Exco Resources Limited
First Impressions

7 April 2010

$0.28

No rating

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Highlights
- Exco Resources’ (“Exco”, EXS.AX) Michael Anderson, MD and Geoff Lang, GM recently presented to Wilson HTM.
- Exco Resources is a cashed up Copper/Gold explorer with exploration tenements in Queensland and with imminent gold production from its White Dam Gold mine in South Australia.
- Exco are in the final stages of delivering a DFS on their Cloncurry Project. A successful DFS will see the company transition into a junior copper producer by late 2012. The project is targeting 25kt Cu pa for 10 years.

Key Points
- The White Dam Gold Project is Exco Resources’ gold only project that is currently being “fast tracked” to take advantage of the high gold price with the intention of generating near term cash flow to fund the primary focus of the company, the Cloncurry Copper Project (CCP). The White Dam Gold Project is owned 75% Exco and 25% Polymetals. Polymetals is a privately owned company and will be the operator allowing Exco to focus on Cloncurry. Exco is targeting 50koz Au pa @ A$570 cash cost from April 2010.
- On 11/9/09 Exco arranged financing with Barclays Capital for A$16m (100%) through a Gold Repayment Facility. Exco has received A$12m (75%) in deferred revenue. The loan comprises two tranches with a tenor of 2 years with a pre payment of 20,915oz, approximately equal to the first year’s production.
- The CCP is Exco’s strategic long term play in Queensland, 40km from Cloncurry. Exco have grown the CCP significantly over the past 18 months and we anticipate further additions to the resources. Exco completed a pre-feasibility in June 2008 for CCP on a standalone basis. The company has now undertaken a DFS on a 2.5-3mt pa plant that would produce 25kt of Cu pa. Xstrata have left the door open for a junior to potentially feed the Ernst Henry mill during the operation’s transition to underground mining. This could potentially provide Exco with near term cash flow should Xstrata partner.

Wilson HTM view
- We are encouraged by Exco electing to not become operators of White Dam. We typically view small assets with a short mine life as a distraction when a company is working towards developing a sizeable project such as the CCP. Relinquishing operatorship to Polymetals will allow Exco to focus on the primary objective of developing a large, sustainable producing mine at CCP whilst benefiting from steady cash flow from White Dam.
- Exco has just added measured resources to the CCP inventory. We look forward to further increases in resource confidence as Exco moves towards completing the DFS later in the year. In addition, we eagerly wait for a commitment to a development scenario at the CCP.
- Exco has been operating in the shadow of successful and well marketed explorers such as Sandfire and Ivanhoe Australia. We see the current share price as undervaluing the company on a multiples basis and an option play into a soon-to-be junior copper producer.
White Dam – 75% Exco, 25% Polymetals

- The White Dam Gold Project is Exco Resources’ gold only project that is currently being “fast tracked” to take advantage of the high gold price and to generate near term cash flow to fund the primary focus of the company, the Cloncurry Copper Project.

- The White Dam Gold Project is located 80km West of Broken Hill, SA and consists of 4 tenements, EL3309, EL3257, EL4199 and EL4200.

- The project is owned 75% Exco and 25% Polymetals. Polymetals is a privately owned company. Polymetals will be the operator allowing Exco to focus on Cloncurry.

- Polymetals is an established mining company and has previously operated the Hellyer Zinc operation in Tasmania. Exco received numerous bids for the operatorship and management have described their partners as a “well oiled machine”.

- Production scheduled for April 2010.
  - 2.1mt pa @ 1.05 g/t Au with 70% recovery for 50koz
  - A$570/oz cash costs 1:1 strip, 2.5 year LOM

- Current inventory consists of 75% oxide ore and 25% fresh “sulphide/refractory” ore.

- Exco believes there is significant potential to extend the mine life beyond the 2.5 years. There is an additional 87koz au at Vertigo located just to the south which is 60% sulphide. Exco are currently applying for a mining lease over this inventory.

- Exco have significant tax losses and are not expected to incur any tax payable in the near term.

- On 11/9/09 Exco arranged financing with Barclays Capital for A$16m (100%) through a Gold Repayment Facility. Exco has received A$12m (75%) in deferred revenue. The loan comprises two tranches with a tenor of 2 years with a pre payment of 20,915oz, approximately equal to the first year’s production (Delivery schedule below).
  - Exco have purchased puts over 15,000oz at a strike price of A$1,100 and has entered contracts for the forward sale of 5,000oz at a price of A$1,216.
  - Barclays have been granted 4.5m options at A$0.28 expiring on 10/9/10 in exchange for fees.

- We are encouraged by Exco electing to not become operators of White Dam. We typically view small assets with a short mine life as a distraction when a company is working towards developing a sizeable project such as CCP.

- Relinquishing operatorship to Polymetals will allow Exco to focus on the primary objective of developing a large, sustainable producing mine at CCP whilst benefiting from steady cash flow from White Dam.

<table>
<thead>
<tr>
<th>Delivery Schedule</th>
<th>Volume (oz) – 75%</th>
<th>Volume (oz) – 100%</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>First delivery</td>
<td>6,382</td>
<td>8509</td>
<td>31-Jan-2011</td>
</tr>
<tr>
<td>Second delivery</td>
<td>6,382</td>
<td>8509</td>
<td>29-Jul-2011</td>
</tr>
<tr>
<td>Third delivery</td>
<td>2,923</td>
<td>3897</td>
<td>31-Aug-2011</td>
</tr>
<tr>
<td></td>
<td>15,687</td>
<td>20,915</td>
<td></td>
</tr>
</tbody>
</table>

Source: EXS
White Dam tenement map

Plant

Source: EXS
Cloncurry

Overview

- The Cloncurry Copper Project (CCP) is Exco’s strategic long term play in Queensland. Exco have grown the CCP significantly over the past 18 months and we anticipate further additions to resources.

- The Cloncurry Copper project is within a 100 km radius of the town of Cloncurry in NW QLD, Australia. It is made up of numerous tenements and mining leases including the E1 Camp, Great Australia, Monakoff, Kangaroo Rat, and Mt Colin deposits.

- CCP is well positioned geologically, to infrastructure and to a permanent workforce. The main deposit is the E1 camp which is 8 kms from Xstrata’s Ernest Henry mine.

- The deposit consists of sulphide copper-gold mineralisation occurring mainly in magnetite, pyrrhotite, and chalcopyrite-pyrite mineral assemblages.

- The project sits in proximity to Ivanhoe Australia’s Cloncurry deposit and Xstrata’s Ernest Henry mine.

  - Cloncurry - Ivanhoe Australia (IVA.AX) – Resource containing; 3.6mt Cu, 6.1moz Au, 23moz Ag, 91kt Mo and 152kt Re.

  - Ernest Henry – Xstrata (XTA.LN) – Resource containing; 1.3mt Cu, 2.3moz Au, 27mt Fe3O4.

  - CCP – Exco Resources (EXC.AX) – Resource containing; for 457kt Cu, 367koz Au.

Cloncurry Tenement Map

Source: EXS
Exco has one of the largest copper resources at the junior end

Exco is trading at a significant discount to its peers

Source: Company filings, Wilson HTM

Copper EV/Resource – Australian copper explorers and developers

Note: average calculated excludes Cudeco and Sandfire

Source: Company filings, Bloomberg, Wilson HTM
Cloncurry feasibility

- Exco completed a pre-feasibility in June 2008 on a standalone basis. The company has since undertaken a DFS based on a 2.5-3mt pa plant that would produce 25kt of Cu pa @ US$1.5/lb for 10 years. Exco’s indicative estimates value the project at A$256m using a 8.5% wacc.

Notes from the pre-feasibility

- Mining operations will be from 6 deposits located at 3 separate areas. Operations will centre on the E1 Camp and will utilise open pits using conventional blast, excavate and haul mining techniques with a waste to ore strip ratio of 4.5:1.
- Pit shells were estimated at US$2/lb Cu with a total Mine Plan Inventory (MPI) of 22mt @ 0.92% Cu, 0.25 g/t Au.
- A 2mtpa plant is expected to utilise conventional methods of crushing, grinding and flotation to produce a sulphide concentrate to be sold to third parties for smelting and refining. Test work demonstrates recoveries of 92% for Cu and 80% for Au. Tailings and waste rock will be placed in surface dumps close to the processing plant. Water will be sourced primarily from pit dewatering.
- Projected plant output ~20kt pa Cu, 13koz pa Au (~500kt pa Fe₂O₄)
- Total capex of A$208m. Exco have re-iterated that the DFS should return a similar capex estimate.

Changes to the inventory

- Exco has just moved part of the E1 Camp inventory to measured status. The total tonnage at the E1 camp has increased by 7% to 48mt and grade has declined slightly to 0.72%.
- Exco has recently expanded the CCP inventory by adding the Mt Colin underground deposit. This deposit is located between Mt Isa and Cloncurry and is within an 80km radius from the E1 Camp. The deposit contains 1.5mt @ 2.47% for 37kt Cu. Exco has commenced a study into the economics of the deposit which has the potential to significantly enhance the economics of the CCP. The haulage distance from Mt Colin to the planned E1 Camp plant is the primary outstanding issue.
- The resource at the time of the pre-feasibility was 35mt @ 0.92% Cu, of which, 22mt was to be mined. This implies resource to MPI conversion of 60%.
- Applying a similar conversion to the current resource at CCP of 55mt @ 0.85% Cu, and assuming no increase to the copper price used in the cut off, we infer an MPI at CCP of 33mt @ 0.85% for 280kt Cu. This is slightly above managements expectations of a minable reserve of 25-30mt.

Scenarios for advancing CCP

- 1) Standalone development – Develop the operation independently, targeting 10 year mine life with first production from 2012.
- 2) JV – Develop the operation in conjunction with a partner. Given the Chinese appetite for investment in resources, it is our view that a Chinese partner could likely assist in funding the development capital in exchange for off take agreements.
- 3) Utilise existing infrastructure – Supply Xstrata’s Ernest Henry mill.
- We see three primary reasons for Exco to send ore to Xstrata's plant, 1) the plant is within 10km of the E1 Camp, 2) the plant at Ernest Henry processes similar ore and thus requires minimal modification and 3) the current open pit at Ernest Henry is close to depletion and the underground production profile will not be able feed the current mill to full capacity.

- Milling at Ernest Henry would bring production forward and save Exco significant development capital. Xstrata's CEO Charlie Sartain, recently spoke at the Austmine conference in Brisbane and gave the strongest indication to date of the possibility of a junior supporting the Ernest Henry Mill. Mr Sartain stated that Xstrata was looking at opportunities to partner with juniors in the region to help increase throughput during the operation's transition to underground production. The underground at Ernest Henry contains 90mt @ 1.2% Cu, 0.68 g/t Au and 25% Fe₂O₃. Production from the underground will be materially lower than the previous open pit operation thus potentially leaving capacity for a junior to partner.

- Exco has just added measured resources to the CCP inventory. We look forward to further increases in resource confidence as the company moves towards completing the DFS later in the year. In addition, we eagerly wait for a commitment to a development scenario at the CCP.

- The E1 camp contains large tonnages at modest copper grades. Mining at less than 1% copper does not preclude positive economics.

- Our view is that mining from multiple pits, coupled with the haulage distance from Mt Colin and Monakoff to the E1 Camp could potentially reduce the overall economics of CCP.

- Exco are hopeful that a successful DFS will see the company transition into a junior copper producer by late 2012.

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**Copper producer by late 2012**

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**E1 Camp plan**

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Source: EXS
Recent drilling at CCP

- Drilling activity in the December quarter was limited due to seasonality. Drilling has since re-commenced and Exco are now targeting further deposits at CCP. Initial results have returned:
  - 34m @ 0.7% Cu, 0.22 g/t Au from 22m at Eight Mile Creek East
  - 6m @ 1.62% Cu, 0.44 g/t Au at Tanbah Prospect
  - 6m @ 1.56% Cu, 0.71 g/t Au at Salebury Prospect

Joint Ventures

Ivanhoe JV – Exco 100%, Ivanhoe option to earn in 80%

- Ivanhoe Australia is expected to earn-in its 80% share by May 2010.
- The Ivanhoe JV was formed in May 2007 and covers 560km² of Exco tenements in the Soldiers Cap and Tringadee Project areas. The tenements are contiguous with Ivanhoe’s Cloncurry Project tenements in the Selwyn district just to the south.
- The initial option agreement required:
  - An initial investment of A$7.92m for 12.2% of Exco’s issued capital, the funds were directed to the company’s other projects.
  - A minimum of A$600,000 during the first 12 months, and
  - A further A$4.6m over 3 years to earn in 80% of the project.
  - Total investment at the project level of A$5m.

Liontown JV

- The Liontown JV covers the Fort Constantine South Project which is adjacent to Exco’s E1 Camp at CCP.
- Exco has passed the first stage of the JV by spending A$200,000. Exco can now earn-in up to 70% by spending A$1m over the next 18 months to earn 51%, followed by a further A$2m to earn an additional 19% to take total interest in the project to 70%.
- Four targets have been drilled with only low level intercepts. Exco is planning further geological and geochemistry testing, to assess the level of follow up required.
### White Dam Project Inventory

**TABLE 1: WHITE DAM PROJECT OK RESOURCE ESTIMATE (0.4g/t CUT-OFF GRADE)**

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<th>Indicated</th>
<th>Inferred</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Material</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>kt tonnes</td>
<td>g/t Au</td>
<td>koz Au</td>
</tr>
<tr>
<td>White Dam</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oxide</td>
<td>5,149</td>
<td>1.09</td>
<td>180.1</td>
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<tr>
<td>Fresh</td>
<td>603</td>
<td>1.08</td>
<td>20.9</td>
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<tr>
<td>Sub-Total</td>
<td>5,752</td>
<td>1.07</td>
<td>201.0</td>
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<tr>
<td>Vertigo</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Oxide</td>
<td>1,200</td>
<td>1.00</td>
<td>38</td>
</tr>
<tr>
<td>Fresh</td>
<td>1,330</td>
<td>1.14</td>
<td>49</td>
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<tr>
<td>Sub-Total</td>
<td>2,530</td>
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<td>87</td>
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<tr>
<td><strong>PROJECT TOTAL</strong></td>
<td>5,752</td>
<td>1.07</td>
<td>201</td>
</tr>
</tbody>
</table>

Source: EXS

### Cloncurry Project Inventory

**TABLE 1: EXCO RESOURCES – NW QUEENSLAND Cu-Au RESOURCE SUMMARY**

<table>
<thead>
<tr>
<th>Deposit</th>
<th>Class</th>
<th>Tones</th>
<th>Grade</th>
<th>Metal</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cu%</td>
<td>Au g/t</td>
</tr>
<tr>
<td>E1 Camp</td>
<td>Measured</td>
<td>9,170,000</td>
<td>0.97</td>
<td>0.26</td>
</tr>
<tr>
<td></td>
<td>Indicated*</td>
<td>24,700,000</td>
<td>0.71</td>
<td>0.21</td>
</tr>
<tr>
<td></td>
<td>Inferred*</td>
<td>14,200,000</td>
<td>0.64</td>
<td>0.2</td>
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<tr>
<td></td>
<td>TOTAL</td>
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<td>0.21</td>
</tr>
<tr>
<td>Monakoff (f) &amp; Monakoff East</td>
<td>indicated</td>
<td>2,000,000</td>
<td>1.39</td>
<td>0.44</td>
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<tr>
<td></td>
<td>inferred</td>
<td>2,000,000</td>
<td>1.3</td>
<td>0.4</td>
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<td>TOTAL</td>
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<td>Great Australia (f)</td>
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<tr>
<td></td>
<td>inquired</td>
<td>800,000</td>
<td>1.57</td>
<td>0.14</td>
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<td></td>
<td>TOTAL</td>
<td>2,200,000</td>
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<td>TOTAL**</td>
<td>1,490,000</td>
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<td>Sub-total – CCP</td>
<td>Measured</td>
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<tr>
<td></td>
<td>indicated</td>
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<tr>
<td></td>
<td>inquired</td>
<td>17,870,000</td>
<td>0.62</td>
<td>0.21</td>
</tr>
<tr>
<td></td>
<td>ALL</td>
<td>55,700,000</td>
<td>0.65</td>
<td>0.22</td>
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</tbody>
</table>

Source: EXS

**Approximately 1/4 of the CCP resource sits out side of the E1 Camp**

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Global Resource – 65mt @ 0.38 g/t Au, 0.88% Cu for 738koz Au and 508kt Cu
Financials

- Share price A$0.28, Shares 326m
- A$91m Market Cap, A$71m EV
- A$(19.9)m net debt, A$19.9m cash, A$0m debt as at 31/12/09
- A total of 21.05m options are outstanding. 2.5m A$0.20 options expiring at 30 April 2010 and 1.5m A$0.25 options expiring 30 August are all in the money.
- 22/11/09 The Company raised A$10.1m through the issue of 41.3m shares @ A$0.245.
- 2/12/09 the company issued 1.65m A$0.275 options which vested immediately to Fox Davies in exchange for fees.
- Exco have pre sold 15,687ozs. The ounces will be delivered from 31 Jan 2011 (see schedule on page 2)
- Exco have highlighted a total of A$6.5m in cash burn over the next quarter, comprising A$1m on exploration/evaluation and A$5.5m on development capital.
- Top 3 share holders, Ivanhoe Australia 20.2%, JP Morgan Nominees 9.5%, Lion Selection 8.1%.
Valuation

Copper approach (excluding White Dam)

- Exco is trading at a significant discount to its peers.
- Based on 520kt Cu resource at CCP and using a conservative EV/Resource of A$348/t, we can infer a value of A$180m. We are aware that 1/4 of the CCP copper resource sits out side of the E1 Camp at neighboring deposits up to 90km away. Valuing just the E1 Camp, we can infer a value of A$120m.

Gold approach (excluding CCP)

- Although Exco is a copper company with gold credits, and thus unlikely to trade at gold multiples, we can still infer a value for the White Dam Gold Project.
- Using an EV/Resource multiple for a junior gold producer of A$125/oz, we can infer a value of A$30m equity share for White Dam.
- Adding back A$19.9m in cash we reach a market value of A$50m. This implies that the market is only pricing in A$25m for CCP.
- A$25m for CCP significantly under values the project. This value implies a resource of only 80kt Cu @ A$312/t Cu, approximately 6x less than the current JORC resource, 500kt Cu.

Copper EV/Resource – Australian explorers

Exco is trading at a significant discount to its peers

Note: average calculated excludes Cudeco and Sandfire

Source: Company filings, Bloomberg, Wilson HTM
Going forward

- We are encouraged by Exco electing to not become operators of White Dam. We typically view small assets with a short mine life as a distraction when a company is working towards developing a sizeable project such as CCP.

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- Exco are hopeful that a successful DFS will see the company transition into a junior copper producer by late 2012.

- Exco has been operating in the shadow of successful and well marketed explorers such as Sandfire and Ivanhoe Australia. We see the current share price as undervaluing the company on a multiples basis and an option play into a soon-to-be junior copper producer.
Recommendation Structure
BUY: Total return +10% or more over a 12 month period
HOLD: Total return expected to be between +10% to -10% over a 12-month period
SELL: Total return expected to be -10% or more over a 12 month period
TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

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NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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