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The all rounder

By Michael Quinn, 11 February 2008



TALENTED people invariably achieve success at whatever they turn their hand to and the affable, modest and sporty Michael Anderson at Exco Resources appears no exception. Meaning, market vagaries aside, patient shareholders of the budding copper junior can look towards the future with some real optimism.

Anderson, who joined Exco as managing director in 2006, heads a company that has had trouble gaining significant market traction for much of its listed-life.

The reasons were perhaps a legacy of its formation during the sector doldrums of the late 1990s, and an overall portfolio of copper-gold assets with less than spectacular grade – the latter a particularly problematic situation when viewed in the context of the previous metal price era.

Whatever the reason, Exco never seemed able to attract the strong support/cash it needed to make the real strides required to prove its case.

However, that hamstrung situation changed last year when Robert Friedland's Ivanhoe Australia was the main subscriber to a \$A12.27 million Exco placement. That gave the junior the cash to pursue a development outcome that's now more or less set to take shape in the coming months (*see separate Exco story this edition*), plus the headline-grabbing credibility that comes with Friedland.

The raising would have been particularly reassuring for Anderson as well, given he was only 12 months into life at the top of a publicly listed company, and given he'd initially been a little unsure whether he'd be up for the job. (Upon asking his then-chairman at Gallery Gold in 2006 this very question, Anderson, who at that time was working in corporate development, was told by Shaw: 'Look at half the people out there doing it ... of course you can do it!').

Indeed Anderson, a native of Northern Ireland, has looked an absolute perfect fit for Exco from day one.

Intimately involved in achieving the excellent outcome for Gallery Gold shareholders when that company was taken-over by Canadian company IAMGold just prior to joining Exco, Anderson had previously spent a decade or so in various business development-type roles in the processing and engineering services sector – specifically at Mintek, Bateman, and Kellog Brown & Root (KBR).

Professionally the high point of that period was the managerial position he had at KBR, where, charged with the task of growing KBR's mining business, he oversaw the initiation and implementation of a strategy focused on winning contracts at the big end of town.

"Certainly from my engineering days, one of my pleasing outcomes was that before I left [KBR] we secured a big EPCM contract with Rio, and shortly after I left they won the \$A1 billion Hope Downs contract," Anderson said. "Exactly what we had been setting ourselves up to do."

The stints at the engineering/processing-focused Mintek, Bateman and KBR belie to some extent the fact that Anderson is by academic qualification a geologist rather than an engineer. (He graduated from the Royal School of Mines with a PhD and Honours in Mining Geology). But again they underscore the notion that high achievers invariably have the capabilities to succeed at whatever they choose.

At Exco, the challenge for Anderson will include possible deal making (potentially selling some of Exco's resources to Xstrata for example), and the mystery and uncertainty of the equity market. In essence, Anderson and the Exco board have to decide how best to capitalise on the varied inventory of copper-gold resources it holds in the Cloncurry region of Queensland.

A 15,000-25,000 tonnes per annum copper-in-concentrate operation is in the mix, as is potential sale of ore to Xstrata from the largest Exco deposit – bordering Xstrata's Ernest Henry operation.

Undoubtedly Anderson's time in the engineering business will come into play as Exco goes through feasibility and potentially development, with GRD Minproc appointed last year to undertake/assist with the pre-feasibility underway.

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On the copper price, Anderson claims Exco is comfortable with using a flat \$US2.00/lb as the base case for its financial model, though he himself is more bullish than that. The market's current perception of what might happen is not surprisingly difficult to assess, especially given the volatility across the entire equity spectrum over the past 2-3 months.

Following the Ivanhoe placement, the stock was at A40c last July, 23c in August, 51c in October, 21c in January and around the 25-27c level this month. However, more certainty is likely as a pre-feasibility is completed before mid-2008.

"The important thing is we've got money in the bank," Anderson said. "Our strategy and what we're doing hasn't changed and I think what we are doing is more than appropriate for this company. I think it is going to give us our best ever chance to make something out of the project we have."

He is both wary and sanguine about the macro outlook.

"I know what I can control," Anderson said. "Our strategy, our budget, our drilling, who we're talking to etc, but I can't control the sub-prime crisis and inflation and commodity prices.

"Almost an ethos for me is: if you do the right things, make the right decisions, deploy your funds correctly, the market will look after itself. That's all you can ever do. That's what I'm being employed to do ... to do the right thing, the things that I can control. If I do them well, that's what I want to be judged on. I can't control massive market fluctuations that are driven by sentiment and global economic factors."

Anderson also says heading a public company brings with it a level of responsibility and set of pressures that he hasn't experienced before.

"One thing I've struggled to come to terms with is people say you shouldn't take what's being said about you or your company personally," Anderson said. "But I do. This is my career. I'm in this not just to succeed (from a personal financial perspective), but also professionally. And you get this inference all the time when you read or get told what's being said in chat rooms or by the press 'that the directors don't seem to care about the fortunes of their company'. Nothing could be further from the truth. We've got as much if not more invested in the success of our companies than any of our shareholders. So I do take that personally."

He also finds the position all consuming.

"You can't switch off. It is a positive stress but I find myself thinking about the job every day, every hour, every minute."

"That's what you get paid for of course."

One can sense that if there's one thing that Anderson would love to get paid for, it would be playing professional sport. He has a far from shabby golf handicap of 11 (it was down to six when he was less busy in his early working career in South Africa), and played provincial-level cricket and rugby in his younger days, as well as for the First XV and First XI at Imperial College.

He was a Number 10 in rugby – “kicked a lot of goals, missed a lot of tackles!” – and mainly a left-handed opening bat at cricket, who also threw down a few medium pacers and kept wicket in the year he captained the team at Imperial College. “In the context of both sports, the older I get, the better I was! Now resigned to talking a good game (or at least I think so).”

All of which again emphasises the positive traits – ability, modesty, humour – that Exco shareholders will no doubt be hoping translates into equity market success.

60 seconds with Michael Anderson

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HighGrade: Name the three people who have had the biggest influence on your professional career?

Michael Anderson: The men I worked for at Mintek (Dr Peter Scott), KBR (Geoff Peattie) and Gallery (Hamish Bohannan) all for giving me not only the opportunities but also the support to succeed professionally.

HG: Three people you'd like to be trapped down a mine with?

MA: That suggests I'd like to be trapped down a mine; I guess we all fear such a scenario. Anyway, assuming the rescuers know about us and are on their way, I'd have no problem passing the time if I had a few sporting personalities to talk to. Ian Botham [cricket], Brian O'Driscoll [rugby] and Darren Clarke [golf] would all have plenty to say, but I think would also be pretty determined to get out.

HG: The biggest challenge facing the mining industry ... and the solution?

MA: [The challenge] -delivering on our own expectations, and those of our shareholders. Solution –

hard work with a dash of good fortune.

HG: Favourite all-time golf course (and what you shot there plus general highlights)?

MA: Barnbougle Dunes in Tasmania; ranked 35th in the world among public courses. Shot 79 there in December 07 and felt like I'd won the Open - breaking 80 doesn't happen that often for me so I'm biased to any course where I've managed that. Highlights for me on the course now also extend to watching my daughter Bronwen (10) play; maybe I can get on her bag in years to come.

HG: Last holiday destination?

MA: We, the family that is (wife Lisa, and daughters Bronwen (10) and Lauren (7)) have got the skiing bug. We visited Steamboat in Colorado recently with some friends and had a great time!

Exco strategic options multiply

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DEALS with Xstrata and Robert Friedland's Ivanhoe Australia – including a potential change in ownership for the Ernest Henry operation – plus “extremely exciting” uranium prospectivity headline a maiden report on Exco Resources by a heavyweight broking house.

RBC Capital Markets believes a long mooted deal between Exco and Xstrata covering resources from Exco's E1 deposits near the depleting Ernest Henry could be struck by mid-2009 – or “perhaps earlier”.

RBC analyst Paul Young has modelled E1 yielding three million tonnes per annum for 7-8 years, and producing about 200,000t of copper and 180,000 ounces of gold over that period. Another alternative arising from a possible Vale (ex-CVRD) bid for Xstrata sees the Ernest Henry operation being divested – on account of its short mine life not meeting Vale's strategic criteria – in which case, Young believes Ivanhoe Australia and/or Exco could buy Ernest Henry.

Such a move would make “strategic sense” should either company “discover an economic copper/gold deposit on their Cloncurry ground”, the RBC analyst said.

Ivanhoe holds about 12% of Exco and has options that are exercisable in mid-2008 that would take its stake to about 18%.

Young assesses Exco's ground to have superior prospectivity to that of Ivanhoe Australia, and also speculates that should Ivanhoe Australia's pending listing feature an expected premium, the scrip could then be used for a takeover of Exco.

While an ore sale deal between Xstrata and Exco is perhaps the most likely scenario, Young notes that "Xstrata has traditionally signed joint ventures and/or agreements with junior mining companies on Xstrata's terms with little middle ground".

Should Exco deem terms offered unacceptable, and should it like both the copper price outlook and the results of current feasibility work, the junior could walk from the negotiating table and construct its own processing plant. On RBC's numbers, a 2Mtpa concentrator located in the E1 area is the most compelling standalone option being studied by Exco, "however, it only delivers a positive NPV at a long term copper price above \$US1.80/lb".

Young also notes nearly 3500t of uranium has been shown to be contained within Exco's E1 and Monakoff, with recovery adding "significant revenue" should a change in Queensland Government policy allow exploitation. In such a case, capital costs could rise from \$A175 million to \$A240 million, however, average cash costs of copper (net of credits) would drop from \$US1.44/lb to US94c/lb.

As well as claiming Exco's ground has exciting uranium potential – both brownfields and greenfields – Young also says the company has "one of the most impressive copper exploration tenement packages in all of Australia".

In sum, RBC's Young claims Exco "offers investors a compelling risk reward investment opportunity" at current levels of about A25c, given its tenements and cash in their current guise are worth 20c per share.