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ABN 99 080 339 671

24 October 2011

Market Release (via electronic lodgement)

ANNUAL GENERAL MEETING SHAREHOLDER APPROVAL SOUGHT FOR CAPITAL REDUCTION AND RETURN

Exco Resources Ltd (**ASX**: **EXS**) (**Company**) is pleased to confirm that a resolution will be tabled at the upcoming Annual General Meeting (**AGM**) of the Company seeking shareholder approval under section 256C of the *Corporations Act* (2001) for a capital reduction and return of 10 cents per share (\$35.6 million) to shareholders.

On Wednesday 19th October the Company received a Draft Class Ruling¹ from the Australian Taxation Office indicating that the proposed distribution will not be taxed as a dividend.

Should the capital reduction be approved by the shareholders at the AGM, the board will declare a special dividend of 28 cents per share, payable simultaneously with the capital return. The dividend will be fully franked. The Record Date for both payments will be 2 December 2011.

The taxation implications for each shareholder will depend on the circumstances of the particular shareholder. Accordingly shareholders are encouraged to seek their own professional advice in relation to their tax position

The combined distributions will represent a return to shareholders of \$135.3 million (fully diluted) in accordance with the Company's stated intentions following the sale of the Cloncurry Copper Project to Xstrata plc.

The AGM will be held at the Rydges Hotel, Hay Street, Perth WA on 24 November 2011. A Notice of Meeting and Proxy Form are attached.

Details in relation to the capital reduction and return are set out in Resolution 5 and the Explanatory Memorandum in the Notice of Meeting.

On behalf of the Board of Exco Resources Ltd

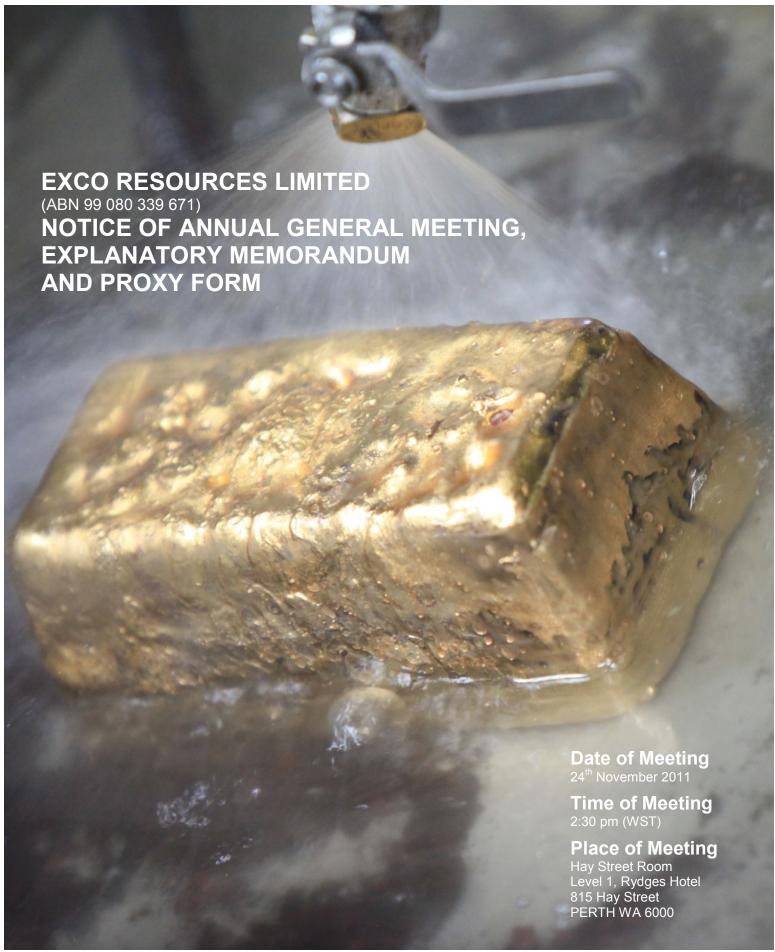
Barry Sullivan Chairman

For further information contact:

Acting CEO: Geoff Laing Company Secretary: Eamon Byrne Phone +61 8 9211 2000

¹ The Draft Class Ruling may not be relied on by Exco Shareholders until it is issued in final form by the ATO. The final version of the Class Ruling will be published and notice will be included in the *Gazette*. Exco will display the final version of the Class Ruling on its website as soon as it becomes available.





EXCO RESOURCES LIMITED ANNUAL GENERAL MEETING 2011

NOTICE OF MEETING

Notice is given that the Annual General Meeting of the members of Exco Resources Limited ABN 99 080 339 671 ("Exco" or "the Company") will be held at the Hay Street Room, Level 1, Rydges Hotel, 815 Hay Street Perth, WA on the 24th of November 2011 at 2:30 pm (Australian Western Standard Time) for the purpose of transacting the following business.

An Explanatory Memorandum containing information in relation to each of the following Resolutions accompanies this Notice of Annual General Meeting. Certain abbreviations and other defined terms are used throughout this Notice of Annual General Meeting. Defined terms are generally identifiable by the use of an upper case first letter. Details of the definitions and abbreviations are set out in Glossary section of the Explanatory Memorandum.

ORDINARY BUSINESS

CONSIDERATION OF REPORTS

To receive, and consider the Financial Report, the Directors' Report and the Independent Auditor's Report of the Company for the year ended 30 June 2011.

ELECTION OF DIRECTORS

Resolution 1 Election of Dr Tom Whiting as a Director

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That Dr Tom Whiting, who retires by rotation in accordance with Rule 7.3(f) of the Company's Constitution, and, being eligible for election, be elected a Director of the Company."

Resolution 2 Re-election of Mr Peter Reeve as a Director

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That Mr Peter Reeve, who retires by rotation in accordance with Rule 7.3(a) of the Company's Constitution, and, being eligible for re-election, be elected a Director of the Company."

24 NOVEMBER 2011

REMUNERATION REPORT

Resolution 3 Adoption of Remuneration Report

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, in accordance with section 250R(2) of the Corporations Act, the Remuneration Report, which forms part of the Directors' Report for the year ended 30 June 2011, be adopted."

Voting prohibition – A vote on Resolution 3 must not be cast by a member of Key Management Personnel (**KMP**) or their Closely Related Parties (together **Excluded Persons**).

However, an Excluded Person may cast a vote as a proxy (appointed in writing) for a person who is entitled to vote, in accordance with the directions on the Proxy Form.

In addition to the above, the Chairman can cast a vote as a proxy (appointed in writing) for a person who is entitled to vote in accordance with the Chairman's stated voting intentions, provided the person who is entitled to vote marks the box on the Proxy Form which authorises and directs the Chairman to do so (and has not indicated in the Proxy Form a different voting intention on the proposed Resolution). See the Explanatory Memorandum and Proxy Form for further details.

DIRECTORS' FEES

Resolution 4

Increase in Non-executive Directors' fee pool

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.17 and clause 7.5(a) of the Constitution, and for all other purposes, approval be given to increase the maximum total amount of fees which the Company may pay to Non-executive Directors by an amount of \$200,000, from \$200,000 to \$400,000 per annum (inclusive of statutory superannuation contributions)."

Voting exclusion - The Company will disregard any votes cast on this resolution by any Director of the Company and their associates.

However, subject to the voting prohibition below, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or cast by the Chairman as a proxy for a person who is entitled to vote in accordance with the direction on the Proxy Form to vote as the proxy decides.

Voting prohibition - An Excluded Person may not vote as proxy on this resolution if the appointment does not specify how the proxy is to vote.

However, the Chairman can vote otherwise undirected proxies, provided the person who is entitled to vote marks the box on the Proxy Form which authorises the Chairman to do so and directs the Chairman to vote in accordance with his stated voting intentions.

See the Explanatory Memorandum and Proxy Form for further details.

SPECIAL BUSINESS

Resolution 5 Return of capital to shareholders

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, for the purposes of Part 2J.1 of the Corporations Act and for all other purposes, approval is given for the Company to reduce its share capital by a total of approximately \$36 million by way of an equal capital reduction. Based on the assumptions set out in the accompanying Explanatory Memorandum, the reduction of capital is to be effected by the Company paying to each registered holder of fully paid ordinary shares in the Company, as at 2.00pm WST on 2 December 2011, 10 cents per ordinary share."

Short Explanation: Under the Corporations Act, a company can reduce its share capital if the reduction satisfies three key requirements:

- The reduction must be fair and reasonable to the company's shareholders as a whole;
- The reduction must not materially prejudice the company's ability to pay its creditors; and
- The reduction must be approved by shareholders under section 256C of the Corporations Act.

The Directors sought a taxation ruling from the ATO in respect of the proportion of the intended \$135 million distribution following the sale of the Cloncurry Copper Project which could be paid by way of a capital reduction. A draft ruling approving a reduction of approximately \$36 million has been received.

See the Explanatory Memorandum for more details

OTHER BUSINESS

To deal with any other business which may be brought forward in accordance with the Constitution and the Corporations Act.

By order of the Board

Eamon Byrne Company Secretary Dated: 24 October 2011

VOTING ENTITLEMENT

For the purpose of determining an entitlement to vote at the Annual General Meeting, a person will be recognised as a Shareholder if that person is registered as a holder of Exco Resources Limited Shares at 4:00pm (WST) on Tuesday, 22nd of November 2011

PROXIES

- (a) A Shareholder who is entitled to attend and cast a vote at the meeting is entitled to appoint no more than two proxies (who need not be Shareholders) to attend and vote on a poll in the Shareholder's place.
- (b) The appointment of the proxy may specify the proportion or the number of votes that the proxy may exercise. Where more than one proxy is appointed and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, then each of those proxies may exercise half of the votes of the Shareholder.
- (c) The form of proxy must be signed by a Shareholder or the Shareholder's attorney duly authorised in writing or if the Shareholder is a corporation under its corporate seal or in accordance with section 127 of the Corporations Act or by its duly authorised attorney or representative. If an attorney is to attend the meeting please submit the relevant power of attorney for noting and return.
- (d) A corporation may elect to appoint a representative in accordance with the Corporations Act in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the meeting.
- (e) Proxy forms must reach the Company no later than 48 hours prior to the meeting. For the convenience of Shareholders, a Proxy Form is attached.

New sections 250BB and 250BC of the Corporations Act took effect on 1 August 2011 and apply to voting by proxy at this Annual General Meeting. Members and their proxies should be aware of these changes to the Corporations Act, as they will apply to the Annual General Meeting. Broadly, the changes mean that:

- (a) if proxy holders vote, they must cast all directed proxies as directed; and
- (b) any directed proxies which are not voted will automatically default to the Chairman, who must vote the proxies as directed.

More detail on these changes is provided below.

Proxy vote if appointment specifies way to vote

Section 250BB provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (ie as directed);
- (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;
- (c) if the proxy is the Chairman at which the resolution is voted on the proxy must vote on a poll, and must vote that way (i.e. as directed); and

(d) if the proxy is not the Chairman – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (ie as directed).

Transfer of non-Chairman proxy to Chairman in certain circumstances

Section 250BC provides that, if:

- (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;
- (b) the appointed proxy is not the Chairman of the meeting;
- (c) at the meeting, a poll is duly demanded on the resolution; and
- (d) either of the following applies:
 - (i) the proxy is not recorded as attending the meeting;
 - (ii) the proxy does not vote on the resolution,

the Chairman is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

ENQUIRIES

Shareholders are invited to contact Mr Eamon Byrne, Company Secretary, on (08) 9211 2000 if they have any queries in respect of the matters set out in these documents.

NOTES

The attached Explanatory Memorandum is intended to provide Shareholders of Exco Resources Limited with sufficient information to assess the merits of the Resolutions contained in the Notice of Annual General Meeting.

The Directors recommend that Shareholders read this Explanatory Memorandum in full before determining whether or not to support the Resolutions.

EXPLANATORY MEMORANDUM

1. ANNUAL FINANCIAL REPORTS

The Corporations Act requires the Company's financial statements and reports of the Directors and of the Independent Auditor for the year ended 30 June 2011 to be laid before the Annual General Meeting. The financial statements and the reports of the Directors and of the Independent Auditor are contained in the Company's 2011 Annual Report. A printed copy of the 2011 Annual Report, or an email advising that the 2011 Annual Report is available on the Company website at www.excoresources.com.au has been sent to each shareholder who has requested it.

Whilst no resolution is required in relation to this item, Shareholders should consider the documents and raise any matters of interest with the Directors when this item is being considered.

The Company's auditor will be present at the meeting and Shareholders will have an opportunity to ask the auditor questions in relation to:

- a) the conduct of the audit;
- the preparation and content of the Independent Auditor's Report;
- the accounting policies adopted by Exco in relation to the preparation of the financial statements; or
- the independence of the Auditor in relation to the conduct of the audit.

2. RESOLUTION 1 ELECTION OF DR TOM WHITING AS A DIRECTOR

Resolution 1 seeks approval for the election of Dr Tom Whiting as a Director with effect from the end of the meeting. Pursuant to Rule 7.2(b) of the Company's Constitution, the Directors may appoint any person to be a Director. However, under Rule 7.3(f) of the Company's Constitution, any such appointee must retire at the next AGM and is eligible for re-election at that meeting.

Dr Whiting was appointed by the Board on 20 September 2011. A summary of Dr Whiting's qualifications and experience is provided below:

Dr Tom Whiting, BSc (Hons) PhD, Grad Dip Fin, MASEG, MAICD

Dr Whiting has spent over 30 years in the minerals exploration industry both as a geophysicist and an exploration manager. From 2000 to 2004 he was Vice President of Minerals Exploration for BHP Billiton. During his career with BHP Billiton he was associated with a number of discoveries, in particular the Cannington Pb/Zn/Ag mine in Queensland, the world's largest producer of silver and lead.

He also was at the forefront of promoting the development and application of new exploration technologies related to the search for ore deposits under cover. To this end he backed the development of new generation airborne electromagnetic technologies and the FALCON® airborne gravity gradiometer system. Dr Whiting recognised the potential of the Predictore $^{\mathsf{TM}}$ approach and was one of the principal supporters of the research programme conducted at the Predictive Mineral Discovery Cooperative Research Centre.

Other current directorships

Non-executive Director of Predictive Discovery Limited since 2010

Non-executive Director of Stellar Resources Limited since February 2011

Non-executive Chairman for the Deep Exploration Technologies Cooperative Research Centre since November 2010

The Directors (with Dr Whiting abstaining) recommend that Shareholders vote in favour of this Resolution.

Resolution 2 Re-election of Mr Peter Reeve as a Director

In accordance with clause 7.3(a) of the Constitution, at every Annual General Meeting, one third of the Directors for the time being (excluding the Managing Director) must retire from office and are eligible for re-election. In accordance with Listing Rule 14.4, an election of Directors must be held each year and no director (except the Managing Director) may hold office for more than three years without seeking re-election.

The Directors to retire are to be those who have been longest in office since their appointment or last re-appointment or, if the Directors have been in office for an equal length of time, by agreement.

Pursuant to these arrangements, Mr Reeve retires and, being eligible, offers himself for re-election. A summary of Mr Reeve's qualifications and experience is provided below:

Mr Peter Reeve, BSc (Metallurgy)

Mr Reeve has a Bachelor of Science (Metallurgy) from RMIT University and has been involved in the Australian resources industry for approximately 27 years. His industry experience includes positions with Rio Tinto, Shell-Billiton and Normet Consulting (a metallurgical consulting firm) before joining Goldman Sachs/JBWere in investment management and corporate finance roles.

In 2001, Mr Reeve joined Newcrest Mining Ltd, as part of the Executive Committee responsible for corporate development and market related aspects for the group – a position that he occupied until 2006. He is currently Chief Executive Officer and Managing Director of Ivanhoe Australia Ltd (Exco's major shareholder). Mr Reeve has been a Director of Exco since 2008.

Other current directorships

Managing director of Ivanhoe Australia Ltd since 2007 Non-executive director of Emmerson Resources Ltd since 2009

The Directors (with Mr Reeve abstaining) recommend that Shareholders vote in favour of this Resolution.

4. RESOLUTION 3 ADOPTION OF THE REMUNERATION REPORT

The Remuneration Report is contained in section 4.4 of the Directors' Report, which forms part of the Company's 2011 Annual Report. By way of summary, the Remuneration Report:

- explains the Company's remuneration policy and the process for determining the remuneration of its Directors and Executive Officers;
- makes clear that the basis for remunerating Non-Executive Directors is distinct from the basis for remunerating Executives, including Executive Directors;
- addresses the relationship between the Company's remuneration policy and the Company's performance;

sets out remuneration details for each Director and each of the Company's Executives and Group Executives named in the Remuneration Report for the financial year ended 30 June 2011.

The Chairman will give shareholders a reasonable opportunity to ask questions about or comment on the Remuneration Report.

A Resolution proposing that the Remuneration Report be adopted will then be put to shareholder vote.

Section 250R of the Corporations Act requires that the Remuneration Report be put to the vote at the Annual General Meeting. Section 250R(3) of the Corporations Act provides that the vote on the adoption of the Remuneration Report is advisory only and does not bind the Directors or the Company. However, the Directors will take the outcome of this advisory vote into consideration when reviewing the remuneration practices and policies of Exco Resources Limited.

Shareholders should note that the *Corporations Amendment* (*Improving Accountability on Director and Executive Remuneration*) *Act 2011* (Cth) (**Amending Act**), which came into effect on 1 July 2011, has amended the Corporations Act to change the potential effect of this Resolution.

The changes made by the Amending Act now require that, if a company's remuneration report receives an 'against' vote of 25% or more at two consecutive annual general meetings, a resolution must be put at the later of the two annual general meetings that another meeting be held (within 90 days) at which all directors (other than the Managing Director) who were in office at the date of that resolution must stand for re-election. In summary, members will be entitled to vote in favour of holding a general meeting to re-elect the Board if the Remuneration Report receives "two strikes".

Further, the Amending Act has introduced new prohibitions on members of Key Management Personnel (KMP) or Closely Related Parties of such a member from voting (or voting undirected proxies) on, inter alia, matters relating to remuneration of a member of KMP. Further details about members of KMP and their Closely Related Parties (together, Excluded Persons) are set out below.

Where a proxy does not specify how it is to be voted, the Chairman may exercise the vote, providing the Shareholder who has lodged the proxy has provided informed consent for the Chairman to exercise the proxy even if the resolution is connected with the remuneration of a member of KMP.

A vote may be cast on this Resolution by a member of KMP (whose remuneration is detailed in the Remuneration Report, including the Chairman) or Closely Related Parties of such a member, only if:

- i) the vote is cast as a proxy;
- the proxy is appointed in writing and the appointer specifies how the proxy is to vote on the resolution; and
- iii) the vote is not cast on behalf of such a member or a Closely Related Party of the member.

In this context a Closely Related Party of a member of KMP is defined in section 9 of the Corporations Act as:

- a) a spouse or child of the member; or
- b) a child of the member's spouse; or
- a dependant of the member or of the member's spouse;

- anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the Company; or
- e) a company the member controls; or
- f) a person prescribed by the Corporations Regulations 2001 (Cth).

If you appoint the Chairman as your proxy, Exco encourages you to direct the Chairman how to vote on this Resolution by either stating your own voting intention on the Proxy Form or by marking the box on the Proxy Form directing the Chairman to vote in accordance with the Chairman's voting intentions on this Resolution. See the Proxy Form for further details.

The Directors recommend that Shareholders vote in favour of this Resolution. The Chairman intends to vote available proxies in favour of adopting the Remuneration Report

Resolution 4 Increase in Non-executive Directors' Fee Pool

Directors' fees are paid from a pool, the maximum size of which must be approved by shareholders. The present pool size of \$200,000 per annum (inclusive of statutory superannuation contributions) was set prior to the Company's listing on the ASX in October 1998 and has not been increased since.

Since that time the operations of the Company have expanded considerably as have the responsibilities of the Directors. The aggregate of current Directors' fees is approaching the pool size of \$200,000 per annum.

In proposing an increase to the Non-executive Director fee pool to take it to \$400,000 per annum, the Board has considered:

- the additional responsibilities and commitments of Directors at both a Board and committee level arising from the expansion of the Company's operations, as well as changes to compliance and governance obligations;
- the increased time commitment and the complexity of work undertaken by Directors serving on committees;
- the need to ensure the Company maintains the ability to remunerate competitively and is able to attract and retain Directors with appropriate skills and experience; and
- the need for the adequate provision of funds for the appointment of additional Directors, if considered to be appropriate.

It is not intended that the full amount of the proposed maximum cap be used immediately, but rather that it be set at a level to allow for growth in Non-executive Director fees over time to reflect market competitiveness and to provide the Board with flexibility to manage any future changes in Board responsibilities, membership and composition, as appropriate.

ASX Listing Rule 10.17 and Article 7.5(a) of the Company's Constitution require shareholder approval to be obtained for any proposed increase in the maximum total amount of fees which the Company may pay to Non-executive Directors.

In addition to the information above, the Corporations Act has been further amended so that an Excluded Person may not vote as proxy on this resolution if the appointment does not specify how the proxy is to vote.

However, the Chairman can vote undirected proxies, provided the person who is entitled to vote marks the box on the Proxy Form which expressly authorises the Chairman to do so.

If you appoint an Excluded Person, other than the Chairman, as your proxy, Exco encourages you to direct that Excluded Person how to vote on this Resolution by stating your own voting intention on the Proxy Form.

If you appoint the Chairman as your proxy, Exco encourages you to direct the Chairman how to vote on this Resolution by either stating your own voting intention on the Proxy Form or by marking the box on the Proxy Form expressly authorising the Chairman to vote undirected proxies. See the Proxy Form for further details.

As the Non-executive Directors have an interest in the outcome of this item, the Board makes no recommendation as to how shareholders should vote in relation to this resolution.

The Chairman of the meeting intends to vote available proxies in favour of the increase in the pool size from which Non-executive Directors' fees are paid.

6. RESOLUTION 5 RETURN OF CAPITAL TO SHAREHOLDERS

6.1. PROPOSED RETURN OF CAPITAL

a) Return of capital

On 3 June 2011, the Company announced that, in consultation with its major shareholders, it had conducted a review of its capital management options in the context of the Company's cash position post the sale of the Cloncurry Copper Project. The outcome of the review was that, based on assessments in relation to taxation and business development opportunities, the Company intended to return \$135 million of the after-tax cash retained in the Company to Shareholders.

In addition, in the explanatory memorandum accompanying the notice of meeting released by the Company on 6 May 2011, the Company indicated that it intended to structure the return in two parts (subject to agreement from the Australian Tax Office (ATO)), an initial capital return and a subsequent fully franked dividend.

In July 2011, the Company lodged a submission to seek a class ruling from the ATO regarding the quantum of any capital component of the distributions.

The subsequent draft ruling from the ATO, approved a capital return of approximately \$36 million and the Company now proposes to make a cash payment to shareholders of 10 cents per fully paid ordinary share (based on the assumptions set out in section 6.8 below) as a return of capital, representing a return of approximately \$35.6 million in total. Subject to Shareholder approval pursuant to Resolution 5, the Company will pay a fully franked special dividend of 28 cents per fully paid ordinary share (representing a total payout of approximately \$135 million)

The record date for determining entitlements to receive the return of capital is 2.00 pm WST on 2nd December 2011.

b) Payment details

If the return of capital is approved by Shareholders, cheques will be despatched (or, in the case of Shareholders who have elected to have payments made directly into a nominated bank, building society or credit union account – payment will be made)

to entitled Shareholders, being registered holders of Shares at the record date referred to above.

Any fraction of a cent payable to any Shareholder in respect of the Shareholder's aggregate holding of Shares will be rounded to the nearest whole cent.

Shareholders who wish to can arrange to have the return of capital paid directly into a bank, building society or credit union account in Australia by completing the enclosed Bank Transfer Form and returning it, duly signed, to Exco's registry, Advanced Share Registry before the record date of 2 December 2011.

c) Tax treatment

Refer to section 6.7 below for information about the tax implications of the capital return for Exco shareholders.

d) Special dividend

Exco has determined that, subject to shareholder approval of the capital reduction, a special dividend of approximately \$99.7 million (28 cents per fully paid ordinary share) will be paid to Shareholders. The record date for determining entitlements to receive the special dividend will be the same as the capital return, being 2 December 2011. The Directors will only declare the special dividend as described above if the Company receives Shareholder approval for the capital reduction at the Annual General Meeting.

6.2. REASONS FOR RETURN OF CAPITAL

Exco has in the past funded its activities through equity raisings, normally on a two-year cycle. The last raisings which procured approximately \$15 million occurred in November 2009 and August 2010.

Post the sale of the CCP, Exco will focus on the exploration, development and the bringing to production of greenfield exploration opportunities and continue its gold mining activities at the White Dam Gold Production JV in South Australia.

The scale of these ambitions and the level of cash reserves available as a result of the better than expected success of White Dam and the sale of the CCP are such that the Company's capital requirements are less than previously forecast.

It is therefore intended that the capital invested in CCP as well as other unspent capital not required to advance the Company's Queensland copper projects be returned to Shareholders.

6.3. REQUIREMENTS FOR RETURN OF CAPITAL

a) Equal reduction

The proposed return of capital constitutes an equal reduction of Exco's share capital for the purposes of the Corporations Act.

This is because it relates only to ordinary shares, it applies to each holder of ordinary shares in proportion to the number of shares they hold, and the terms of the reduction are the same for each holder of ordinary shares.

b) Statutory requirements

Under the Corporations Act, a company can reduce its share capital in a way that is not otherwise authorised by law if the reduction satisfies three key requirements. Each requirement is set out below, together with a description of how that requirement is met in relation to the proposed return of capital.

The reduction must be fair and reasonable to the company's shareholders as a whole

The Directors consider that the return of capital is fair and reasonable to Shareholders as a whole. All Shareholders will be treated in the same manner in terms of the proportion of the share capital of the Company being returned.

The reduction must not materially prejudice the company's ability to pay its creditors

The Directors have carefully reviewed Exco's assets, liabilities and expected cashflows, and believe that the return of capital will not materially prejudice Exco's ability to pay its creditors. The Directors have also satisfied themselves as to the solvency of the Company following the return of capital.

See section 6.5 below for further information.

The reduction must be approved by shareholders under section 256C of the Corporations Act

This requirement is the reason Shareholder approval is being sought. In the context of an equal reduction of capital (as described in 6.3(a) above), the reduction must be approved by ordinary resolution of Shareholders.

In accordance with section 256C(5) of the Corporations Act, a copy of this Notice of Annual General Meeting has been lodged with the Australian Securities and Investments Commission.

6.4. EFFECT OF THE RETURN OF CAPITAL ON EXCO

a) Effect on capital structure

After the return of capital, Exco's share capital will be reduced by approximately \$35.6 million (subject to rounding). No shares will be cancelled in connection with the return of capital. Accordingly, the return of capital will not affect the number of issued shares in Exco, the number of shares held by each Exco Shareholder, nor the control of Exco.

b) Impact on growth strategies

It is the opinion of the Board that because of the financial position of Exco, the current intentions in relation to business development and the capacity to raise additional finance if required, the return of capital, taken together with the special dividend, will not materially impact Exco's ability to fund investment in its core business of the exploration and development of its tenement packages in Queensland and South Australia and other development.

The Board believes that the proposed capital return and special dividend will leave Exco capitalised to grow its business whilst also taking into account the interests of all stakeholders.

c) Share price impact

If the proposed return of capital is implemented, Exco shares may trade at a lower share price following the 'ex' date for the return of capital than they would have done had the return of capital not been made. This is due to the outflow of funds to shareholders.

d) Impact on financial position of Exco

As a guide to assist shareholders, Exco has prepared the pro forma balance sheet set out in section 6.7 below. On a pro forma basis, assuming that both the special dividend and capital return were paid to Shareholders on 30 June 2011, Exco would have had net cash of approximately \$89.2 million as at 30 June 2011 and net assets of \$65 million.

e) Tax implications for Exco

No adverse tax consequences are expected to arise for Exco as a result of the capital return.

6.5. ABILITY TO PAY CREDITORS NOT MATERIALLY PREJUDICED

At 30 June 2011, Exco had \$6.8m of trade creditors and an expected taxation liability of \$47.3m in current liabilities.

The Directors are not aware of any changes in circumstance since the 30 June 2011 that would cause them to revise these figures in a material respect.

Exco has undertaken a review to assess the impact of the special dividend and the return of capital on Exco's ability to pay its creditors. The review was undertaken by Exco management and endorsed by the Board.

The review concluded that with an estimated cash balance of \$89.2 million after the proposed payments, and after allowing for planned expenditure on exploration activities, Exco would have the capacity to meet the claims of its creditors following the proposed return of capital and payment of the special dividend.

As a consequence of the matters referred to above, the Directors are satisfied that the return of capital together with payment of the special dividend will not materially prejudice Exco's ability to pay its creditors.

6.6. TAXATION IMPLICATIONS FOR SHAREHOLDERS

The summary in this section is general in nature. In addition, particular taxation implications will depend on the circumstances of each Shareholder. Accordingly, Shareholders are encouraged to seek their own professional advice in relation to their tax position. Neither Exco nor any of its officers, employees or advisers assumes any liability or responsibility for advising Shareholders about the tax consequences for them from the proposed capital return and special dividend.

a) Capital return

Exco has received a draft Class Ruling from the ATO confirming that:

- a) no part of the proposed capital return will be treated as a dividend for tax purposes;
- if the cost of a Share is less than the capital return amount (on a cents per share basis) then an immediate capital gain may arise for the difference;
- otherwise, the cost base for each Share will be reduced by the capital return amount (on a cents per share basis) for the purpose of calculating any capital gain or loss on the ultimate disposal of that Share;
- d) for those Shareholders who are not tax residents of Australia, no Australian capital gain or loss should arise as a consequence of the capital return.

The draft Class Ruling may not be relied on by Exco Shareholders until it is issued in final form by the ATO. The final version of the Class Ruling will be published and notice will be included in the *Gazette*. Exco will display the final version of the Class Ruling on its website as soon as it becomes available.

b) Special dividend

The special dividend will be fully franked.

c) Non residents

Shareholders who are not residents of Australia for tax purposes should seek specific advice in relation to the taxation consequences arising from the return of capital and payment of the special dividend under the laws of their country of residence.

6.7. PRO FORMA BALANCE SHEET

a) Basis of preparation

The pro forma balance sheet below includes the financial information of Exco and its controlled entities.

The pro forma balance sheet has been derived from the audited financial statements of Exco for the year ended 30 June 2011, and reflects the position as if the capital return and subsequent special dividend were completed on that date

The Exco financial report for the year ended 30 June 2011 was audited in accordance with Australian Auditing Standards by

KPMG and the audit opinion issued to the members of Exco relating to the year-end financial report was unqualified.

The pro forma balance sheet has been prepared:

- based on the significant accounting policies disclosed in the annual financial report of Exco Resources Ltd for the year ended 30 June 2011; and
- by applying relevant pro forma adjustments described in this section to the historical consolidated balance sheet of Exco as at 30 June 2011.
- For the purposes of presenting the Exco pro forma balance sheet, it has been assumed that the capital return and subsequent special dividend described above were completed on 30 June 2011.

The pro forma balance sheet is presented in abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian Accounting Standards and the Corporations Act.

| Exco Historical and Pro Forma Balance Sheet | | Capital | | Pro Forma |
|---|-------------|--------------|--------------|------------|
| | 30-June-11 | Return | Dividend | 30-June-11 |
| | \$ | \$ | \$ | \$ |
| Current assets | | | | |
| Cash and cash equivalents | 224,524,465 | (35,604,419) | (99,692,237) | 89,227,80 |
| Trade and other receivables | 1,294,579 | - | - | 1,294,57 |
| Inventory | 4,687,213 | - | - | 4,687,21 |
| Derivatives | 159,020 | - | - | 159,02 |
| Total current assets | 230,665,277 | (35,604,419) | (99,692,237) | 95,368,62 |
| Non-current assets | | | | |
| Receivables | 1,283,145 | - | - | 1,283,14 |
| Property, plant and equipment | 1,436,657 | - | - | 1,436,65 |
| Exploration and evaluation expenditure | 27,215,896 | - | - | 27,215,89 |
| Mine and development properties | 1,575,199 | - | - | 1,575,19 |
| Total non-current assets | 31,510,897 | - | - | 31,510,89 |
| Total assets | 262,176,174 | (35,604,419) | (99,692,237) | 126,879,51 |
| Current liabilities | | | | |
| Trade and other payables | 6,779,801 | - | - | 6,779,80 |
| Income tax payable | 47,346,671 | - | - | 47,346,67 |
| Provisions | 219,667 | - | - | 219,66 |
| Derivatives | 125,152 | - | - | 125,15 |
| Total current liabilities | 54,471,291 | - | - | 54,471,29 |
| Non-current liabilities | | | | |
| Provisions | 866,772 | - | - | 866,77 |
| Deferred tax liability | 6,718,076 | - | - | 6,718,07 |
| Total non-current liabilities | 7,584,848 | <u>-</u> | | 7,584,84 |
| Total liabilities | 62,056,139 | - | | 62,056,13 |
| Net assets | 200,120,035 | (35,604,419) | (99,692,237) | 64,823,37 |
| Equity | | | | |
| Contributed equity | 74,640,556 | (35,604,419) | - | 39,036,13 |
| Reserves | 849,907 | - | - | 849,90 |
| Retained earnings/(losses) | 124,629,572 | _ | (99,692,237) | 24,937,33 |
| Total equity | 200,120,035 | (35,604,419) | (99,692,237) | 64,823,37 |

6.8. CALCULATION OF PAYMENT AND PAYMENT DETAILS

a) Amount payable

The amount payable in respect of each Share on issue on the record date is expected to be 10 cents, calculated as follows:

Capital return payable = \$35,604,418.70

per Share 356,044,187, being the expected number of Shares on issue as at the record date

The expected number of Shares on issue as at the record date, being 356,044,187 Shares:

- includes the 351,544,187 Shares currently on issue; and
- assumes that 4,500,000 Options currently on issue are exercised before the record date.

If the actual number of Shares on issue as at the record date differs to that set out above, then the capital return payable will be reduced and the capital return payable per Share will be maintained at 10 cents per Share.

b) Method of payment

If the capital return is approved by Shareholders at the Annual General Meeting, payment in Australian dollars will be made to entitled shareholders:

- with a registered address in Australia, by cheque unless the entitled shareholders who have a registered address in Australia have provided Exco's share registry with their direct credit instructions for payment; and
- b) with a registered address outside of Australia, by cheque,

on the implementation date, which is currently expected to be 9 December 2011.

c) Timetable for capital return

Subject to shareholder approval the proposed capital return is expected to take effect in accordance with the following timetable*:

| Event | Date |
|--|----------------------------|
| Latest date for lodgement of proxies | 22 November 2011 |
| AGM – approval of capital return | 24 November 2011 |
| Exco shares trade 'ex' the capital return | 28 November 2011 |
| Record Date for determining entitlement to participate in the capital return | 2 December 2011 |
| Implementation of the capital return | 9 December 2011 |
| (*) All dates and times are indicative only. Eyes | cooning the right to light |

(*) All dates and times are indicative only. Exco reserves the right to vary these dates and times. All dates and times refer to Australian Western Standard Time. Exco will make an announcement to ASX of any changes if they occur.

6.9. OTHER CONSIDERATIONS

The Board realises that some Shareholders may consider voting against Resolution 5 for various reasons, including that the funds the subject of the capital return and the special dividend could be retained by Exco for:

- payment of operating costs and other expenditures;
- investment in future growth strategies; or
- any other purpose that is not a means of returning capital to Shareholders.

However, the Board refers to sections 6.4 and 6.5 above, which set out that, in the Board's opinion, the capital return and special dividend will not:

- materially impact Exco's ability to fund investment in its core business of the exploration and development of its tenement packages in Queensland and South Australia and other development; and
- materially prejudice Exco's ability to pay its creditors.

Further, the Board believes that the capital return and special dividend are in the best interests of Shareholders.

6.10. DIRECTORS' INTERESTS

The number of shares in which each Director has an interest as at the date of this Notice of Annual General Meeting is set out in the table below. The table also shows the amount each Director is likely to receive under the:

- capital return of 10 cents per Share (see section 6.8 above); and
- special dividend of 28 cents per Share,

assuming Resolution 5 is passed and no Shares are acquired or disposed of by the Directors prior to the record date.

| Director | Ordinary | Amounts likely to be received | | | |
|------------|------------|-------------------------------|----------------|--|--|
| | shares | under capital | under special | | |
| | | return | dividend | | |
| A Cooke | 17,317,878 | \$1,731,787.80 | \$4,849,005.84 | | |
| B Sullivan | 50,000 | \$5,000.00 | \$14,000.00 | | |
| P Reeve | - | - | - | | |
| T Whiting | - | - | - | | |

6.11. DIRECTORS' RECOMMENDATION

For the reasons set out above the Board unanimously recommends that Shareholders vote in favour of Resolution 5.

Each Director (including the Chairman) intends to vote all Exco shares held or controlled by him in favour of the proposed reduction of capital.

6.12. NO OTHER MATERIAL INFORMATION

Other than as set out in this document, and other than information previously disclosed to Shareholders, there is no other information that is known to the Directors which may reasonably be expected to be material to the making of a decision by Shareholders on whether or not to vote in favour of Resolution 5.

GLOSSARY

- "A\$" means Australian Dollars;
- "Amending Act" means the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011 (Cth), which has amended the Corporations Act.
- "Annual General Meeting" or "Meeting" means the annual general meeting of the Shareholders to be held on Thursday, 24th November 2011 convened by the Notice and any adjournment that meeting;
- "ASX" means the Australian Securities Exchange, ASX Limited, ABN 98 008 624 691:
- "ASX Listing Rules" or "Listing Rules" means the official listing rules of the ASX, as from time to time amended or waived in their application to a party;
- "ATO" means the Australian Taxation Office;
- "Board" means the board of Directors of the Company;
- "CCP" means the Cloncurry Copper Project, being a group of tenements that were sold to a subsidiary of Xstrata plc for \$175 million on 30 June 2011;
- "Chairman" means the person chairing the Annual General Meeting;
- "Closely Related Party" means, in the context of a closely related party of a member of KMP:
 - a) a spouse or child of the member; or
 - b) a child of the member's spouse; or
 - a dependant of the member or of the member's spouse;
 - anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity; or
 - e) a company the member controls; or
 - f) a person prescribed by the *Corporations Regulations* 2001 (Cth).
- "Company" or "Exco" means Exco Resources Limited ABN 99 080 339 671:
- "Constitution" means the constitution of the Company;
- "Corporations Act" means the Corporations Act 2001 (Cth);
- "Directors" means Directors of the Company;
- **"Excluded Persons"** means Key Management Personnel or their Closely Related Parties;
- "Explanatory Memorandum" means the information attached to the Notice, which provides information to Shareholders about the Resolutions contained in the Notice;
- **"Key Management Personnel"** or **"KMP"** means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company;
- "Notice of Annual General Meeting" or "Notice" means the notice of the annual general meeting which accompanies this Explanatory Memorandum;
- "Option" means an option to subscribe for a Share;

- "Proxy Form" means the proxy form accompanying the Notice;
- "Resolution" means a resolution proposed pursuant to the Notice:
- "Shareholder" means a holder of Shares;
- "Shares" means fully paid ordinary shares issued in the capital of the Company; and
- "WST" means Australian Western Standard Time (GMT +8hrs).



Shareholder's Name and Address

PROXY FORM

| I/We being a | member/members | s of Exco Resources | Limited hereby | annoint |
|--------------|----------------|---------------------|----------------|---------|
| | | | | |

the Chairman

<u>OR</u>

Leave this box blank if you have selected the Chairman. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman, as my/our proxy to act generally at the meeting on/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of the Company to be held in the Hay Street Room, Level 1, Rydges Hotel, 815 Hay Street, Perth, WA on 24th November 2011 at 2.30pm WST, and at any adjournment thereof.

Important for Resolutions 3 and 4 - If the Chairman of the Meeting is your proxy or is appointed as your proxy by default

If you have not marked any of the boxes opposite Resolutions 3 and 4, then by marking this box, you:

- direct the Chairman to vote in accordance with the Chairman's voting intentions on Resolutions 3 and 4 as set out below and in the Notice of Meeting;
- acknowledge that the Chairman intends to vote all available proxies in favour of Resolutions 3 and 4; and
- expressly authorise the Chairman to exercise your proxy in respect of Resolutions 3 and 4 even though the Chairman is, and those items are directly or indirectly connected with the remuneration of, Key Management Personnel of Exco Resources Limited.

If you do **not** mark this box, and you have **not** directed your proxy how to vote on Resolution 3 and 4, the Chairman will **not** cast your votes on Resolution 3 and 4 and your votes will **not** be counted in computing the required majority if a poll is called on these Resolutions. If you appoint the Chairman as your proxy you can direct the Chairman how to vote by either marking the boxes under the "Resolutions" heading below (for example if you wish to vote against or abstain from voting) or by marking this box (in which case the Chairman will vote in favour of Resolutions 3 and 4).



I/We direct the Chairman to vote in accordance with the Chairman's voting intentions on Resolutions 3 and 4 (except where I/we have indicated a different voting intention below) and acknowledge that the Chairman may exercise my/our proxy even though Resolutions 3 and 4 are connected directly or indirectly with the remuneration of a member of Key Management Personnel and/or even if the Chairperson has an interest in the outcome of these resolutions and that votes cast by the Chairman, other than as a proxy holder, would be disregarded because of that interest.

| | Resolutions | For | Against | Abstain* |
|---|---|-----|---------|----------|
| 1 | Election of Dr Tom Whiting as a Director | | | |
| 2 | Re-election of Mr Peter Reeve as a Director | | | |
| 3 | Adoption of Remuneration Report | | | |
| 4 | Increase in Non-executive Directors' fee pool | | | |
| 5 | Return of capital to Shareholders | | | |
| | · · · · · · · · · · · · · · · · · · · | | | |

*Please note that if you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority on that Resolution.

The Chairman intends to vote available proxies in favour of each Resolution.

| Signature of Securityholder(s) | | |
|----------------------------------|----------------------|--------------------------------|
| Individual or Securityholder 1 | Securityholder 2 | Securityholder 3 |
| | | |
| | | |
| 0-1- Bint-n | Discrete | Discrete (O company) O company |
| Sole Director and Sole Secretary | Director | Director/Company Secretary |
| Contact e-mail address | Contact telephone nu | umber Date |
| | | |

Proxies may be lodged either by facsimile on (08) 9211 2001, by mail to PO Box 1726, West Perth, 6872, Western Australia or delivered in person to the registered office of the Company at Level 2, 8 Colin Street, West Perth, Western Australia. To be valid, a Proxy Form must be received by the Company no later than 2:30pm(WST) on Tuesday 22nd November 2011. For assistance in completing this form, please refer to the rear of this form.

INSTRUCTIONS FOR COMPLETION OF THE PROXY FORM

SHAREHOLDERS NAME

This is the name and address of the Shareholder as it appears on the Company's share register. If this information is incorrect, please make corrections on this form. Shareholders sponsored by a broker should advise their broker of any changes. Please note that you cannot change ownership of your shares using this form.

For the purposes of this Annual General Meeting, Shares will be taken to be held by those persons who are the registered holders thereof at 2.30pm WST on 22nd November 2011.

APPOINTMENT OF PROXY

A Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two other persons (whether Shareholders or not) as proxy or proxies to attend in the Shareholder's place at the Annual General Meeting. The proxy has the same right as the Shareholder to speak and vote at the General Meeting.

If you leave this section blank or your named proxy does not attend the meeting, the Chairman will be your proxy to vote your shares even if you attend the General Meeting (unless you revoke your proxy before the meeting).

If you wish to appoint the Chairman as your proxy, please mark X in the first box on the Proxy Form. If you wish to appoint the Chairman as your proxy, please also consider and mark "X" in the second box on the Proxy Form if you wish to direct the Chairman to vote in accordance with the Chairperson's voting intentions on Resolutions 3 and 4 (except where you have indicated a different voting intention). If you do **not** mark this second box, and you have **not** directed your proxy how to vote on Resolutions 3 and 4, the Chairman will **not** cast your votes on Resolutions 3 and 4 and your votes will **not** be counted in computing the required majority if a poll is called on these Resolutions.

APPOINTING A SECOND PROXY

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If a Shareholder appoints two proxies, each proxy may be appointed to represent a specific proportion of the Shareholder's voting rights. If such appointment is not made then each proxy may exercise half of the Shareholder's voting rights. Fractions shall be disregarded.

DIRECTING YOUR PROXY HOW TO VOTE

You may direct your proxy how to vote by placing an "X" in the appropriate box opposite the Resolution. If you do so, all your Shares will be voted in accordance with your direction. Alternatively, you may split your vote on the Resolution by inserting the percentage of Shares you wish to vote in the appropriate boxes.

Please ensure you clearly mark the box in black or blue ink by placing a mark or the percentage of Shares you are voting. If you do not mark any of the boxes on a given Resolution, your proxy may vote as he or she chooses.

CHAIRMAN'S VOTING INTENTIONS

The Chairman intends to vote available proxies in favour of the Resolutions set out in the Notice.

SIGNATURE INSTRUCTIONS

Each Shareholder must sign this form as follows in the spaces provided:

| Individual | Where | the | holding | is | in | one | name, | the |
|------------|------------------------|-----|---------|----|----|-----|-------|-----|
| | Shareholder must sign. | | | | | | | |

Joint Holding If your Shares are held in joint names,

all Shareholders must sign in the boxes.

Power of To sign under power of attorney you attorney must have already lodged this document with the Company. If you have not previously lodged this document for notation, please attach a certified photocopy of the power of attorney to

this form when you return it.

Companies Where the Company has a Sole

Where the Company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director may sign alone. Otherwise this form must be signed by a Director jointly with either another Director or Company Secretary. Please indicate the office held in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be lodged with the Company before the meeting or at the registration desk on the day of the meeting. A form of the certificate may be obtained from the Company's share registry.

Please indicate the office held by signing in the appropriate place.

CONTACT E-MAIL ADDRESS/TELEPHONE NUMBER

These will help us if there are any problems with your proxy form.

DELIVERY OF PROXY

To be effective, forms to appoint proxies (and any power of attorney under which they are signed) must be received by the Company no later than 48 hours before the time appointed for the holding of this Annual General Meeting, that is **by 2:30pm (WST) on the 22**nd **November 2011**, by post, facsimile or in person to the respective addresses stipulated on the Proxy Form.

A reply-paid envelope is attached for your convenience.