



**Exco Resources Ltd**  
(ACN 080 339 671)  
**and its controlled entities**  
Financial Report  
30 June 2012

## EXCO RESOURCES LIMITED

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FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

### Corporate Information

ABN 99 080 339 671

#### DIRECTORS

Barry Sullivan (Chairman)  
Geoff Laing (Managing Director, appointed 10 January 2012)  
Alasdair Cooke (Executive Director)  
Tom Whiting (Non-executive Director, appointed 20 September 2011)  
Mike Spreadborough (Non-executive Director, appointed 3 July 2012)

#### SECRETARY

Eamon Byrne (Secretary and Chief Financial Officer)

#### MANAGEMENT

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

#### PRINCIPAL & REGISTERED OFFICE

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#### SOLICITORS

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West Perth Western Australia 6005

#### AUDITORS

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235 St George's Terrace  
Perth Western Australia 6000

#### SHARE REGISTRY

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**Directors' Report**

The Directors present their report together with the financial statements of the Group comprising of *Exco Resources Limited* (the Company or the Group), and its subsidiaries, and the Group's interest in associates and jointly controlled entities for the financial year ended 30 June 2012 and the auditor's report thereon.

**1. Directors**

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

**MR BARRY SULLIVAN****BSc(Min), ARSM, FAusIMM, MAICD****Chairman - Non-executive Director***Experience and expertise*

Mr Sullivan is an experienced mining engineer who has had a successful career in the mining industry, both in South Africa with Anglo American Ltd (1969-1974) and in Australia with Mount Isa Mines (MIM, 1974 to 1995). He had six years as Executive General Manager at MIM, in which capacity Mr Sullivan was responsible for total operations including regional exploration, four underground mines and one open cut mine, power stations, dams and comprehensive support services. Director since 2005, chair of the audit and remuneration committees.

*Other current directorships:*

Non-executive director of Lion Selection Group Ltd since December 2011

Non-executive director of Bass Metals Ltd since January 2012

*Previous directorships:*

Non-executive director of Lion Selection Ltd November 2008 – December 2009

Non-executive director of Catalpa Resources Ltd June 2008 – October 2011

**MR GEOFF LAING****BSc (Chem Eng), MBA, MAICD****Managing Director (appointed 10 January 2012)***Experience and expertise*

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 has held the position of General Manager Project and Corporate Development for Exco. A member of the remuneration committee.

**MR ALASDAIR COOKE****BSc (Hons Geology), MAIG****Executive Director***Experience and expertise*

Mr Cooke is one of the founders of Exco Resources and has over 23 years of experience in the resource exploration industry throughout Australia and internationally.

He is a qualified geologist and throughout his career, has been involved in mineral exploration and corporate development, including eight years spent with BHP Minerals Business Development Group and over ten years managing public resource companies.

Mr Cooke is a founding partner of the Mitchell River Group, which over the decade has established a number of successful resource companies, including Panoramic Resources Ltd, Albidon Ltd, Mirabela Nickel Ltd, Energy Ventures Ltd and African Energy Resources Ltd. Director since 2001, member of the remuneration committee.

*Other current directorships*

Executive director of African Energy Resources Ltd since 2006

Executive director of Energy Ventures Ltd since 2007

*Previous directorships:*

Executive director of Albidon Ltd 2000-2010

**DR TOM WHITING****BSc (Hons) PhD, MAppFin, MASEG, MAICD****Non-executive Director (appointed 20 September 2011)***Experience and expertise*

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<sup>®</sup> airborne gravity gradiometer system. Dr Whiting recognised the potential of the Predictore<sup>™</sup> approach and was one of the principal supporters of the pmd\*<sup>®</sup>CRC research programme. A member of the audit committee since July 2012.

*Other current directorships*

Non-executive Director of Predictive Discovery Limited since 2010

Non-executive Director of Stellar Resources Limited since February 2011

Director of Mineral Deposits Limited since February 2012

Non-executive Chairman of the Deep Exploration Technologies Cooperative Research Centre.

**Directors' Report (continued)**

**MR MICHAEL SPREADBOROUGH**

**BEng (Mining) (Hons), MBA**

**Non-executive Director (appointed 3 July 2012)**

*Experience and expertise*

Mr Spreadborough, has extensive mining experience in large, multi-national companies in operational and senior management roles. He is currently Chief Operating Officer of Ivanhoe Australia Ltd. He was previously a General Manager within Rio Tinto's Pilbara iron ore operations where he was responsible for various mining operations and associated infrastructure including the Cape Lambert and Dampier ports, leading a workforce of 1,000 personnel. Mr Spreadborough served on the Dampier Port Authority Board for five years and is currently a director of the Queensland Resource Council.

Prior to joining Rio Tinto, he was Vice President, Mining, at BHP Billiton's Olympic Dam Operations, with responsibility for all aspects of the Olympic Dam mine. He has experience in underground and open-pit mining for a wide range of commodities, including copper, gold, uranium, iron ore, lead and zinc.

**MR MICHAEL ANDERSON**

**BSc (Hons Mining Geology), PhD, ARSM**

**Managing Director (resigned 5 August 2011)**

*Experience and expertise*

Mr Anderson is a graduate of the Royal School of Mines with a PhD and Honours in Mining Geology. He has over 20 years experience in the southern African and Australian mining industries.

Prior to joining Exco Resources, Mr Anderson was Group Manager for Business Development with Gallery Gold Ltd. Director since 2006.

**MR PETER REEVE**

**BSc (Metallurgy)**

**Non-executive Director (resigned 3 July 2012)**

*Experience and expertise*

Mr Reeve has been involved in the Australian resources industry for over 25 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.

Mr Reeve resigned as Chief Executive Officer and Managing Director of Ivanhoe Australia Ltd in June 2012. A director since 2008.

**2. Company Secretary, Chief Financial Officer**

**MR EAMON BYRNE,**

**FCCA, MIPA, CSA(Cert)**

Mr Byrne was appointed to the position of company secretary and chief financial officer on 1 September 2008. He is a qualified accountant with over 23 years of experience in the mining and resources industry. Prior to joining Exco, Mr Byrne worked for Albion Ltd, Woodside Petroleum and WMC Resources Ltd on a range of Australian and international projects. His experience, prior to his involvement in the mining industry, includes retailing, manufacturing and distribution.

**3. Directors' meetings**

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

| Director                           | Board Meetings |   | Remuneration Committee Meetings |   | Audit and Risk Committee Meetings |   |
|------------------------------------|----------------|---|---------------------------------|---|-----------------------------------|---|
|                                    | A              | B | A                               | B | A                                 | B |
| Mr Barry Sullivan                  | 7              | 7 | 2                               | 2 | 2                                 | 2 |
| Mr Geoff Laing <sup>1</sup>        | 4              | 4 | 1                               | 1 | 1                                 | 1 |
| Mr Alasdair Cooke                  | 7              | 7 | 2                               | 2 | -                                 | - |
| Dr Tom Whiting <sup>2</sup>        | 6              | 6 | -                               | - | -                                 | - |
| Mr Mike Spreadborough <sup>3</sup> | -              | - | -                               | - | -                                 | - |
| Mr Michael Anderson <sup>4</sup>   | -              | - | -                               | - | -                                 | - |
| Mr Peter Reeve <sup>5</sup>        | 7              | 7 | -                               | - | -                                 | - |

**A** – Number of meetings attended

**B** – Number of meetings held during the time the director held office during the year

<sup>1</sup> Mr Laing was appointed a director on 10 January 2012. He attends audit committee meetings in a non-voting capacity

<sup>2</sup> Dr Whiting was appointed on 20 September 2011

<sup>3</sup> Mr Spreadborough was appointed on 3 July 2012

<sup>4</sup> Mr Anderson resigned on 5 August 2011

<sup>5</sup> Mr Reeve resigned 3 July 2012

**Directors' Report (continued)****4. Corporate Governance Statement**

The table on Page 15 cross references the ASXCGC Recommendations to the relevant sections of the Corporate Governance Statement and Remuneration Report.

**4.1. Board of directors****Role of the board**

The primary role of the board of directors is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for monitoring financial and other reporting.

The board has delegated responsibility for operation and administration of the Group to the managing director and executive management. Responsibilities are delineated by formal authority delegations

**Board processes**

The board has established a framework for the management of the Company including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

To assist in the execution of its responsibilities, the board has established two board committees, an Audit and Risk Committee and a Remuneration Committee.

The Company is engaged in exploration, evaluation and development of mining interests. The critical skills required by the board in pursuing the Company's business are expert geological, exploration and evaluation and project management skills together with strong fiscal management skills. In addition, each director is charged with having a thorough understanding of and responsibility for the protection of the rights of the Company and its shareholders.

The board has these skills and as the Company's business plan progresses it will add new directors as and when complimentary skills are required.

The board presently comprises three non-executive directors and two executive directors. At this time two of the directors, Mr Barry Sullivan and Dr Tom Whiting, are considered independent. Mr Spreadborough is currently the Chief Operations Officer of a major shareholder and Mr Cooke is contracted to provide ongoing consulting work. All the senior technical and financial personnel are highly qualified and have previously held roles of executive responsibility in much larger organisations.

The directors meet frequently, both formally and informally, to ensure a mutually thorough understanding of the Company's business and all the Company's policies of corporate governance are adhered to. The agenda for meetings is

prepared by the managing director in conjunction with the chairman and company secretary and is circulated in advance.

**Director education**

The Company has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning the performance of directors. Directors are given access to, and encouraged to participate in, continuing education opportunities to update and enhance their skills and knowledge.

**Independent professional advice and access to Company information**

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the chairman, may seek independent professional advice from a suitably qualified advisor at the Company's expense. The director must consult with an advisor suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of any advice received by the director will be made available to all other board members.

**Independence**

ASX Corporate Governance Council (ASX CGC) recommendation 2.1 requires a majority of the board to be independent directors. The ASX CGC defines independence (inter alia) as being *free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement*. Taking account of this definition, only two of the board members, Mr Barry Sullivan and Dr Tom Whiting, are considered to be independent.

ASX CGC recommendation 8.3 suggests that non-executive directors should not receive equity-based or bonus payments. The board has in the past awarded equity-based payments and/or bonus payments to non-executive directors. The Company believes that equitable payments to non-executive directors in relation to special efforts are not unreasonable. The Company considers these payments to be a reasonable and appropriate method of assisting in attracting and retaining suitably skilled board members to a company the size and nature of Exco.

**4.2. Nomination committee**

ASX CGC recommendation 2.4 requires listed entities to establish a nomination committee. During the year ended 30 June 2012, the Company did not have a separate nomination committee. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities. The board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee. The board has reviewed its policy on nominations and incorporates below its summarised policy.

**Directors' Report (continued)**

Factors considered for a new candidate include:

- The skills required for appointment to the board;
- How differing skills are represented on the board;
- Processes for the identification of suitable candidates for the board;
- The time commitment required by a director to effectively discharge duties;
- The number of existing directorships and other commitments that the candidate may have;
- Assessment of the 'independence' of the candidate; and
- The extent to which the appointee is likely to work constructively with the existing directors and contribute to the overall effectiveness of the board.

The following procedure is followed in selecting and appointing a new director:

- Utilise personal networks or external consultants to identify potential candidates;
- Assess appropriateness of candidate with consideration to the above points;
- Determine the terms, conditions, responsibilities and expectations of the new position;
- Non-executive directors should be appointed subject to re-election and to the ASX Listing Rules and Corporations Act provisions concerning removal of a director;
- Ultimate decisions about who is elected to the board are to be made by the shareholders; and
- Ensuring that the new board member is inducted and that they have every opportunity to increase their knowledge about the Company to ensure that they can participate in an effective manner to the board deliberations.

**4.3. Remuneration Committee**

The Remuneration Committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors themselves of the Company and of other Group executives for the Group. It is also responsible for equity-based schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The committee actively reviews and makes recommendations to the board on the Group's remuneration by gender.

The members of the remuneration committee during the year were:

Mr Barry Sullivan (Chair) – Independent non-executive  
Mr Geoff Laing – Managing  
Mr Alasdair Cooke – Executive

With only one member of the remuneration committee being an independent director, the composition of the committee does not currently comply with the suggested composition of ASX CGC recommendation 8.2. The Company is seeking ways to redress this situation.

The remuneration committee meets twice a year and as required. The committee met twice during the year and committee members' attendance record is disclosed in the

table of directors' meetings on page 3. Members excuse themselves from discussions pertaining to their own remuneration.

**4.4. Remuneration report - audited****4.4.1. Principles of compensation**

Remuneration is referred to as compensation throughout this report.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives of the Group.

Compensation levels for key management personnel and secretaries of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee assesses the appropriateness of remuneration packages of the Group based on trends in comparative companies.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the performance of their respective areas of responsibility; and,
- the Group's performance

Compensation packages include a mix of fixed and variable compensation, and short-term and long-term performance based incentives.

**Fixed compensation**

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the remuneration committee through a process that considers individual and overall performance of the Group. In addition, external consultants may provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

**Performance linked compensation**

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as performance rights over ordinary shares of the Company under the rules of the *Long Term Incentive Awards Plan - 2012*.



**Directors' Report (continued)****4.4 Remuneration report – audited (continued)****Short term incentive structure**

Each year the remuneration committee sets the key performance indicators (KPIs) for employees. The KPIs generally include measures relating to the Group, the relevant segment, and the individual, and include financial, people, strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPIs of the Group and to its strategy and performance. The objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, and staff development.

At the end of the financial year the remuneration committee assesses the actual performance of the Group. The relevant segment and individual against the KPIs set at the beginning of the financial year. A percentage of the pre-determined maximum amount is awarded depending on results. No bonus is awarded where performance falls below the minimum. The performance evaluation in respect of the year ended 30 June 2012 has taken place in accordance with this process. The remuneration committee recommends the cash incentive to be paid to the individuals for approval by the board. Performance is measured against agreed personal targets for each individual basis. The method of assessment was chosen as it provides the committee with an objective assessment of the individual's performance.

**Long term incentive structure**

Performance rights were issued under the *Long Term Incentive Awards Plan - 2012* which provided for Group personnel to receive rights over ordinary shares for no consideration. The ability to exercise the rights was in the first instance conditional on the Group and/or the individual achieving certain performance hurdles. These performance hurdles included service and measurements in relation to share price and resource base growth. A percentage of the performance condition for the vesting of performance rights under the plan was a performance hurdle based on relative total shareholder return (TSR). Exco's TSR was to be measured in two equal tranches over a 3 year vesting period against the performance of resources companies in the 200-300 positions in the total return (accumulation) version of the S&P/ASX 300 Index (the S&P/ASX "Small Resources" Index). The amount of rights offered was dependent on the individual's base remuneration.

A further provision of the plan permitted the board to deem performance rights as having vested under circumstances related to a change of control event. As noted below in 4.4.3 this provision was invoked on the event of the bid announced by Washington H Soul Pattinson & Co Ltd on 27 August 2012

**Consequences of performance on shareholder wealth**

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. As noted above, the Group implemented a new LTI plan during the year as part of this policy.

In considering the Group's performance and benefits for shareholder wealth, the Board believes that at this stage of the

Group's development, essentially an exploration company again post-production at White Dam, there is not a clear link between revenue/ profitability and the advancement of shareholder wealth.

The Group believes that the attainment of key exploration milestones (such as an increase in resource base) and growth in share price are the key links between the Group's performance and shareholder wealth. For this reason the Group does not currently link revenue/profitability and shareholder wealth.

During the financial period the Company's share price (adjusted for distributions) traded between a low of 15 cents and a high of 35 cents. The price volatility is a concern to the board but is not considered abnormal for a junior explorer such as Exco Resources Limited.

In order to keep all investors fully-informed and minimise market fluctuations the board is determined to maintain promotional activity amongst the investment community so as to increase awareness of the Company.

**Non-executive directors**

Remuneration of non-executive directors is determined by the board with reference to comparable industry levels. Total compensation for all non-executive directors is not to exceed \$400,000 per annum as approved by shareholders and is set based on advice from external advisors.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

Non-executive directors were allowed to participate in the LTI plan during the year.

**Service contracts**

Service contracts are in place for senior executives and outline the components of compensation paid to the key management personnel but do not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

Remuneration and terms of employment for the key management personnel are formalised in service agreements, the terms of which are set out below. None of the contracts include termination benefits:



## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Directors' Report (continued)

#### 4.4 Remuneration report – audited (continued)

##### Terms of Employment - Key Management Personnel

**From**  
**1 May 2011**  
**to 30 Apr 2012**

**From**  
**1 May 2012**  
**to 30 Apr 2013**

**Contracted Annualised Salary / Fees**

| <b>Non-executive directors</b>                                      |   |         |         |
|---|---|---------|---------|
| <b>B Sullivan</b><br><i>Chairman</i>                                | No fixed term - subject to re-election as required by Company's constitution. The arrangement may be terminated by either party giving 1 month notice in writing. | 72,905  | 76,550  |
| <b>T Whiting<sup>1</sup></b><br><i>Non-executive Director</i>       | No fixed term - subject to re-election as required by Company's constitution. The arrangement may be terminated by either party giving 1 month notice in writing. | 51,045  | 53,600  |
| <b>M Spreadborough<sup>2</sup></b><br><i>Non-executive Director</i> | No fixed term - subject to re-election as required by Company's constitution. The arrangement may be terminated by either party giving 1 month notice in writing. | -       | -       |
| <b>P Reeve<sup>2</sup></b><br><i>Non-executive Director</i>         | No fixed term - subject to re-election as required by Company's constitution. The arrangement may be terminated by either party giving 1 month notice in writing. | 51,045  | 53,600  |
| <b>Executives</b>   |   |         |         |
| <b>Executive directors</b>  |   |         |         |
| <b>G Laing<sup>3</sup></b><br><i>Managing Director</i>              | Term of agreement – No fixed term. Commencing 1 January 2012, the arrangement may be terminated by either party giving 6 months notice in writing.                | 390,000 | 408,715 |
| <b>A Cooke</b><br><i>Executive Director</i>                         | No fixed term - subject to re-election as required by Company's constitution. The arrangement may be terminated by either party giving 1 month notice in writing. | 174,863 | 183,610 |
| <b>M Anderson<sup>4</sup></b><br><i>Managing Director</i>           | No fixed term. The arrangement may be terminated by either party giving 6 months notice in writing.   | 419,239 | -       |
| <b>Other key management personnel</b>                               |   |         |         |
| <b>B McLarty</b><br><i>Commercial Manager</i>                       | No fixed term. The arrangement may be terminated by either party giving 6 months notice in writing.   | 334,347 | 350,885 |
| <b>D Cook</b><br><i>Exploration Manager</i>                         | No fixed term. The arrangement may be terminated by either party giving 1 month notice in writing.  | 260,000 | 288,780 |
| <b>S Konecny</b><br><i>Chief Geologist</i>                          | Mr Konecny is an independent contractor and does not have a service contract.   | N/A     | N/A     |
| <b>E Byrne</b><br><i>Company Secretary</i>                          | No fixed term. The arrangement may be terminated by either party giving 6 months notice in writing.   | 333,133 | 349,610 |

<sup>1</sup> Dr Whiting was appointed on 20 September 2011

<sup>2</sup> Mr Reeve resigned from, and Mr Spreadborough was appointed to, the board on 3 July 2012

<sup>3</sup> Appointed 10 January 2012 – annualised salary from that date

<sup>4</sup> Mr Anderson resigned 5 August 2011

#### 4.4.2. Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company, and other key management personnel of the Group are included in the table below.

Remuneration payments to Mr Cooke were made to a related entity, Hartree Pty Ltd.

## EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

### Directors' Report (continued)

#### 4.4 Remuneration report – audited (continued)

##### Directors and key management personnel remuneration

|   |      | Salary &<br>Fees<br>\$ | Short-Term<br>Cash bonus<br>paid and<br>accrued<br>(b)<br>\$ | Non-<br>monetary<br>benefits<br>\$ | Sub Total<br>\$ | Post<br>Employment<br>Super-<br>annuation<br>benefits<br>\$ | Share-<br>based<br>payments<br>Options<br>and rights<br>(a)<br>\$ | Total<br>\$ | Performance related<br>remuneration<br>\$ | %    | Value of<br>Options /<br>rights as<br>% of Total<br>% |
|---|------|------------------------|--|------------------------------------|-----------------|---|---|-------------|---|------|---|
| <b>Directors</b>                                |      |                        |  |                                    |                 |   |   |             |   |      |   |
| G Laing (appointed 10/01/2012)                  | 2012 | 403,948                | 56,134   | -                                  | 460,082         | 15,775  | 70,032  | 545,889     | 105,156                                   | 19.3 | 12.8  |
|   | 2011 | 319,277                | 266,017  | 4,875                              | 590,169         | 15,199  | 2,365   | 607,733     | -   | -    | 0.4   |
| B. Sullivan (non-executive)                     | 2012 | 66,629                 | -  | -                                  | 66,629          | 6,883   | 11,672  | 85,184      | 8,170                                     | 9.6  | 13.7  |
|   | 2011 | 60,832                 | 50,000   | -                                  | 110,832         | 5,474   | -   | 116,306     | -   | -    | -   |
| A. Cooke  | 2012 | 176,321                | 26,229   | -                                  | 202,550         | -   | 31,125  | 233,675     | 48,017                                    | 20.5 | 13.3  |
|   | 2011 | 159,034                | 177,827  | -                                  | 336,861         | -   | -   | 336,861     | -   | -    | -   |
| T Whiting (non-executive, appointed 20/09/2011) | 2012 | 37,129                 | -  | -                                  | 37,129          | 3,342   | 7,781   | 59,252      | 5,447                                     | 11.3 | 16.1  |
| M. Anderson (resigned 5/08/2011)                | 2012 | 49,404                 | -  | -                                  | 49,404          | 2,014   | -   | 51,418      | -   | -    | -   |
|   | 2011 | 367,464                | 330,510  | 6,208                              | 704,182         | 15,199  | -   | 719,381     | -   | -    | -   |
| P Reeve (non-executive, resigned 3/07/2012)     | 2012 | 47,221                 | -  | -                                  | 47,221          | 4,250   | 7,781   | 59,252      | 5,447                                     | 9.2  | 13.1  |
|   | 2011 | 42,591                 | -  | -                                  | 42,591          | 3,833   | -   | 46,424      | -   | -    | -   |
| <b>Executives</b>                               |      |                        |  |                                    |                 |   |   |             |   |      |   |
| B McLarty                                       | 2012 | 321,806                | 47,872   | -                                  | 369,678         | 15,775  | 58,360  | 443,813     | 88,724                                    | 20.0 | 13.1  |
|   | 2011 | 290,248                | 257,290  | -                                  | 547,538         | 15,199  | -   | 562,737     | -   | -    | -   |
| D Cook (commenced 13/06/2011)                   | 2012 | 262,168                | 39,000   | -                                  | 301,168         | 15,775  | 46,688  | 363,631     | 71,682                                    | 19.7 | 12.8  |
|   | 2011 | 14,000                 | -  | -                                  | 14,000          | 818   | -   | 14,818      | -   | -    | -   |
| S Konecny                                       | 2012 | 178,158                | 26,233   | -                                  | 204,391         | 14,159  | 46,688  | 265,238     | 58,915                                    | 22.2 | 17.6  |
|   | 2011 | 203,712                | 46,584   | -                                  | 250,296         | -   | -   | 250,296     | -   | -    | -   |
| E Byrne   | 2012 | 320,583                | 47,690   | -                                  | 368,273         | 15,775  | 63,514  | 447,562     | 88,542                                    | 19.8 | 14.2  |
|   | 2011 | 289,152                | 196,959  | -                                  | 486,111         | 15,199  | 37,927  | 539,237     | -   | -    | 7.0   |
| <b>Totals</b>                                   | 2012 | 1,863,367              | 243,158  | -                                  | 2,106,525       | 93,748  | 343,641   | 2,543,914   | 480,099                                   | 18.9 | 13.5  |
|   | 2011 | 1,746,310              | 1,325,187  | 11,083                             | 3,082,580       | 70,921  | 40,292  | 3,193,793   | -   | -    | 1.3   |

**Directors' Report (continued)**
**4.4 Remuneration report – audited (continued)**

*Notes in relation to the table of directors' and key management personnel remuneration*

- a) The fair value of options and performance rights is calculated at the date of grant using a binomial option-pricing model. The fair value is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the performance rights/options recognised in this reporting period.
- b) The short-term incentive bonuses were granted for performance during the respective financial year. The following is an analysis of bonuses paid.

**Analysis of bonuses included in remuneration**

|                   | Included in remuneration |         | Short-term incentive bonus |      |                         |      |
|-------------------|--------------------------|---------|----------------------------|------|-------------------------|------|
|                   | \$ (A)                   | \$ (A)  | % vested in year           |      | % forfeited in year (B) |      |
|                   | 2012                     | 2011    | 2012                       | 2011 | 2012                    | 2011 |
| <b>Directors</b>  |                          |         |                            |      |                         |      |
| G Laing           | 56,134                   | 266,017 | 100%                       | 100% | -                       | -    |
| A Cooke           | 26,229                   | 177,827 | 100%                       | 100% | -                       | -    |
| B Sullivan        | -                        | 50,000  | -                          | 100% | -                       | -    |
| M Anderson        | -                        | 330,510 | -                          | 100% | -                       | -    |
| <b>Executives</b> |                          |         |                            |      |                         |      |
| B McLarty         | 47,872                   | 257,290 | 100%                       | 100% | -                       | -    |
| D Cook            | 39,000                   | -       | 100%                       | -    | -                       | -    |
| S Konecny         | 26,233                   | 46,584  | 100%                       | 100% | -                       | -    |
| E Byrne           | 47,690                   | 196,959 | 100%                       | 100% | -                       | -    |

- A. Cash bonuses awarded as remuneration to the relevant specified executives were granted on 18 May 2012 following year end reviews of the executive's overall personal achievements and performance for the year against agreed individual targets.
- B. The cash bonuses awarded as remuneration to the relevant specified executives were fully vested. \$243,159 was paid in the year ended 30 June 2012. None of the bonuses were forfeited during the current or prior year.

**4.4.3. Equity Instruments**

All options refer to options over ordinary shares of Exco Resources Limited, which are exercisable on a one-for-one basis.

**Options over equity instruments granted as remuneration**

During the reporting period, no options over ordinary shares in the Company were granted as remuneration to key management personnel.

**Exercise of options granted as compensation**

During the reporting period the following shares were issued on the exercise of options previously granted as remuneration.

|                  | 2012             |                       | 2011             |                       |
|------------------|------------------|-----------------------|------------------|-----------------------|
|                  | Number of shares | Amount paid per share | Number of shares | Amount paid per share |
| <b>Director</b>  |                  |                       |                  |                       |
| G Laing          | 1,500,000        | 40 cents              | -                | -                     |
| <b>Executive</b> |                  |                       |                  |                       |
| S Konecny        | -                | -                     | 1,500,000        | 25 cents              |
| E Byrne          | 1,500,000        | 40 cents              | -                | -                     |

**Directors' Report (continued)**
**4.4 Remuneration report – audited (continued)**
**Performance rights over equity instruments granted as remuneration**

On 30 March 2012 the board resolved to issue 11.2m performance rights to employees and contractors.

The board also resolved to issue 3.3m performance rights to directors, subject to shareholder approval at the next General Meeting of the Company. Due to the Change of Control Event occasioned by the bid for the Company by Washington H Soul Pattinson & Co Ltd on 27 August 2012, the grant of these performance rights will not now be effected.

Of the 11.2m performance rights granted to employees and contractor, 5.4m were issued to KMPs as outlined below:

| 2012              | Right granted as compensation | Grant date | Fair value per right on grant date (cents) | Exercise price(\$) | Expiry date | Number of rights vested during 2012 |
|-------------------|-------------------------------|------------|--|--------------------|-------------|-------------------------------------|
| <b>Directors</b>  |                               |            |  |                    |             |                                     |
| G Laing           | 1,800,000                     | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |
| B Sullivan        | 300,000                       | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |
| A Cooke           | 800,000                       | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |
| T Whiting         | 200,000                       | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |
| P Reeve           | 200,000                       | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |
| <b>Executives</b> |                               |            |  |                    |             |                                     |
| B McLarty         | 1,500,000                     | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |
| S Konecny         | 1,200,000                     | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |
| E Byrne           | 1,500,000                     | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |
| D Cook            | 1,200,000                     | 31-Mar-12  | 18.9                                       | -                  | 31-Jul-16   | -                                   |

The performance rights were issued to:

- create commonality of purpose between Directors, employees and contractors ("participants") and the Exco Group and thereby enable the participants to share in the rewards of the success of the Exco Group;
- add wealth to all shareholders by motivating the participants; and,
- attract quality participants to, and motivate and retain them in, the Exco Group.

Each performance right provides an entitlement to acquire one fully paid ordinary share in the Company, with a nil exercise price, exercisable on or before 31 July 2016 subject to vesting or earlier lapse in accordance with the rules of the *Exco Resources Limited - Long Term Incentive Awards Plan – 2012 (Plan)*.

On 27 August 2012 Washington H Soul Pattinson & Co Ltd, (WHSP) served notice of a takeover bid on the Company. This event triggered a Change of Control Event (CCE) provision in the Plan whereby the board could determine that any unvested performances rights outstanding at the point of a CCE could, at the board's discretion, be deemed to have vested. On 31 August 2012 the board resolved to so determine.

All the deemed vested rights under the Plan were exercised on 7 September 2012 and 11,200,000 shares were issued on 20 September 2012.

The Plan also provided that if a CCE occurred before the directors' performance rights had been approved by shareholders that a cash benefit would be paid to directors to ensure that the directors are put in a position similar to other holders of performance rights (whose grants are not subject to shareholder approval), and to ensure that the purpose of the Plan is achieved. At the date of this report the board has yet to determine the value-per-share that will be used in determining

the amount of the cash payment to directors. Indicatively, based on the Revised Offer price per share currently recommended by the Exco board, the cash payment would amount to \$821,500 as follows:

|            | \$      |
|------------|---------|
| G Laing    | 477,000 |
| A Cooke    | 212,000 |
| B Sullivan | 79,500  |
| T Whiting  | 53,000  |

Mr Peter Reeve forfeited his entitlement on his resignation from the board on 3 July 2012.

For further information see note 30 *Share based payments* and note 32 *Events subsequent to the balance date* in the financial statements.

The performance rights amounts as tabled below were intended to be only exercisable and capable of vesting if certain performance hurdles were achieved, in accordance with the rules of the plan, by the following dates, respectively:

| Vesting Date    | Amount    |
|-----------------|-----------|
| 31 July 2013    | 4,350,000 |
| 31 January 2015 | 4,350,000 |

The performance measures contained a mixture of service, share price and resource-base hurdles.

**Modification of terms of equity-settled share-based payment transactions**

No terms of equity-settled share-based payment transactions (including options or performance rights granted as compensation to a key management person) have been



**Directors' Report (continued)**

altered or modified by the issuing entity during the reporting period or the prior period.

**Analysis of movements in options**

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person is detailed below. No options were granted during the period.

|                  | Exercised during<br>period<br>\$ <sup>1</sup> |
|------------------|---|
| <b>Director</b>  |   |
| G Laing          | 345,000                                       |
| <b>Executive</b> |   |
| E Byrne          | 330,000                                       |

<sup>1</sup> The value of options exercised during the year is calculated as the market prices of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

**4.5. Audit and Compliance policy**

The board imposes stringent policies and standards to ensure compliance with all corporate financial and accounting standards. Where considered appropriate, the Company's external auditors, professional advisors and management are invited to advise the board on these issues and the board meets quarterly to consider audit matters prior to statutory reporting.

It is the board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The board maintains responsibility for a framework of internal control and ethical standards for the management of the Group.

The board, which consists of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business, advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

The Company requires that its auditors must not carry out any other major area of service to the Company and should have expert knowledge of both Australian and International jurisdictions.

ASXCGC recommendation 4.2 requires listed entities to have an audit committee consisting of only non-executive directors, a majority of independent directors, an independent chairman, who is not chairman of the board and at least three members. ASXCGC recommendation 4.3 requires the audit committee to have a formal charter.

The board established an Audit and Risk committee with a formal charter during the year ended 30 June 2012. Given the size and nature of the Company's activities, and the composition of the board, it has not been possible to comply

fully with ASXGC recommendation 4.2. The members of the Audit and Risk committee during the year were:

Mr Barry Sullivan (chairman)  
Mr Tom Whiting (appointed 20 September 2011)  
Mr Michael Anderson (resigned 5 August 2011)

The external auditors, the managing director and the chief finance officer are invited to audit committee meetings at the discretion of the committee. The committee met twice during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 3.

The managing director and the chief financial officer have declared in writing to the board that the Company's financial reports for the year ended 30 June 2012 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

The audit committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the consolidated financial statements and to review the fees proposed for the audit work to be performed
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results
- review the draft annual and half-year financial report, and recommend board approval of the financial report
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

**4.6. Risk management****Oversight of the risk management system**

The board takes a proactive approach to risk management. The board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the board. This oversight encompasses operational, financial reporting and compliance risks.

The board, through the Audit and Risk Committee oversees the establishment, implementation and annual review of the Company's risk management policies as part of the board approval process for the strategic plan, which encompasses the Group's vision and strategy, designed to meet stakeholder's needs and manage business risks.

The managing director and the chief financial officer have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and

**Directors' Report (continued)**

effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Group.

**Internal control framework**

The board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the board has instigated an internal control framework that deals with:

- Financial reporting - there is a comprehensive budgeting system with an annual budget, updated on a regular basis approved by the board. Monthly actual results are reported against these budgets.
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses or assets are being acquired or divested.
- Quality and integrity of personnel - the Group's policies are detailed in an approved induction manual. Formal appraisals are conducted annually for all employees.

**4.7. Ethical standards**

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. The Company guides directors and employees in the practice of compliance with these objectives through policy and procedural documents outlining the duties and responsibilities of individuals in relation to the objectives.

**Code of conduct**

The board has advised each director and company officer that they must comply with the Group's ethical standards and code of conduct. The code covers the following:

- Directors and officers must act in the best interests of the Company as a whole. Directors shall engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- Directors and officers must not take advantage of their position or information acquired, in the course of their duties, or misuse information for personal gain or to cause detriment to the Company.
- Confidential information received in the course of the exercise of duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the chairman with consideration to the persons concerned, or as required by law.
- Directors and officers shall act honestly and with integrity in all of their dealings with employees, suppliers, customers and competitors such that the best interests and reputation of the Company are maintained and enhanced.
- Directors and officers must use their best endeavours to protect the Company's assets and ensure that those assets are used for business purposes only.

- Directors and officers have an obligation, at all times, to comply with the spirit, as well as the letter, of the law, including any applicable rules and regulations.
- Directors and officers will at all times strongly encourage legal and ethical behaviour. If a director becomes aware of unlawful or unethical behaviour then they are obliged to report such activities to the chairman. Information provided should be treated in a discrete and confidential fashion and the matters dealt with expeditiously.

**Conflict of Interest**

In accordance with the *Corporations Act* (2001) and the Company's Constitution, directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes that a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related-entity transactions with the Group are set out in note 29 to the consolidated financial statements.

**Share trading policy**

The Company has established a policy that imposes certain restrictions on directors, senior management and other employees trading in the Company's securities. The policy has been adopted to prevent trading in contravention of the insider trading provisions of the *Corporations Act* (2001) and comply with the ASX Listing Rules, in particular when company personnel are in possession of price-sensitive information.

The policy is available on the Company's website.

In general trading in the Company's securities is prohibited:

- whilst in possession of unpublished price sensitive information;
- where officers are engaging in the business of active dealing;
- two weeks before and 24 hours after the release of the Company's quarterly, half yearly or annual report to the ASX; and
- two weeks before lodgement and during the period that a disclosure document including a prospectus is open for applications, except to the extent that a director or employee is applying for securities pursuant to that disclosure document.

Directors must notify the board and employees must notify a director in advance of any transactions involving the Company's securities. In accordance with the provisions of the *Corporations Act* (2001) and the ASX Listing Rules, directors advise the ASX of any transaction conducted by them in shares, performance rights or options in the Company.

**Health, safety, environment and heritage protection policy**

The Company is committed to compliance with all relevant laws and regulations and continual assessment of its operations to ensure protection of the environment, the community and the health and safety of its employees. The Company has adopted a policy and maintains appropriate procedures to ensure that all company activities are carried out in compliance with safety regulations, in a culture where the safety of personnel is paramount and which recognises

**Directors' Report (continued)**

environmental sustainability and respect for cultural and heritage issues as essential requirements for all its activities. Procedures are maintained to govern the activity of employees and contractors to ensure that the objectives of this policy are met.

**4.8. Communication with shareholders**

The Company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

Therefore to meet this obligation the Company undertakes to:

- Notify the ASX immediately if it becomes aware of any information that a reasonable person would expect to have a material effect on the price and value of the Company's securities, unless that information is not required to be disclosed under the listing rules;
- Disclose notifications to the ASX on the Company's website following confirmation of the publishing of the information by the ASX; and
- Not respond to market speculation or rumour unless the ASX considers it necessary due to there being, or likely to be, a false market in the Company's securities.

The Company Secretary is responsible for coordinating the disclosure requirements. To ensure appropriate procedure all directors, officers and employees of the Company coordinate disclosures through the Company Secretary, including:

- Media releases;
- Analyst briefings and presentations; and,
- The release of reports and operational results.

Information not disclosed via ASX announcement that might be considered share price sensitive will not be discussed with any external parties except for third parties bound by confidentiality agreements with the Company. Discussions with external parties will only occur following an ASX announcement. All written materials containing new price sensitive information to be used in briefing media, investors and analysts will be notified to the ASX prior to the commencement of that briefing. In reviewing the content of analysts' reports and profit forecasts, the Company will correct factual inaccuracies or historical matters.

Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments. The annual report is lodged with the Australian Securities and Investment Commission and the ASX.
- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investment Commission and the ASX, and sent to any shareholder who requests it.

- Quarterly reports are prepared in accordance with the ASX Listing Rules and in summary form are distributed to all shareholders.
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.
- All announcements and related information made to the market are placed on the Company's website after they are released to the ASX, including regular updates on operations.
- The full texts of notices of meetings and associated explanatory material are placed on the Company's website.

All of the above information is made available on the Company's website. Copies of all presentations made by the Company in a public forum are posted on the website. The majority of the information is also e-mailed to all shareholders who lodge their e-mail contact details with the Company.

The external auditor is requested to attend the annual general meeting to answer any questions concerning the audit and the auditor's report.

The board encourages full participation of shareholders at the annual general meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are responsible for voting on the appointment of directors, approval of the maximum amount of directors' fees and the granting of options, performance rights and shares to directors.

**4.9. Diversity**

The Company has not at this time established a formal policy in relation to diversity. The board has considered its approach to diversity in the context of the new diversity requirements set out in the ASX Corporate Governance Principles and Recommendations.

Exco is nonetheless committed to a workplace environment that promotes diversity and recognises the key competitive benefits of recruiting, developing and retaining a talented, diverse and motivated workforce. The board recognises the benefits of diversity at board level, senior management level and within the organisation generally, recognising the organisational strengths, deeper problem solving ability and opportunity for innovation that diversity may bring.

The board believes that given the size and nature of the Company's activities, and the existing diversity profile of the organisation, that an informal approach is appropriate at this time. Senior management roles and positions are filled by the best candidates available without discrimination. The Company aims to increase diversity in senior appointments as positions and appropriate candidates become available.

The Company will review this position annually and, as activities expand, plans to establish a formal diversity policy and set measurable objectives for achieving diversity in relation to gender.

**Directors' Report (continued)**

At the date of this report the proportion of women in the organisation is as follows:

| Level         | Male      | Female   | Female proportion |
|---------------|-----------|----------|-------------------|
| Board         | 5         | 0        | 0%                |
| Managerial    | 4         | 1        | 20%               |
| Professional  | 1         | 3        | 75%               |
| Staff         | 3         | 4        | 57%               |
| <b>Totals</b> | <b>13</b> | <b>8</b> | <b>38%</b>        |

**5. Principal activities**

The principal activities of the Group during the course of the financial year consisted of exploration, evaluation, development and production of mineral interests.

**6. Earnings per Share**

The basic earnings per share for Exco Resources Limited for the year was 5.03 cents per share (2011: 38.94 cents per share).

**7. Review and results of operations**

The consolidated profit after tax attributable to members of the Group for the financial year ending 30 June 2012 was \$17,777,434 (30 June 2011: \$134,193,618). A review of the Group's operations is outlined in section 10 of this report.

**8. Distributions**

On 9 December 2011 the Company paid a special dividend of 28 cents per ordinary share and returned 10 cents per ordinary share to shareholders. The total of distributions amounted to \$135m. (2011: nil).

**9. Likely developments**

Notwithstanding the uncertainty occasioned by the takeover bid by Washington H Soul Pattinson & Co Ltd, the Group will pursue activities consistent with its corporate objectives and joint venture partners. Other than matters included in the summary of subsequent events in note 17 of this report, further information about likely developments of the operations of the Group and the expected results of those operations in the future financial years has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Group.



**ASX CGC compliance information**

| Recommendation  | Compliance | Reference |
|---|------------|-----------|
| 1.1 Formalise and disclose the functions reserved to the board and those delegated to management.   | Yes        | Page 4    |
| 1.2 Companies should disclose the process for evaluating the performance of executives  | Yes        | Page 5    |
| 2.1 A majority of the board should be independent directors.  | No         | Page 4    |
| 2.2 The chairperson should be an independent director.  | Yes        | Page 4    |
| 2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.  | Yes        | Page 4    |
| 2.4 The board should establish a nomination committee.  | No         | Page 4    |
| 2.5 Companies should disclose the process for evaluating the performance of the board, it's committees and individual directors   | Yes        | Page 4    |
| 3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the Company's integrity;</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul> | Yes        | Page 12   |
| 3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them..  | No         | Page12    |
| 3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.  | No         | Page12    |
| 3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.  | Yes        | Page12    |
| 4.1 The board should establish an audit committee.  | No         | Page 11   |
| 4.2 Structure the audit committee so that it consists of: <ul style="list-style-type: none"> <li>only non-executive directors;</li> <li>a majority of independent directors;</li> <li>an independent chairperson, who is not chairperson of the board;</li> <li>at least three members.</li> </ul>  | No         | Page 11   |
| 4.3 The audit committee should have a formal charter.   | Yes        | Page 11   |
| 5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.  | Yes        | Page 13   |
| 6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.   | Yes        | Page 13   |
| 7.1 Companies should establish policies for the oversight and management of business risks and disclose a summary of those policies.  | Yes        | Page 11   |
| 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.   | Yes        | Page 11   |
| 7.3 The board should disclose whether it has received assurance from the managing director and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation financial reporting risks.  | Yes        | Page 11   |
| 8.1 The board should establish a remuneration committee.  | Yes        | Page 5    |
| 8.2 The remuneration committee should be structured so that it consists of: <ul style="list-style-type: none"> <li>a majority of independent directors,</li> <li>is chaired by an independent director and,</li> <li>has at least three members.</li> </ul>   | No         | Page 5    |
| 8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executives.  | Yes        | Page 6    |

**Directors' Report (continued)****10. Operations****10.1. Queensland Exploration**

Following the sale of the CCP to Xstrata, Exco restructured its Northwest Queensland assets into two main projects, the Cloncurry Project and the Hazel Creek Project. The Cloncurry Project covers over 1,920km<sup>2</sup> and includes a number of high priority prospects including the Salebury-Tanbah and Weatherly Creek-Canteen project areas. The project includes six deposits, with a royalty arrangement over the reported Great Australia Resource. Total resources for the Cloncurry Project are **8.04Mt @ 1.62% Cu and 0.49t Au** containing **113,200t** copper and **127,700oz** gold (see **Table 2**).

Exco is implementing a three year programme over the whole of its Northwest Queensland package to generate a pipeline of new targets. The programme includes systematic and widespread application of state-of-the-art geophysics and quality soil geochemistry. Exco has developed an extensive geophysics and geochemistry database. Re-processing the key elements of these datasets will enhance current drill targeting and also reveal the next range of targets within this fertile terrain. The proposed regional soil geochemistry programme is already underway and will be accelerated as much as possible, with the first phases to be carried out in the highest priority areas.

The board has approved expenditure of up to \$10M on Queensland exploration activities for the 2012 calendar year. The exploration budget will be flexible and results-dependant. Exco is committed to building on the previous successes of the Cloncurry Copper Project, with further discoveries hoped for within this world-class terrain.

**CLONCURRY PROJECT (100%)**

The Cloncurry Project hosts many prospects where drilling to date has intersected significant mineralisation. Throughout 2011/2012 Exco has been committed to an expansive exploration programme. Major geophysical and geochemical assessments have resulted in the generation of significant new targets within the Cloncurry Project area.

The Cloncurry Project includes the Pumpkin Gully Syncline area to the east and northeast of Cloncurry township, and the Canteen/Weatherly Creek area to the southeast.

**Pumpkin Gully**

Significant zones of mineralisation have been encountered in drilling adjacent to the southern limb of the Pumpkin Gully Syncline at the Salebury, Tanbah, Pumpkin Gully, Fisher's Creek and Fisher's Creek West prospects. The entire Pumpkin Gully region hosts numerous other small prospects and mineral occurrences, and is also host to the CCP Monakoff and Monakoff East deposits which were sold to Xstrata in June 2011.

**Salebury (EPM 11675)**

Copper and gold mineralisation at Salebury is hosted within black shales and mafic volcanics of the Toole Creek Formation. Mineralisation occurs in a number of sub-parallel lodes over a strike length of approximately 600m. Drilling has

been completed on an approximate 50m grid spacing to enable an initial resource estimate.

Resource estimation, metallurgical test-work and preliminary scoping studies will be carried out to ascertain the most suitable development path for this area.

**Uncle Toms (EPM 11672 and EPM 11675)**

Uncle Toms Prospect is located near Salebury and has several small historical shafts sunk on near surface gold mineralisation hosted in black shales. Soil sampling has revealed a number of coherent gold in soil anomalies with peak values greater than 1 g/t Au. The mineralisation does not appear to have a prominent geophysical expression, and future drilling will be guided by the surface geochemical anomalies.

Initial drilling in the vicinity of the small historical shafts intersected 10m @ 6 g/t Au. A limited follow up drilling programme has failed to establish a predictable trend to the mineralisation. Recent soil data has outlined various gold anomalies and these have been selected for shallow bedrock drilling aimed to better define the controlling structures.

One diamond drill hole ("DDH") and 5 reverse circulation ("RC") holes were completed during the June quarter to test below broad Au geochemical anomalies defined by recent Exco soil sampling. The holes did not hit any major zones of mineralisation.

**Crow's Nest (EPM 11675)**

The Crows Nest Prospect occurs 3km to the northeast of Salebury and 20km east of Cloncurry. The prospect area has numerous small historical pits on exposed copper oxides over an area of approximately 600m by 300m. Exco has previously completed several phases of shallow systematic grid drilling, to determine the trend of mineralisation.

Drilling to date has intersected Cu-Au mineralisation but geometry and continuity have not been established with the current drill density. Drilling in 2011 returned a best intersection of 32m @ 0.56% Cu and 1.04 g/t Au.

One DDH was completed during the June quarter to test encouraging mineralisation reported from RC drilling in 2011. The drillhole did not intersect any significant zones of copper mineralisation. A re-interpretation of the structural controls on mineralisation may reveal alternate or additional drill targets.

**Weatherly Creek**

The Weatherly Creek area occurs to the south east of Cloncurry, south of the Landsborough highway, and is underlain by rocks of the Toole Creek Volcanics and Soldiers Cap Group. The area has relatively large tracts of exposed rocks but is covered by thin younger sediments towards its eastern extremities. Major prospects in the area include Wallace South, Canteen, Bosca/Elma and Victory.

**Wallace South (EPM 15923)**

The Wallace South Deposit contains an inferred resource of approximately 53,000 ounces of gold and is located approximately 1.5km south of the Kangaroo Rat Cu-Au Deposit. The deposit has a northerly strike orientation, dips

**Directors' Report (continued)**

steeply to the east and extends from surface. Preliminary metallurgical test-work indicates good leach characteristics. The deposit is open at depth and recent drilling successfully targeted down dip extensions. Further potential exists in the immediate vicinity with historical drilling on other prospects intersecting gold mineralisation.

Drilling was completed at the Wallace South gold deposit during the June quarter, targeting down dip extensions to the currently outlined gold mineralisation. A total of four DDHs were completed and these intersected zones of highly weathered ferruginous rock, some of which contain gold mineralisation. No primary mineralisation (sulphide bearing) has been intersected in drilling to date, and these holes will be used to determine mineral zonation in order to target deeper primary copper and gold mineralisation. Previous metallurgical work has highlighted good leach characteristics and further tests will be undertaken on any gold intersections from this drill core.

DDH **WSDD002**, intersected **40m @ 2.93g/t Au** from **150m** including **17m @ 5.95 g/t Au** from **150m** and **8m @ 1.68g/t Au** from **176m**. The intersection is 80m down dip from previous drilling on this section of the deposit, and overall grades are higher than in the shallower historical holes.

A fixed loop electromagnetic survey and a programme of deeper diamond drilling is planned to target supergene copper and primary copper-gold sulphide mineralisation. There is an apparent increase in copper in the deeper holes and the proximity to the Kangaroo Rat mineralisation in the same host rock sequence suggests such mineralisation is a valid target. On completion of the programme the resource will be re-estimated.

*Canteen (ML 2751)*

The Canteen Prospect comprises a large area of strong geophysical anomalies, hydrothermal alteration and widespread surface geochemical anomalies. Several historical copper and gold mines in the immediate area confirm its potential. The structural setting is also of note occurring within the core area of the Weatherly Creek syncline adjacent to late granitic intrusions. Areas of strong uranium anomalism and widespread magnetite alteration confirm this as an Iron Ore/Copper/Gold ("IOCG") type target.

Drilling to date at a number of areas has intersected widespread low grade copper, gold and uranium mineralisation. Surface geochemistry has outlined large anomalies and these are currently being evaluated with drilling. A systematic approach to Canteen has been adopted as the area of interest is large and there are numerous target zones.

Drilling is currently in progress at a range of positions within this large target area and surface geochemical sampling is continuing. Prospect scale geophysics is also set to be completed over several of the key targets in the region.

**HAZEL CREEK PROJECT (100%)**

The Hazel Creek Project is centred approximately 90km north of Cloncurry and incorporates a large area (> 1,000km<sup>2</sup>) of prospective terrain that remains relatively unexplored. Exco

has confirmed the prospectivity of the area through the discovery of the Turpentine Deposit (**5.65Mt @ 0.94% 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. A thin veneer of Mesozoic and Quaternary deposits mask outcrop over parts of the project area. More than 3,272 soil samples have been collected and RC drilling has recently commenced in the Turpentine and Eight Mile Creek Area.

Exco intends to maintain the staged progress in this terrain with systematic drill programmes targeting resource potential and broad scale acquisition of geochemical and geophysical data to provide focus for initial drilling.

**Eight Mile Creek and Eight Mile Creek East Prospects (EPM15739)**

Drilling in the area to the south of the Turpentine Deposit under thin to moderate cover has produced encouraging results at several targeted magnetic anomalies. These include Eight Mile Creek, Eight Mile Creek East and Turpentine South, where magnetite-associated mineralisation has been intersected in numerous holes. Drill density at these prospects has been increased and resource potential will be evaluated once all results from current drilling are finalised.

Mineralisation at these prospects is directly associated with magnetite and Exco's detailed magnetic surveys have outline additional targets in the region, particularly to the south where work to date is limited due to the target rocks being masked by younger cover sediments.

Drilling is in progress, and further analysis of the recent geophysical surveys (sub-audio magnetic and gravity), are being incorporated into drill target prioritisation. Surface geochemical surveys surrounding this area are in progress and are generating further targets.

**Turpentine Cu-Au Deposit (MLA 90159 and EPM 15739)**

RC drilling in the June quarter targeted resource extensions below the currently drilled mineralisation. An initial 5 holes were completed and chalcopyrite mineralisation was intersected where anticipated.

On 11 September 2012 the company announced the results of the drilling. An increase in the total mineral resource to **5.6Mt @ 0.94% Cu & 0.20 g/t Au** for a total of **53,100t** contained copper was reported. The Indicated mineral resource has increased by 136% to **3.8Mt @ 0.92% Cu & 0.19g/t Au** and the Inferred by 750% to **1.8Mt @ 0.98% Cu & 0.22 g/t Au**. Deep extensional drilling, together with geophysics, has identified that mineralisation is open at depth and there is potential for further extensions.

**10.2. Queensland Project Development (100%)**

Exco continues to de-risk and add value to its two wholly owned projects, the Mt Colin Underground Project (**1.92 Mt @ 2.59% Cu, 0.42 g/t Au**) and the Kangaroo Rat Open Pit Project (**1.26 Mt @ 1.29% Cu, 0.6 g/t Au**). The Company has initiated feasibility studies and design work on both projects to facilitate mine development in 2013/14. It is anticipated that

**Directors' Report (continued)**

ore from both projects would be trucked to and treated at established processing facilities within the region. Scoping studies on both projects have demonstrated robust economics and development/transaction opportunities continue to be evaluated.

Baseline environmental, waste rock characterisation and hydrological studies for both projects have commenced. Environmental Management Plans for both projects will be submitted in early 2013 with a view to develop both projects in 2013/14.

**Mt Colin (ML 2640)**

The high grade Mt Colin deposit is located approximately 50km west of Cloncurry on a granted mining lease, adjacent to the Barkly highway.

The deposit is approximately 450m long and dips steeply to the north, extending approximately 400m down dip. Resource modelling completed during 2011 resulted in an upgraded resource estimate of **1.92Mt @ 2.59% Cu** (at a 1.25% Cu cut-off).

During the year the Company completed a scoping study based on the currently defined Indicated and Inferred Resources at Mt Colin. The study assumed appropriate costs and recovery losses related, but not limited to underground mining, ore haulage, processing (incl. smelting and refining) and government royalties. The study indicates the robust economics of the underground project which is capable of generating substantial revenue over a mine life of 4 years.

In light of the positive results the Company has initiated a full feasibility study for the project. Mining services experts, Rock Team, has commenced the detailed engineering and site design studies which are estimated to be completed by early 2013.

Exco commenced a 2,500 metre infill and extensional drilling programme in 2012 with copper mineralisation intersected in all drill holes. Highlights from the programme include **22m @ 2.27% Cu and 0.25 g/t Au** from 366m (EMCDD052) and **15m @ 5.78% Cu and 0.53 g/t Au** from 308m, including **6m @ 11.29% Cu and 0.79 g/t Au** (EMCDD056).

Mount Colin remains open at depth and in light of the success of the most recent drilling programme, the Company has committed to additional down-dip exploration drilling aimed at identifying high grade extensions to the current resource.

Results from the 2012 drill programme will be incorporated into resource evaluation and project development studies.

Exco will remain focussed on advancing the feasibility studies and environmental approvals that will enable development of the Mount Colin deposit in late 2013. Detailed geotechnical evaluation and metallurgical test work has commenced and is scheduled to be completed before the end of 2012.

**Kangaroo Rat (ML 2695, MLA 90236 and EPM 15923)**

The Kangaroo Rat deposit is located approximately 30km south east of Cloncurry and approximately 1.5km north of the Wallace South gold deposit. The deposit has a current inferred resource of **1.26Mt @ 1.29% Cu and 0.63 g/t Au** and is located in a structurally complex area where mafic volcanic

and sedimentary rocks of the Toole Creek Volcanics host the mineralisation. The Cu-Au zone appears to be controlled by a NE/SW-striking shear zone, obliquely intersecting a package of intercalated mafic volcanics and carbonaceous shales.

During the past year the Company completed a 10-hole resource infill diamond drilling programme aimed at increasing the drilling density and confidence of potentially open pit portions of the Kangaroo Rat deposit.

In addition, the Company completed a 13-hole RC drilling programme targeting strike extensions of the deposit. Broad intervals of anomalism were intersected in a number of the holes with the deposit remaining open along strike and at depth. Results will be incorporated future announcements.

**10.3. Queensland Joint Ventures****10.3.1. Ivanhoe JV (Exco 20% - Ivanhoe Australia 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. Ivanhoe have expended the required amounts and have earned an 80% interest.

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.

Diamond drilling is in progress on 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.

**10.3.2. Paradigm Joint Venture (EPM 16073 - Exco 50%, Paradigm 50%)**

In February 2008, Exco and Paradigm Metals 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 500km<sup>2</sup>. The newly formed entity, Toolebuc Resources Pty Ltd was initially comprised 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 was interpreted to have shallow copper potential. 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**. No further work has been carried out.



**Directors' Report (continued)****10.3.3. 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 120km south-west of Cloncurry, and contains extensions of the rock sequence that hosts the nearby Cannington Mine. Several zinc-lead-silver prospects occur within the tenements.

Two diamond drill holes were completed late 2011 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 were disappointing from this prospect.

**10.4. White Dam Gold Production Joint Venture (Exco 50%, Polymetals Mining Ltd 50%)**

The White Dam Gold Project is located in South Australia approximately 80km west of Broken Hill. The project contains a depleted resource inventory of 5.2Mt @ 0.97g/t Au for 161,000oz contained (see **Table 3**).

In 2009 Exco and Polymetals Mining Ltd (ASX:PLY) entered into two 75:25 unincorporated joint ventures to develop the White Dam project and explore in the nearby Drew Hill tenements. Polymetals specialises in the development of remote small to medium size resource projects. In-house expertise includes metallurgy, mining and project management.

Mining of the original White Dam resource the 'Hannaford' pit, was completed in early January 2012. On 10 January 2012 the partners announced that they had agreed in principle to develop the small Vertigo deposit under new joint venture arrangements. Following completion of the legal formalities during the June quarter:

- The White Dam Production Joint Venture and the Drew Hill Exploration Joint Venture were merged into a single unincorporated joint venture, the White Dam & Drew Hill Joint Venture, with Exco and Polymetals as equal partners and Polymetals managing operations;
- Remaining production from the Hannaford pit ore will continue to be shared on a 75:25 basis;
- Production from Vertigo ore will be shared on a 50:50 basis;
- Polymetals increased 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; and,
- Polymetals has earned a further 25% interest in the exploration tenements in the Drew Hill area by spending \$1.3m on exploration prior to 30 June 2012.

**10.4.1. Operations Report****Health, Safety and Environment**

Two minor lost time injuries and two reportable environmental incidents (minor chemical spills) were recorded during the year to 30 June 2012.

**Production**

Total project production for the year was 34,371 ounces. The lower gold production compared to 2010/11 reflects the expected fall off in production as the Hannaford pit reaches the end of its economic life offset in part by production from Vertigo ore. Cumulative production to date is 134,713 ounces which represents a substantial increase on the original life-of-mine production forecast.

Mining at the Hannaford pit was completed in January 2012. In total 4.7m bank cubic metres were mined comprising 5.4m tonnes of ore at 0.98g/t and 6.3m tonnes of waste, for a strip ratio of 1.16:1.

Mining at Vertigo commenced in January 2012. 586k bank cubic metres were mined comprising 356k tonnes of ore at 0.66g/t and 1.1m tonnes of waste, for a strip ratio of 3.2:1. Mining at Vertigo concluded in early May 2012. Approximately 65% of Vertigo ore was crushed to improve recovery rates. All crushing and stacking was completed on the 28 June 2012.

Gold production is expected to continue until the December Quarter 2012.

**Exco revenues**

Sales of 25,346 ounces at an average price of A\$1,608/oz resulted in revenues of \$40.7m for the year ended 30 June 2012. Reduced volumes compared to the previous period, due to the lower production, were offset in part by higher than expected gold prices.

**Costs**

The direct mining unit cost for the year was lower at \$323/oz. The other direct unit costs were \$289/oz. Overall the C1 unit cost of \$613/oz was higher than 2010/11. This increase in unit costs was expected as production volumes from the Hannaford pit reduced.

Furthermore the stripping costs for the Vertigo deposit were incurred in the second and third quarter. With the cessation of mining activities, the residual production from Hannaford ore, and the commencement of production from Vertigo ore, unit costs should improve in the September quarter.

**Exploration**

During the September 2011 quarter Polymetals took over management of the Drew Hill Exploration Joint Venture from Exco and has 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.

A total of \$3M (100%) was expended on near-mine exploration during the year to 30 June 2012.

In the June quarter forty one RC drill holes for 3,505m were completed in ten areas located within 10km of White Dam. Results from this programme have highlighted the potential for IOCG-style mineralisation at the Laura Jane, Bindarra and Kidney prospects. An area to the east of White Dam has been shown to be prospective for uranium, rare earth elements and copper, and will be the focus of drilling in the September quarter.

# EXCO RESOURCES LIMITED

## FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

### Directors' Report (continued)

#### White Dam Project Production Statistics

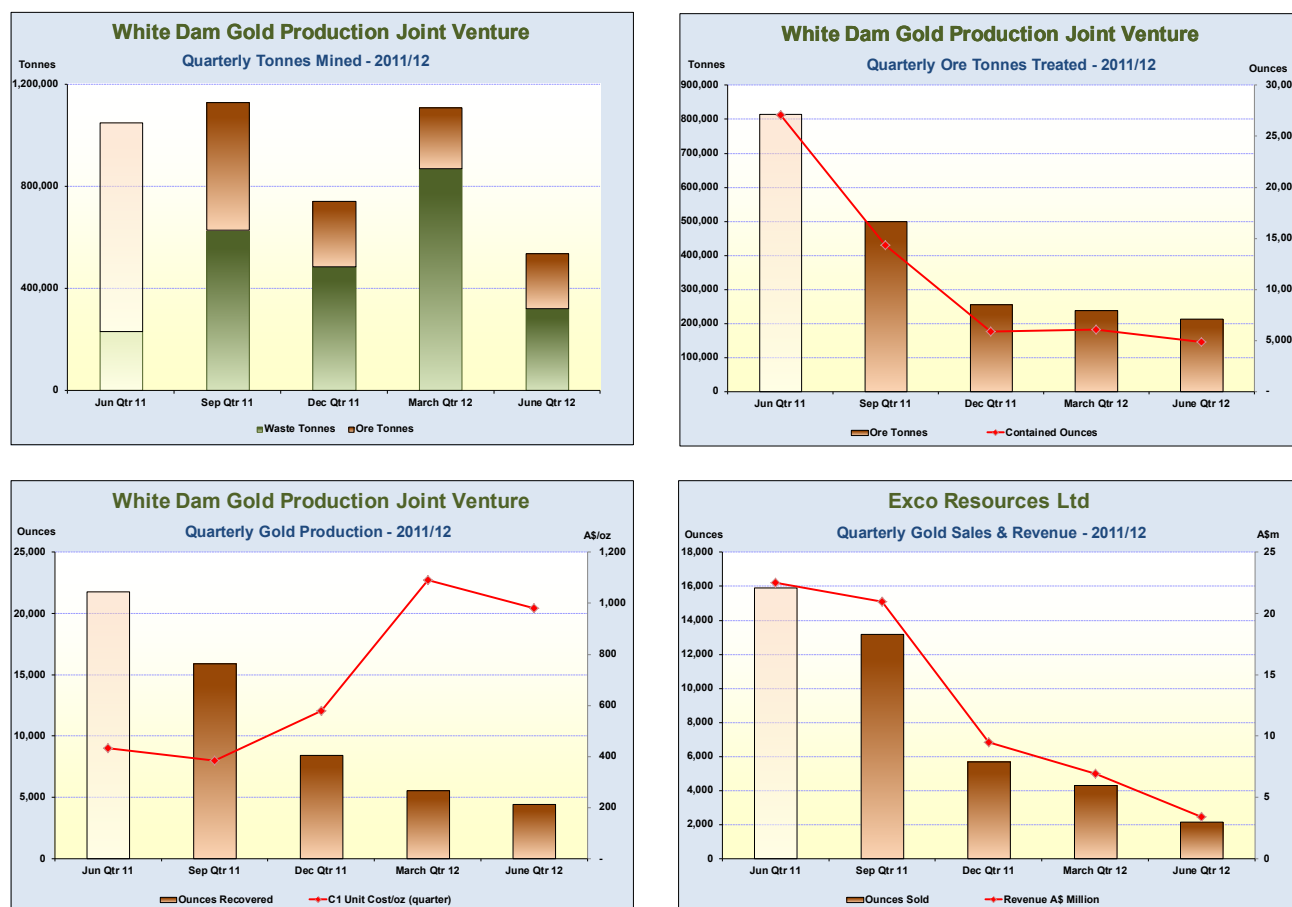


Figure 1: White Dam Gold Project production trends

|                             |               | LOM to<br>June 11 | Sep Qtr 11 | Dec Qtr 11 | Mar Qtr 12 | Jun Qtr 12 | Year<br>2011/12 | Project to<br>Date |
|-----------------------------|---------------|-------------------|------------|------------|------------|------------|-----------------|--------------------|
| Ore Tonnes Mined            | (tonnes)      | 3,525,093         | 375,226    | 192,333    | 170,248    | 117,109    | 854,916         | 4,380,009          |
| Mined Grade                 | (g/t)         | 1.00              | 0.89       | 0.71       | 0.79       | 0.70       | 0.80            | 0.96               |
| Mined Ounces                | (ounces)      | 113,622           | 10,737     | 4,409      | 4,324      | 2,636      | 22,105          | 135,728            |
| Waste Tonnes Mined          | (tonnes)      | 3,893,563         | 470,378    | 363,452    | 622,758    | 175,236    | 1,631,824       | 5,525,387          |
| Ore placed on Leach         | (tonnes)      | 3,525,093         | 375,226    | 192,333    | 170,248    | 117,109    | 854,916         | 4,380,009          |
| Head Grade                  | (g/t)         | 1.00              | 0.89       | 0.71       | 0.79       | 0.70       | 0.81            | 0.96               |
| Ounces Reproduced           | (ounces)      | 75,257            | 11,954     | 6,315      | 4,181      | 2,598      | 25,048          | 100,305            |
| Gold Loan Repayments        | (ounces)      | 15,687            | -          | -          | -          | -          | -               | 15,687             |
| Ounces Sold                 | (ounces)      | 57,302            | 13,206     | 5,677      | 4,319      | 2,144      | 25,346          | 82,648             |
| Mining Direct Costs         | (A\$/oz)      | 235               | 208        | 301        | 652        | 379        | 323             | 277                |
| Other Direct Costs          | (A\$/oz)      | 130               | 175        | 277        | 439        | 603        | 289             | 205                |
| C1 Unit Direct Cost         | (A\$/oz)      | 365               | 383        | 578        | 1,091      | 982        | 613             | 482                |
| Royalties                   | (A\$/oz)      | 53                | 30         | 42         | 41         | 127        | 43              | 68                 |
| Average Realised Sale Price | (A\$/oz)      | 1,393             | 1,587      | 1,671      | 1,598      | 1,588      | 1,608           | 1,459              |
| Revenue                     | (A\$ million) | 91.8              | 21.0       | 9.5        | 6.9        | 3.4        | 40.7            | 132.6              |

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

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

**Mining Direct Costs** include all mining costs incurred during the period excluding depreciation, amortisation and effects of stock movement.

**Other Direct Costs** include all direct processing and administration costs incurred during the period.

**C1 Unit Costs** is the accumulation of all direct costs (excluding royalties) incurred during the period divided by Ounces Produced.

<sup>1</sup> C1/Direct costs for the period exclude depreciation, movement in inventory and expense on royalty sales. The operating cost of goods sold of \$15.74 million includes those items. The resulting average operating cost of ounces sold would be \$621per ounce for the half year. These figures included in Table 1 are unaudited.

## EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

### Directors' Report (continued)

**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 <sup>(1)</sup> | 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 <sup>(2)</sup>        | 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  |
| Kangaroo Rat                   | Inferred  | 1,257,100 | 1.29  | 0.63   | 16,200  | 25,700  |
| Taipan                         | Inferred  | 1,460,000 | 0.80  | 0.10   | 12,000  | 5,000   |
| Wallace South <sup>(3)</sup>   | Inferred  | 1,000,000 | -     | 1.60   | -       | 53,000  |
| Victory-Flagship               | Inferred  | 196,000   | 1.20  | 1.40   | 2,000   | 9,000   |
| Sub-Total Cloncurry Project    |           | 8,035,100 | 1.62  | 0.49   | 113,200 | 127,700 |
| Hazel Creek Project            |           |           |       |        |         |         |
| Turpentine <sup>(4)</sup>      | Indicated | 3,830,600 | 0.92  | 0.19   | 35,300  | 23,500  |
|                                | Inferred  | 1,818,600 | 0.98  | 0.22   | 17,800  | 12,900  |
| Sub-Total Hazel Creek          |           | 5,649,200 | 0.94  | 0.20   | 53,100  | 36,400  |

|                                   |                   |             |             |                |                |
|-----------------------------------|-------------------|-------------|-------------|----------------|----------------|
| <b>Northwest Queensland Total</b> | <b>13,684,300</b> | <b>1.34</b> | <b>0.37</b> | <b>166,300</b> | <b>164,100</b> |
|-----------------------------------|-------------------|-------------|-------------|----------------|----------------|

**Notes:**

Discrepancies in totals are as result of rounding.

Unless otherwise stated the above resources are reported at a 0.5% Cu cut-off.

<sup>(1)</sup>Undepleted Resource - currently being mined by CopperChem Ltd and subject to a royalty arrangement with Exco

<sup>(2)</sup>Mt Colin resource cut-off = 1.25% Cu.

<sup>(3)</sup>Wallace South resource cut-off = 0.5g/t Au

<sup>(4)</sup>Turpentine resource cut-off = 0.3% Cu

**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        | 2.10        | 690          | 0.96        | 21.2        |
|                      | Fresh            | 327          | 1.01        | 10.6        | 1,954        | 0.88        | 55.3        | 2,281        | 0.90        | 65.9        |
|                      | <b>Sub-Total</b> | <b>927</b>   | <b>1.00</b> | <b>29.7</b> | <b>2,044</b> | <b>0.87</b> | <b>57.4</b> | <b>2,971</b> | <b>0.91</b> | <b>87.3</b> |
| Vertigo              | Oxide            | 776          | 1.11        | 27.6        | 685          | 0.74        | 16.2        | 1,461        | 0.93        | 43.8        |
|                      | Fresh            | 212          | 1.56        | 10.6        | 526          | 1.15        | 19.4        | 738          | 1.26        | 30.0        |
|                      | <b>Sub-Total</b> | <b>988</b>   | <b>1.20</b> | <b>38.2</b> | <b>1,211</b> | <b>0.92</b> | <b>35.6</b> | <b>2,200</b> | <b>1.04</b> | <b>73.9</b> |
| <b>Project Total</b> |                  | <b>1,915</b> | <b>1.10</b> | <b>68</b>   | <b>3,255</b> | <b>0.89</b> | <b>93</b>   | <b>5,171</b> | <b>0.97</b> | <b>161</b>  |

**Notes:**

Discrepancies in totals are as result of rounding.

White Dam resource (depleted to end of mining of the Hannaford pit in January 2012) was re-estimated in October 2010 with a cut off grade of 0.3g/t

Vertigo resource depleted to end of mining in May 2012.

## Directors' Report (continued)

## 10.5. 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.

## 11. State of affairs

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

On 25 August 2011, 1,500,000 employee incentive options at 40 cents were exercised raising a total of \$600,000. Additionally, on 5 September 2011, 1,500,000 employee incentive options at 40 cents were exercised raising a total of \$600,000. The Company intends to use the monies raised from the exercise of these options to proactively advance the Company's portfolio of copper projects in Northwest Queensland.

The Company's AGM took place on Tuesday 24 November 2011. All resolutions before the meeting were passed. Following the approval by shareholders of a 10 cents per ordinary share return of capital, the board declared a 28 cents per ordinary share special dividend payable on 9 December 2011.

On 28 November 2011 4,500,000 options at 28 cents each were exercised raising \$1,260,000.

On 30 March 2012 the Company announced the issue of 14,500,000 performance rights to directors, employees and contractors to create commonality of purpose between participants and shareholders in the Company. The issue of performance rights to directors was provisional subject to shareholder approval which was to be sought at the Company's annual general meeting in November 2012.

On 27 August 2012 Washington H Soul Pattinson & Co Ltd (WHSP) served a bidders statement on the Company and announced a bid for all the shares in the Company that it did not own at 19 cents per share. (See Subsequent Events below).

On 19 September 2012 the Company issued 11,200,000 shares to employees and contractors pursuant to the terms of the Exco Resources Long Term Incentive Plan – 2012, for nil consideration.

## 12. Environmental regulation

The Company's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its mining and exploration activities. The management of the Company monitor compliance with the relevant environmental legislation. The directors are not aware of any breaches of the legislation during the period covered by this report.

## 13. Share Options

## Options granted to directors and officers of the Company

During or since the end of the financial year, the Group has not granted any options to directors or KMPs of the Company as part of their remuneration.

## Unissued shares under options

At the date of this report there are no unissued ordinary shares of the Company under option.

## Shares issued on exercise of options

During the financial year, the following ordinary shares were issued as a result of the exercise of options.

| Number of shares | Amount paid per share |
|------------------|-----------------------|
| 3,000,000        | 40 cents              |
| 4,500,000        | 28 cents              |

## 14. Performance rights

## Performance rights issued to directors and officers of the Company

During or since the end of the financial year, the Group issued performance rights to directors or KMPs of the Company as part of their remuneration. The grant of performance rights to directors was to be subject to shareholder approval at the Company's AGM in November 2012. The performance rights had vesting dates between January 2013 and January 2015 with provision for an earlier vesting date, at the board's discretion, on a Change of Control Event.

Due to the Change of Control Event occasioned by the bid for the Company by Washington H Soul Pattison & Co Ltd on 27 August 2012 the grant of performance rights to directors will not now be effected.

All rights have a nil exercise price.

|                   | Performance rights granted | Expiry date  |
|-------------------|----------------------------|--------------|
| <b>Executives</b> |                            | -            |
| B McLarty         | 1,500,000                  | 31 July 2016 |
| D Cook            | 1,200,000                  | 31 July 2016 |
| S Konecny         | 1,200,000                  | 31 July 2016 |
| E Byrne           | 1,500,000                  | 31 July 2016 |

The above rights were deemed vested on 31 August 2012 and exercised on 7 September 2012.

## 15. Directors' interests

The relevant interest of each director in the share capital as notified by the directors to the Australian Securities Exchange in accordance with s205G(1) of the *Corporations Act* (2001), at the date of this report is as follows:

|                              | Ordinary Shares |
|------------------------------|-----------------|
| G Laing                      | 581,000         |
| A Cooke                      | 17,317,878      |
| B Sullivan                   | 50,000          |
| T Whiting                    | -               |
| M Spreadborough <sup>1</sup> | -               |

<sup>1</sup> Mr Spreadborough was appointed on 3 July 2012



**Directors' Report (continued)**

**16. Events subsequent to balance date**

**Takeover bid**

On 23 August 2012 Washington H Soul Pattinson & Co Ltd (**WHSP**) announced that it had bought 24,265,770 shares from Exco's then major shareholder, Ivanhoe Australia Ltd (**IVA**) and that it intended to offer 19 cents per share for all the shares in the Company that it did not own in an off-market takeover. IVA indicated that it was committed to accept the bid for its remaining shareholding in the absence of an alternative proposal for Exco that was superior for IVA.

On 27 August 2012 WHSP served a bidders statement on the Company.

On 28 August 2012 the directors of the Company wrote to shareholders outlining the belief of the independent directors that the offer detailed in the bidder's statement was inadequate and unfair and advising shareholders to take no action in relation to their shares.

On 18 September 2012 the Company announced that following negotiations, WHSP had made a revised offer of 26.5 cents per share conditional on WHSP receiving enough acceptances, which together with the shares WHSP already owned, would give WHSP at least a 90% interest in Exco. The directors of Exco agreed to recommend the revised conditional offer.

**Vesting of Performance Rights**

*Employees and contractors*

The takeover bid announced on the 23 August 2012 constituted a Change of Control Event (**CCE**) as defined under the provisions of the Exco Resources Ltd Long Term Incentive Plan – 2012 ("**Plan**") implemented in March 2012. Upon a CCE the Plan provided that the board could determine that any unvested performances rights outstanding at that point in time could, at the board's discretion, be deemed to have vested. On 31 August 2012 the board resolved to so determine.

Vesting notices were given to employees and contractors on 7 September 2012. The employees and contractors subsequently chose to exercise their rights and 11,200,000 shares were issued to employees and contractors on 20 September 2012.

*Directors*

On 30 March 2012 directors of the Company were issued with 3,300,000 performance rights under the Plan, the grant of which was subject to approval by shareholders at the next general meeting.

On account of the time that might elapse between 30 March 2012 and a future general meeting, Exco undertook that if both:

- a) a Change of Control Event (as defined in the Plan) occurred prior to the date of the General Meeting (or, if shareholders approve the grant of the Performance Rights at the General Meeting, the date prior to the date that the Performance Rights are granted); and,

- b) the Board determines that the Performance Rights issued to Exco key management personnel and professional staff without shareholder approval, or a proportion of them, should vest and become capable of exercise as a result of that Change of Control Event,

*Exco would pay a cash amount determined by the Board in respect of each of the Performance Rights (or, if the Board determines and at Exco's election, a proportion of them having regard to any proportion determined as referred to in (b) above).*

*This undertaking was given in order to put directors in a position similar to other holders of Performance Rights whose grants were not subject to shareholder approval and to ensure the purpose of the Plan was achieved. The Board would determine the cash amount payable having regard to the amount offered under any proposed transaction that triggered a Change of Control Event, or, if there is no such amount or the Board considers that such an amount is not appropriate, the Market Price of a Share over which a Performance Right is exercisable.*

*The "Market Price" for the above purpose will be calculated as the volume weighted average sale price of Shares sold on ASX during the period of 20 Business Days on which trading in Shares on ASX took place prior to that date but does not include any "crossing" transacted outside the "Open Session State" or any "special crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Shares.*

Upon his resignation on 3 July 2012 Mr Peter Reeve forfeited his 200,000 performance rights.

At the date of this report the board has yet to make a determination in respect of any cash amount payable but indicatively, at the revised offer price under the takeover arrangements of 26.5 cents, an amount of \$821,500 may become payable.

**CopperChem Issue**

Exco is entitled to a royalty on approximately 1.7million tonnes of sulphide ore contained within the Great Australia resource pursuant to the terms of the Exco-CopperChem Alliance Agreement entered into in September 2009. The Company has previously informed the market that, indicatively, based on a then prevailing LME copper price of US\$3.70/lb and the estimated 1.7 million tonnes of sulphide ore at Great Australia being qualifying ore, it was calculated that the royalty may generate gross cash to Exco of around A\$25 million over the expected life of the project.

CopperChem Ltd ("CopperChem") commenced mining of sulphide ores from the open pit during the year.

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

**Directors' Report (continued)**

An invoice was raised on 23 March 2012 for this amount (plus appropriate GST); the payment terms were varied from the normal 30 days to 90 days.

As announced to the market on 19 July 2012, the invoice was not paid when it fell due. In addition CopperChem has now disputed the Company's entitlement to the royalty under the Alliance Agreement.

At the date of this report the matter has not been resolved. In the light of the takeover bid for the Company announced by CopperChem's parent, Washington H Soul Pattinson & Co Ltd (see above), the Company has decided not to enter into a formal dispute resolution procedure at this time. Exco reserves its rights to trigger the relevant dispute resolution processes under the terms of the Alliance Agreement.

**Resignation and appointment of non-executive directors**

On 3 July 2012 the Company announced the resignation of Mr Peter Reeve as a non-executive director and the appointment of Mr Michael Spreadborough as a non-executive director. Both gentlemen acted/act as nominee for the Company's major shareholder, Ivanhoe Australia Ltd.

**17. Lead auditor's independence declaration**

The lead auditor's independence declaration is set out on page 27 and forms part of the directors' report for the financial year ended 30 June 2012.

**18. Non-audit services**

During the year KPMG, the Company's auditor, has not performed any services other than their statutory duties.

Details of the amount paid to the auditor of the Company, KPMG, and its related practices for audit services provided during the year are set out below.

|                               | 30-June-12     | 30-June-11     |
|-------------------------------|----------------|----------------|
|                               | \$             | \$             |
| <b>Auditors' Remuneration</b> |                |                |
| Audit fees - KPMG             | 108,000        | 117,600        |
|                               | <b>108,000</b> | <b>117,600</b> |

**19. Indemnification and insurance of officers**

The Company has agreed to indemnify the current directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities including costs and expenses.

**20. Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the *Corporations Act* (2001) for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those

proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act* (2001).

**21. Insurance premiums**

The Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for current directors and officers of the Company. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever the outcome.
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Dated at Perth this 28<sup>th</sup> day of September 2012.

Signed in accordance with a resolution of the directors.

**Geoff Laing**  
Managing Director

**Directors' Report (continued)****Forward looking statements & 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.*

*The information in this report that relates to Drew Hill 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 Drew Hill 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.*

*Messrs 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). Messrs 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.*

*Information in this report relating to Exco 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.*

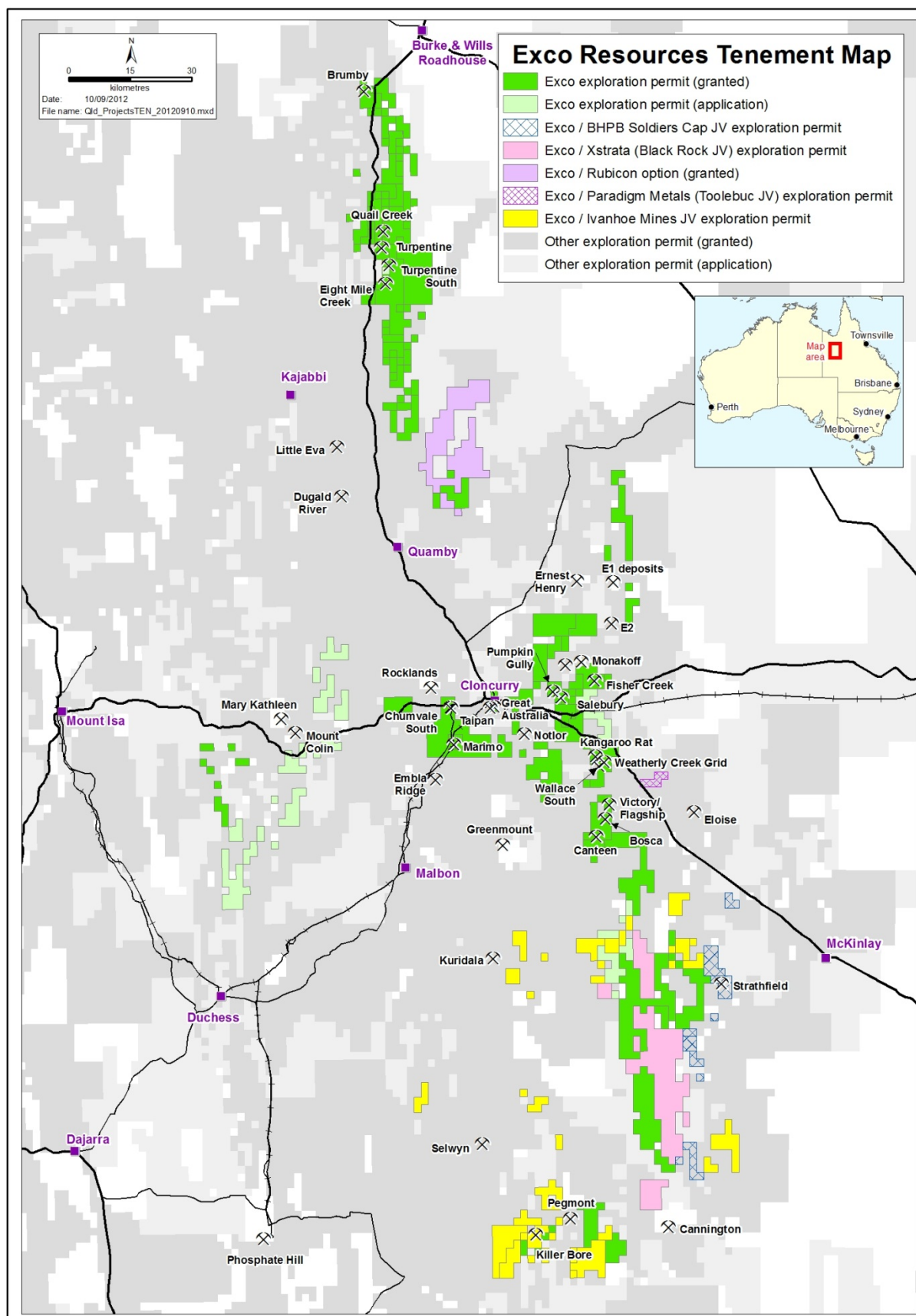


Figure 2 Tenement map of Exco interests in Northwest Queensland



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 audit for the financial year ended 30 June 2012 there have been:

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

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'T. Hart'.

Trevor Hart  
Partner

Perth

28 September 2012

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Consolidated statement of comprehensive income

|   |      | 30-June-12        | 30-June-11         |
|---|------|-------------------|--------------------|
|   | Note | \$                | \$                 |
| Sales revenue   | 6    | 40,751,611        | 84,123,512         |
| Cost of goods sold  | 8    | (15,744,736)      | (44,477,314)       |
| <b>Gross Profit</b>   |      | <b>25,006,875</b> | <b>39,646,198</b>  |
| Other income  | 7(a) | 1,099,740         | 153,947,539        |
|   |      | <b>26,106,615</b> | <b>193,593,737</b> |
| Exploration expense   |      | (1,647,059)       | (1,908,324)        |
| Capitalised exploration written off                                     |      | (1,041,210)       | (294,633)          |
| Employee expenses   | 10   | (2,291,513)       | (2,848,726)        |
| Depreciation  | 17   | (222,906)         | (161,691)          |
| Office costs  |      | (507,513)         | (460,711)          |
| Professional and corporate expenses                                     | 11   | (724,709)         | (2,266,947)        |
| Insurance   |      | (60,516)          | (45,439)           |
| Impairment expense  | 12   | (925,221)         | -                  |
| Other expenses from ordinary activities                                 |      | (477,260)         | (494,837)          |
| <b>Results from operating activities</b>                                |      | <b>18,208,708</b> | <b>185,112,429</b> |
| Finance income  | 7(b) | 7,460,814         | 2,805,548          |
| Finance cost  | 7(c) | (33,868)          | -                  |
| <b>Net finance income</b>   |      | <b>7,426,946</b>  | <b>2,805,548</b>   |
| <b>Profit before income tax</b>   |      | <b>25,635,654</b> | <b>187,917,977</b> |
| Income tax expense  | 13   | (7,858,220)       | (53,724,359)       |
| <b>Profit for the year</b>  |      | <b>17,777,434</b> | <b>134,193,618</b> |
| Other comprehensive income  |      | -                 | -                  |
| <b>Total comprehensive profit for the year</b>                          |      | <b>17,777,434</b> | <b>134,193,618</b> |
| <b>Total comprehensive profit attributable to owners of the Company</b> |      | <b>17,777,434</b> | <b>134,193,618</b> |
| Basic earnings per share (cents)  | 9    | 5.03              | 38.94              |
| Diluted earnings per share (cents)                                      | 9    | 4.94              | 38.62              |

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 2012

### Consolidated statement of financial position

|  | Note | 30-June-12<br>\$   | 30-June-11<br>\$   |
|--|------|--------------------|--------------------|
| <b>Current assets</b>                  |      |                    |                    |
| Cash and cash equivalents              | 14   | 56,648,622         | 224,524,465        |
| Trade and other receivables            | 15   | 1,325,374          | 1,294,579          |
| Inventory                              | 16   | 5,216,487          | 4,687,213          |
| Derivatives                            | 5(d) | -                  | 159,020            |
| <b>Total current assets</b>            |      | <b>63,190,483</b>  | <b>230,665,277</b> |
| <b>Non-current assets</b>              |      |                    |                    |
| Receivables                            | 15   | 1,013,701          | 1,283,145          |
| Property, plant and equipment          | 17   | 1,646,726          | 1,436,657          |
| Exploration and evaluation expenditure | 18   | 36,335,439         | 27,215,896         |
| Deferred tax asset                     | 13   | 1,585,772          | -                  |
| Mine and development properties        | 19   | 32,298             | 1,575,199          |
| <b>Total non-current assets</b>        |      | <b>40,613,936</b>  | <b>31,510,897</b>  |
| <b>Total assets</b>                    |      | <b>103,804,419</b> | <b>262,176,174</b> |
| <b>Current liabilities</b>             |      |                    |                    |
| Trade and other payables               | 20   | 2,295,129          | 6,779,801          |
| Income tax payable                     | 13   | 3,991,776          | 47,346,671         |
| Provisions                             | 21   | 841,246            | 219,667            |
| Derivatives                            | 5(d) | -                  | 125,152            |
| <b>Total current liabilities</b>       |      | <b>7,128,151</b>   | <b>54,471,291</b>  |
| <b>Non-current liabilities</b>         |      |                    |                    |
| Provisions                             | 21   | -                  | 866,772            |
| Deferred tax liability                 | 13   | 11,055,473         | 6,718,076          |
| <b>Total non-current liabilities</b>   |      | <b>11,055,473</b>  | <b>7,584,848</b>   |
| <b>Total liabilities</b>               |      | <b>18,183,624</b>  | <b>62,056,139</b>  |
| <b>Net assets</b>                      |      | <b>85,620,795</b>  | <b>200,120,035</b> |
| <b>Equity</b>                          |      |                    |                    |
| Contributed equity                     | 22   | 41,484,138         | 74,640,556         |
| Reserves                               | 23   | 566,962            | 849,907            |
| Retained earnings                      |      | 43,569,695         | 124,629,572        |
| <b>Total equity</b>                    |      | <b>85,620,795</b>  | <b>200,120,035</b> |

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 2012

### Consolidated statement of cash flows

|  | Note | 30-June-12<br>\$     | 30-June-11<br>\$   |
|--|------|----------------------|--------------------|
| <b>Cash flows from operating activities</b>              |      |                      |                    |
| Receipts from customers                                  |      | 40,751,611           | 74,706,911         |
| Cash payments in the course of operations                |      | (24,398,447)         | (26,025,811)       |
| Interest received  |      | 7,080,178            | 1,022,992          |
| Income tax (payments)/refunds                            |      | (48,461,490)         | 340,388            |
| <b>Net cash (used in)/from operating activities</b>      | 28   | <b>(25,028,148)</b>  | <b>50,044,480</b>  |
| <b>Cash flows from investing activities</b>              |      |                      |                    |
| Cash payments for exploration and evaluation expenditure |      | (10,045,495)         | (7,154,676)        |
| Cash payments for development expenditure                |      | -                    | (8,699,574)        |
| Cash payments for acquisition of equity investments      |      | (35,000)             | (25,000)           |
| Movements in security deposits                           |      | 269,444              | (72,894)           |
| Cash payments for plant and equipment                    |      | (434,227)            | (193,216)          |
| Proceeds from sale of property, plant and equipment      |      | 3,909                | 117,000            |
| Proceeds from sale of tenements                          |      | -                    | 175,000,000        |
| Proceeds from sale of interests in joint ventures        |      | 242,464              | -                  |
| <b>Net cash (used in)/from investing activities</b>      |      | <b>(9,998,905)</b>   | <b>158,971,640</b> |
| <b>Cash flows from financing activities</b>              |      |                      |                    |
| Proceeds from issue of shares                            |      | 2,460,000            | 5,753,939          |
| Share issue costs  |      | (12,000)             | (332,309)          |
| Dividends paid   |      | (99,692,372)         | -                  |
| Shareholders capital return paid                         |      | (35,604,418)         | -                  |
| <b>Net cash (used in)/from financing activities</b>      |      | <b>(132,848,790)</b> | <b>5,421,630</b>   |
| <b>Net (decrease)/increase in cash held</b>              |      | <b>(167,875,843)</b> | <b>214,437,750</b> |
| <b>Cash at the beginning of the financial period</b>     |      | <b>224,524,465</b>   | <b>10,086,715</b>  |
| <b>Cash at the end of the financial period</b>           | 14   | <b>56,648,622</b>    | <b>224,524,465</b> |

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 2012

### Consolidated statement changes in equity

| Consolidated   | Contributed equity | Retained earnings   | Share-based payments reserve | Total equity       |
|--|--------------------|---------------------|------------------------------|--------------------|
| <b>Balance at 1 July 2011</b>                              | <b>74,640,556</b>  | <b>124,629,572</b>  | <b>849,907</b>               | <b>200,120,035</b> |
| Profit for the year  | -                  | 17,777,434          | -                            | 17,777,434         |
| Total comprehensive profit for the year                    | -                  | 17,777,434          | -                            | 17,777,434         |
| <b>Transactions by owners, recorded directly in equity</b> |                    |                     |                              |                    |
| Exercise of options  | 2,460,000          | -                   | -                            | 2,460,000          |
| Share issuance costs                                       | (12,000)           | -                   | -                            | (12,000)           |
| Return of capital to shareholders                          | (35,604,418)       | -                   | -                            | (35,604,418)       |
| Payment of dividends                                       | -                  | (99,692,372)        | -                            | (99,692,372)       |
| Share-based payments                                       | -                  | 855,061             | (282,945)                    | 572,116            |
| <b>Balance at 30 June 2012</b>                             | <b>41,484,138</b>  | <b>43,569,695</b>   | <b>566,962</b>               | <b>85,620,795</b>  |
| <b>Balance at 1 July 2010</b>                              | <b>68,968,927</b>  | <b>(12,008,067)</b> | <b>3,253,635</b>             | <b>60,214,495</b>  |
| Profit for the year  | -                  | 134,193,618         | -                            | 134,193,618        |
| Total comprehensive profit for the year                    | -                  | 134,193,618         | -                            | 134,193,618        |
| <b>Transactions by owners, recorded directly in equity</b> |                    |                     |                              |                    |
| Issue of shares  | 4,928,488          | -                   | -                            | 4,928,488          |
| Exercise of options  | 825,450            | -                   | -                            | 825,450            |
| Share issuance costs                                       | (332,309)          | -                   | -                            | (332,309)          |
| Share-based payments                                       | 250,000            | 2,444,021           | (2,403,728)                  | 290,293            |
| <b>Balance at 30 June 2011</b>                             | <b>74,640,556</b>  | <b>124,629,572</b>  | <b>849,907</b>               | <b>200,120,035</b> |

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

**Notes to the consolidated financial accounts****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 year ended, 30 June 2012 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 a for-profit entity and primarily involved in minerals exploration and the production of gold.

The consolidated annual financial report of the Group is available upon request from the registered office, or at: [www.excoresources.com.au](http://www.excoresources.com.au).

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

The consolidated financial statements are general purpose financial statements which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB), and the *Corporations Act* (2001). The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the board of directors on 27 September 2012.

**b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis. The methods used to measure fair values are discussed further in note 4.

**c) Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the functional currency of the Company and its controlled entities.

**d) Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is included in the following notes:

Note 3(d) – Exploration and evaluation expenditure  
Note 3(e) – Mine and development properties  
Note 3(h) – Impairment  
Note 3(l)(ii) – Share-based payment transactions  
Note 3(k) – Closure and rehabilitation

Management discussed with the board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies, estimates and judgements. The estimates and judgements that may have a significant impact on the carrying amount of assets and liabilities are discussed below.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

**a) Basis of consolidation****i.) Subsidiaries**

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**ii.) Investments in associates and jointly controlled entities (equity accounted investees)**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The cost of investment includes transaction costs.

The consolidated financial statements includes the Group's share of the profit or loss and other comprehensive income of and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments that form part thereof) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**Notes to the consolidated financial accounts****iii.) Jointly controlled operations**

A jointly controlled operation is a joint venture carried out by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses it incurs and its share of income or production that it earns from the joint operation.

**iv.) Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**b) Foreign currency**

Transactions in foreign currencies are translated to Australian dollars at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Australian dollars at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised costs in Australian dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Australian dollars at the exchange rate at the date that the fair value was determined.

**c) Financial instruments****i.) Non-derivative financial assets**

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets:

Cash, cash equivalents and trade receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

**ii.) Non-derivative financial liabilities**

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(n).

**iii.) Share capital****Ordinary Shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**Dividends**

Dividends are recognised as a liability in the period in which they are declared.

**iv.) Derivative financial instruments**

The Group holds derivative financial instruments from time to time to hedge its commodity price exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

**Notes to the consolidated financial accounts****Cash flow hedges**

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

**Separable embedded derivatives**

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

**Other non-trading derivatives**

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

**d) Exploration and Evaluation**

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

- sufficient data exists to determine technical feasibility and commercial viability, and
- facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy in note 3 (h)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mine and development properties.

**e) Mine and development properties****i.) Mine and development properties**

Mine and development properties represents the acquisition cost and/or accumulated exploration, evaluation and development expenditure in respect of areas of interest in which production has commenced. Mine development costs are deferred until commercial production commences. When commercial production is achieved mine development is transferred to mine properties, at which time it is amortised on a unit of production basis over the total estimated resources related to this area of interest.

Development expenditure is capitalised as either a tangible or intangible asset depending on the nature of the costs incurred.

Development expenditure includes the following:

- Reclassified exploration and evaluation assets;
- Direct costs of construction including plant and equipment and related infrastructure costs;
- Pre-production stripping costs; and
- An appropriate allocation of overheads and borrowing costs incurred during the construction phase.

Open pit waste removal costs incurred in the development of a mine before production commences are capitalised as part of the mine development costs, which are subsequently amortised over the life of the open pit resource, once transferred to mine properties.

The Group applies the units of production method for amortisation of its mine properties, which results in an amortisation charge proportional to the depletion of the anticipated remaining life of mine production. These calculations require the use of estimates and assumptions in relation to reserves and resources, metallurgy and the complexity of future capital development requirements. These estimates and assumptions are reviewed annually, changes to these estimates and assumptions may impact the amortisation charge in the income statement and asset carrying values, which would be adjusted if appropriate on a prospective basis.

**ii.) Production waste removal**

All costs of production waste removal (stripping) from open pit mines with an expected future life of greater than 12 months are accumulated, and deferred on the statement of financial position as part of the total of mine properties and mine development. These costs include the costs of drilling, blasting, loading and haulage of waste rock from the open pit to the waste pile. The costs are predominantly in the nature of payments to mining, blasting and other contracting companies or costs of internal labour and materials used in the process. These costs are amortised on a units-of production basis in accordance with the amortisation policy set out for mine development above.

Amortisation of production waste removal costs is included in cost of goods sold in the statement of comprehensive income. Cash spent on waste removal is included in cash flows from investing activities in the statement of cash flows.



**Notes to the consolidated financial accounts**

As waste removal activities are an integral part of the mining operation, the deferred stripping asset is grouped with the other assets at the mine site or other level which represents the lowest level of separately identifiable cash flows in order to assess recoverable amount.

**iii.) Reserves and resources**

Resources are estimates of the amount of saleable product that can be economically extracted from the Group's mine properties. In order to calculate resources, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, future capital requirements short and long term commodity prices and exchange rates.

Estimating the quantity and/or grade of resources requires the size, shape and depth of ore bodies to be determined by analysing geological data. This process may require complex and difficult geological judgments and calculations to interpret the data.

The Group determines and reports ore resources under the *Australian Code of Reporting for Mineral Resource and Ore Reserves December 2004*, known as the *JORC Code*. The *JORC Code* requires the use of reasonable assumptions to calculate resources. Due to the fact that economic assumptions used to estimate resources change from period to period, and geological data is generated during the course of operations, estimates of resources may change from period to period. Changes in reported resources may affect the Group's financial results and financial position in a number of ways, including:

- Asset carrying values may be impacted due to changes in estimates of future cash flows;
- Amortisation charged in the income statement may change where such charges are calculated using the units of production basis;
- Decommissioning, site restoration and environmental provisions may change due to changes in estimated resources after expectations about the timing or costs of these activities change; and
- Recognition of deferred tax assets, including tax losses.

**iv.) Depreciation**

Depreciation of development assets associated with producing mines is recognised in the income statement on a units of production basis as this is considered the best approach in operations where production quantities vary materially over the life of the operation.

**f) Property, plant and equipment**

**i.) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses as described in Note 3(h).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes

- the cost of materials and direct labour,
- any other costs directly attributable to bringing the asset to a working condition for its intended use, and
- the costs of dismantling and removing the items and restoring the site on which they are located.

Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item or property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the profit and loss.

**ii.) Subsequent costs**

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

**iii.) Depreciation**

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of each part component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date the asset is completed and ready for use.

The estimated useful lives for the current and comparative periods are as follows:

- |                       |                 |
|-----------------------|-----------------|
| • property            | not depreciated |
| • plant and equipment | 5-12 years      |
| • motor vehicles      | 5-10 years      |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**g) Inventories**

Inventories of broken ore, stacked ore, gold in circuit and gold bullion are physically measured or estimated and valued at the lower of cost and net realisable value.

The cost comprises direct materials, labour and transportation expenditure in bringing such inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure based on weighted cost incurred during the period in which such inventories were produced.

**Notes to the consolidated financial accounts**

Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and the estimated cost necessary to perform the sale. Inventories of consumable supplies and spare parts are expected to be used in production are valued at cost. Obsolete or damaged inventories of such items are valued at net realisable value.

Insurance and capital (or recirculating) spare parts are capitalised and depreciated over the same remaining life as the equipment with which they are associated.

**h) Impairment****i.) Non-derivative financial assets**

A financial asset not carried through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due, to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

**ii.) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of the asset or its related cash generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested

individually are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or CGU.

Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**i) Employee benefits****i.) Short-term benefits**

Short term benefits for obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**ii.) Share-based payment transactions**

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards.

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The fair value of share-based awards is measured using a binomial valuation model. The amount recognised as an expense is adjusted to reflect the actual number of awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

**iii.) Superannuation plan**

The Group contributes to several defined contribution superannuation plans. Contributions are recognised as an expense as they are incurred.

**Notes to the consolidated financial accounts****j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**k) Closure and rehabilitation**

The mining, extraction and processing activities of the Group normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Group's environmental policies. Provisions for the cost of each closure and rehabilitation programme are recognised when the Group has a present obligation and it is probable that rehabilitation/restoration costs will be incurred at a future date, which generally arises at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly.

Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure, in connection with disturbances, as at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating licence conditions and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements. Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows.

When provisions for closure and rehabilitation are initially recognised, to the extent that it is probable that future economic benefits associated with the rehabilitation, decommissioning and restoration expenditure will flow in the entity, the corresponding cost is capitalised as an asset. The capitalised cost of closure and rehabilitation activities is recognised in exploration evaluation and mine properties and

property, plant and equipment as appropriate and depreciated/amortised accordingly.

The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in finance expenses. Closure and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, where it is probable that future economic benefits will flow to the entity, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the income statement. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Factors influencing those changes include:

- revisions to estimated reserves, resources and lives of operations
- regulatory requirements and environmental management strategies
- changes in the estimated costs of anticipated activities, including the effects of inflation and movements in foreign exchange rates
- movements in interest rates affecting the discount rate applied; and,
- the timing of cash flows.

At each reporting date the rehabilitation and restoration provision is remeasured to reflect any of these changes.

**l) Revenue**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

**m) Lease payments**

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**n) Finance income and finance costs**

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through the profit or loss, changes in fair value of the derivative instruments held for hedging and impairment losses recognised on financial assets.

**Notes to the consolidated financial accounts**

**o) Tax**

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and,
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised.

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group with effect from 1 April 2004. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated group is Exco Resources Limited.

**p) Segment reporting**

**Determination and presentation of operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's acting chief executive officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the managing director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

**q) New standards and interpretations not yet adopted**

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of the initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing these financial statements:

- AASB 9 *Financial Instruments* (issued Dec 2009, amended Dec 2010) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2016 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group does not plan to adopt this standard early and the extent of the impact has not been determined;
- AASB 11 *Joint Arrangements*, which becomes mandatory for the Group's 30 June 2014 financial statements could change the classification and measurement of investments in jointly controlled entities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.



## Notes to the consolidated financial accounts

- Amended AASB 119 *Employee Benefits*, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the definition of short-term and other long-term employee benefits and some disclosure requirements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

## 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumption made in determining fair values is disclosed in the notes specific to that asset or liability.

## a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

## b) Share-based payment transactions

The fair value of employee stock options is measured using a binomial valuation. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## c) Derivatives

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market price at the reporting date.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at each reporting date.

The fair value of forward foreign exchange and commodity contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

## 5. Financial risk management

## a) Overview

This note presents information about the Group's exposure to credit, liquidity and market risks, their objectives, policies and the processes for measuring and managing risk, and the management of capital.

## Framework

The Group's future revenues may be exposed to commodity price and exchange rate fluctuations. The Group may from time to time enter into derivative instruments to manage this exposure. Exposure limits will be reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

## b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from gold sales to customers.

Credit risks relating to trade receivables are managed by maintaining strong relationships with our quality clients, ensuring Exco only trades with creditworthy parties (assessed at the time of contract acceptance), and constantly reviewing the ageing.

Credit risks related to cash and cash equivalents are managed by placing surplus working capital with financial institutions of appropriate credit-worthiness, that being the rating status of the 'Big Four' Australian banks from time to time.

## Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

|                             | 30-June-12        | 30-June-11         |
|-----------------------------|-------------------|--------------------|
|                             | \$                | \$                 |
| Cash and cash equivalents   | 56,648,622        | 224,524,465        |
| Financial derivative assets | -                 | 159,020            |
| Trade and other receivables | 2,339,075         | 2,577,724          |
|                             | <b>58,987,697</b> | <b>227,261,209</b> |

## Impairment losses

The Group has recognised an impairment loss of \$925,211 for the amount of royalty receivable, invoiced to CopperChem Ltd in March 2012. As announced to the market on 19 July 2012, CopperChem are disputing the Company's entitlement to the royalty under the Exco-CopperChem Alliance Agreement entered into in December 2004 and varied in September 2009. The matter is being dealt with under the dispute resolution processes contained in the terms of the Alliance Agreement. At the date of this report the outcome of this process remains uncertain. For further information see Note 32 below.



**Notes to the consolidated financial accounts**
**c) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows. At the balance sheet date the Group did not have any external borrowings. The following are the contractual maturities of financial liabilities

| <b>Consolidated<br/>30-Jun-12</b> | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>6 months<br/>or less</b> | <b>6-12<br/>months</b> | <b>1-2<br/>years</b> |
|-----------------------------------|----------------------------|-----------------------------------|-----------------------------|------------------------|----------------------|
| Trade and other payables          | <b>2,295,129</b>           | <b>(2,295,129)</b>                | <b>(2,295,129)</b>          | -                      | -                    |
| <i>Derivatives</i>                |                            |                                   |                             |                        |                      |
| Gold forward contracts            |                            |                                   |                             |                        |                      |
| Outflow                           | -                          | -                                 | -                           | -                      | -                    |
| Inflow                            | -                          | -                                 | -                           | -                      | -                    |
| Gold options                      |                            |                                   |                             |                        |                      |
| Inflow                            | -                          | -                                 | -                           | -                      | -                    |
|                                   | <b>2,295,129</b>           | <b>(2,295,129)</b>                | <b>(2,295,129)</b>          | -                      | -                    |
| <b>30-Jun-11</b>                  |                            |                                   |                             |                        |                      |
| Trade and other payables          | 6,779,801                  | (6,779,801)                       | (6,779,801)                 | -                      | -                    |
| <i>Derivatives</i>                |                            |                                   |                             |                        |                      |
| Gold forward contracts            |                            |                                   |                             |                        |                      |
| Outflow                           | 125,152                    | (125,152)                         | (125,152)                   | -                      | -                    |
| Inflow                            | (118,791)                  | 118,795                           | 118,795                     | -                      | -                    |
| Gold options                      |                            |                                   |                             |                        |                      |
| Inflow                            | (40,225)                   | -                                 | -                           | -                      | -                    |
|                                   | <b>6,745,933</b>           | <b>(6,786,158)</b>                | <b>(6,786,158)</b>          | -                      | -                    |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, and that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

In previous financial years, the Group has entered into gold forward sales contracts and gold put options to manage its exposure to movement in gold prices. During the current financial year all such contracts and options expired. With reducing production from White Dam, the Group has assessed that the risk of an adverse effect due to its exposure to the change in gold price is minimal, and thus has not entered into any new contracts.

**e) Currency risk**

The Group is not exposed to currency risk and at the balance sheet date the Group held no financial assets or liabilities which are exposed to foreign currency risk.

**f) Interest rate risk**

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest bearing financial instruments. The Group does not use derivatives to mitigate these exposures.

The Group adopts a policy ensuring that as far as possible it maintains excess cash and cash equivalents in short term deposits at interest rates maturing over rolling periods of 90 days or less.

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

##### Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

|                            | 30-June-12 | 30-June-11  |
|----------------------------|------------|-------------|
| Variable rate instruments: | \$         | \$          |
| Financial assets*          | 56,648,622 | 224,524,465 |
|                            | 56,648,622 | 224,524,465 |

\*The interest-bearing financial assets comprise cash and cash equivalents.

##### Fair value sensitivity analysis for fixed rate instruments

The Group does not have any fixed rate instruments.

##### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2011.

|   | Profit or loss    |                   | Equity            |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 100bp<br>increase | 100bp<br>decrease | 100bp<br>increase | 100bp<br>decrease |
|   | \$                | \$                | \$                | \$                |
| <b>30 June 2012</b>                                   |                   |                   |                   |                   |
| Variable rate instruments – Cash and cash equivalents | 566,486           | (566,486)         | -                 | -                 |
| <b>30 June 2011</b>                                   |                   |                   |                   |                   |
| Variable rate instruments – Cash and cash equivalents | 2,245,245         | (2,245,245)       | -                 | -                 |

##### Fair values

##### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

|   | 30-June-12         |            | 30-June-11         |             |
|---|--------------------|------------|--------------------|-------------|
|   | Carrying<br>amount | Fair value | Carrying<br>amount | Fair value  |
|   | \$                 | \$         | \$                 | \$          |
| <b>Assets carried at fair value</b>           |                    |            |                    |             |
| Gold option contracts                         | -                  | -          | 40,225             | 40,225      |
| Gold forward sale contracts                   | -                  | -          | 118,795            | 118,795     |
|   | -                  | -          | 159,020            | 159,020     |
| <b>Assets carried at amortised cost</b>       |                    |            |                    |             |
| Loans and receivables                         | 2,339,075          | 2,339,075  | 2,577,724          | 2,577,724   |
| Cash and cash equivalents                     | 56,648,622         | 56,648,622 | 224,524,465        | 224,524,465 |
|   | 58,987,697         | 58,987,697 | 227,102,189        | 227,102,189 |
| <b>Liabilities carried at fair value</b>      |                    |            |                    |             |
| Gold option contracts                         | -                  | -          | -                  | -           |
| Gold forward sale contracts                   | -                  | -          | 125,152            | 125,152     |
|   | -                  | -          | 125,152            | 125,152     |
| <b>Liabilities carried at amortised costs</b> |                    |            |                    |             |
| Trade and other payable                       | 2,295,129          | 2,295,129  | 6,779,801          | 6,779,801   |
|   | 2,295,129          | 2,295,129  | 6,779,801          | 6,779,801   |

The basis for determining fair values is disclosed in note 4.

**Notes to the consolidated financial accounts**
**g) Commodity price risk**

The Group is exposed to gold price fluctuations; the potential effect of the fluctuations is discussed in detail earlier in this note in market risks disclosures (d).

**h) Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, by maintaining a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure while ensuring liquidity, the Group may return capital to shareholders, issue new shares or sell assets to provide cash flow.

The cash position of the Group is such that it can fund its exploration and evaluation activities from current funds. However should opportunities arise during the coming year that require further funding, the Group will consider the issue of new shares or the sale of assets to finance any such opportunities.

Following the sale of the Ernest Henry portion of the Cloncurry Copper Project to Xstrata in June 2011, the board considered the capital structure of the Company and decided that a return of capital to shareholders was justified. Accordingly on 9 December 2011, after shareholder approval, a return of capital of 10 cents per share (\$35.6m) was made

Other than the above there were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**6. Revenue**

|            | 30-June-12<br>\$  | 30-June-11<br>\$  |
|------------|-------------------|-------------------|
| Gold sales | 40,751,611        | 84,123,512        |
|            | <b>40,751,611</b> | <b>84,123,512</b> |

The Group's two most significant customers, ANZ Banking Group Ltd and Barclays Capital plc represent 100% of the Group's total revenues.

**7. Other and financial income/expense**
**a) Other income**

|   | 30-June-12<br>\$ | 30-June-11<br>\$   |
|---|------------------|--------------------|
| Gain on disposal of property, plant and equipment | 2,657            | 63,026             |
| Gain on disposal of interest in joint ventures    | 158,896          | -                  |
| Gain on disposal of tenements (i)                 | -                | 153,758,038        |
| Royalties income                                  | 925,221          | 117,040            |
| Other income                                      | 12,966           | 9,435              |
|   | <b>1,099,740</b> | <b>153,947,539</b> |

(i) In June 2011 the Company disposed of the Ernest Henry portion of the Cloncurry Copper Project to Xstrata for \$175 million.

**b) Financial income**

|   | 30-June-12<br>\$ | 30-June-11<br>\$ |
|---|------------------|------------------|
| Interest income                         | 7,460,814        | 1,111,614        |
| Fair value movement on option contracts | -                | 1,693,934        |
|   | <b>7,460,814</b> | <b>2,805,548</b> |

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

##### c) Financial expense

|   | 30-June-12    | 30-June-11 |
|---|---------------|------------|
|   | \$            | \$         |
| Fair value of metal options and forward contracts | 33,868        | -          |
|   | <b>33,868</b> | -          |

##### 8. Cost of goods sold

|  |     | 30-June-12        | 30-June-11        |
|--|-----|-------------------|-------------------|
|  |     | \$                | \$                |
| Depreciation of development properties | (i) | 516,115           | 18,076,478        |
| Amortisation of capitalised waste      | (i) | 1,026,786         | 3,509,426         |
| Amortisation of rehabilitation asset   | (i) | -                 | 602,481           |
| Production costs                       |     | 14,748,622        | 19,348,900        |
| Costs deferred as inventory            |     | (546,787)         | 2,940,029         |
|  |     | <b>15,744,736</b> | <b>44,477,314</b> |

(i) Reconciliation of movement in mine properties including the depreciation charges is disclosed in note 19.

##### 9. Earnings per share

###### Basic profit per share

The calculation of basic profit per share for the year ended 30 June 2012 was based on the profits attributable to ordinary shareholders of \$17,777,434 (2011: \$134,193,618) and a weighted average basic and dilutive number of ordinary shares outstanding during the year ended 30 June 2012 of 353,704,023 and 359,686,263 respectively (year ended 30 June 2011: 344,577,626 and 347,471,839 respectively), calculated as follows:

|  | 30-June-12              | 30-June-11              |
|--|-------------------------|-------------------------|
|  | \$                      | \$                      |
| <b>Profit attributable to ordinary shareholders</b>                  |                         |                         |
| Profit for the period  | 17,777,434              | 134,193,618             |
| <b>Weighted average number of ordinary shares</b>                    | <b>Number of shares</b> | <b>Number of shares</b> |
| Issued ordinary shares at 1 July                                     | 348,544,187             | 328,565,892             |
| Effect of shares issued during the period                            | 5,159,836               | 16,011,734              |
| <b>Weighted average number of ordinary shares at 30 June</b>         | <b>353,704,023</b>      | <b>344,577,626</b>      |
| Effect of share options on issue                                     | -                       | 2,894,213               |
| Effect of performance rights on issue                                | 5,982,240               | -                       |
| <b>Weighted average diluted number of ordinary shares at 30 June</b> | <b>359,686,263</b>      | <b>347,471,839</b>      |
| <b>Profit per share</b>  | <b>¢</b>                | <b>¢</b>                |
| Basic earnings/(loss) per share (cents)                              | 5.03                    | 38.94                   |
| Diluted earnings/(loss) per share (cents)                            | 4.94                    | 38.62                   |

##### 10. Employee expenses

|                                | 30-June-12       | 30-June-11       |
|--------------------------------|------------------|------------------|
|                                | \$               | \$               |
| Consulting fees and wages      | 1,073,196        | 2,316,696        |
| Superannuation                 | 299,542          | 232,839          |
| Share-based payment expense    | 572,116          | 34,792           |
| Other personnel costs          | 346,659          | 264,399          |
| <b>Total employee expenses</b> | <b>2,291,513</b> | <b>2,848,726</b> |

Included within capitalised exploration and evaluation for the year are employee expenses of \$3,499,504 (2011: \$2,736,028)

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

##### 11. Professional and corporate expenses

|  | 30-June-12<br>\$ | 30-June-11<br>\$ |
|--|------------------|------------------|
| Audit fees - KPMG                                | 108,000          | 117,600          |
| Tax services fees - KPMG                         | -                | -                |
| Other accounting fees - KPMG                     | -                | -                |
|  | <b>108,000</b>   | <b>117,600</b>   |
| <b>Other professional and corporate expenses</b> |                  |                  |
| Tax services                                     | 103,953          | 154,000          |
| Legal services                                   | 167,172          | 327,626          |
| Other corporate expenses                         | 345,584          | 1,667,721        |
|  | <b>616,709</b>   | <b>2,149,347</b> |
| <b>Total professional and corporate expenses</b> | <b>724,709</b>   | <b>2,266,947</b> |

##### 12. Impairment expense

In March 2012 the Company raised an invoice for \$925,221 (plus GST) payable within 90 days, for a royalty receivable from CopperChem Ltd and in accordance with the terms of the Exco-CopperChem Alliance Agreement. The invoiced amount of royalty has been disputed by CopperChem and the invoice remains unpaid at the reporting date. A provision for doubtful debt has been raised for the full amount of the CopperChem royalty invoice and recognised as an impairment expense.



## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

##### 13. Income tax expense

|   | 30-June-12<br>\$    | 30-June-11<br>\$   |
|---|---------------------|--------------------|
| <b>Current tax expense</b>  |                     |                    |
| Current period  | 5,106,595           | 47,346,671         |
| <b>Deferred tax expense</b>   |                     |                    |
| Origination and reversal of temporary differences                               | 2,751,625           | 6,718,076          |
| Prior year research and development tax concession                              | -                   | (340,388)          |
| <b>Total income tax expense</b>   | <b>7,858,220</b>    | <b>53,724,359</b>  |
| <b>Numerical reconciliation between tax expense and pre-tax accounting loss</b> |                     |                    |
| Profit for the period excluding income tax                                      | 25,635,654          | 187,917,977        |
| Income tax using the Company's domestic tax rate of 30%                         | 7,690,696           | 56,375,393         |
| Prior year research and development tax concession                              | -                   | (340,388)          |
| Tax effect of permanent differences   | 346,092             | 12,830             |
| Tax losses not recognised in previous years                                     | (178,568)           | (2,323,476)        |
| <b>Income tax expense</b>   | <b>7,858,220</b>    | <b>53,724,359</b>  |
| <b>Tax assets and liabilities</b>   |                     |                    |
| <b>Recognised deferred tax assets and liabilities</b>                           |                     |                    |
| <i>Recognised deferred tax liabilities</i>                                      |                     |                    |
| Exploration and development expenditure   | (10,900,632)        | (8,164,769)        |
| Accrued income  | (154,841)           | (40,651)           |
| Derivatives   | -                   | (10,160)           |
|   | <b>(11,055,473)</b> | <b>(8,215,580)</b> |
| <i>Recognised deferred tax assets</i>   |                     |                    |
| Mine and development expenditure  | 695,515             | 937,849            |
| Capital raising costs   | 138,388             | 217,536            |
| Income tax losses   | 188,750             | -                  |
| Provisions and accruals   | 563,120             | 342,119            |
| Tax value of losses recognised  | -                   | -                  |
|   | <b>1,585,773</b>    | <b>1,497,504</b>   |
| <b>Total net deferred tax liability</b>   | <b>(9,469,700)</b>  | <b>(6,718,076)</b> |

##### Tax Losses

At 30 June 2012, the consolidated group has fully recognised all carried forward income tax losses.

##### 14. Cash and cash equivalents

|                             | 30-June-12<br>\$  | 30-June-11<br>\$   |
|-----------------------------|-------------------|--------------------|
| Cash on hand and at bank    | 140,081           | 29,516,526         |
| Cash held in joint ventures | 664,279           | 415,337            |
| Deposits at call            | 55,844,262        | 194,592,602        |
|                             | <b>56,648,622</b> | <b>224,524,465</b> |

## EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

### Notes to the consolidated financial accounts

#### 15. Trade and other receivables

|                    | 30-June-12<br>\$ | 30-June-11<br>\$ |
|--------------------|------------------|------------------|
| <b>Current</b>     |                  |                  |
| Trade debtors      | 138,696          | 62,330           |
| Prepayments        | 235,566          | 413,925          |
| Other receivables  | 951,112          | 818,324          |
|                    | <b>1,325,374</b> | <b>1,294,579</b> |
| <b>Non-current</b> |                  |                  |
| Security deposits  | 1,013,701        | 1,283,145        |
|                    | <b>1,013,701</b> | <b>1,283,145</b> |

#### 16. Inventories

|                                  | 30-June-12<br>\$ | 30-June-11<br>\$ |
|----------------------------------|------------------|------------------|
| Materials and supplies - at cost | 473,452          | 490,965          |
| Ore stocks – at cost             | 1,862,123        | 2,241,905        |
| Gold in circuit – at cost        | 2,879,837        | 1,954,343        |
| Gold bullion – at cost           | 1,075            | -                |
|                                  | <b>5,216,487</b> | <b>4,687,213</b> |

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

#### 17. Property, plant and equipment

|  | 30-June-12<br>\$ | 30-June-11<br>\$ |
|--|------------------|------------------|
| At cost                                | 2,370,518        | 2,068,549        |
| Accumulated depreciation               | (723,792)        | (631,892)        |
| <b>Total carrying value at 30 June</b> | <b>1,646,726</b> | <b>1,436,657</b> |

|                                   | Property<br>30-June-12<br>\$ | Motor Vehicles<br>30-June-12<br>\$ | Plant and<br>Equipment<br>30-June-12<br>\$ | Total<br>30-June-12<br>\$ |
|-----------------------------------|------------------------------|------------------------------------|--|---------------------------|
| <b>Reconciliation of movement</b> |                              |                                    |  |                           |
| <i>At cost</i>                    |                              |                                    |  |                           |
| <b>At 1 July</b>                  | 989,385                      | 453,975                            | 625,189                                    | 2,068,549                 |
| Acquisitions                      | -                            | 209,397                            | 224,829                                    | 434,226                   |
| Disposals                         | -                            | (9,091)                            | (123,166)                                  | (132,257)                 |
| <b>At 30 June</b>                 | 989,385                      | 654,281                            | 726,852                                    | 2,370,518                 |
| <i>Accumulated depreciation</i>   |                              |                                    |  |                           |
| <b>At 1 July</b>                  | -                            | (138,397)                          | (493,495)                                  | (631,892)                 |
| Depreciation expense              | -                            | (124,109)                          | (98,797)                                   | (222,906)                 |
| Disposals                         | -                            | 9,091                              | 121,915                                    | 131,006                   |
| <b>At 30 June</b>                 | -                            | (253,415)                          | (470,377)                                  | (723,792)                 |
| <b>Carrying amount at 30 June</b> | 989,385                      | 400,866                            | 256,475                                    | 1,646,726                 |
|                                   | 30-June-11                   | 30-June-11                         | 30-June-11                                 | 30-June-11                |
| <b>Reconciliation of movement</b> | \$                           | \$                                 | \$   | \$                        |
| <i>At cost</i>                    |                              |                                    |  |                           |
| <b>At 1 July</b>                  | 989,385                      | 356,505                            | 751,866                                    | 2,097,756                 |
| Acquisitions                      | -                            | 164,952                            | 31,891                                     | 196,843                   |
| Disposals                         | -                            | (67,482)                           | (158,568)                                  | (226,050)                 |
| <b>At 30 June</b>                 | 989,385                      | 453,975                            | 625,189                                    | 2,068,549                 |
| <i>Accumulated depreciation</i>   |                              |                                    |  |                           |
| <b>At 1 July</b>                  | -                            | (134,603)                          | (504,046)                                  | (638,649)                 |
| Depreciation expense              | -                            | (79,291)                           | (82,400)                                   | (161,691)                 |
| Disposals                         | -                            | 75,497                             | 92,951                                     | 168,448                   |
| <b>At 30 June</b>                 | -                            | (138,397)                          | (493,495)                                  | (631,892)                 |
| <b>Carrying amount at 30 June</b> | 989,385                      | 315,578                            | 131,694                                    | 1,436,657                 |

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

#### 18. Exploration and evaluation expenditure

|   | 30-June-12        | 30-June-11        |
|---|-------------------|-------------------|
|   | \$                | \$                |
| <b>Carrying value of exploration and evaluation</b>   |                   |                   |
| In entities other than joint ventures   | 35,624,958        | 26,620,672        |
| In joint ventures   | 710,481           | 595,224           |
| <b>Carrying value*</b>  | <b>36,335,439</b> | <b>27,215,896</b> |
| *Costs carried forward in respect of areas of interest held in the exploration and evaluation phases. |                   |                   |
| <b>Movement in exploration and evaluation expenditure</b>   |                   |                   |
| <b>At 1 July</b>  | <b>27,215,896</b> | <b>40,713,220</b> |
| Expenditure incurred during the year  | 10,045,495        | 7,604,238         |
| Expenditure reclassified as development   | -                 | -                 |
| Movement in expenditure in joint ventures   | 115,258           | 435,033           |
| Exploration expenditure written off   | (1,041,210)       | (294,633)         |
| Interests disposed of during the year   | -                 | (21,241,962)      |
| <b>Carrying amount at 30 June</b>   | <b>36,335,439</b> | <b>27,215,896</b> |

The property in nature represents intangible exploration and evaluation assets. Refer to the significant accounting policies 3(d) for a detailed explanation of 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.

#### 19. Mine and development properties

|   | 30-June-12       | 30-June-11        |
|---|------------------|-------------------|
|   | \$               | \$                |
| <b>Carrying value of mine and development properties</b>      |                  |                   |
| At cost:  |                  |                   |
| In entities other than joint ventures                         | 6,105,898        | 12,860,422        |
| In joint ventures   | 13,803,920       | 17,805,142        |
|   | 19,909,818       | 30,665,564        |
| Accumulated amortisation                                      | (19,877,520)     | (29,090,365)      |
| <b>Carrying amount at 30 June</b>                             | <b>32,298</b>    | <b>1,575,199</b>  |
| <b>Movement in mine properties and development</b>            |                  |                   |
| <b>At 1 July</b>  | <b>1,575,199</b> | <b>15,064,011</b> |
| Expenditure incurred during the year                          | -                | 8,699,573         |
| Expenditure reclassified from property, plant and equipment   | -                | -                 |
| Capitalised exploration recognised as development expenditure | -                | -                 |
| Depreciation of development properties (i)                    | (1,026,786)      | (18,076,478)      |
| Amortisation of capitalised production waste (i)              | (516,115)        | (3,509,426)       |
| Amortisation of capitalised rehabilitation costs (i)          | -                | (602,481)         |
| <b>Carrying amount at 30 June</b>                             | <b>32,298</b>    | <b>1,575,199</b>  |

- (i) Total amount of amortisation and depreciation included in cost of goods sold for the year ended 30 June 2012 was \$1,542,901 (2011: \$22,188,385) (Note 8).

There are no other material items arising from exploration, evaluation and mining assets which give rise to liabilities, income and expenses or operating cash flows.

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

#### 20. Trade and other payables

|                                      | 30-June-12       | 30-June-11       |
|--------------------------------------|------------------|------------------|
|                                      | \$               | \$               |
| Trade creditors                      | 860,788          | 1,817,786        |
| Accrued expenses                     | 209,112          | 2,483,440        |
| Other payables                       | 185,820          | 141,294          |
| Joint ventures payables and accruals | 1,039,409        | 2,337,281        |
|                                      | <b>2,295,129</b> | <b>6,779,801</b> |

#### 21. Provisions

|  | 30-June-12     | 30-June-11     |
|--|----------------|----------------|
|  | \$             | \$             |
| <b>Current</b>                           |                |                |
| Employee benefits*                       | 216,246        | 219,667        |
| Rehabilitation and restoration provision | 625,000        | -              |
|  | <b>841,246</b> | <b>219,667</b> |

\*This provision sets out the statutory annual leave provision for the Group's employees.

|   | 30-June-12     | 30-June-11     |
|---|----------------|----------------|
|   | \$             | \$             |
| <b>Non-current</b>                                    |                |                |
| <i>Rehabilitation and restoration provision</i>       |                |                |
| <b>Opening balance at 1 July</b>                      | <b>866,772</b> | <b>833,434</b> |
| Unwinding of discount                                 | 17,335         | 33,338         |
| Reduction in liability due to change in WDJV interest | (259,107)      | -              |
| Reclassification to current liabilities               | (625,000)      | -              |
|   | <b>-</b>       | <b>866,772</b> |

#### 22. Contributed equity

|   | Number of shares   |                    | Amount (\$)       |                   |
|---|--------------------|--------------------|-------------------|-------------------|
|   | 30-June-12         | 30-June-11         | 30-June-12        | 30-June-11        |
| Ordinary shares on issue                    | 356,544,187        | 348,544,187        | 44,278,988        | 77,423,407        |
| Share issuance cost                         | -                  | -                  | (2,794,850)       | (2,782,851)       |
| <b>Ordinary shares on issue net of cost</b> | <b>356,544,187</b> | <b>348,544,187</b> | <b>41,484,138</b> | <b>74,640,556</b> |
| <b>Movement in ordinary shares</b>          |                    |                    |                   |                   |
| <b>Balance at 1 July</b>                    | <b>348,544,187</b> | <b>328,565,892</b> | <b>74,640,556</b> | <b>68,968,927</b> |
| <i>Issue of shares:</i>                     |                    |                    |                   |                   |
| Exercise of options                         | 7,500,000          | 3,150,000          | 2,460,000         | 825,450           |
| Shares issued for cash                      | -                  | 16,428,295         | -                 | 4,928,488         |
| Shares issued for services                  | -                  | 400,000            | -                 | 250,000           |
| Capital return to shareholders              | -                  | -                  | (35,604,418)      | -                 |
| Transaction costs                           | -                  | -                  | (12,000)          | (332,309)         |
| <b>Balance at 30 June</b>                   | <b>356,544,187</b> | <b>348,544,187</b> | <b>41,484,138</b> | <b>74,640,556</b> |



## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

##### *Movement in Options over ordinary shares on issue – unlisted options*

|   | Number of Options |                   |
|---|-------------------|-------------------|
|   | 30-June-12        | 30-June-11        |
| <b>Balance at 1 July</b>                              | <b>7,500,000</b>  | <b>10,650,000</b> |
| Employee incentive options granted                    | -                 | -                 |
| Options granted in settlement of financing costs      | -                 | -                 |
| Options granted in settlement of capital raising fees | -                 | -                 |
| Exercise of options                                   | (7,500,000)       | (3,150,000)       |
| Options expired                                       | -                 | -                 |
| <b>Balance at 30 June</b>                             | <b>-</b>          | <b>7,500,000</b>  |

##### *Performance rights over ordinary shares on issue – unlisted*

|  | Number            | Exercise Price | Expiry     |
|--|-------------------|----------------|------------|
| Outstanding performance rights on 30 June 2012 | 11,200,000        | nil            | 31/07/2016 |
|  | <b>11,200,000</b> |                |            |

Further details in respect of the performance rights are set out in note 30 *Share-based payments*

##### *Dividends*

The following dividends were declared and paid by the Company (2011: nil):

| 2012              | Cents per share | Total amount      | Date paid       |
|-------------------|-----------------|-------------------|-----------------|
| Ordinary dividend | 28              | 99,692,372        | 9 December 2011 |
|                   |                 | <b>99,692,372</b> |                 |

The dividend payment of \$99,692,372 was fully-franked and made to all shareholders in the Company as at 2nd December 2011.

No dividends were proposed by the directors after 30 June 2012.

|   | 30-June-12       | 30-June-11 |
|---|------------------|------------|
| <i>Dividend franking account</i>  | \$               | \$         |
| Amount of franking credits available to shareholders of Exco Resources Limited for subsequent financial years | <b>5,736,188</b> | -          |

The ability to utilise the franking credits is dependent upon the ability to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of \$5,736,188 (2011: nil) franking credits.

## 23. Reserves

|  | 30-June-12     | 30-June-11     |
|--|----------------|----------------|
|  | \$             | \$             |
| Share-based payments reserve                             | <b>566,962</b> | 849,907        |
|  | <b>566,962</b> | <b>849,907</b> |
| <b>Movement in reserves</b>                              |                |                |
| Balance at 1 July  | <b>849,907</b> | 3,253,635      |
| Recognised during the year                               | <b>572,116</b> | 40,293         |
| Transferred to retained earnings upon expiry or exercise | (855,061)      | (2,444,021)    |
|  | <b>566,962</b> | <b>849,907</b> |

The share based payment reserve relates to the recognised portion of share based payment expenses incurred.

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

#### 24. Parent entity

As at and throughout the financial year ended 30 June 2012 the parent company of the Group was Exco Resources Limited.

|   | 30-June-12<br>\$  | 30-June-11<br>\$   |
|---|-------------------|--------------------|
| <b>Results of the parent entity</b>                     |                   |                    |
| Profit/(loss) for the period                            | (5,714,856)       | 95,571,638         |
| Other comprehensive income                              | -                 | -                  |
| Total comprehensive income for the period               | (5,714,856)       | 95,571,638         |
| <b>Financial position of parent entity at year end</b>  |                   |                    |
| Current assets  | 56,666,258        | 220,573,726        |
| Total assets  | 97,027,286        | 251,568,037        |
| Current liabilities                                     | 5,433,742         | 50,655,515         |
| Total liabilities                                       | 72,391,459        | 88,940,104         |
| <b>Net assets</b>                                       | <b>24,635,827</b> | <b>162,627,933</b> |
| <b>Total equity of the parent entity comprising of:</b> |                   |                    |
| Share capital   | 41,484,138        | 74,640,556         |
| Option reserve  | 566,962           | 849,907            |
| Accumulated losses                                      | (17,415,273)      | 87,137,470         |
| <b>Total equity</b>                                     | <b>24,635,827</b> | <b>162,627,933</b> |

#### Parent entity commitments

|  | 30-June-12<br>\$ | 30-June-11<br>\$ |
|--|------------------|------------------|
| <b>(i) Exploration expenditure</b>                 |                  |                  |
| <i>Within one year:</i>                            |                  |                  |
| Leases and minimum expenditure                     | 83,066           | 98,162           |
| Farm-in commitments                                | 11,434           | 13,815           |
|  | <b>94,500</b>    | <b>111,977</b>   |
| <b>(ii) Operating leases</b>                       |                  |                  |
| <i>Within one year</i>                             | 246,889          | 246,790          |
| <i>Later than one and no later than five years</i> | 18,567           | 234,704          |
| <i>Later than 5 years</i>                          | -                | -                |
|  | <b>265,456</b>   | <b>481,494</b>   |
|  | <b>359,956</b>   | <b>593,471</b>   |

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

#### 25. Commitments

At 30 June 2012 the Group and has the following commitments:

|  | 30-June-12<br>\$ | 30-June-11<br>\$ |
|--|------------------|------------------|
| <b>(i) Exploration expenditure</b>   |                  |                  |
| <i>Within one year:</i>  |                  |                  |
| Leases and minimum expenditure   | 117,106          | 122,849          |
| Joint venture commitments - White Dam JV   | 28,523           | 31,042           |
| Farm-in commitments  | 11,434           | 13,815           |
|  | <b>157,063</b>   | <b>167,706</b>   |
| <b>(ii) Operating leases</b>   |                  |                  |
| <i>Within one year</i>   | 246,889          | 246,790          |
| <i>Later than one and no later than five years</i>   | 18,567           | 234,704          |
| <i>Later than 5 years</i>  | -                | -                |
|  | <b>265,456</b>   | <b>481,494</b>   |
|  | <b>422,519</b>   | <b>649,200</b>   |
| <b>(iii) Share of associate's capital commitments contracted but not provided for or payable</b> |                  |                  |
| Within one year  | 5,304            | 5,149            |

(i) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform exploration work to meet the minimum expenditure requirements specified by various State governments. These commitments are discretionary for the Group and are subject to re-negotiation when application for a mining lease is made and at other times. These commitments are not provided for in the financial report.

(ii) Leases as lessee

The Group leases an office under an operating lease. The lease commenced on 1 July 2006 with a term of 5 years with a 2 year renewal option. The lease was renewed on 1 July 2011. Lease payments are increased annually with the movement in CPI.

## EXCO RESOURCES LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

### Notes to the consolidated financial accounts

#### 26. Group entities

|                                     | Country of<br>Incorporation | Percentage of Equity Interest held<br>by the Group |             |
|-------------------------------------|-----------------------------|--|-------------|
| <b>Parent entity</b>                |                             |  |             |
| Exco Resources Limited              |                             |  |             |
|                                     |                             | <b>2012</b>  | <b>2011</b> |
|                                     |                             | <b>%</b>   | <b>%</b>    |
| <b>Subsidiaries</b>                 |                             |  |             |
| Exco Resources (WA) Pty Ltd.        | Australia                   | 100  | 100         |
| Mitchell River Exploration Pty Ltd. | Australia                   | 100  | 100         |
| Exco Operations (SA) Ltd.           | Australia                   | 100  | 100         |
| Eliza Creek Mines Ltd.              | Australia                   | 100  | 100         |
| Exco Cloncurry Operations Pty Ltd.  | Australia                   | 100  | 100         |
| Boomarra Mines Pty Ltd.             | Australia                   | 100  | 100         |
| Exco Resources (SA) Pty Ltd.        | Australia                   | 100  | 100         |
| Exco Resources (QLD) Pty Ltd.       | Australia                   | 100  | 100         |

#### 27. Joint ventures

As at 30 June 2012, the Group had interests in two joint ventures, details of which are included below. Joint ventures are accounted for using proportionate consolidation method as described in note 3(a)(ii).

##### a) Toolebuc Resources Pty Ltd.

On 14 February 2008 Exco Resources Limited. (Exco) and Paradigm Metals Ltd. (Paradigm) entered into an agreement to jointly undertake exploration on the Exco and Paradigm tenements in the area of mutual interest and have incorporated a company, Toolebuc Resources Pty Ltd. (Toolebuc), for this purpose.

During the financial year Toolebuc issued further 35,000 shares to each shareholder at \$1 per share bringing the Company's total investment in Toolebuc at 30 June 2012 to \$640,000 (2011: \$605,000).

Toolebuc Resources Pty Ltd. is a company incorporated in Australia with the principal activity being exploration of mineral resources. The investment in Toolebuc Resources is carried at cost in the balance sheet of the Company.

The consolidated financial statements incorporate 50% of the assets and liabilities of the Toolebuc Resources Pty Ltd. under following classifications:

|  | 30-June-12     | 30-June-11     |
|--|----------------|----------------|
| [50%]                                  | \$             | \$             |
| <b>Current assets</b>                  |                |                |
| Cash and cash equivalents              | 1,102          | 929            |
| Trade and other receivables            | 9,733          | 8,848          |
| <b>Total current assets</b>            | <b>10,835</b>  | <b>9,777</b>   |
| <b>Non-current assets</b>              |                |                |
| Exploration and evaluation expenditure | 629,165        | 595,223        |
| <b>Total non-current assets</b>        | <b>629,165</b> | <b>595,223</b> |
| <b>Total assets</b>                    | <b>640,000</b> | <b>605,000</b> |
| <b>Current liabilities</b>             |                |                |
| Trade and other payables               | -              | -              |
| <b>Total current liabilities</b>       | <b>-</b>       | <b>-</b>       |
| <b>Total liabilities</b>               | <b>-</b>       | <b>-</b>       |
| <b>Net assets</b>                      | <b>640,000</b> | <b>605,000</b> |

**Notes to the consolidated financial accounts**
**b) White Dam Gold Production Joint Venture**

During the year ended 30 June 2012, the Group contributed \$20,372,913 (2011: \$28,702,164) to the White Dam Gold Production Joint Venture (WDJV) of which \$2,625,473 was recovered from the joint venture partner upon the change of Exco's interest in the WDJV from 75% to 50%. The income from the sale of gold produced by the White Dam Gold Production Joint Venture is recorded by the venturers. Total costs incurred by the Joint Venture attributable to the owners of the Company were \$16,135,187 (2011: \$26,013,904).

|                                  | 30-June-12<br>[50%] \$ | 30-June-11<br>[75%] \$ |
|----------------------------------|------------------------|------------------------|
| <b>Current assets</b>            |                        |                        |
| Cash and cash equivalents        | 664,279                | 415,337                |
| Inventory                        | 164,522                | 182,035                |
| Trade and other receivables      | 216,381                | 457,613                |
| <b>Total current assets</b>      | <b>1,045,182</b>       | <b>1,054,985</b>       |
| <b>Non-current assets</b>        |                        |                        |
| Mine and development properties  | 13,803,920             | 17,805,142             |
| <b>Total non-current assets</b>  | <b>13,803,920</b>      | <b>17,805,142</b>      |
| <b>Total assets</b>              | <b>14,849,102</b>      | <b>18,860,127</b>      |
| <b>Current liabilities</b>       |                        |                        |
| Trade and other payables         | 1,039,407              | 2,337,281              |
| <b>Total current liabilities</b> | <b>1,039,407</b>       | <b>2,337,281</b>       |

**c) White Dam Gold Exploration Joint Venture**

During the year ended 30 June 2012 the Group transferred 25% of its interest in the White Dam exploration tenements to Polymetals Mining Ltd, upon signing of the White Dam Exploration Joint Venture Agreement documentation resulting in a gain of \$158,896. Polymetals took over responsibility for the management of the White Dam Exploration Joint Venture from Exco in the September 2011 quarter.

During the year ended 30 June 2012 the Group made no contribution to the White Dam Exploration Joint Venture as, for operational efficiency, exploration activities were controlled, and costs were expended and funded, through the White Dam Gold Production Joint Venture.

**d) Revision to JV arrangements at the White Dam Production and Exploration Joint Ventures**

On 10 January 2012 the partners announced that they had agreed in principle to develop the small Vertigo deposit under new joint venture arrangements. Following completion of the legal formalities during the June quarter:

- The White Dam Production Joint Venture and the Drew Hill Exploration Joint Venture were merged into a single unincorporated joint venture, the White Dam & Drew Hill Joint Venture, with Exco and Polymetals as equal partners and Polymetals managing operations;
- Remaining production from the Hannaford pit ore will continue to be shared on a 75:25 basis;
- Production from Vertigo ore will be shared on a 50:50 basis;
- Polymetals increased its interest in the White Dam infrastructure, including plant and camp facilities, from 25% to 50% in return for a cash consideration of \$767,500 based on an agreed independent valuation and a commitment to take on an extra 25% of the future closure costs; and,
- Polymetals have earned a further 25% interest in the exploration tenements in the Drew Hill area by spending \$1.3m on exploration prior to 30 June 2012.

The Group's commitments in regard to the White Dam & Drew Hill Joint Venture are included in note 25.



## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

#### 28. Notes to the statements of cash flows

##### Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities:

|  | 30-June-12<br>\$    | 30-June-11<br>\$   |
|--|---------------------|--------------------|
| <b>Profit after income tax</b>   | <b>17,777,434</b>   | <b>134,193,618</b> |
| <i>Add/(less) items classified as investing activities:</i>                              |                     |                    |
| Fair value movement of forward contracts   | 33,868              | (1,693,934)        |
| (Profit ) on sale of non-current assets  | (161,553)           | (153,821,064)      |
| Impairment expense   | 925,221             | -                  |
| Amortisation and depreciation of mine properties   | 1,542,901           | 22,188,385         |
| Depreciation   | 222,906             | 161,691            |
| Income tax expense   | 7,858,220           | 54,064,747         |
| Capitalised exploration written off  | 1,041,210           | 294,633            |
| <i>Add/(less) non-cash items:</i>  |                     |                    |
| Share-based payments   | 572,116             | 284,792            |
| <b>Net cash provided by operating activities before change in assets and liabilities</b> | <b>29,812,323</b>   | <b>55,672,868</b>  |
| Decrease/(increase) in receivables and prepayments                                       | 238,649             | 1,435,163          |
| (Increase)/decrease in inventory   | (529,274)           | 2,940,029          |
| (Decrease)/increase in deferred revenue  | -                   | (9,533,640)        |
| (Decrease)/increase in accounts payable and provisions                                   | (54,549,846)        | (469,940)          |
| <b>Net cash provided by operating activities</b>   | <b>(25,028,148)</b> | <b>50,044,480</b>  |

#### 29. Related party disclosures

##### Details of key management personnel

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

##### Directors

Geoff Laing - Managing director (appointed 10 January 2012)  
 Barry Sullivan – Non-executive chairman  
 Alasdair Cooke – Executive director  
 Tom Whiting – Non-executive director (appointed 20 September 2011)  
 Mike Spreadborough – Non-executive director (appointed 3 July 2012)  
 Michael Anderson - Managing director (resigned 5 August 2011)  
 Peter Reeve – Non-executive director (resigned 3 July 2012)

##### Executives

Bruce McLarty – General Manager – Commercial  
 Doug Cook – Exploration Manager  
 Steve Konecny – Chief Geologist  
 Eamon Byrne – Chief Financial Officer and Company Secretary

There are no other persons within the Group who are classified as key management personnel.

##### Key management personnel compensation disclosures

The key management personnel compensation is as follows:

|                              | 30-June-12<br>\$ | 30-June-11<br>\$ |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 2,106,580        | 3,082,580        |
| Post-employment benefits     | 93,748           | 70,921           |
| Share-based payments         | 343,641          | 40,292           |
|                              | <b>2,543,914</b> | <b>3,193,793</b> |

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

##### Individual directors and executive compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03, is provided in the remuneration report section of the Directors' Report.

Apart from the details disclosed in this note and the remuneration report, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

##### Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Exco Resources Limited held directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

##### Options

| <b>2012</b>       | Held at 1 July 2011 | Granted as compensation | Exercised   | Expired | Held at 30 June 2012 | Vested during the year | Vested and exercisable at 30 June 2012 |
|-------------------|---------------------|-------------------------|-------------|---------|----------------------|------------------------|--|
| <b>Directors</b>  |                     |                         |             |         |                      |                        |  |
| G Laing           | 1,500,000           | -                       | (1,500,000) | -       | -                    | -                      | -                                      |
| <b>Executives</b> |                     |                         |             |         |                      |                        |  |
| E Byrne           | 1,500,000           | -                       | (1,500,000) | -       | -                    | -                      | -                                      |

| <b>2011</b>       | Held at 1 July 2010 | Granted as compensation | Exercised   | Expired | Held at 30 June 2011 | Vested during the year | Vested and exercisable at 30 June 2011 |
|-------------------|---------------------|-------------------------|-------------|---------|----------------------|------------------------|--|
| <b>Executives</b> |                     |                         |             |         |                      |                        |  |
| G Laing           | 1,500,000           | -                       | -           | -       | 1,500,000            | 500,000                | 1,500,000                              |
| S Konecny         | 1,500,000           | -                       | (1,500,000) | -       | -                    | -                      | -                                      |
| E Byrne           | 1,500,000           | -                       | -           | -       | 1,500,000            | 500,000                | 1,000,000                              |

##### Performance rights

On 27 August 2012 Washington H Soul Pattinson & Co Ltd, served notice of a takeover bid on the Company. This event triggered a Change of Control Event (**CCE**) provision in the *Exco Resources Limited - Long Term Incentive Awards Plan – 2012 (Plan)* whereby the board could determine that any unvested performances rights outstanding at the point of a CCE could, at the board's discretion, be deemed to have vested. On 31 August 2012 the board resolved to so determine.

The Plan also provided that if a CCE occurred before the directors' performance rights had been approved by shareholders that a cash benefit would be paid to directors to ensure that the directors are put in a position similar to other holders of performance rights (whose grants are not subject to shareholder approval), and to ensure that the purpose of the Plan is achieved.

| <b>2012</b>             | Held at 1 July 2011 | Granted as compensation | Exercised | Expired | Held at 30 June 2012 | Vested during the year | Vested and exercisable at 30 June 2012 |
|-------------------------|---------------------|-------------------------|-----------|---------|----------------------|------------------------|--|
| <b>Directors</b>        |                     |                         |           |         |                      |                        |  |
| G Laing <sup>1</sup>    | -                   | 1,800,000               | -         | -       | 1,800,000            | -                      | -                                      |
| B Sullivan <sup>1</sup> | -                   | 300,000                 | -         | -       | 300,000              | -                      | -                                      |
| A Cooke <sup>1</sup>    | -                   | 800,000                 | -         | -       | 800,000              | -                      | -                                      |
| T Whiting <sup>1</sup>  | -                   | 200,000                 | -         | -       | 200,000              | -                      | -                                      |
| P Reeve <sup>1,2</sup>  | -                   | 200,000                 | -         | -       | 200,000              | -                      | -                                      |
| <b>Executives</b>       |                     |                         |           |         |                      |                        |  |
| B McLarty               | -                   | 1,500,000               | -         | -       | 1,500,000            | -                      | -                                      |
| D Cook                  | -                   | 1,200,000               | -         | -       | 1,200,000            | -                      | -                                      |
| S Konency               | -                   | 1,200,000               | -         | -       | 1,200,000            | -                      | -                                      |
| E Byrne                 | -                   | 1,500,000               | -         | -       | 1,500,000            | -                      | -                                      |

<sup>1</sup> Provisionally issued to directors, subject to shareholder approval at the Company's AGM in November 2012.

<sup>2</sup> The performance rights provisionally issued to Mr Reeve were forfeited following his resignation from the board on 3 July 2012

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

##### Movement in shares

|                         | Held at 1 July<br>2011 | Acquired<br>/ (Sold) | Received on<br>exercise of<br>options | Held at 30 June<br>2012 |
|-------------------------|------------------------|----------------------|---------------------------------------|-------------------------|
| <b>2012</b>             |                        |                      |                                       |                         |
| <b>Directors</b>        |                        |                      |                                       |                         |
| G Laing                 | 81,000                 | (1,000,000)          | 1,500,000                             | 581,000                 |
| B Sullivan              | 50,000                 | -                    | -                                     | 50,000                  |
| A Cooke                 | 17,224,988             | 92,890               | -                                     | 17,317,878              |
| T Whiting <sup>1</sup>  | -                      | -                    | -                                     | -                       |
| P Reeve                 | -                      | -                    | -                                     | -                       |
| <b>Executives</b>       |                        |                      |                                       |                         |
| B McLarty               | 2,200,000              | (200,000)            | -                                     | 2,000,000               |
| D Cook                  | -                      | -                    | -                                     | -                       |
| S Konecny               | 2,073,926              | (1,297,844)          | -                                     | 776,082                 |
| E Byrne                 | -                      | (1,500,000)          | 1,500,000                             | -                       |
| <b>2011</b>             |                        |                      |                                       |                         |
| <b>Directors</b>        |                        |                      |                                       |                         |
| G Laing                 | 81,000                 | -                    | -                                     | 81,000                  |
| B Sullivan              | 50,000                 | -                    | -                                     | 50,000                  |
| A Cooke                 | 16,224,988             | 1,000,000            | -                                     | 17,224,988              |
| P Reeve                 | -                      | -                    | -                                     | -                       |
| M Anderson <sup>2</sup> | 1,750,000              | -                    | -                                     | 1,750,000               |
| <b>Executives</b>       |                        |                      |                                       |                         |
| B McLarty               | 2,200,000              | -                    | -                                     | 2,200,000               |
| D Cook                  | -                      | -                    | -                                     | -                       |
| S Konecny               | 573,926                | -                    | 1,500,000                             | 2,073,926               |
| E Byrne                 | -                      | -                    | -                                     | -                       |

<sup>1</sup> Dr Whiting was appointed on 20 September 2011

<sup>2</sup> Mr Anderson resigned on 5 August 2011

No shares were granted to key management personnel during the reporting period as compensation in 2011 and 2012. No shares were held by related parties of key management personnel.

##### Loans to key management personnel and their related parties

There were no loans to key management personnel during the year.

##### Other key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. One of those entities, Mitchell River Group Pty Ltd, a mining consulting firm of which Mr Alasdair Cooke is a director, transacted with the Group in the financial year.

The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms-length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

| Related party                | Transactions value<br>year ended |                  | Balance outstanding<br>as at |                  |
|------------------------------|----------------------------------|------------------|------------------------------|------------------|
|                              | 30-June-12<br>\$                 | 30-June-11<br>\$ | 30-June-12<br>\$             | 30-June-11<br>\$ |
| Mitchell River Group Pty Ltd | 348,633                          | 329,425          | 39,005                       | 18,171           |

The above fees of \$348,633 (2011: \$329,425) were paid in respect of the provision of legal services, office rent, secretarial and bookkeeping services, field equipment rental and office cost recovery provided to the Company in the ordinary course of business.

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

##### Transactions with Related Parties in the Consolidated Group

The Consolidated Group consists of Exco Resources Limited. (the ultimate Parent Entity in the wholly owned group) and its controlled entities (see Note 26). During the year Exco Resources Limited entered into loans with those related parties which were advanced on long and short term inter-company accounts.

These loans had the following terms and conditions:

- Loans with related parties are repayable on demand, with repayment not expected to occur within 12 months; and no interest is payable on the loans.
- Transactions with associates and joint ventures are disclosed in note 27.

##### Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

On 3 July 2012, Mr Peter Reeve resigned as a non-executive director. On the same day Mr Michael Spreadborough was appointed as a non-executive director.

### 30. Share-based payments

During the year ended 30 June 2012 no incentive options were issued to employees and consultants.

The number and weighted average exercise prices of share options at 30 June 2012 were as follows:

|                               | Weighted<br>average<br>exercise price<br>(cents)<br>2012 | Number of<br>options<br>2012 | Weighted<br>average<br>exercise price<br>(cents)<br>2011 | Number of<br>options<br>2011 |
|-------------------------------|--|------------------------------|--|------------------------------|
| <b>Outstanding at 1 July</b>  | <b>32.8</b>  | <b>7,500,000</b>             | <b>35.1</b>  | <b>10,650,000</b>            |
| Expired during the year       | -  | -                            | -  | -                            |
| Exercised during the year     | 32.8   | (7,500,000)                  | 26.2   | (3,150,000)                  |
| <b>Outstanding at 30 June</b> | <b>-</b>   | <b>-</b>                     | <b>32.8</b>  | <b>7,500,000</b>             |
| Exercisable at 30 June        | -  | -                            | 32.3   | 7,000,000                    |

During the year ended 30 June 2012 the following performance rights were issued to directors, employees and contractors as follows:

|                               | Weighted<br>average<br>exercise price<br>(cents)<br>2012 | Number of<br>rights<br>2012 | Weighted<br>average<br>exercise price<br>(cents)<br>2011 | Number of rights<br>2011 |
|-------------------------------|--|-----------------------------|--|--------------------------|
| <b>Outstanding at 1 July</b>  | <b>-</b>   | <b>-</b>                    | <b>-</b>   | <b>-</b>                 |
| Expired during the year       | -  | -                           | -  | -                        |
| Exercised during the year     | -  | -                           | -  | -                        |
| Granted during the year       | nil  | 14,500,000                  | -  | -                        |
| <b>Outstanding at 30 June</b> | <b>-</b>   | <b>14,500,000</b>           | <b>-</b>   | <b>-</b>                 |
| Exercisable at 30 June        | -  | -                           | -  | -                        |

3,300,000 performance rights were provisionally issued to directors, subject to shareholder approval at the Company's AGM in November 2012. The performance rights provisionally issued to non-executive director, Mr Peter Reeve, were forfeited following his resignation from the board on 3 July 2012

##### Share-based payment expense

|   | 30-June-12<br>\$ | 30-June-11<br>\$ |
|---|------------------|------------------|
| Recognised in profit and loss   | 572,116          | 284,791          |
| Recognised in balance sheet as exploration and evaluation expenditure | -                | 5,501            |
|   | <b>572,116</b>   | <b>290,292</b>   |

## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

The terms under which the performance rights were issued are as follows

| Grant Date/Entitlement  | Number of rights  | Vesting Conditions   |
|---|-------------------|--|
| <b>31 March 2012 to Staff</b>   |                   |  |
|   | <b>2,300,000</b>  | 20% on service to 1 January 2013<br>30% on service to 1 January 2014<br>50% on service to 1 January 2015   |
| <b>31 March 2012 to Key Management Personnel, Professionals and Non executive Directors</b> |                   |  |
| Tranche 1   | <b>5,450,000</b>  | 30% on service to 31 July 2013<br>Up to 30% if Exco meets or exceeds predetermined exploration resource success thresholds and service threshold of Tranche 1 is met<br>Up to 40% if Exco meets or exceeds predetermined TSR hurdles of agreed peer group of companies and service threshold of Tranche 1 is met                                       |
| Tranche 2   | <b>5,450,000</b>  | 30% on service 1 August 2013 to 31 January 2015<br>Up to 30% if Exco meets or exceeds predetermined exploration resource success thresholds and service threshold of Tranche 2 is met<br>Up to 40% if Exco meets or exceeds predetermined TSR hurdles of agreed peer group of companies and service threshold of Tranche 2 is met                      |
| <b>31 March 2012 to Contractors</b>   |                   |  |
| Tranche 1   | <b>650,000</b>    | Up to 30% Pro rata for days service to 31 July 2013<br>Up to 30% if Exco meets or exceeds predetermined exploration resource success thresholds and service threshold of Tranche 1 is met<br>Up to 40% if Exco meets or exceeds predetermined TSR hurdles of agreed peer group of companies and service threshold of Tranche 1 is met                  |
| Tranche 2   | <b>650,000</b>    | Up to 30% pro rata for days service 1 August 2013 to 31 January 2015<br>Up to 30% if Exco meets or exceeds predetermined exploration resource success thresholds and service threshold of Tranche 2 is met<br>Up to 40% if Exco meets or exceeds predetermined TSR hurdles of agreed peer group of companies and service threshold of Tranche 2 is met |
| <b>Total Rights</b>   | <b>14,500,000</b> |  |

#### Measurement of fair values

The fair value of the performance rights granted through the *Exco Resources Long Term Incentive Plan – 2012* was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The use of a Monte Carlo simulation in respect of the portion of the awards that were based on market performance hurdles was investigated but given the immaterial nature of the differences versus the binomial measurement, and the vesting of the performance rights soon after the year end, the binomial measurement was maintained.

The inputs used in the measurement of fair values at grant date of the performance rights were as follows

| <b>2012 LTI Plan</b>            |                   |
|---------------------------------|-------------------|
| Grant date                      | 31 March 2012     |
| Exercise price                  | nil               |
| Share price                     | 18.9 cents        |
| Expiry date                     | 31 July 2016      |
| Risk-free interest rate         | 3.92%             |
| Volatility                      | 64.50%            |
| Contractual life of options     | 4.5 years         |
| Fair value of performance right | <b>18.9 cents</b> |



## EXCO RESOURCES LIMITED

### FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

#### Notes to the consolidated financial accounts

#### 31. Segments

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

- Production: comprising development and production activities of the White Dam & Drew Hill Joint Venture in South Australia.
- Exploration: including exploration and evaluation activities in the area of mineral resources.

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

| Operating segments  | Exploration        | Production        | Corporate /<br>Unallocated | Total              |
|---|--------------------|-------------------|----------------------------|--------------------|
| 30 June 2012  | \$                 | \$                | \$                         | \$                 |
| External revenues   | -                  | 40,751,611        | -                          | 40,751,611         |
| Inter-segment revenue                                     | -                  | -                 | -                          | -                  |
|   | -                  | 40,751,611        | -                          | 40,751,611         |
| Interest income   | -                  | 165,338           | 7,295,476                  | 7,460,814          |
| Interest expense  | -                  | 33,868            | -                          | 33,868             |
| Depreciation expense                                      | -                  | -                 | 222,906                    | 222,906            |
| <b>Reportable segment profit/(loss) before income tax</b> | <b>(2,688,269)</b> | <b>23,494,560</b> | <b>4,823,363</b>           | <b>25,635,654</b>  |
| Share of profit of equity method investees                | -                  | -                 | -                          | -                  |
| <b>Other material non-cash items:</b>                     |                    |                   |                            |                    |
| <i>Included in Cost of goods sold</i>                     |                    |                   |                            |                    |
| Depreciation on mine and development properties           | -                  | 516,115           | -                          | 516,115            |
| Amortisation on mine and development properties           | -                  | 1,026,786         | -                          | 1,026,786          |
| Reportable segment assets                                 | 36,335,439         | 6,129,445         | 61,339,535                 | 103,804,419        |
| Reportable segment liabilities                            | -                  | 1,694,407         | 16,489,217                 | 18,183,624         |
| Capital expenditure, including exploration                | 10,160,753         | -                 | 434,226                    | 10,594,979         |
| <b>30 June 2011</b>                                       | <b>\$</b>          | <b>\$</b>         | <b>\$</b>                  | <b>\$</b>          |
| External revenues   | -                  | 84,123,512        | -                          | 84,123,512         |
| Inter-segment revenue                                     | -                  | -                 | -                          | -                  |
|   | -                  | 84,123,512        | -                          | 84,123,512         |
| Profit on sale of Cloncurry Copper Project                |                    |                   | 151,758,038                |                    |
| Interest income   | -                  | 182,378           | 929,236                    | 1,111,614          |
| Interest expense  | -                  | 33,338            | -                          | 33,338             |
| Depreciation expense                                      | -                  | -                 | 161,691                    | 161,691            |
| <b>Reportable segment profit/(loss) before income tax</b> | <b>(2,202,957)</b> | <b>41,021,691</b> | <b>149,099,243</b>         | <b>187,917,977</b> |
| Share of profit of equity method investees                | -                  | -                 | -                          | -                  |
| <b>Other material non-cash items:</b>                     |                    |                   |                            |                    |
| <i>Included in Cost of goods sold</i>                     |                    |                   |                            |                    |
| Amortisation on mine and development properties           | -                  | 18,076,478        | -                          | 18,076,478         |
| Depreciation on mine and development properties           | -                  | 4,111,907         | -                          | 4,111,907          |
| Reportable segment assets                                 | 27,215,896         | 40,276,166        | 196,181,616                | 263,673,678        |
| Reportable segment liabilities                            | -                  | 4,682,544         | 58,871,099                 | 63,533,643         |
| Capital expenditure                                       | 8,039,271          | 8,699,573         | 196,843                    | 16,935,687         |

**Notes to the consolidated financial accounts****Geographical segments**

Exploration and Corporate and the 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.

**32. Events subsequent to balance date****Takeover bid**

On 23 August 2012 Washington H Soul Pattinson & Co Ltd (**WHSP**) announced that it had bought 24,265,770 shares from Exco's then major shareholder, Ivanhoe Australia Ltd (**IVA**) and that it intended to offer 19 cents per share for all the shares in the Company that it did not own in an off-market takeover. IVA indicated that it was committed to accept the bid for its remaining shareholding in the absence of an alternative proposal for Exco that was superior for IVA.

On 27 August 2012 WHSP served a bidders statement on the Company.

On 28 August 2012 the directors of the Company wrote to shareholders outlining the belief of the independent directors that the offer detailed in the bidder's statement was inadequate and unfair and advising shareholders to take no action in relation to their shares.

On 18 September 2012 the Company announced that following negotiations, WHSP had made a revised offer of 26.5 cents per share conditional on WHSP receiving enough acceptances, which together with the shares WHSP already owned, would give WHSP at least a 90% interest in Exco. The directors of Exco agreed to recommend the revised conditional offer.

**Vesting of Performance Rights***Employees and contractors*

The takeover bid announced on the 23 August 2012 constituted a Change of Control Event (**CCE**) as defined under the provisions of the Exco Resources Ltd Long Term Incentive Plan – 2012 ("**Plan**") implemented in March 2012. Upon a CCE the Plan provided that the board could determine that any unvested performances rights outstanding at that point in time could, at the board's discretion, be deemed to have vested. On 31 August 2012 the board resolved to so determine.

Vesting notices were given to employees and contractors on 7 September 2012. The employees and contractors subsequently chose to exercise their rights and 11,200,000 shares were issued to employees and contractors on 20 September 2012.

*Directors*

On 30 March 2012 directors of the Company were issued with 3,300,000 performance rights under the Plan, the grant of which was subject to approval by shareholders at the next general meeting.

On account of the time that might elapse between 30 March 2012 and a future general meeting, Exco undertook that if both:

- a) a Change of Control Event (as defined in the Plan) occurred prior to the date of the General Meeting (or, if shareholders approve the grant of the Performance Rights at the General Meeting, the date prior to the date that the Performance Rights are granted); and,
- b) the Board determines that the Performance Rights issued to Exco key management personnel and professional staff without shareholder approval, or a proportion of them, should vest and become capable of exercise as a result of that Change of Control Event,

*Exco would pay a cash amount determined by the Board in respect of each of the Performance Rights (or, if the Board determines and at Exco's election, a proportion of them having regard to any proportion determined as referred to in (b) above).*

*This undertaking was given in order to put directors in a position similar to other holders of Performance Rights whose grants were not subject to shareholder approval and to ensure the purpose of the Plan was achieved. The Board would determine the cash amount payable having regard to the amount offered under any proposed transaction that triggered a Change of Control Event, or, if there is no such amount or the Board considers that such an amount is not appropriate, the Market Price of a Share over which a Performance Right is exercisable.*

*The "Market Price" for the above purpose will be calculated as the volume weighted average sale price of Shares sold on ASX during the period of 20 Business Days on which trading in Shares on ASX took place prior to that date but does not include any "crossing" transacted outside the "Open Session State" or any "special crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Shares.*

Upon his resignation on 3 July 2012 Mr Peter Reeve forfeited his 200,000 performance rights.

**FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012****Notes to the consolidated financial accounts**

At the date of this report the board has yet to make a determination in respect of any cash amount payable but indicatively, at the revised offer price under the takeover arrangements of 26.5 cents, an amount of \$821,500 may become payable.

**CopperChem Issue**

Exco is entitled to a royalty on approximately 1.7million tonnes of sulphide ore contained within the Great Australia resource pursuant to the terms of the Exco-CopperChem Alliance Agreement entered into in September 2009. The Company has previously informed the market that, indicatively, based on a then prevailing LME copper price of US\$3.70/lb and the estimated 1.7 million tonnes of sulphide ore at Great Australia being qualifying ore, it was calculated that the royalty may generate gross cash to Exco of around A\$25 million over the expected life of the project.

CopperChem Ltd ("CopperChem") commenced mining of sulphide ores from the open pit during the year.

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

An invoice was raised on 23 March 2012 for this amount (plus appropriate GST); the payment terms were varied from the normal 30 days to 90 days.

As announced to the market on 19 July 2012, the invoice was not paid when it fell due. In addition CopperChem has now disputed the Company's entitlement to the royalty under the Alliance Agreement.

At the date of this report the matter has not been resolved. In the light of the takeover bid for the Company announced by CopperChem's parent, Washington H Soul Pattinson & Co Ltd (see above), the Company has decided not to enter into a formal dispute resolution procedure at this time. Exco reserves its rights to trigger the relevant dispute resolution processes under the terms of the Alliance Agreement.

**Resignation and appointment of non-executive directors**

On 3 July 2012 the Company announced the resignation of Mr Peter Reeve as a non-executive director and the appointment of Mr Michael Spreadborough as a non-executive director. Both gentlemen acted/act as nominee for the Company's major shareholder, Ivanhoe Australia Ltd.

**33. Contingencies****Contingent asset**

The Company has previously disclosed the existence of a contingent asset resulting from the Company's potential entitlements in respect of a royalty over the sulphide ores under the CopperChem-operated Great Australia mining lease in Cloncurry, Qld,. The procurement of these royalties is however dependent on future events, both operational and legal (see above) which are ultimately outside the Company's control.

Because of the uncertainty as a result of the dispute raised by CopperChem the directors have concluded that it is not practical to value the fair value of the outstanding debt and have decided to fully impair it. In addition the directors believe that it is not appropriate to attempt to quantify the potential value of contingent asset in respect of the royalty at this time.

**Directors' declaration**

1. In the opinion of the Directors of Exco Resources Limited ('the Company'):
  - a) the consolidated financial statements and notes that are contained in pages 28 to 62 and the Remuneration report in the Directors' report, set out on pages 5 to 11, are in accordance with the *Corporations Act* (2001), including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - 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.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act* (2001) from the managing director and the chief financial officer for the financial year ended 30 June 2012.
3. The directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors



**Geoff Laing**  
Managing Director  
28 September 2012

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

We have audited the accompanying financial report of Exco Resources Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 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 year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

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

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

**Report on the remuneration report**

We have audited the Remuneration Report included in the of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Exco Resources Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

A handwritten signature in grey ink that reads 'KPMG'.

KPMG

A handwritten signature in grey ink, appearing to be 'TH' or 'T Hart'.

Trevor Hart  
*Partner*

Perth

28 September 2012