24.99	21.00	23.15	30.82	28.07	23.80	3,312	4,419	1.67	1.57
	70.5	78.5	8.0		35.36	28.46	11.11	12.31	17.12	32.87	26.36	3,919	5,484	1.39	1.46
10XGD008	67.8	68.8	1.0		33.79	27.77	10.10	11.02	15.25	37.33	23.88	3,943	5,459	0.57	1.47
	69.4	70.9	1.5		32.62	26.06	23.79	26.11	35.31	26.24	21.60	3,121	4,221	0.43	1.61
	72.4	73.6	1.2		33.59	26.60	20.03	22.14	30.15	26.77	24.50	3,311	4,510	0.99	1.56
	77.3	78.4	1.1		33.23	26.34	23.32	25.73	34.92	25.13	22.81	3,117	4,231	1.15	1.61
	80.0	81.2	1.2		35.80	26.10	12.84	13.39	18.11	37.03	20.09	4,034	5,459	0.71	1.47
	89.4	91.6	2.2		34.12	26.78	15.48	17.23	22.75	34.14	21.85	3,639	5,020	0.61	1.51
	95.1	100.4	5.3		34.18	27.06	10.99	12.19	16.70	33.30	27.45	4,093	5,613	1.19	1.47
10XGD009	67.5	70.2	2.7		31.08	25.67	25.10	27.04	36.27	27.34	19.96	3,048	4,107	0.37	1.63
	75.8	81.4	5.6		34.47	28.60	9.76	10.63	14.89	34.04	26.73	4,041	5,659	0.97	1.45
10XGD016	98.3	100	1.7		30.26	18.95	27.78	32.13	39.72	35.19	13.73	3,207	3,950	1.59	1.66
10XGD017	37	39	2		35.81	26.16	6.02	6.92	9.37	38.75	28.16	4,441	6,015	0.50	1.43
	39.7	42	2.3		41.29	28.57	12.86	15.48	22.05	29.57	26.38	3,742	5,208	0.68	1.50
	45.4	46.4	1		39.22	22.32	11.78	15.06	19.38	43.13	19.50	4,241	5,460	0.67	1.52
	TM_ARB	Total Moisture - As Received Basis				Ash_ADB	Ash - Air Dried Basis				GCV_ADB	Gross Calorific Value - Air Dried Basis			
	IM_ADB	Inherent Moisture - Air Dried Basis				VM_ADB	Volatile Matter - Air Dried Basis				GCV_DB	Gross Calorific Value - Dry Basis			
	Ash_ARB	Ash - As Received Basis				FC_ADB	Fixed Carbon - Air Dried Basis				Tot S_ADB	Total sulphur - Air Dried Basis			



Khar Tarvaga

Planning of a comprehensive work program required to convert the exploration title over the coal resource at Khar Tarvaga to a mining licence has commenced. Documentation required in Mongolia to register the resource includes resource and prefeasibility reports according to Mongolian standards. The necessary field activities, primarily drilling for hydrological investigations, will be undertaken once the weather improves.

Discussions continue with several groups interested in exploiting the potential of the Khar Tarvaga resource. The company will further these discussions and also appoint an international standard agency to assist with making approaches to multinational coal to liquid (CTL) producers.

Copper-Gold Projects

Hutag Uul Copper-Gold Project

The large Hutag Uul exploration license is located approximately 750 kilometres SSE of Ulaanbaatar in the south Gobi region of Mongolia. The licence covers a highly prospective block of late Devonian to early Carboniferous volcanic and intrusive rocks known to host other porphyry deposits, including the Oyu Tolgoi copper-gold porphyry, the Kharmagtai copper-gold porphyry, and the Tsagaan Suvarga copper-molybdenum porphyry deposits.

A large regional soil geochemistry program was recently completed at Hutag Uul. A total of 9,537 soil samples were taken across the license. All samples have been submitted to the SGS laboratory in Ulaanbaatar for analysis with assay results still pending.

Xanadu geologists believe that there is a strong possibility of discovering additional mineralised porphyry gold copper targets within the Hutag Uul license, as well as along the defined structural corridor at Nogtot. Geological mapping, detailed geophysics and geochemical rock-chip sampling will continue throughout the Hutag Uul area once the more extreme weather conditions have passed.

Gold Exploration Program

Hust Uul Gold Project

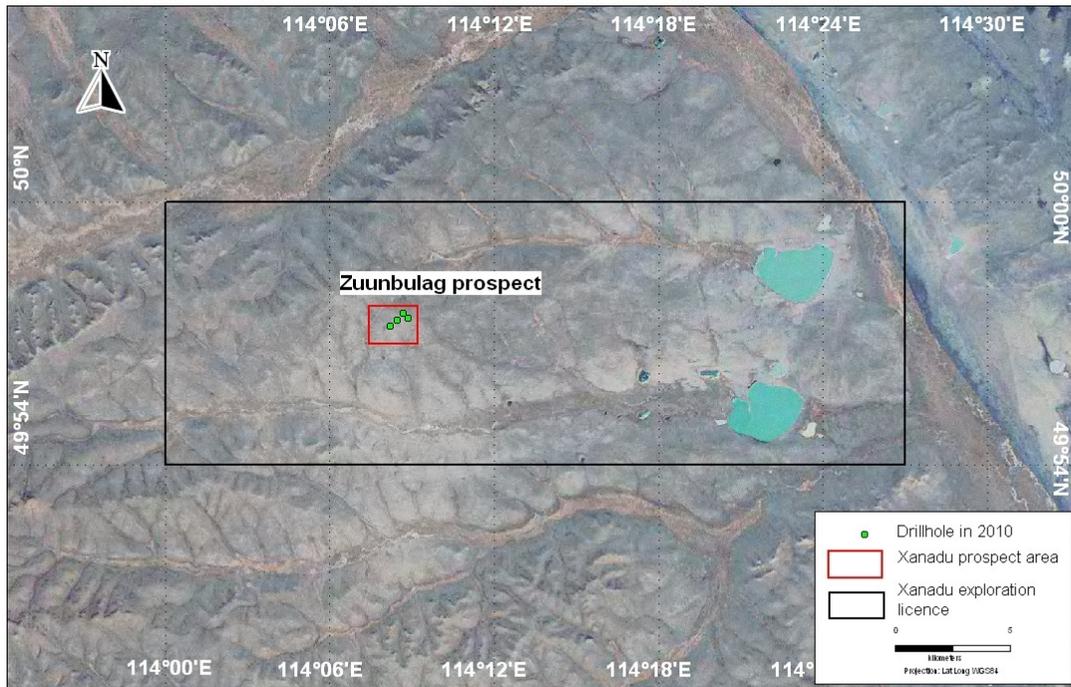
The Hust Uul project is located approximately 780 kilometres northeast of Ulaanbaatar and 210 kilometres west from the provincial city of Choibalsan. The railway connecting Choibalsan with Russia is 70-80 kilometres east of the project area.

A scout drill program was completed at the Hust Uul gold project in northeast of Mongolia in November 2010. Drilling here focused on the prospective Zuunbulag Prospect (Figure 2) which comprises a quartz-stibnite breccia which is thought to represent the upper levels of a mineralised auriferous intrusion-related system. Four diamond drill holes were completed for a total of 595.5 meters targeting zones of high resistivity thought to represent buried silica alteration which may be associated with mineralisation. All drill holes reached their target depths and intercepted some encouraging geology. The presence of extensive sulphide bearing silica alteration is promising. All

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diamond drill core has been sampled and submitted to the SGS laboratory in Ulaanbaatar for analysis with assay results pending.

Field work will resume once the more extreme weather conditions have passed and heavy snow cover cleared. In 2011 detailed prospect exploration via geological mapping and conceptual geological modelling of geophysical data will be used to delineate geochemical vectors to mineralisation and the development of drill targets.



HUST UUL PROJECT - on Landsat Image

Figure 2: Hust Uul Project

Elgen Zos JV Gold Project

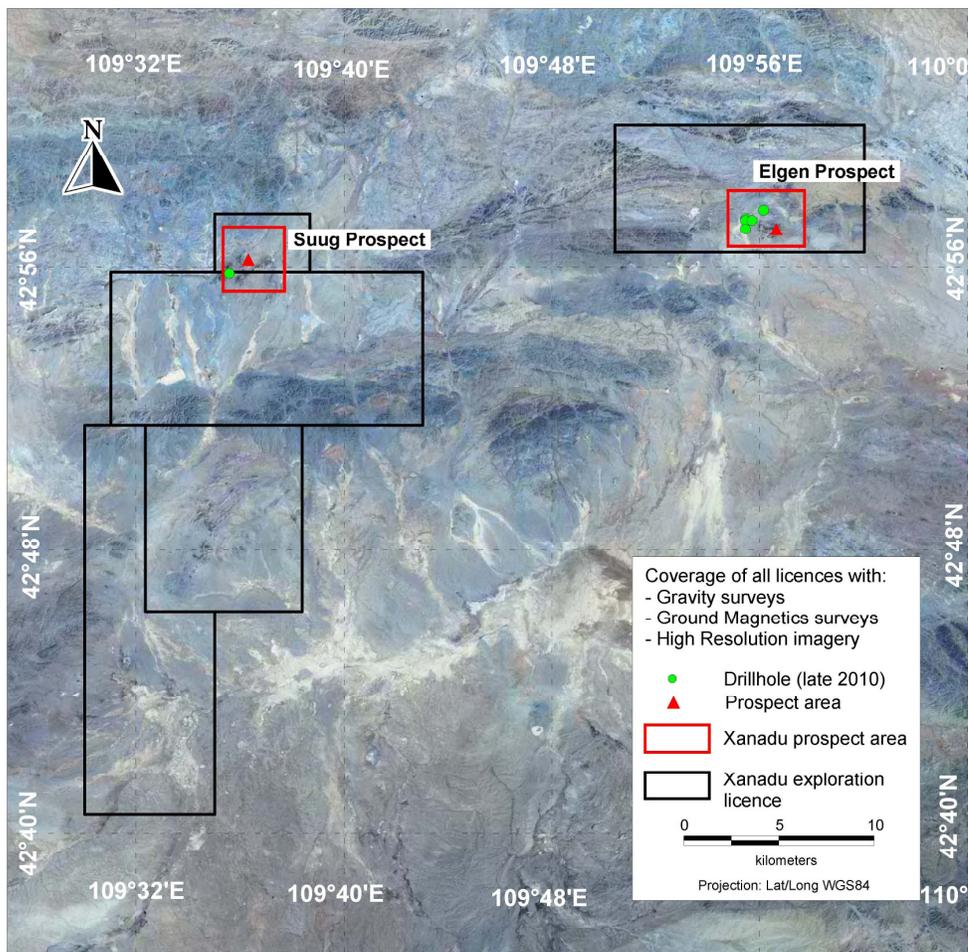
Following the completion of a reconnaissance diamond drilling program in late 2010, Xanadu has earned a 51% equity interest in the Altan Xanadu LLC company, owner of the highly prospective Elgen-Zos gold project, located approximately 30 kilometres north from the Chinese border.

The Joint Venture (JV) area was recently expanded with the acquisition, in September, of two new licences, bringing the total area of exploration licences held to 417 square kilometres. These two licences are contiguous with the previous ground package and help consolidate Xanadu's land holding over the highly prospective Elgen-Zos area. Within the recently acquired licences, earlier exploration focused on the Suug prospect, an area of altered sedimentary rocks with strongly anomalous gold, antimony and mercury rock samples (Figure 3).

Diamond drilling was undertaken late in the year to test targets generated from controlled source audio-frequency magnetotellurics (CSAMT) geophysics and geochemistry. One hole was drilled on a CSAMT target south west of the Suug prospect. The remaining drilling focused on the immediate Elgen area. Assay results are yet to be received.

Extensive geophysical surveys were completed to provide gravity and ground magnetics coverage of all the licences being explored by the joint venture. This geophysical data plus the CSAMT resistivity is being reviewed by an Australian based geophysical consultant. High resolution satellite imagery has been obtained over the JV licences to provide a topographic base for geological mapping to be undertaken early in 2011.

With the increased area now held by the JV, the extent of significant antimony, mercury, arsenic and gold results obtained from earlier rock sampling data, together with the geology and structural setting, Xanadu's directors believe the JV areas have the potential for a major sediment hosted gold discovery.



ELGEN ZOST JOINT VENTURE Exploration Activity - Late 2010

Figure 3: Elgen Zos JV Gold Project

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Corporate

Following the ASX listing and the associated capital raising, Xanadu plans to significantly increase its exploration effort in the forthcoming field season due to commence in late February. Its focus will be both coking and thermal coal opportunities identified during the winter recess together with its existing copper gold projects in the South East Gobi.

Two additional geologists have recently been employed for the Mongolian exploration team and other specialist geologists are being sought. Support staff will be increased as required.

Following the listing on the 21 December, Xanadu has seen a significant increase in the number of new shareholders on its register and at 25 January the number of shareholders totalled 978.

As part of the expanded exploration program in 2011, a small office is being established in Perth for the Western Australian based geological directors and associated IT and technical support.



Figure 4: Xanadu Projects Map

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ABOUT XANADU MINES

Xanadu Mines Ltd (ASX: XAM) is a Mongolian exploration company focused on the near term development of its two coal assets, Galshar and Khar Tarvaga and is progressing exploration of its highly prospective suite of licences for coal (coking and thermal), copper and gold.

Its strategy is to target energy and metals opportunities in the Trans Mongolian rail corridor or within close proximity to the Chinese border. Xanadu's Mongolian team has been responsible for the discovery of the Khar Tarvaga coal project and the assembly of a first-class portfolio of coal, gold and copper licences, all of which will be subject to an aggressive exploration and evaluation program in 2011.

With a 6 year track record and an experienced world class exploration team, Xanadu is well placed to capitalise on the burgeoning energy and metals demand emanating from China and nearby Asian markets

Competent Person Statements

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.

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