


**Exco Resources Ltd
(ACN 080 339 671)
And its controlled entities**



**Interim Financial Report
For the six months ending 31 December 2011**

EXCO RESOURCES LIMITED

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Corporate Information

ABN 99 080 339 671

DIRECTORS

Barry Sullivan (Chairman)
Geoff Laing (Managing Director, appointed 10 January 2012)
Alasdair Cooke (Executive Director)
Peter Reeve (Non-executive Director)
Tom Whiting (Non-executive Director, appointed 20 September 2011)

SECRETARY

Eamon Byrne

MANAGEMENT

Bruce McLarty (Commercial Manager)
Doug Cook (Exploration Manager)
Steve Konecny (Chief Geologist)
Christine Shore (Resource Manager)

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Directors' Report (continued)**Directors' Report**

The Directors present their report together with the interim financial report of the Group comprising of *Exco Resources Limited* (the Company), and its subsidiaries (together referred to as the 'Group'), and the Group's interest in associates and jointly controlled entities for the six months ended 31 December 2011 and the auditor's review report thereon.

1. Directors

The names and details of the Company's directors in office during the six months and until the date of this report are as follows. Directors were in office for this entire six months unless otherwise noted.

Barry Sullivan (Chairman)	Appointed 25 October 2005
Geoff Laing (Managing Director)	Appointed 1 January 2012
Alasdair Cooke (Executive Director)	Appointed 28 August 2001
Peter Reeve (Non-executive Director)	Appointed 11 May 2008
Tom Whiting (Non-executive Director)	Appointed 20 September 2011
Michael Anderson (Managing Director)	Resigned 5 August 2011

2. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 12 and forms part of the Directors' report for the six months ended 31 December 2011.

3. Operations**3.1. Mount Colin Deposit (Exco 100%)**

On 13 September 2011 the Company advised that it has completed an updated resource estimate for the Mt Colin copper-gold deposit, located approximately 50km west of Cloncurry, in the Mt Isa region of Queensland. (see **Figure 2** for deposit location). Resource modelling incorporating geological interpretation, wireframing and geostatistical analysis has resulted in the completion of a resource estimate containing approximately **1.92Mt @ 2.59% Cu**.

This represented an increase of 29% in the overall mineral resource at Mt Colin. Ores classified as *Indicated Mineral Resource* increased by 68% to **1.04Mt @ 3.04% Cu**. As a result of the upgrade, the Cloncurry Project total resource increased to **7.65Mt @ 1.69% Cu & 0.52g/t Au**.

The Mt Colin resource has been re-estimated based on a further 37 holes including 13 Reverse Circulation and 24 Diamond holes. The re-estimate has significantly increased the resource size and improved the confidence levels of the resource, with the high grade zone still open at depth (350m below the surface). A scoping study completed on the previous resource indicated robust economic potential. Further work is in progress for underground mining design.

3.2. NW Queensland Exploration (Exco 100%)

Exco continues to expand exploration activities within the Northwest Queensland package that covers nearly 3,000km² of prospective ground. The company is well funded and is focussed on resource identification and growth in Queensland (see **Figure 2** for regional location map and **Table 2** for summary of established resources).

Reverse Circulation (RC) drilling was conducted during the period on a number of prospects within the Cloncurry Project including Uncle Tom's, Fisher Creek West, Salebury, Crow's Nest-Eaglehawk, Tanbah North, Tanbah, Canteen, Bosca, MLT-Victory and Marimo. Extensive geochemical sampling has been conducted and a sub-audio magnetic (SAM) survey completed over the Salebury-Crow's Nest trend.

A total of twelve airborne and ground based geophysical surveys were completed during the December quarter. Five heliSAM surveys were flown over the Hazel Creek South, Rose Green, Tanbah, Canteen and Strathfield prospects, four heliMAG surveys were flown over the Canteen-Shamrock, Lawlor, Kangaroo Rat and Jessievale, and three detailed ground gravity surveys were completed over the Turpentine-Eight Mile Creek, Tanbah and Elder Creek. Inversions of the respective data sets are currently being undertaken.

Cloncurry Project (Exco 100%)**Uncle Tom's (Au)**

The Uncle Tom's Prospect is located on EPM 11675 and EPM 16172, approximately 2km east northeast of the Lorena gold deposit and 1.5km south of the Salebury copper-gold prospect. Auriferous quartz veins were exploited historically from a small shaft and alluvial gold in economic quantities was recovered from a drainage leading north from Uncle Tom's.

A SAM survey completed over the Salebury-Crow's Nest trend during the period covered the prospect and these results, combined with geological mapping conducted during the December quarter have improved the understanding of structural controls on mineralisation in the prospect area.

The data, and surface geochemistry, is currently being evaluated to target diamond drilling during the monsoon season with the objective of defining structural controls that will enable a proper assessment of the potential size of the gold zones.

Fisher Creek West (Cu, Au)

The Fisher Creek West Prospect is situated approximately 4km north-west of the Company's Fisher Creek prospect and is associated with a regionally significant magnetic anomaly at the southern end of the Mt Margaret Fault zone. Exco completed aircore geochemical drilling and eight deeper RC holes at the prospect during 2008.

Four holes were drilled during the period that confirmed extensions to the east of known mineralisation at ECRC308. The best intersection was **6m @ 0.74% Cu & 0.22g/t Au** from 68m in **ECRC509**, drilled 200m east of ECRC308.

Directors' Report (continued)**Salebury**

The Salebury prospect occurs on the southern limb of the Pumpkin Gully syncline at the contact of shales and volcanics. Previously reported results include ECDD002 which intersected **48m** (from 87-135m) **@ 2.18% Cu, 1.97 g/t Au and 619ppm Co** including **32m** (from 87-119m) **@ 2.87% Cu, 2.76 g/t Au & 734ppm Co**.

22 holes for 2,150 metres have been drilled in the Salebury area during 2011, targeting extensions to previously drilled mineralisation. New geophysical and surface geochemical surveys have also recently been completed, and these have highlighted previously unknown regional structures and anomalies (See Figures 4 and 5). The new anomalies will be tested in the coming months. Drilling commenced at the Salebury prospect during the first week of December to follow up high grade intersections from previous campaigns. It is intended that this programme will continue through much of the monsoon season as the prospect is situated close to Cloncurry and has relatively good access.

Assay results of the more regional programme have been received and include widespread zones of copper and gold mineralisation with a best intercept of **14m @ 1.02% Cu and 0.28 g/t Au** in **ECRC526** from 70m depth. A revised geological model incorporating the new geophysical data is now being developed creating a strong metallogenic model which is defining new targets for definitive follow up drilling programmes in 2012. The drilling will also be designed to establish initial resource estimates for the various prospects in the immediate area.

Crow's Nest – Eaglehawk (Cu, Au)

The Crow's Nest and Eaglehawk prospects occur on EPM 11675 and EPM 14429. The prospects are situated within Toole Creek Volcanics on the southern limb of the Pumpkin Gully Syncline. They are located approximately 800m apart along a northwest striking sequence of calc-silicates and black shales that have been intruded by dolerite, and are now partially masked with thin transported cover.

Three RC holes were drilled at Crow's Nest and two at Eaglehawk during the period. Significant intersections included:

- **16m @ 0.62% Cu & 1.45g/t Au** from 14m and **32m @ 0.56% Cu and 1.04g/t Au** from 74m in **ECRC530 at Crow's Nest**.
- **2m @ 0.81% Cu & 1.72g/t Au** from 48m in **ECRC533 at Eaglehawk**.

Tanbah (Cu, Au)

The Tanbah North Cu-Au prospect is located 19km east southeast of Cloncurry on EPM 14295. Eleven RC holes were drilled at Tanbah North during the period. The holes intersected quartz veining within strongly silica-biotite-carbonate altered dolerite with varying amounts pyrite and chalcopyrite. The dolerite-shale footwall contact is also mineralised in places. Latest results from this prospect include;

- **10m @ 1.51% Cu & 1.32 g/t Au** from 98 to 108m in **ECRC543**.

Tanbah (Cu, Co, Au)

The Tanbah prospect is located 1km southwest of Tanbah North. Five RC holes were drilled during the period at the prospect and intersected locally intense pyrite-chalcopyrite bearing quartz-carbonate veining in black shale and amphibolite. Assay results confirm the persistence of the mineralisation in this recent drilling with a best intersection of **98m @ 0.36% Cu & 0.25 g/t** in hole **ECRC551** from surface.

Tanbah Flats (Cu, Au)

The Tanbah Flats Cu-Au prospect is located 1km southwest of Tanbah North and is situated on a sub-vertical faulted contact between amphibolite and carbonaceous shale with irregularly distributed calc-silicate breccia. Intense quartz-carbonate veining with pyrite-chalcopyrite veining occurs either side of the faulted sediment-volcanic contact.

Five RC holes drilled at the prospect during the period intersected locally intense pyrite-chalcopyrite bearing quartz-carbonate veining in black shale and amphibolite.

Two RC holes were drilled in the December quarter to test and coincident magnetic, radiometric and copper in soil anomaly at the prospect. ECRC546 intersected strongly hematite-magnetite altered metasediments and calc-silicate breccia with disseminated chalcopyrite. This zone returned an intersection of **24m @ 0.34% Cu and 0.28g/t Au** from 60m.

A soil geochemical sampling programme was completed over the greater Tanbah area which has verified mineralised trends that will be tested with further drilling. SAM and detailed gravity surveys have also been completed and have defined further targets for future drilling. The data will be inverted to generate detailed drill targets for testing during 2012.

Canteen

The Canteen prospect is located on EPM15923, approximately 40km SE of Cloncurry near the fold axis of the Weatherly Creek Syncline and is hosted by the lower volcanic package of the Toole Creek Volcanics, proximal to the Mt Norna Quartzite and Saxby Granite. The Cloncurry Lineament, a 200km long north-south feature defined by regional magnetic and gravity data, is interpreted to reflect a deep crustal scale tectonic feature and is spatially associated with a number of mineral deposits, and passes through the prospect area.

A soil geochemistry programme covering 12km², completed during the period, defined several strong and coherent copper anomalies. At Weatherly Creek, a 1.5km long Cu-As-Mo-K-U anomaly, with peak copper values exceeding 2000ppm was delineated. The anomaly is associated with quartz-hematite veining within mafic volcanics and metasediments of the Toole Creek Volcanics, and is coincident with a strong aeromagnetic anomaly. No historic workings have been identified in the anomalous area.

In addition, five RC holes for 636m were drilled in to test for sulphide mineralisation beneath the historic Canteen open pit. The holes all intersected broad zones of brecciated and variably silica-carbonate altered black shales and amphibolite with disseminated iron and copper sulphides.

Directors' Report (continued)**The Bosca Prospects (Cu,-Au)**

The Bosca and Bosca South Prospects on EPM 15923 are hosted within the Toole Creek Volcanics and situated on the eastern limb of the Weatherly Creek Syncline, approximately 40km southeast of Cloncurry. The prospects are located approximately 2km east of the Cloncurry Lineament and 7km north of the Saxby Granite. Copper-gold mineralisation has historically been mined from quartz veins along the contact between amphibolite and metasediments and from metasomatic ironstones replacing calcareous sediments. The prospects have not previously been subject to systematic modern exploration.

Three RC holes were drilled at the prospects during the period. The holes targeted sulphide mineralisation beneath a small open-cut and shaft respectively. All holes intersected disseminated iron and copper sulphides associated with quartz-carbonate veining within strongly altered and locally sheared black shale and amphibolite.

MLT-Victory (Cu, Au)

The Victory-Flagship Cu-Au prospect is located 38km southeast of Cloncurry within EPM 15923. Copper-gold mineralisation, exploited in the historic Victory, Flagship and MLT workings, occurs along a 1.3km long north-south striking shear zone occupying the contact between amphibolites and black shale of the Toole Creek Volcanics. Gossanous quartz-carbonate veins with copper oxides are located within the 50-80m wide shear zone that disappears beneath shallow Quaternary cover to the north and south of the prospect.

A review of historic drill hole data has revealed strong copper and gold zonation within the system, and apparent higher grade shoots that require testing at depth. Exco believes that opportunities remain to identify extensions to the mineralised system along the strike of the principal shear zone and also along a northwest trending fault that appears to focus mineralisation in the vicinity of the historic workings.

Three RC holes were drilled during the period to test beneath isolated historic workings with the objective of extending the mineralised trend to the north-northwest. The holes intersected amphibolite containing zones of intense silicification and carbonate alteration with disseminated pyrite.

Marimo (Cu)

The Marimo prospect is located 15km west of Cloncurry on EPM 15740. Oxide copper mineralisation, previously exploited from a series of small open pits, is hosted by sheared Marimo Slate of the Corella Formation.

Eight RC holes were drilled at the Marimo Prospect during the period to test for sulphide mineralisation beneath the oxide and also to test a magnetic anomaly. The holes intersected sequences of mafic rocks with intercalated shales with variable and locally intense hematite-albite-carbonate alteration, however quartz veining was sparse and sulphides concentrations low.

Kangaroo Rat (Cu,Au)

The Kangaroo Rat prospect is located approximately 30km south of Cloncurry and proximal to the Landsborough Highway. The prospect occurs within EPM 15923, surrounding a small mining lease that contains the old Wallace Copper mine. Previous drilling by CMC and Eagle Mining as well as infill drilling by Exco has defined a small copper-gold resource of **875,000t @ 1.65% Cu & 1.0 g/t Au**.

The copper and gold (+/- Zn-Co) mineralisation is hosted by a poorly exposed major shear zone up to 50-70m wide that trends northeast and dips steeply to the northwest. The mineralised structure is partially exposed in the vicinity of old workings, however historical RAB drilling indicates that the structure does extend in both directions under the alluvial cover. Gossanous quartz veins are hosted by mylonitised and variably altered metavolcanics, shale, siltstone and quartzite of the Toole Creek Volcanics.

A 1km long, high amplitude isolated magnetic feature, that appears to be discordant to stratigraphy is located 4km northeast of the Kangaroo Rat prospect. The anomaly is largely masked by shallow alluvium but is interpreted to occur within Toole Creek Volcanics. The mineralisation is open at depth and has the potential for extensions along strike.

Twenty one RC drill holes for 1,456m were drilled during the period in an attempt to define extensions to the mineralisation along strike to the north-east and south-west. Assay results from the programme are currently being compiled and will be incorporated into an updated resource estimate to be announced during the March 2012 quarter.

Pumpkin Gulley

The Pumpkin Gully Syncline is an area of considerable interest, hosting numerous advanced targets that have yielded positive results. The area is less than 20km from the town of Cloncurry and close to existing processing infrastructure.

It is clear that potential exists at a number of additional prospects on the southern limb of the syncline, and extensive geophysical and geochemical surveys have recently been completed. These surveys have highlighted new anomalies and have delineated structures that appear to control the localisation of mineralisation. This new data has provided a basis for a clearer understanding of the geology of the area, and has established a range of new targets that will be tested over the next 6 months.

Hazel Creek (Exco 100%)

The Hazel Creek Project is centred approximately 90km north of Cloncurry and incorporates a large area (> 1,000km²) of prospective terrene that remains relatively unexplored. Exco has confirmed the prospectivity of the area through the discovery of the Turpentine Deposit (**1.84Mt @ 1.03% Cu & 0.2g/t Au**) and several key prospects.

The project is situated to the east of the Leichardt River on the Boomarra horst, along an interpreted northern continuation of the mid-Proterozoic Soldier's Cap Group. The host lithologies comprise amphibolite grade quartz-biotite gneisses, calc-silicates, meta-sandstones and amphibolite that are intruded by pegmatites and porphyritic felsic dykes. There is extensive

Directors' Report (continued)

regional sodic metasomatism and magnetite alteration consistent with an IOCG setting. Strong localised hematite-potassic-scapolite, and intense magnetite alteration with coarse disseminated chalcopyrite mineralisation may be associated with pegmatoidal veins or felsic dykes. A thin veneer of Mesozoic and Quaternary deposits mask outcrop over parts of the project area.

Turpentine (Cu, Au)

The Turpentine Cu-Au deposit was discovered by Exco in 2000 and contains a resource of **1.84Mt @ 1.03% Cu & 0.20g/t Au**. Previous drilling by Exco has outlined a steeply dipping zone of skarn style mineralisation.

RC drilling in the December quarter tested broad zones of magnetic anomalies in the Turpentine Eight Mile Creek area. Drill holes have encountered widespread magnetite alteration with varying amounts of associated chalcopyrite, and a review of these holes is underway to establish zones of immediate follow-up to determine resource potential. During the quarter diamond drilling was also completed at Turpentine.

Detailed gravity and further SAM surveys have also recently been completed and the results of these will be used in conjunction with the recent drill results to continue an aggressive programme of drilling post the current monsoon season.

Turpentine South (Cu, Au)

A SAM survey previously conducted by Exco identified several north-south striking very strong magnetic anomalies locally coincident with conductivity anomalies. Drilling during 2010 has located zones of magnetite associated copper-gold mineralisation similar to Eight Mile Creek and Turpentine.

Seventeen RC holes were drilled during the period to test the strong magnetic anomalies. Significant results include;

- **2m @ 1.04% Cu & 0.12g/t Au** from 82m in **EHRC290**
- **30m @ 0.40% Cu & 0.09g/t Au** from 136m in **EHRC292**
- **22m @ 0.29% Cu & 0.03g/t Au** from 10m and **20m @ 0.35% Cu & 0.07g/t Au** from 50m in **EHRC294**
- **4m @ 0.62% Cu & 0.70g/t Au** from 12m and **4m @ 0.82% Cu & 0.47g/t Au** from 76m in **EHRC296**

Eight Mile Creek (Cu, Au)

Previous drilling during the 1990's intersected **30m @ 0.90% Cu** within the Eight Mile Creek prospect area and a recent SAM survey by Exco outlined a number of significant magnetic and conductivity anomalies coincident with this historical intersection.

Exco drilled twenty seven RC holes at the prospect during the September quarter. Significant intersections include;

- **10m @ 0.90% Cu & 0.13g/t Au** from 54m in **EHRC323**
- **18m @ 0.27% Cu & 0.16g/t Au** from 12m in **EHRC327**
- **12m @ 0.65% Cu & 0.11g/t Au** from 48m in **EHRC328**
- **30m @ 0.19% Cu** from 12m in **EHRC340**

3.3. Queensland Joint Ventures**Ivanhoe Joint Venture (Exco 20%, Ivanhoe 80%)**

In May 2007, Exco and Ivanhoe Cloncurry Mines Pty Ltd ("Ivanhoe") entered into a joint venture agreement over a number of Exco's tenements in the Soldiers Cap and Tringadee Project areas. Under the terms of the agreement, as amended, Ivanhoe were required to spend \$5.5m by May 2011 to earn an 80% interest in the joint venture tenements.

On 6 April 2011 Ivanhoe informed Exco that as of 31 March 2011 Ivanhoe had expended more than \$5.5m on exploration work during earning period two of the agreement. Accordingly, Ivanhoe exercised its option to acquire an 80% interest in the joint venture. Exploration has been on-going with geophysics, surface sampling, mapping and drilling throughout the joint venture EPMs. The work to date has outlined a number of drill targets and additional geophysical surveys are scheduled to commence in October.

Activities during the December quarter focussed on preparation for forthcoming drilling and geophysics activities.

Aircore drilling is planned on EPMs 13709, 13741, 16177 and 14223 to close down the grid spacing from previous surveys to allow sufficient data for RC and diamond drilling. In particular a 2.2km long copper anomaly (800ppm-1200ppm Cu) within EPM 13741 represents a significant new target.

RC drilling is planned for EPMs 12285, 12290 and 11676. A programme of approximately 2,500m is proposed for EPM 11676 over uranium bearing shear zones at the U4 prospect.

Diamond drilling is planned for EPM 11169 to test a north west trending shear zone where previous drilling has intersected **44m @ 0.5% Cu**. A large overlapping magnetic gravity anomaly will also be tested.

Paradigm Joint Venture (Exco 50%, Paradigm 50%)

In February 2008, Exco and Paradigm Metals (PDM) entered into a joint venture arrangement, to carry out a multi-commodity exploration programme on jointly owned tenements located 50km east of Cloncurry, covering an area of approximately 500km². The newly formed entity, Toolebuc Resources Pty Ltd (TOR) was initially made up of EPMs 15208 and 16113 (formerly owned by Exco) and EPMs 15325, 15906, 15931, 16073, 16200 and 17306 (formerly owned by Paradigm).

During 2009/10, Exco and Paradigm decided to release the majority of the tenements within this joint venture to pursue exploration on the remaining EPM 16073 which has shown shallow copper potential. On 10 November 2010 Paradigm announced the commencement of a 2,000m air core and percussion drill programme to test several previously undrilled magnetic anomalies to total depths of up to 100m, under shallow sedimentary cover 20-50m thick.

An eleven hole (500 metre) shallow air core drill programme was completed in November 2011. A rare earth element (REE) drill intersection of **7m @ 0.65% REE** was returned from drill hole **LEV011**. This follows on from **LEV002** which was drilled in late 2010 and returned an intersection of **4m @ 0.31% REE**.

Directors' Report (continued)**Black Rock Minerals (Exco 34.5%, Xstrata 65.5%)**

The Black Rock Minerals JV, comprising EPM 15027, is an incorporated joint venture with Xstrata Copper (formerly Noranda Pacific Pty Ltd). The JV area is located approximately 20km south-west of Cloncurry. The area contains extensions of the rock sequence that hosts the nearby Cannington Mine and several zinc-lead-silver prospects occur within the tenements.

Two diamond drill holes were completed for a total of 660.7m. These holes tested an IP anomaly and surface gossanous outcrops at the Cowie Prospect which is approximately 8 km NW of the Cannington AG-Pb-Zn Mine. Assays results will be reported once received and interpreted.

3.4. White Dam Gold Production Joint Venture (Exco 75%, Polymetals Mining Ltd 25%)

The White Dam Gold Project is located in South Australia approximately 80km west of Broken Hill. The project contains a depleted resource inventory of **2.7Mt @ 1.03g/t Au** for **90,800oz** contained (see Table 3).

The project is subject to a JV agreement whereby Polymetals Mining Ltd (ASX:PLY) hold a 25% interest in the project. Exco and Polymetals have also entered into a management agreement appointing Polymetals as project manager.

Polymetals specialises in the development of remote small to medium size resource projects. In-house expertise includes metallurgy, mining and project management.

Health Safety and Environment

Two minor lost-time injuries occurred during the period. There were no reportable environmental incidents and one regulatory infringement which was self-reported was rectified immediately.

Geotechnical monitoring and management for the Hannaford Pit continues with no significant wall stability issues during the period.

Production

A total of 757kt of ore at 0.83g/t was mined and placed on the leach pad during the period. This compares to 1,825kt at 1.05g/t for the previous six months as the project moved towards the end of production from the Hannaford pit.

Leaching continues to outperform expectations. The gold recovery to date is calculated at 74 per cent compared to the feasibility estimate of 65 per cent.

Total production for the period was 24,359 ounces compared to 47,047 ounces for the previous six months. Cumulative production to date is 124,701 ounces which represents a greater than 12% increase on the production forecast in the original financing model.

In the December quarter a northern cutback of the Hannaford Pit was completed and a southern cutback proposal to deliver 2,100 additional ounces was approved and mining commenced.

Mining from the Hannaford Pit concluded in mid-January 2012.

Costs

Average Cash Operating and Development unit costs for the period were \$147/oz higher than the previous six months at \$497/oz, with Total Cash Costs also higher at \$531/oz compared to \$410/oz. These cost levels are in line with expectations.

The reduction in volume of gold production as the Hannaford pit reached the end of its productive life is the overriding cause of the increase in unit costs. Mining activity during the December quarter has targeted commercially viable, but higher cost, production extensions (such as the north wall cutback) to maximise value extraction from the pit.

Project development

On 10th January 2012 the partners announced that they had agreed in principle to develop the small Vertigo deposit under proposed new joint venture arrangements.

Production from the Hannaford pit will continue to be shared on a 75:25 basis but Polymetals will earn a further 25% interest in the exploration tenements in the Drew Hill area by spending \$1.3m on exploration prior to 30 June 2012. In addition Polymetals will increase its interest in the White Dam infrastructure, including plant and camp facilities, from 25% to 50% in return for a cash consideration based on an agreed independent valuation and a commitment to take on an extra 25% of the future closure costs.

A mining lease application in respect of the Vertigo deposit and deed of variation to the native title agreement have been completed, submitted to PIRSA and been approved.

Operations commenced at Vertigo in mid-January 2012 and are planned to continue until April 2012 with gold production continuing until the September Quarter 2012.

Exploration

During the September quarter Polymetals took over management of the Drew Hill Exploration Joint Venture from Exco and has since worked to increase the understanding of patterns of known mineralised occurrences at White Dam, Vertigo, White Dam North and White Dam East in order to improve drill targeting.

The focus is on further exploration of shallow open-pit gold mineralisation near to current operations. Drilling during the December quarter followed-up anomalous areas defined by scout drilling completed during the September quarter. Additional drilling sought to extend the span of the area.

Exploration activity during the December quarter encompassed:

- Drilling of deeper RC holes to follow-up anomalous areas defined from initial scout drilling in the northern tenement areas - 113 RC holes for 5,102 m;
- Reconnaissance scout drilling in new locations identified by aeromagnetic data - 16 holes for 383 m;
- Award of a tender to Daisch Aerosystems to extend coverage of high resolution aeromagnetic data over the tenement group; and
- Compilation of historic exploration data of the wider Drew Hill tenements.

EXCO RESOURCES LIMITED

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Directors' Report (continued)

White Dam Project production statistics

Table 1 - White Dam Gold Project - Production and Costs Statistics (Exco's 75% interest)*

		LOM to June 11	Sep Qtr 11	Dec Qtr 11	Year 2011/12	Project to Date
Ore Tonnes Mined	(tonnes)	3,525,093	375,226	192,333	567,559	4,092,652
Mined Grade	(g/t)	1.00	0.89	0.71	0.83	0.98
Mined Ounces	(ounces)	113,622	10,737	4,409	15,146	128,768
Waste Tonnes Mined	(tonnes)	3,893,563	470,378	363,452	833,830	4,727,393
Ore placed on Leach	(tonnes)	3,525,093	375,226	184,833	560,059	4,085,152
Head Grade	(g/t)	1.00	0.89	0.71	0.83	0.98
Ounces Produced	(ounces)	75,257	11,954	6,315	18,269	93,526
Gold Loan Repayments	(ounces)	15,687	-	-	-	15,687
Ounces Sold	(ounces)	57,302	13,206	5,677	18,883	76,185
Cash Operating Cost ¹	(A\$/oz)	289	281	537	370	340
Cash Development Cost ¹	(A\$/oz)	108	102	176	127	124
Royalties ¹	(A\$/oz)	53	30	42	34	53
Total Cash Cost ¹	(A\$/oz)	450	413	756	531	517
Average Realised Sale Price	(A\$/oz)	1,393	1,587	1,671	1,612	1,447
Revenue	(A\$ million)	91.8	21.0	9.5	30.4	122.3

¹Cash operating costs for the period exclude depreciation, movement in inventory and expense on royalty sales. The operating cost of goods sold of \$11.01 million includes those items. The resulting average operating cost of ounces sold would be \$583 per ounce for the half year. These figures included in Table 1 are unreviewed.

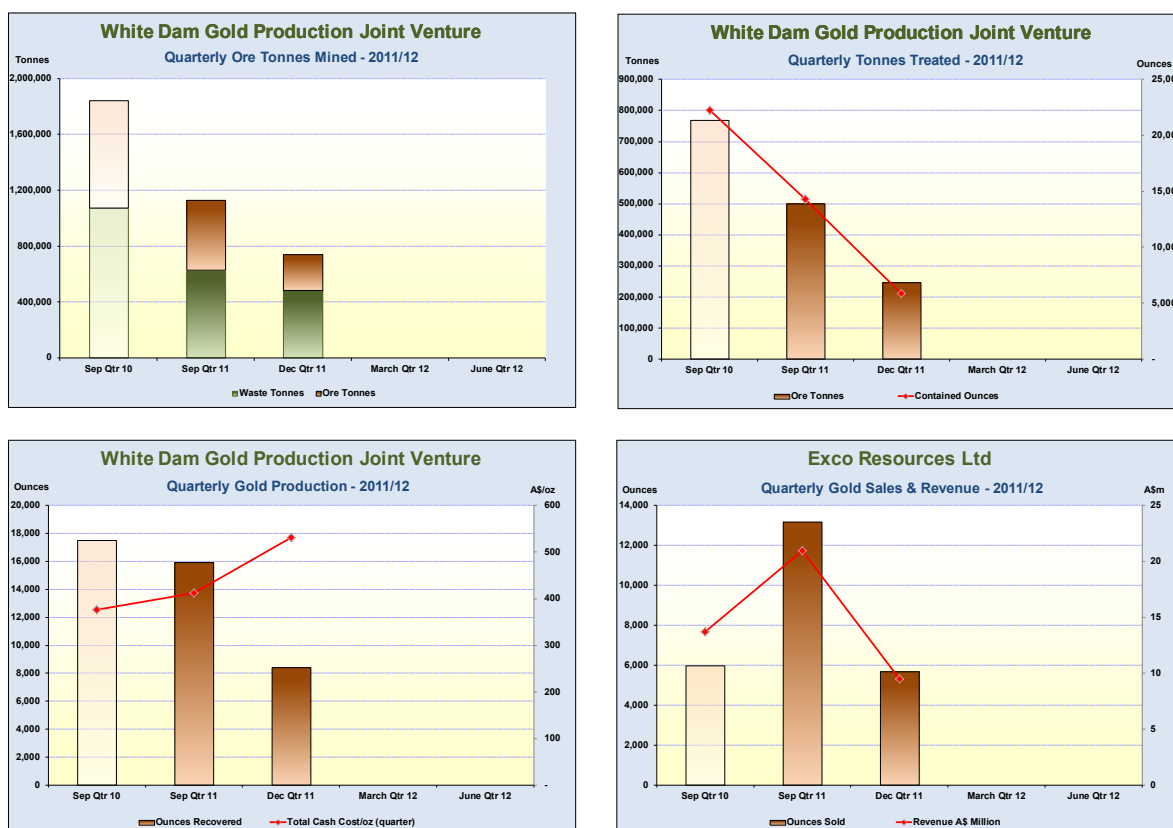


Figure 1: White Dam Gold Project production trends

* Ounces Produced is gold poured plus the net change in gold-in-circuit during the period.

Cash Operating Costs include all direct mining, processing mine administration costs incurred during the period.

Cash Development Costs include all direct mining costs for open pit waste material incurred during the period.

Total Cash Costs include Cash Operating Costs, Cash Development Costs, and Royalties incurred during the period.

Directors' Report (continued)**3.5. Projects not listed**

Projects that are not mentioned in this report have had no significant results during the year or results are not yet available.

4. Royalties

Exco is entitled to a royalty ("GA Royalty") on approximately 1.7 million tonnes of sulphide ore contained within the Great Australia resource (see **Figure 2**) pursuant to the terms of the Exco-CopperChem Alliance Agreement entered into in September 2009.

CopperChem commenced mining of sulphide ores from the open pit during the period.

The parties to the Agreement have agreed to a calculated amount of 58,300 tonnes of ore processed for the period to 31 December 2011 which equates to a royalty receivable of \$925,211 as at that date.

5. State of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

- On the 5 August 2011 the company announced that Mr Michael Anderson had tendered his resignation as managing director in order to pursue new interests. The board expressed its appreciation of his substantial contribution during his time with the company and wished him well in his future endeavours. Mr Geoffrey Laing, at the time General Manager Corporate and Business Development, was appointed as Acting CEO and took over all the day-to-day responsibilities of the managing director pending a permanent appointment.
- On 25 August 2011 the Company advised that 1,500,000 employee incentive options at a price of 40 cents had been exercised raising a total of \$600,000.
- On 5 September 2011 the Company advised that a further 1,500,000 employee incentive options at a price of 40 cents had been exercised raising a total of \$600,000.
- On 21 September, the Company advised the appointment of Dr Tom Whiting to the board as a non-executive director. 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.

Dr Whiting is a consultant to and a non-executive director of, Predictive Discovery Limited, a non-executive director of Stellar Resources Limited and Mineral Deposits Ltd and the non-executive chairman for the Deep Exploration Technologies Cooperative Research Centre.

- The Annual General Meeting of the Company was held in Perth on 24th November 2011. All resolutions before the meeting, including a resolution proposing a reduction and return of capital to shareholders of 10 cents per share, were passed on a show of hands. Subsequent to the agreement for a capital reduction, the board announced a fully-franked special dividend of 28 cents per share.
- On 28 November 2011 the Company issued 4,500,000 ordinary shares on exercise of options granted as part of the arrangement fees for the financing of the White Dam project which, at an exercise price of 28 cents per option, raising a total of \$1.3m.
- On 9 December 2011 the reduction of capital of 10 cents per share approved by shareholders at the AGM on 24 November 2011, and the subsequent special dividend of 28 cents per share declared on that day, were paid to shareholders.

6. Subsequent events

- On 10 January 2012 the Company announced the appointment of Mr Geoff Laing as managing director effective 1 January 2012.
- Mr Laing is a Chemical Engineer with more than 20 years of experience in the mining industry and an MBA from the University of Western Australia. His involvement in the mining industry includes project development both within Australia and overseas including major projects for Norilsk Nickel, Anglo Platinum, BHP Billiton and Phelps Dodge. Mr Laing has had management and technical roles in both the engineering business and operations. Over the last four years Mr Laing held the position of General Manager Project and Corporate Development for Exco.
- On 10 January 2012 Exco and Polymetals announced that they had agreed in principle to enter new joint venture arrangements for the White Dam Gold Production Joint Venture. The proposal is subject to finalisation of formal agreements. It is proposed that Polymetals will earn a further 25% interest in the exploration tenements in the Drew Hill area by spending \$1.3m on exploration prior to 30 June 2012. In addition Polymetals will increase its interest in the White Dam infrastructure, including plant and camp facilities, from 25% to 50% in return for a cash consideration based on an agreed independent valuation and a commitment to take on an extra 25% of the future closure costs.

Directors' Report (continued)

Dated at Perth this 15th day of March 2012.

Signed in accordance with a resolution of the directors.



Geoff Laing
Managing Director

**Forward Looking Statements and
Competent Persons Statement**

This report contains forward looking statements that are subject to risk factors associated with resources businesses. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates. All references to dollars, cents or \$ in this report are to AUD currency, unless otherwise stated.

Other information in this report relating to mineral resources and exploration results is based on data compiled by Exco's Chief Geologist Stephen Konecny and Exco's Resource Manager Ms Christine Shore, who are members of The Australasian Institute of Mining and Metallurgy. Both Mr Konecny and Ms Shore have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons under the 2004 Edition of the Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves.

Mr Konecny and Ms Shore consent to the inclusion of the data in the form and context in which it appears.

The information in this report that relates to White Dam Mineral Resources is based on information compiled by Mr Troy Lowien, Polymetals Senior Resource Geologist who is a Member of The Australasian Institute of Mining and Metallurgy and is a fulltime employee of Polymetals Mining Limited. The information in this report that relates to White Dam exploration results is based on information compiled by Mr Jess Oram, Polymetals Exploration Manager who is a Member of the Australian Institute of Geoscientists and is a fulltime employee of Polymetals Mining Limited. Messers Lowien and Oram have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activities which they undertook to qualify as a Competent Persons as defined in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Messers Lowien and Oram consent to the inclusion of matters based on their information in the form and context in which it appears in this report.

Exco Northwest Queensland Tenement Map

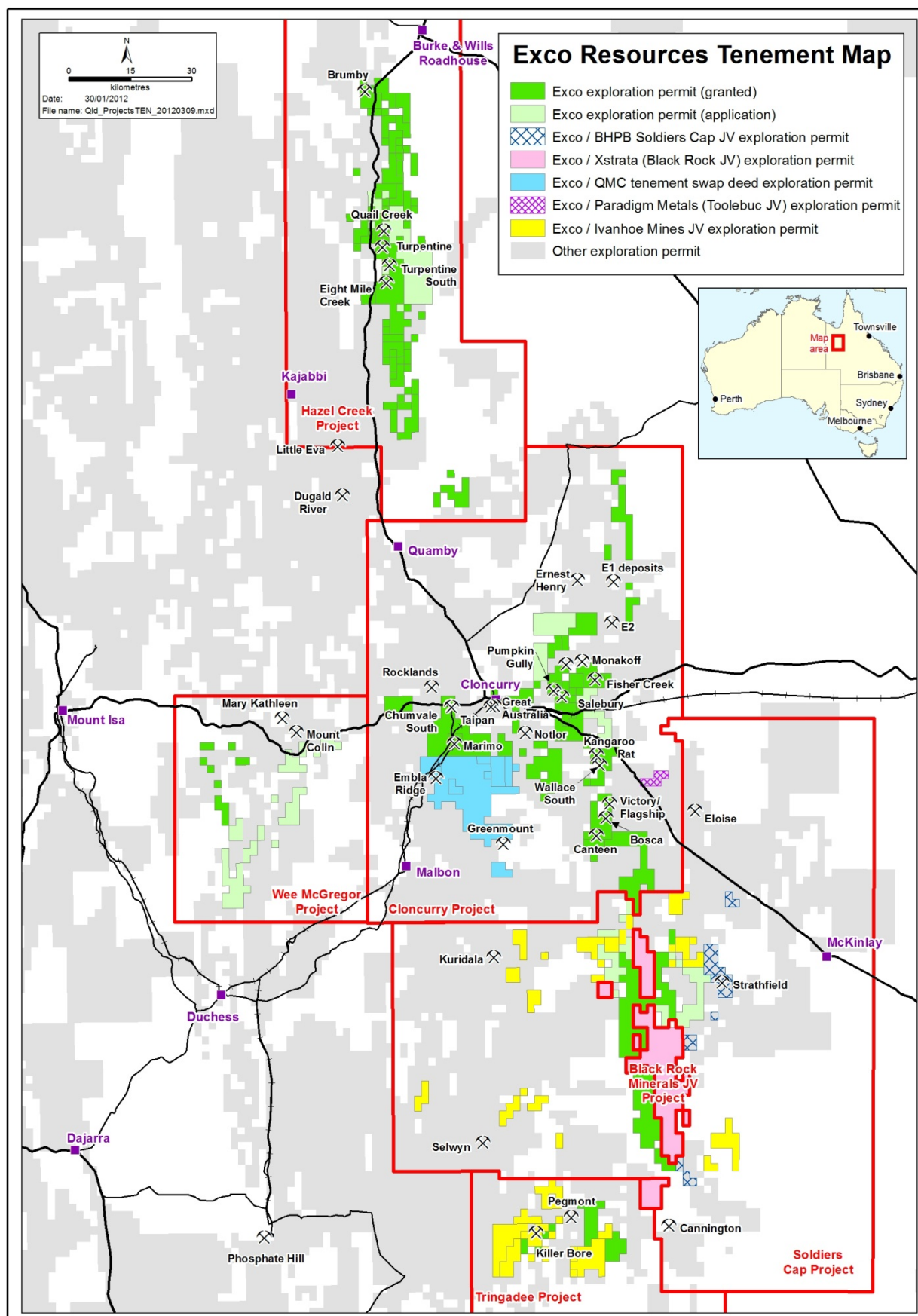


Figure 2 Tenement map of Exco interests in Northwest Queensland

EXCO RESOURCES LIMITED

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Resources

TABLE 2 EXCO RESOURCES – NORTHWEST QUEENSLAND RESOURCE SUMMARY						
Deposit	Class	Tonnes	Grade		Metal	
			Cu%	Au g/t	Cu T	Au Oz
Cloncurry Project						
Great Australia ⁽¹⁾	Indicated	1,400,000	1.53	0.13	21,000	6,000
	Inferred	800,000	1.57	0.14	12,000	3,000
TOTAL		2,200,000	1.54	0.13	33,000	9,000
Mt Colin ⁽¹⁾	Indicated*	1,042,000	3.04	0.42	32,000	14,000
	Inferred*	880,000	2.09	0.41	18,000	12,000
TOTAL *		1,922,000	2.59	0.42	50,000	26,000
Taipan	Inferred	1,460,000	0.80	0.1	12,000	5,000
Kangaroo Rat ⁽¹⁾	Inferred	875,000	1.65	1.0	14,400	28,000
Wallace South	Inferred**	1,000,000	-	1.6	-	53,000
Victory-Flagship	Inferred	196,000	1.20	1.4	2,000	9,000
Sub-Total Cloncurry Project		7,653,000	1.69	0.52	111,400	130,000
Hazel Creek Project						
Turpentine	Indicated	1,627,000	1.04	0.21	17,000	11,000
	Inferred	215,000	0.9	0.16	2,000	1,000
Sub-Total Hazel Creek		1,842,000	1.03	0.2	19,000	12,000
Northwest Queensland Total		9,495,000	1.56	0.46	130,400	142,000

Notes: Discrepancies in totals are as result of rounding.
 Unless otherwise stated the above resources are reported at a 0.5% Cu cut-off.
⁽¹⁾ Granted Mining Lease.
 * Mt Colin resource cut-off = 1.25% Cu.
 ** Wallace South resource cut-off = 0.5g/t

TABLE 3: WHITE DAM PROJECT OK RESOURCE ESTIMATE										
Deposit	Material	Indicated			Inferred			Total		
		kts	g/t Au	koz Au	kts	g/t Au	koz Au	kts	g/t Au	koz Au
White Dam	Oxide	600	0.99	19.1	90	0.74	2.1	690	0.96	21.2
	Fresh	327	1.01	10.6	1,954	0.88	55.3	2,281	0.90	65.9
	Sub-Total	927	1.00	29.7	2,044	0.87	57.4	2,971	0.91	87.3
Vertigo	Oxide	1,008	1.10	35.6	703	0.73	16.5	1,711	0.95	52.1
	Fresh	212	1.56	10.6	526	1.15	19.4	738	1.26	30.0
	Sub-Total	1,220	1.18	46.2	1,229	0.91	35.9	2,449	1.04	82.1
Project Total		2,147	1.17	75.9	3,273	0.90	93.3	5,420	1.03	169.4

Notes: Discrepancies in totals are as result of rounding.
 White Dam resource (depleted to end of mining in January 2012) was re-estimated in October 2010 with a cut off grade of 0.3g/t
 Vertigo was re-estimated in January 2011 with a cut off grade of 0.4g/t.

Lead auditor's independence declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Exco Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink, appearing to read 'T Hart', written over the printed name and title.

KPMG

Trevor Hart
Partner

Perth

15 March 2012

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

Consolidated statement of comprehensive income

		31 Dec 2011	31 Dec 2010
	Note	\$	\$
Sales revenue		30,442,987	30,445,604
Royalties		925,211	-
Cost of goods sold	6	(11,010,171)	(18,665,516)
Gross Profit		20,358,027	11,780,088
Other income		6,949	2,891
		20,364,976	11,782,979
Exploration expense		(1,853,246)	(476,615)
Employee expenses		(823,651)	(826,518)
Depreciation		(106,196)	(86,437)
Office costs		(242,174)	(225,727)
Professional and corporate expenses		(389,570)	(456,882)
Insurance		(28,302)	(22,043)
Other expenses from ordinary activities		(168,922)	(234,491)
Results from operating activities		16,752,915	9,454,266
Interest income		5,878,201	278,189
Derivative (expense)/income		(33,868)	2,013,023
Net finance income		5,844,333	2,291,212
		22,597,248	11,745,478
Profit before income tax			
Income tax expense		(6,784,977)	(806,498)
Profit for the period		15,812,271	10,938,980
Other comprehensive income		-	-
Total comprehensive profit for the period		15,812,271	10,938,980
Total comprehensive profit attributable to:			
Owners of the Company		15,812,271	10,938,980
Basic earnings per share (cents)	8	4.50	3.20
Diluted earnings per share (cents)	8	4.50	3.17

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

Consolidated statement of financial position

		31 Dec 2011	30 June 2011
	Note	\$	\$
Current assets			
Cash and cash equivalents		58,573,410	224,524,465
Trade and other receivables		2,535,105	1,294,579
Inventory		4,858,727	4,687,213
Derivatives		-	159,020
Total current assets		65,967,242	230,665,277
Non-current assets			
Receivables		1,176,201	1,283,145
Property, plant and equipment	9	1,691,994	1,436,657
Exploration and evaluation expenditure	10	32,146,791	27,215,896
Mine and development properties	11	136,174	1,575,199
Total non-current assets		35,151,160	31,510,897
Total assets		101,118,402	262,176,174
Current liabilities			
Trade and other payables		3,416,564	6,779,801
Income tax payable		4,906,117	47,346,671
Provisions		226,008	219,667
Derivatives	8	-	125,152
Total current liabilities		8,548,689	54,471,291
Non-current liabilities			
Provisions		884,107	866,772
Deferred tax liability		8,596,936	6,718,076
Total non-current liabilities		9,481,043	7,584,848
Total liabilities		18,029,732	62,056,139
Net assets		83,088,670	200,120,035
Equity			
Contributed equity	12	41,484,138	74,640,556
Reserves		-	849,907
Retained earnings/(losses)		41,604,532	124,629,572
Total equity		83,088,670	200,120,035

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

Consolidated statement of cash flows

	Note	31 Dec 2011 \$	31 Dec 2010 \$
Cash flows from operating activities			
Receipts from customers		30,442,987	20,911,964
Cash payments in the course of operations		(13,185,129)	(11,799,439)
Interest received		5,338,065	287,307
Income tax paid		(47,346,671)	-
Net cash (used in)/ from operating activities		(24,750,748)	9,399,832
Cash flows from investing activities			
Cash payments for exploration and evaluation expenditure		(7,598,469)	(6,009,733)
Cash payments for development expenditure		(466,187)	(4,797,839)
Cash payments for acquisition of equity investments		(35,000)	-
Movements in security deposits		106,944	22,500
Cash payments for plant and equipment		(361,533)	(8,019)
Proceeds from sale of property, plant and equipment		2,727	-
Net cash used in investing activities		(8,351,518)	(10,793,091)
Cash flows from financing activities			
Proceeds from issue of shares		2,460,000	5,303,489
Share issue costs		(11,999)	(325,732)
Payment to shareholders – capital return		(35,604,419)	-
Payment of dividends		(99,692,372)	-
Net cash (used in)/from financing activities		(132,848,790)	4,977,757
Net (decrease)/increase in cash held		(165,951,055)	3,584,498
Cash at the beginning of the financial period		224,524,465	10,086,715
Cash at the end of the financial period		58,573,410	13,671,213

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

Consolidated statement of changes in equity

Consolidated	Notes	Issued capital \$	Retained earnings \$	Share-based payments reserve \$	Total equity \$
Balance at 1 July 2011		74,640,556	124,629,572	849,907	200,120,035
Profit for the period		-	15,812,271	-	15,812,271
Total comprehensive profit for the period		-	15,812,271	-	15,812,271
Transactions by owners, recorded directly in equity					
Exercise of options		2,460,000	-	-	2,460,000
Share issuance costs		(11,999)	-	-	(11,999)
Return of capital to owners of the Company	12(a)	(35,604,419)			(35,604,419)
Dividend to owners of the Company	12(b)		(99,692,372)		(99,692,372)
Share-based payments		-	855,061	(849,907)	5,154
Balance at 31 December 2011		41,484,138	41,604,532	-	83,088,670
Balance at 1 July 2010		68,968,927	(12,008,067)	3,253,635	60,214,495
Profit for the period		-	10,938,980	-	10,938,980
Total comprehensive profit for the period		-	10,938,980	-	10,938,980
Transactions by owners, recorded directly in equity					
Issue of shares		4,928,489	-	-	4,928,489
Exercise of options		375,000	214,518	(214,518)	375,000
Share issuance costs		(325,733)	-	-	(325,733)
Transfer on expiry of option		-	1,909,252	(1,909,252)	-
Share-based payments		-	-	28,787	28,787
Balance at 31 December 2010		73,946,683	1,054,683	1,158,652	76,160,018

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Notes to the consolidated interim financial statements**1. Reporting entity**

Exco Resources Limited (the "Company" or "Exco") is a company domiciled in Australia. The address of the Company's registered office is Level 2, 8 Colin Street, West Perth WA 6005. The consolidated financial statements of the Company as at and for the six months ended, 31 December 2011 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in minerals exploration and the production of gold.

The consolidated annual financial report of the Group as at, and for the year ended, 30 June 2011 is available upon request from the registered office, or at: www.excoresources.com.au.

2. Basis of preparation**a) Statement of compliance**

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2011.

This consolidated interim financial report was authorised for issue by the directors on 15 March 2012.

b) Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2011.

3. Significant accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2011.

4. Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2011.

5. Operating segments

The Group has two reportable segments, which include the following:

- a) Production: comprising development and production activities of the White Dam Gold Project Joint Venture in South Australia.
- b) Exploration: including exploration and evaluation activities in the area of mineral resources.

Information regarding the results of each reportable segment is included below.

EXCO RESOURCES LIMITED

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Notes to the consolidated interim financial statements

Operating segments		
	31 Dec 2011	31 Dec 2010
Reportable segment profit/(loss)	\$	\$
Development and production	19,225,097	13,557,587
Exploration and evaluation	(1,853,316)	(476,615)
Total reportable segment profit/(loss) before income tax	17,371,781	13,080,972
<u>Reconciliation of reportable segment loss:</u>		
Total reportable segment loss before income tax	17,371,781	13,080,972
Royalties income	925,211	-
Unallocated amounts: other corporate expense	(1,577,945)	(1,613,683)
Finance income	5,878,201	278,189
	22,597,248	11,745,478
	31 Dec 2011	30 Jun 2011
Segment assets	\$	\$
Development and production	12,019,943	12,161,474
Exploration and evaluation	32,146,791	27,215,896
Reportable segment assets at the end of the period	44,166,734	39,833,370
<u>Reconciliation of segment assets:</u>		
Total assets for reportable segments	44,166,734	39,833,370
Other assets	56,951,668	222,342,804
	101,118,402	262,176,174

Geographical segments

The Exploration and Production segments are both located and managed in Australia, thus operating in a single geographical segment.

Major customers

All the Group's revenues are from two customers of the Production segment, namely the ANZ Banking Group Ltd and Barclays Capital plc.

EXCO RESOURCES LIMITED

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Notes to the consolidated interim financial statements

6. Cost of goods sold

	31 Dec 2011	31 Dec 2010
	\$	\$
Depreciation of mine properties	(464,198)	(5,930,546)
Amortisation of mine properties	(1,441,014)	(2,022,652)
Amortisation of rehabilitation asset	-	(272,730)
Production costs	(9,276,473)	(13,643,415)
Cost deferred as inventory	171,514	3,203,827
	(11,010,171)	(18,665,516)

7. Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2011 was 30 percent (for the six months ended 31 December 2010: 6.9 percent). This change in effective tax rate is due to the utilisation of unrecognised carried forward tax losses in the previous period.

8. Earnings per share

Basic profit per share

The calculation of basic profit per share for the six months ended 31 December 2011 was based on the profits attributable to ordinary shareholders of \$15,812,271 (2010: \$10,938,980) and a weighted average basic and dilutive number of shares outstanding during the six months ended 31 December 2011 of 351,389,296, calculated as follows:

	31 Dec 2011	31 Dec 2010
	\$	\$
<i>Profit attributable to ordinary shareholders</i>		
Profit for the period	15,812,271	10,938,980
<i>Weighted average number of ordinary shares</i>		
Issued shares at 1 July	348,544,187	328,565,892
Effect of shares issued during the period	2,845,109	13,502,507
Weighted average number of ordinary shares at 31 December	351,389,296	342,068,399
Effect of share options on issue	-	2,980,776
Weighted average diluted number of ordinary shares at 31 December	351,389,296	345,049,175
<i>Profit per share</i>		
Basic earnings per share (cents)	4.50	3.20
Diluted earnings per share (cents)	4.50	3.17

EXCO RESOURCES LIMITED

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Notes to the consolidated interim financial statements

9. Property, plant and equipment

	31 Dec 2011	30 June 2011
	\$	\$
At cost	2,420,990	2,068,549
Accumulated depreciation	(728,996)	(631,892)
Total carrying value at 30 June	1,691,994	1,436,657

	31 Dec 2011	30 June 2011
	\$	\$
Reconciliation of movement		
<i>At cost</i>		
At 1 July	2,068,549	2,097,756
Acquisitions	361,533	196,843
Disposals	(9,092)	(226,050)
At the end of the period	2,420,990	2,068,549
<i>Accumulated depreciation</i>		
At 1 July	(631,892)	(638,649)
Depreciation expense	(106,196)	(161,691)
Disposals	9,092	168,448
At the end of the period	(728,996)	(631,892)
Carrying amount at the end of the period	1,691,994	1,436,657

10. Exploration and evaluation expenditure

	31 Dec 2011	30 June 2011
	\$	\$
Carrying value of exploration and evaluation		
In entities other than joint ventures	31,527,993	26,620,672
In joint ventures	618,798	595,224
Carrying value*	32,146,791	27,215,896

*Costs carried forward in respect of areas of interest held in the exploration and evaluation phases.

Movement in exploration and evaluation expenditure

	27,215,896	40,713,220
At 1 July	27,215,896	40,713,220
Expenditure incurred during the year	5,592,155	7,604,238
Movement in expenditure in joint ventures	23,574	435,033
Exploration expenditure written off	(684,834)	(294,633)
Interests disposed of during the year	-	(21,241,962)
Carrying amount at end of the period	32,146,791	27,215,896

The asset represents intangible exploration and evaluation assets.

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas at an amount greater than or equal to the carrying value.

EXCO RESOURCES LIMITED

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Notes to the consolidated interim financial statements

11. Mine and development properties

	31 Dec 2011	30 June 2011
	\$	\$
Carrying value of mine and development properties		
At cost:		
In entities other than joint ventures	12,860,423	12,860,422
In joint ventures	18,271,328	17,805,142
	31,131,751	30,665,564
Accumulated amortisation	(30,995,577)	(29,090,365)
Carrying amount at end of the period	136,174	1,575,199
Movement in mine properties and development		
At 1 July	1,575,199	15,064,011
Expenditure incurred during the year	466,187	8,699,573
Depreciation of development properties (i)	(464,198)	(18,076,478)
Amortisation of capitalised production waste (i)	(1,441,014)	(3,509,426)
Amortisation of capitalised rehabilitation costs (i)	-	(602,481)
Carrying amount at 30 June	136,174	1,575,199

- (i) Total amount of amortisation and depreciation included in cost of goods sold for the six months ended 31 December 2011 was \$1,905,212 (31 December 2010: \$22,188,385).

12. Contributed equity

On the 3 June 2011 the Company announced that subject to the completion of the sale of the Cloncurry Copper Project (CCP) to Xstrata plc, it intended to return \$135 million of the after-tax cash retained in the Company to Exco shareholders by 31 October 2011 (or under reasonable circumstances where a delay is experienced, as soon as is practicable). The Board further expressed its intention to structure the form of the distribution(s) in such a way as to seek to maximise the value of the return(s) to shareholders.

On 29 July in pursuance of these objectives, the Company lodged a request for a class-ruling to the Australian Taxation Office (ATO) in respect of the ability, and if available, the amount of funds, that might be returned to shareholders by way of a capital distribution following the sale of the CCP.

On 19 October 2011 the ATO issued a draft ruling (issued in final on 15 February 2012) which indicated that up to \$36 million of the \$135 million that the company had promised to return to shareholders could be returned by way of a capital distribution. Accordingly on 24 October 2011 the Company announced that subject to approval of the reduction of capital by shareholders, it intended to return 10 (ten) cents per share (\$35.6 million fully diluted) as a capital return and 28 (twenty eight) cents per share (\$99.7 million) as a fully franked dividend to shareholders as soon as possible. At the Annual General Meeting of the Company on 24 November 2011 a resolution proposing a reduction and return of capital of 10 cents per share was agreed by the members. A return of \$35,604,419 was made on 9 December 2011 to all shareholders in the Company as at 2nd December 2011.

a) Share capital

	Number of shares		Amount (\$)	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Ordinary shares on issue	356,044,187	346,494,187	79,883,407	76,722,957
Share issuance cost	-	-	(2,794,851)	(2,776,274)
Ordinary shares on issue net of cost	356,044,187	346,494,187	77,088,556	73,946,683
Movement in ordinary shares				
Balance at 1 July	348,544,187	328,565,892	74,640,556	68,968,927
Return of capital	-	-	(35,604,419)	-
<i>Issue of shares:</i>				
Exercise of options	7,500,000	1,500,000	2,460,000	375,000
Shares issued for cash	-	16,428,295	-	4,928,489
Transaction costs	-	-	(11,999)	(325,733)
Balance at end of the period	356,044,187	346,494,187	41,484,138	73,946,683

EXCO RESOURCES LIMITED

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Notes to the consolidated interim financial statements

Movement in Options over ordinary shares on issue – unlisted options

	Number of Options	
	31 Dec 2011	31 Dec 2010
Balance at 1 July	7,500,000	10,650,000
Exercise of options	(7,500,000)	(1,500,000)
Balance at 30 June	-	9,150,000

b) Dividend

Subsequent to the agreement for a capital reduction, the board announced a fully-franked special dividend of 28 cents per share. A dividend payment of \$99,692,372 was made on 9 December 2011 to all shareholders in the Company as at 2nd December 2011.

13. Commitments

The exploration expenditure and operating lease commitments are consistent with those reported in the 30 June 2011 annual financial report.

14. Related party disclosures

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2011 annual financial report.

15. Share-based payments

No incentive options were issued to employees during the six months ended 31 December 2011.

The options vested during the six months ended 31 December 2011 resulted in a total of \$5,154 (2010: \$28,787) charge to share-based payments reserve, recognised as share based payment expense (2010: \$28,787 of which \$23,285 recognised as share-based payment expense and \$5,502 capitalised to exploration).

16. Events subsequent to balance date

On 10th January 2012 Exco and Polymetals announced that they had agreed in principle to enter new joint venture arrangements for the White Dam Gold Production Joint Venture. The proposal is subject to finalisation of formal agreements. It is proposed that Polymetals will earn a further 25% interest in the exploration tenements in the Drew Hill area by spending \$1.3m on exploration prior to 30 June 2012. In addition Polymetals will increase its interest in the White Dam infrastructure, including plant and camp facilities, from 25% to 50% in return for a cash consideration based on an agreed independent valuation and a commitment to take on an extra 25% of the future closure costs.

17. Contingencies

Contingent asset

The Company has a right to a royalty entitlement over the sulphide ores under the Great Australia mining lease in Cloncurry, Qld., which is being mined by CopperChem Limited pursuant to the terms of the Exco-CopperChem Alliance Agreement entered into in September 2009.

CopperChem commenced mining of sulphide ores from the open pit during the six months to 31 December 2011 and a royalty in the amount of \$925,211 is receivable in relation to this production.

Due to the uncertainty of future events including future LME copper prices and future quantities of qualifying ore being mined, it is not practicable to reliably estimate the potential future amount of royalty to be received from CopperChem.

Indicatively, based on prevailing LME copper prices (c.US\$3.70/lb) and the current estimated 1.7 million tonnes of sulphide ore being qualifying ore, it is estimated that the royalty may generate gross cash to Exco of around A\$25 million over the expected life of the project (4 years).

EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Directors' declaration

In the opinion of the directors of Exco Resources Limited ("the Company"):

- (a) the financial statements and notes set out on pages 13 to 22, are in accordance with the *Corporations Act* (2001), including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance, for the six month period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations* (2001); and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors



Geoff Laing
Managing Director
15 March 2012

Independent lead auditor's report**Independent auditor's review report to the members of Exco Resources Limited****Report on the financial report**

We have reviewed the accompanying interim financial report of Exco Resources Limited which comprises the consolidated statement of financial position as at 31 December 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year period ended on that date, notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2011 and its performance for the half-year period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Exco Resources Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Independent lead auditor's report



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Exco Resources Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the half-year period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

A handwritten signature in blue ink, appearing to be 'T. Hart'.

Trevor Hart
Partner

Perth

15 March 2012