



LEVEL 2  
8 COLIN STREET  
WEST PERTH WA 6005

PO Box 1726  
WEST PERTH WA 6872

TELEPHONE: +61 8 9211 2000  
FACSIMILE: +61 8 9211 2001

ASX SHARE CODE: EXS

EMAIL: [info@excoresources.com.au](mailto:info@excoresources.com.au)  
WEBSITE [www.excoresources.com.au](http://www.excoresources.com.au)

ABN 99 080 339 671

**2 October 2012**

**Company Announcements  
Australian Securities Exchange  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000**



**BY ELECTRONIC LODGEMENT**

Dear Sirs,

**Exco Resources Limited ABN 99 080 339 671 ("Exco") (ASX Code: EXS): Target's Statement**

In accordance with item 14 of section 633(1) of the *Corporations Act 2001* (Cth) ("**Corporations Act**"), **attached** is a copy of Exco's target's statement dated 2 October 2012 with respect to the off-market takeover bid by Washington H. Soul Pattinson and Company Limited ABN 49 000 000 728 ("**WHSP**") for all the ordinary shares in Exco that it does not already hold ("**Target's Statement**").

The Target's Statement was sent to WHSP and lodged with ASIC today (in accordance with items 11 and 13 of section 633(1) of the Corporations Act, respectively).

Also **attached** is a joint letter from Barry Sullivan, Chairman of Exco and Robert Millner, Chairman of WHSP ("**Letter**"). A copy of the Letter and WHSP's replacement bidder's statement dated 28 September 2012 will be sent to Exco shareholders with the Target's Statement.

A handwritten signature in blue ink, appearing to read "Eamon Byrne".

**Eamon Byrne**  
Company Secretary  
Exco Resources Limited



**2 October 2012**

Dear Exco Shareholders,

**Bidder's Statement and Target's Statement**

We are pleased to enclose documentation to facilitate the recommended takeover offer by Washington H. Soul Pattinson and Company Limited (**WHSP**) of 26.5 cents cash for each of your Exco shares, which is conditional on WHSP achieving acceptances of its offer that will take its interest in Exco to not less than 90%.

It is important that you read the enclosed documents in full.

**Exco directors have unanimously recommended that you ACCEPT WHSP's revised offer of 26.5 cents cash per share by immediately lodging acceptance instructions into the acceptance facility.**

Assuming you wish to follow the unanimous recommendation of the Exco board, you should immediately complete and sign the enclosed acceptance form and return it in the envelope provided and in any event before 7pm (Sydney Time) on Friday 2 November 2012.

Further information on all of your options for responding to the offer, as well as further instructions on how to accept the offer are contained in the enclosed documents.

For further information about the Offer you may also contact the WHSP Offer Information Line on 1800-600-409 (for callers within Australia) or +61-2-8256-3378 (for callers outside Australia).

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Barry Sullivan", with a horizontal line underneath.

**Barry Sullivan**

Chairman

Exco Resources Limited

A handwritten signature in black ink, appearing to read "Robert Millner", with a horizontal line underneath.

**Robert Millner**

Chairman

Washington H. Soul Pattinson and Company  
Limited



# TARGET'S STATEMENT

EXCO RESOURCES LTD ABN 99 080 339 671

This Target's Statement has been issued in response to the offer by Washington H. Soul Pattinson and Company Limited ABN 49 000 002 728 to acquire all of your ordinary shares in Exco Resources Limited dated Tuesday, 2 October 2012.



THE DIRECTORS OF EXCO RESOURCES LIMITED  
UNANIMOUSLY RECOMMEND THAT YOU

## ACCEPT WHSP's REVISED OFFER

OF 26.5 CENTS PER EXCO SHARE (SUBJECT TO WHSP  
OBTAINING 90% ACCEPTANCES) BY IMMEDIATELY  
ACCEPTING INTO THE ACCEPTANCE FACILITY.

This is an important document and requires your immediate attention. If you are in any doubt about how to deal with this document, you should consult your financial, legal or other appropriate professional adviser immediately.

FINANCIAL ADVISER

LEGAL ADVISER



ashurst

# IMPORTANT NOTICES

## Nature of this document

This document is a Target's Statement issued by Exco Resources Limited ABN 99 080 339 671 ("Exco") under Part 6.5 of the Corporations Act in response to the offer by Washington H. Soul Pattinson and Company Limited ABN 49 000 002 728 ("WHSP") to acquire all of your Exco Shares made pursuant to the Replacement Bidder's Statement dated Friday, 28 September 2012.

## ASIC and ASX disclaimer

A copy of this Target's Statement was lodged with ASIC on Tuesday, 2 October 2012 and provided to ASX on that date. Neither ASIC nor ASX, nor any of their respective officers, takes any responsibility for the contents of this Target's Statement.

## Defined terms

A number of defined terms are used in this Target's Statement. These terms are defined in section 8.1 of the Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

## No account of personal circumstances

This Target's Statement does not take into account the individual investment objectives, financial or tax situation or particular needs of any Exco Shareholder. It does not contain personal financial advice. You should seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

## Disclaimer as to forward looking statements

Some of the statements appearing in this Target's Statement may be in the nature of forward looking statements. Statements other than statements of historical facts may be forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

None of Exco, its officers and employees, any person named in this Target's Statement with their consent nor any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. You are cautioned not to place undue reliance on any forward looking statement.

Any forward looking statement in this Target's Statement reflects views held only as at the date of this Target's Statement and is qualified by this cautionary statement.

## Disclaimer as to information

The information on WHSP contained in this Target's Statement has been prepared by Exco from publicly available information. Information in this Target's Statement about WHSP has not been independently verified by Exco. Accordingly Exco does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

## Risk factors

Exco Shareholders should note that there are a number of risks associated with maintaining their investment in Exco in the present circumstances. You should consider the risk factors set out in section 6 of this Target's Statement when deciding whether or not to accept the Offer.

## Maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement.

## Foreign jurisdiction

The release, publication or distribution of this Target's Statement in jurisdictions outside Australia may be restricted by law and any person who comes into possession of it should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

## Privacy

Exco has collected your information from the register of Exco Shareholders for the purposes of providing you with this Target's Statement. The type of information Exco has collected about you includes your name, contact details and information on your shareholdings in Exco. Without this information, Exco would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the names and addresses of Exco Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to Exco and its related bodies corporate, and holders of Exco Shares and external service providers, and may be required to be disclosed to regulators, such as ASIC. If you would like details of information about you held by Exco, please contact us using the contact details shown below.

## Shareholder information line

If you have any questions in relation to the Offer, please contact the Shareholder information line on 1800 600 409 (within Australia) or +61 2 8256 3378 (from outside Australia). Further information about the Offer can be obtained from Exco's website at [www.excoresources.com.au](http://www.excoresources.com.au).

# CONTENTS

Important notices	
Chairman's letter	2
<b>1</b> What are my choices as an Exco shareholder?	3
<b>2</b> Why you should ACCEPT the Revised Offer	5
<b>3</b> Key information about the Offer	10
<b>4</b> Other Important information about the Offer	13
<b>5</b> Information relating to Exco and its directors	16
<b>6</b> Risk factors	18
<b>7</b> Additional information	21
<b>8</b> Glossary and interpretation	25
<b>9</b> Authorisation	27

## Key Dates

Open of the Offer	Tuesday, 2 October 2012
Date of this Target's Statement	Tuesday, 2 October 2012
Close of the Offer Period (unless otherwise extended)	7.00pm (Sydney time) on Friday, 2 November 2012



LEVEL 2  
8 COLIN STREET  
WEST PERTH WA 6005

PO BOX 1726  
WEST PERTH WA 6872

TELEPHONE: +61 8 9211 2000  
FACSIMILE: +61 8 9211 2001

ASX SHARE CODE: EXS

EMAIL: [info@excoresources.com.au](mailto:info@excoresources.com.au)  
WEBSITE: [www.excoresources.com.au](http://www.excoresources.com.au)

ABN 99 080 339 671

Tuesday, 2 October 2012

**Dear Shareholders**

On 19 September 2012, the Board was pleased to announce that WHSP had agreed to increase its initial offer of 19 cents (the "**Initial Offer**") to 26.5 cents per Exco share. That increase is conditional upon WHSP achieving acceptances that will take its interest in Exco to not less than 90% (the "**Revised Offer**").

**The directors of Exco unanimously recommend that you ACCEPT WHSP's Revised Offer by immediately lodging acceptance instructions into the Acceptance Facility.**

WHSP has established an Acceptance Facility which allows you to give your acceptance to a custodian who will hold your acceptance until either WHSP holds an interest in at least 90% of the Exco shares on issue (including acceptances into the Acceptance Facility) or the directors of Exco unanimously recommend Exco Shareholders accept a varied offer.

The custodian will then lodge all of the acceptances it holds in one package and that will trigger the obligation on WHSP to pay the Offer consideration of at least 26.5 cents per Exco share.

This Target's Statement sets out the reasons why your directors are recommending the higher Revised Offer from WHSP and the information you need to assess our recommendation and make a decision about the future ownership of your shares.

**Your Exco directors recommend that you:**

1. **Read this Target's Statement, WHSP's Bidder's Statement and the Acceptance Form enclosed with the Bidder's Statement.**
2. **Immediately complete and sign the Acceptance Form by placing an "X" in the GREEN box on the Acceptance Form and return it, and (if applicable) the Custodian Direction Letter, to the Facility Agent using the reply paid envelope provided.**
3. **Do not withdraw your instructions unless a superior proposal emerges.**

Each Exco director intends to immediately accept into the Acceptance Facility in respect of all of the Exco shares that they own or control and will not withdraw their acceptance instructions, subject to there being no superior proposal.

Until the Acceptance Condition is met, the current Offer Price of 19 cents will remain, which your directors consider fundamentally undervalues your Exco Shares. For the avoidance of doubt, the directors of Exco do not recommend that shareholders accept the Offer other than through the Acceptance Facility.

If you have any questions about the Offer please contact the Shareholder information line on 1800 600 409 (within Australia) or +61 2 8256 3378 (from outside Australia).

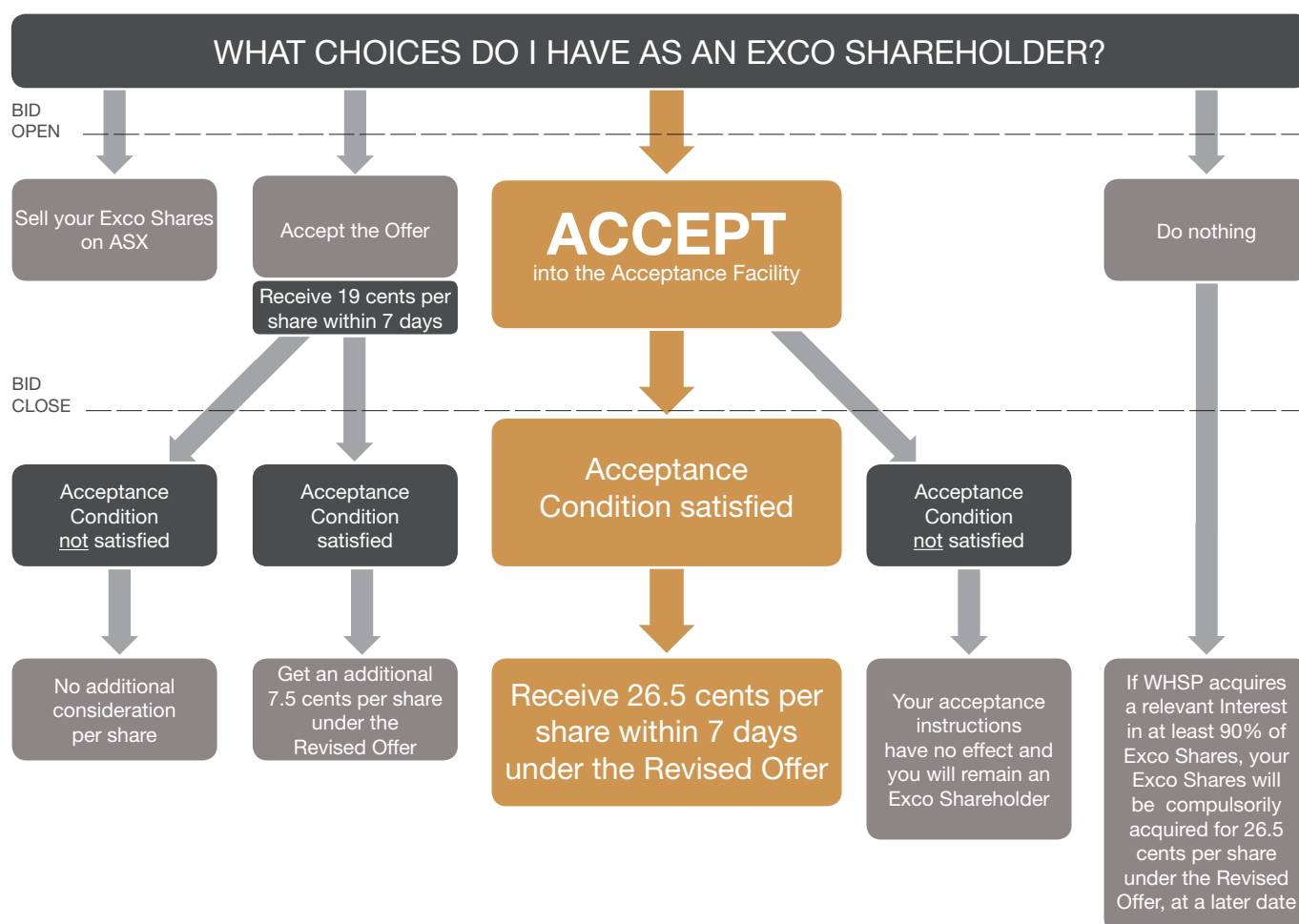
Yours sincerely

A handwritten signature in blue ink, appearing to read "Barry Sullivan".

**Barry Sullivan**  
Chairman  
Exco Resources Limited

# 1. WHAT ARE MY CHOICES AS AN EXCO SHAREHOLDER?

As an Exco Shareholder you have several choices available to you.



## 1.1 ACCEPT the Revised Offer by accepting into the Acceptance Facility

**Accepting the Revised Offer of 26.5 cents is RECOMMENDED by the Exco Board**

Exco Shareholders who wish to follow the unanimous recommendation of your Directors and accept the Revised Offer by accepting into the Acceptance Facility, should immediately complete and sign the Acceptance Form, by placing an "X" in the GREEN box on the Acceptance Form and return it, and (if applicable) the Custodian Direction Letter, to the Facility Agent using the reply paid envelope provided.

Exco Shareholders who wish to ACCEPT the Revised Offer should be aware of the following:

- Your acceptance instructions will only be released and processed if the Acceptance Condition is met. This means that you are assured that you will only sell your Exco Shares to WHSP if WHSP becomes obliged to pay at least 26.5 cents cash per Exco Share. You are free to withdraw your acceptance instructions and deal with your Exco Shares as you wish at any time prior to your acceptance instructions being released and processed.
- The Acceptance Condition will be satisfied if either WHSP achieves 90% Acceptances or if WHSP makes a Recommended Varied Offer.



- If the Acceptance Condition is satisfied, the Offer consideration will be paid to you within 7 days of your acceptance instructions being released and processed.
- If the Acceptance Condition is not met, your acceptance instructions will be returned, you will receive no consideration and you will continue to be an Exco Shareholder.
- If a superior proposal emerges prior to the Acceptance Condition being met, you will be able to withdraw your acceptance instructions and will be free to accept the superior proposal.
- You may be liable to pay CGT or income tax on the disposal of your Exco Shares which may have financial consequences for some Exco Shareholders (see section 7.9 of this Target's Statement for further details of the tax consequences of the Offer).

If you have lodged acceptance instructions with the Facility Agent, but subsequently wish to either accept the Offer directly or sell your Exco Shares on ASX, you must first withdraw your acceptance instructions.

## 1.2 Accept the Offer directly

### Accepting the Initial Offer of 19 cents is NOT recommended by the Exco board

If Exco Shareholders accept the Offer directly, they will receive the Initial Offer consideration of 19 cents per Exco Share within 7 days. If the Acceptance Condition is met, Exco Shareholders will receive an additional 7.5 cents per Exco Share under the Revised Offer. Accepting the Initial Offer is NOT RECOMMENDED by the Exco board.

Exco Shareholders who wish to accept the Offer directly should be aware of the following:

- Acceptance of the Offer is irrevocable. In the event the Acceptance Condition is not met, Exco Shareholders who have accepted the Offer will receive 19 cents per share and will not be able to withdraw their acceptance if a superior proposal is received.
- You will give up your right to deal with your Exco Shares while the Offer remains open. You will authorise WHSP to attend meetings of Exco and vote on your behalf. This means that WHSP may vote your Exco Shares to defeat resolutions relating to competing offers or resolutions that may otherwise adversely affect the success of the Offer.
- You may be liable to pay CGT or income tax on the disposal of your Exco Shares which may have financial consequences for some Exco Shareholders (see section 7.9 of this Target's Statement for further details of the tax consequences of the Offer).

## 1.3 Sell your Exco Shares on ASX

Exco Shareholders remain free to sell their Exco Shares on ASX, provided they have not already accepted the Offer directly.

On 27 September 2012 (the last practicable date prior to the finalisation of this Target's Statement), the closing share price for Exco Shares was A\$0.26. The latest price for Exco Shares may be obtained from the ASX website at <http://www.asx.com.au>.

Exco Shareholders who wish to sell their Exco Shares on ASX should be aware that:

- you will not be able to ACCEPT the Revised Offer or the Offer;
- you may be liable for CGT on the sale; and
- you may incur a brokerage charge.

Exco Shareholders who wish to sell their Exco Shares on ASX should contact their broker for information on how to effect that sale. They should also contact their tax adviser to determine the tax implications for them of such a sale.

## 1.4 Reject the Offer by doing nothing.

If you do not wish to accept the Initial Offer or the Revised Offer and want to retain your Exco Shares, you should simply do nothing. You will remain an Exco Shareholder. If WHSP meets the threshold prescribed by the Corporations Act (ie it acquires a relevant interest in at least 90% of Exco Shares), WHSP has stated that it intends to compulsorily acquire the remaining Exco Shares that it does not own. If WHSP proceeds to compulsory acquisition, you will receive the same consideration for your Exco Shares that you would have received under the Offer (eg 26.5 cents per Exco Share under the Revised Offer) but you will receive that consideration later than you would have had you lodged acceptance instructions into the Acceptance Facility or accepted the Initial Offer.

If you choose to reject the Revised Offer and the Initial Offer, do not take any action in relation to documents sent to you by WHSP.



## 2. WHY YOU SHOULD ACCEPT THE REVISED OFFER

Key reasons why you should ACCEPT WHSP's Revised Offer by immediately lodging acceptance instructions into the Acceptance Facility, subject to there being no superior proposal:

1	Your Exco Directors unanimously believe the Revised Offer of 26.5 cents is fair
2	The Revised Offer represents a significant premium to the Initial Offer and the recent and historical trading of Exco Shares
3	WHSP already holds a 19.3% interest in Exco and Ivanhoe (Exco's second largest shareholder with a 15.0% interest) has announced its intention to accept the Initial Offer, in the absence of an alternative proposal for Exco that is superior for Ivanhoe. These interests alone give WHSP a potential aggregate entitlement to 34.3% of Exco Shares
4	The Revised Offer delivers cash certainty and is subject only to WHSP achieving 90% Acceptances
5	The stand alone development of Exco's assets is not without risk
6	Exco's share price may fall if the Offer closes and WHSP has secured less than 90% of Exco
7	Acceptance into the Acceptance Facility allows Exco Shareholders to accept any superior proposal that may emerge

## 2.1 Your Exco Directors unanimously believe the Revised Offer of 26.5 cents is fair

Your Exco Directors believe that the value of Exco's asset portfolio has not been appropriately reflected in Exco's historic trading price. The Directors' assessment of Exco's value reflects both the existing resources contained within Exco's asset portfolio and the expected ongoing exploration and development potential of those assets. Given Exco does not own its own processing facility, Exco's ability to realise the full potential value of its mineral resources is always going to be contingent upon Exco successfully selling its resources to, or negotiating milling/tolling arrangements with other producers in the region and/or finding additional resources which would justify building a standalone operation.

Your Exco Directors believe that Exco's Queensland assets have a special value to WHSP, given that WHSP's subsidiary CopperChem has existing processing facilities at the nearby Great Australia operations.

Following WHSP's announcement of the Initial Offer, Exco has engaged in discussions with WHSP to determine if an increase in the Offer Price could be agreed which reflected an appropriate sharing of the value that the Directors believe could be unlocked if WHSP and CopperChem had control of Exco's assets.

In summary, your Exco Directors believe that the Revised Offer consideration of 26.5 cents per Exco Share appropriately reflects the value of Exco's asset portfolio, particularly given that:

- Whilst the Mt Colin resource base has continued to grow, Mt Colin is not expected to develop to a point that would justify the development of a standalone processing facility. This means that unlocking the value of Mt Colin was always likely to be dependent on securing either a toll treating arrangement or an outright sale of the resource to an owner of processing facilities close enough to process the ore economically.
- Exco's Kangaroo Rat deposit is smaller and, like Mt Colin, unlocking the value of that resource is similarly dependent on reaching a commercially acceptable agreement on toll treatment/sale with a third party.
- The royalty from the Great Australia is the subject of a dispute with CopperChem and, whilst Exco remains confident about its rights under the relevant royalty arrangements, the value of future cash flows from this royalty remain difficult to quantify and is subject to a range of factors some of which are outside the control of Exco.

Apart from Mt Colin, Kangaroo Rat and the Great Australia royalty, the remaining assets of Exco comprise cash of approximately \$53 million, a relatively small amount of remaining cash flow from the White Dam project and a large tenement package of exploration ground in Queensland.

Having carefully compared the total value of each of Exco's assets, and the risks and opportunities associated with them, the Board unanimously concluded that WHSP's Revised Offer should be recommended to Exco Shareholders. Accordingly, each Director of Exco:

- recommends that Exco Shareholders accept the Revised Offer by immediately accepting into the Acceptance Facility and not withdrawing those instructions; and
- intends to immediately accept into the Acceptance Facility in respect of the Exco Shares that they own or control and will not withdraw those instructions,

subject, in each case, to there being no superior proposal in relation to Exco.

## 2.2 The Revised Offer represents a significant premium to the Initial Offer and the recent and historical trading of Exco's shares

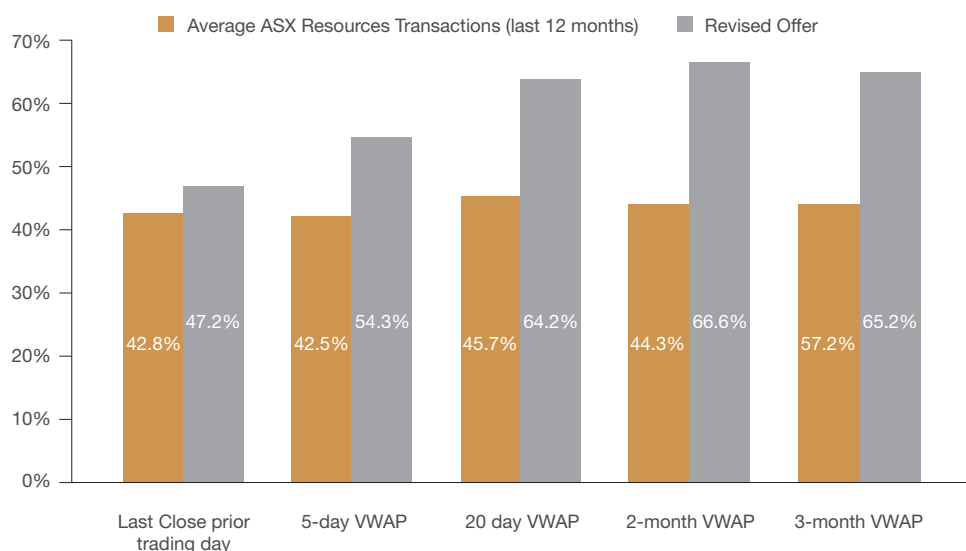
The Revised Offer of 26.5 cents per Exco Share represents a 39.5% increase to the Initial Offer Price of 19 cents per Exco Share, and is only subject to the Acceptance Condition being met.

After deducting Exco's current cash reserves of approximately \$53 million, this values Exco's remaining assets at approximately \$44 million. The Initial Offer ascribed only \$16 million to these assets which your Directors believed was unfair and inadequate, and materially undervalued the intrinsic value of these assets to Exco and their strategic value to WHSP. The Revised Offer implies an effective increase in the value ascribed to Exco's non cash assets of 175%.

Further, WHSP's Initial Offer of 19 cents per Exco Share reflected a premium of only 5.6% to the closing price of Exco Shares on the day prior to the announcement of the Initial Offer ("**Announcement Date**"). WHSP's Revised Offer of 26.5 cents per Exco Share represents a significant premium to the recent and historical trading of Exco's Shares prior to the Announcement Date, being a:

- 47.2% premium to Exco's closing share price of 18 cents on 22 August 2012, (the day before the Announcement Date);
- 54.3% premium to Exco's VWAP share price of 17.2 cents for the 5 trading days prior to the Announcement Date; and
- 64.2% premium to Exco's VWAP share price of 16.1 cents for the 20 trading days prior to the Announcement Date.

These premia compare favourably to the average takeover premia across all ASX listed resources transactions in the 12 months prior to the Announcement Date as outlined in the following chart:



Source: IRESS

### 2.3 WHSP already holds a 19.3% interest in Exco and Ivanhoe (Exco's second largest shareholder with a 15.0% interest) has announced its intention to accept the Initial Offer, in the absence of an alternative proposal for Exco that is superior for Ivanhoe. These interests alone give WHSP a potential aggregate entitlement to 34.3% of Exco Shares.

WHSP has been a Shareholder in Exco since 2010 and was Exco's second largest Shareholder with a 13.1% stake until it announced that it had acquired a 6.8% stake from Ivanhoe on 23 August 2012. Until this time, Ivanhoe had been Exco's major shareholder since 2008 and had held a stake in Exco of approximately 22.3% over the last 2 years.

On 16 August 2012, Ivanhoe announced the results of an internal review and its intention to significantly rationalise expenditure across operations, development projects and exploration to position the company for sustainable growth and to evaluate options to secure funding of its development projects.

Subsequent to the review, Ivanhoe indicated to Exco management that it intended to initiate an orderly sale of its Exco shareholding. In this regard, proposals coordinated by Exco and key brokers were put to Ivanhoe to sell its shares to a range of investors. Rather than proceed with any of the proposals, Ivanhoe sold 24,265,770 shares (representing an approximate 6.8% interest in Exco) to WHSP and has committed to accept the Initial Offer in respect of its remaining 15.0% of Exco, in the absence of an alternative proposal for Exco that is superior for Ivanhoe.

Ivanhoe has stated in its announcement to the ASX on 23 August 2012 that it intends to accept directly into the Initial Offer, in the absence of an alternative proposal for Exco that is superior for Ivanhoe. Accordingly, Ivanhoe's acceptance, together with WHSP's existing relevant interest in 19.3% of Exco Shares, mean that WHSP is likely to have an entitlement to an aggregate interest of approximately 34.3% of Exco Shares solely as a result of these interests.

### 2.4 The Revised Offer delivers cash certainty and is subject only to WHSP achieving 90% Acceptances

The Revised Offer delivers Exco Shareholders cash proceeds of 26.5 cents per Exco Share if WHSP obtains a 90% interest in Exco.

Under the Revised Offer, the price offered to Exco Shareholders will be increased from 19 cents to 26.5 cents cash per fully paid Exco Share if WHSP obtains 90% Acceptances.

The Initial Offer is not subject to any defeating conditions.

## 2.5 The standalone development of Exco's assets is not without risk

Exco Shareholders should consider the cash consideration being offered under WHSP's Revised Offer as compared to the alternative of remaining an Exco Shareholder. In particular, a continuing Exco Shareholder would be exposed to the inherent risks, uncertainties and opportunities that an investment in a copper resources development company entails.

While the Directors believe there is ongoing exploration and development potential within Exco's asset portfolio, given that Exco does not own its own processing facility, Exco's ability to realise the full potential value of these resources is contingent upon Exco successfully selling its assets to, or negotiating milling/tolling arrangements with other producers in the area and/or finding additional resources which would justify a standalone operation to be built.

If Exco Shareholders do not accept the Offer or the Revised Offer, they will continue to be exposed to a number of risks including, but not limited to:

- copper and gold commodity price volatility;
- inherent mining development and exploration risks;
- Exco's ability to negotiate milling/tolling/processing arrangements and/or the sale of its Mt Colin and Kangaroo Rat resources to a party with production facilities in order to economically process these resources;
- the outcome of the current dispute over the Great Australia royalty with WHSP; and
- other risks associated with general market and economic conditions.

The impact of one or a combination of these risk factors may result in Exco Shareholders realising less from the development of Exco's assets than the consideration of 26.5 cents per Exco Share being offered under the Revised Offer.

These risks are discussed further in section 6.

## 2.6 Exco's Share price may fall if the Offer closes and WHSP has secured less than 90% of Exco

As outlined in section 2.2 above, the Revised Offer of 26.5 cents per Exco Share reflects a significant premium to the historical trading price of Exco Shares. If WHSP receives sufficient acceptances into the Offer such that 90% Acceptances is achieved, WHSP has indicated that, subject to meeting the other criteria prescribed by the Corporations Act, it will move to compulsorily acquire all of the Exco Shares it does not already own.

In the event that WHSP does not secure sufficient acceptances and the compulsory acquisition threshold (ie relevant interests in at least 90% of Exco Shares) is not met before the end of the Offer Period, WHSP will not be able to compulsorily acquire the remaining Exco Shares it does not already own, the Offer will no longer be able to be accepted and there is a risk that Exco's Share price may fall to a level below the Revised Offer Price and the Initial Offer Price.

Further, given that Ivanhoe has publicly stated that it intends to accept the Initial Offer in the absence of a proposal in relation to Exco which is superior for Ivanhoe, WHSP is expected to emerge with at least 34% of Exco (including Ivanhoe's remaining 15.0% shareholding), which, in the absence of a superior proposal, could be expected to reduce the volume and liquidity of Exco Share trading on ASX.

## 2.7 Acceptance into the Acceptance Facility allows Exco Shareholders to accept any superior proposal that may emerge

If Exco Shareholders accept the Revised Offer of 26.5 cents per Exco Share by lodging acceptance instructions into the Acceptance Facility:

- they can withdraw their instructions at any time before the Acceptance Condition is satisfied;
- if they do not withdraw their instructions and the Acceptance Condition is met, they will receive 26.5 cents per Exco Share under the Revised Offer; and
- if the Acceptance Condition is not met, they will not sell their Exco Shares to WHSP and will continue to be an Exco Shareholder.

If Exco Shareholders accept the Initial Offer of 19 cents per Exco Share directly:

- they cannot revoke that acceptance;

- they will be bound to sell their Exco Shares to WHSP at 19 cents per Exco Share; and:
  - if the Acceptance Condition is met, they will receive an additional 7.5 cents per share under the Revised Offer; but
  - if the Acceptance Condition is not met they will receive 19 cents per Exco Share.

Exco Directors believe that the Revised Offer of 26.5 cents per Exco Share represents a fair price for Exco's assets in their current state, but any Offer Price below this does not adequately compensate Exco Shareholders for the value inherent in Exco's assets.

Prior to, and since, the Announcement Date, Exco and its advisers have had discussions with various parties in respect of potential asset sales or other alternative proposals. To date these discussions have not resulted in a proposal which is superior to the Revised Offer. By accepting the Revised Offer via the Acceptance Facility Exco Shareholders retain flexibility in the event a proposal superior to the Revised Offer were to emerge before the Acceptance Condition is met.

## 3. KEY INFORMATION ABOUT THE OFFER

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for Exco Shareholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer
Who is WHSP?	WHSP is a diversified ASX-listed company and also Exco's largest shareholder. Information in relation to WHSP can be obtained in section 2 of the Bidder's Statement.
What is the Initial Offer?	On 23 August 2012, WHSP announced its intention to make an unsolicited takeover offer for all of the Exco Shares it does not already own for consideration of 19 cents cash per Exco Share which the Exco Directors felt was unfair and inadequate. The Initial Offer is not subject to any defeating conditions.
What is the Revised Offer?	<p>On 19 September 2012, WHSP announced it will vary the Initial Offer by increasing the Offer Price to 26.5 cents cash per Exco Share provided that WHSP obtains 90% Acceptances during the Offer Period.</p> <p><b>Your Exco Directors unanimously recommend that you accept WHSP's Revised Offer by immediately accepting into the Acceptance Facility. You should not withdraw those acceptance instructions unless a superior proposal emerges.</b></p>
What is the Acceptance Facility?	<p>The Acceptance Facility is designed to facilitate your acceptance into the Revised Offer by allowing you to lodge acceptance instructions with a Facility Agent that will only be released and processed if the Acceptance Condition is met.</p> <p>WHSP has established the Acceptance Facility. You should have received the Bidder's Statement from WHSP including full terms and conditions of the Acceptance Facility, together with an Acceptance Form to be completed in order to participate.</p>
What are the Revised Offer conditions?	<p>The Revised Offer is unconditional, subject to WHSP achieving 90% Acceptances. WHSP will achieve 90% Acceptances if WHSP obtains:</p> <ul style="list-style-type: none"> <li>• valid acceptances of the Offer; and</li> <li>• acceptance instructions into the Acceptance Facility,</li> </ul> <p>which in aggregate (together with any other Exco Shares in which WHSP has a relevant interest) represents at least 90% of the Exco Shares on issue.</p>
What is the Bidder's Statement?	The Bidder's Statement was prepared by WHSP and sets out the terms of the Initial Offer and Revised Offer, as required by the Corporations Act. All Exco Shareholders should have received a copy of the Bidder's Statement accompanying this Target's Statement.
What is the Target's Statement?	This Target's Statement is the formal response by the Board of Exco to the Offer, as required by the Corporations Act. This document has been prepared by Exco and contains important information to help you decide whether or not to accept the Initial Offer or the Revised Offer.
What are the Directors of Exco recommending?	<p>Your Exco Directors unanimously recommend that you <b>ACCEPT</b> the Revised Offer by immediately accepting into the Acceptance Facility. The Directors recommend that you do not withdraw those acceptance instructions unless a superior proposal emerges.</p> <p>The reasons for your Directors' recommendation are set out in section 2 of this Target's Statement.</p> <p>For the avoidance of doubt, your Exco Directors <b>do not</b> recommend that you accept the Initial Offer directly.</p>

What do the Directors intend to do with their Exco Shares?	<p>Each Exco Director who owns or controls Exco Shares intends to immediately accept into the Acceptance Facility and will not withdraw those instructions, subject to there being no superior proposal.</p> <p>The Directors' interests in Exco Shares are set out in section 5.4 of this Target's Statement.</p>
Why should I <b>ACCEPT</b> the Revised Offer?	You should <b>ACCEPT</b> the Revised Offer for the key reasons outlined in section 2 of this Target's Statement.
How do I <b>ACCEPT</b> the Revised Offer?	To <b>ACCEPT</b> the Revised Offer, you should accept into the Acceptance Facility by immediately completing and signing the Acceptance Form by placing an "x" in the GREEN box on the Acceptance Form, and returning it, and (if applicable) the Custodian Direction Letter, to the Facility Agent using the reply paid envelope provided.
When does the Offer open and close?	<p>The Offer opened on 2 October 2012. The Offer is currently scheduled to close at 7.00pm (Sydney time) on Friday, 2 November 2012, but the Offer Period can be extended in certain circumstances.</p> <p>See section 4.4 of this Target's Statement for details of the circumstance for which the Offer can be extended.</p>
What happens if 90% Acceptances is not obtained?	<p>If WHSP does not get to 90% Acceptances by the end of the Offer Period, the Revised Offer will not result unless WHSP makes a Recommended Varied Offer before that time.</p> <p>If you have accepted into the Acceptance Facility, your Exco Shares will be returned to you and you will not receive any consideration from WHSP. You will then be free to deal with your Exco Shares as you like.</p> <p>If you have accepted into the Initial Offer directly, you will have received the Initial Offer consideration of 19 cents per Share in respect of your Exco Shares within 7 days of WHSP receiving your acceptance.</p> <p>WHSP has not stated an intention to vary the Initial Offer to increase the Offer Price to the Revised Offer Price or more if WHSP does not obtain 90% Acceptances before the end of the Offer Period.</p>
If I accept the Offer, can I withdraw my acceptance?	<p>If you accept into the Acceptance Facility, you can withdraw your acceptance instructions at any time until the Acceptance Condition is met. If the Acceptance Condition is not met, your acceptance instructions will have no effect and you will not receive the Revised Offer consideration.</p> <p>If you accept the Initial Offer, your acceptance is irrevocable. If the Acceptance Condition is not met, you will receive the Initial Offer consideration of 19 cents per Exco Share.</p>
What happens if I accept into the Acceptance Facility and WHSP obtains 90% Acceptances?	If you have accepted into the Acceptance Facility and WHSP obtains 90% Acceptances, the Facility Agent will deliver your acceptance to WHSP. Once your acceptance is delivered you will no longer be able to withdraw your acceptance instructions. You will receive the Revised Offer consideration of 26.5 cents per Exco Share within 7 days of the earlier of WHSP reaching 90% Acceptances and the end of the Offer Period.
If I accept the Offer when will I receive the consideration?	<p>If you accept into the Acceptance Facility, you will not receive any consideration unless and until the Acceptance Condition is met. If the Acceptance Condition is met, you will be paid the Revised Offer consideration of 26.5 cents per Exco Share within 7 days of the Acceptance Condition being met.</p> <p>If you accept the Initial Offer, you will be paid 19 cents per Exco Share within 7 days. If the Acceptance Condition is met, you will receive an additional 7.5 cents per Exco Share within 7 days under the Revised Offer.</p> <p>See also section 4.8 of this Target's Statement and section 9 of the Bidder's Statement for further details on when you will be paid the Offer consideration.</p>



What happens if I do nothing?	<p>You will remain an Exco Shareholder.</p> <p>If WHSP meets the threshold prescribed by the Corporations Act (ie it acquires a relevant interest in at least 90% of Exco Shares), WHSP has stated that it intends to compulsorily acquire the remaining Exco Shares it does not own. You will receive the same consideration for your Exco Shares that you would have received under the Offer (eg 26.5 cents per Exco Share under the Revised Offer). See section 4.9 of this Target's Statement for more details.</p> <p>If WHSP acquires an interest in between 50.1% and 90.0% of the Exco Shares on issue, you will be a minority Shareholder of Exco.</p>
Can I be forced to sell my Exco Shares?	<p>You cannot be forced to sell your Exco Shares unless WHSP is entitled to compulsorily acquire your Exco Shares under the Corporations Act (ie if WHSP acquires a relevant interest in at least 90% of Exco Shares).</p> <p>If WHSP proceeds to compulsory acquisition, you will receive the same consideration for your Exco Shares that you would have received under the Revised Offer (ie 26.5 cents per Exco Share).</p> <p>See section 4.9 of this Target's Statement for more information.</p>
What happens if there is a superior proposal?	<p>If an alternative superior proposal emerges, your Exco Directors will update you and withdraw their recommendation. If you have accepted into the Acceptance Facility and the superior proposal emerges before the Acceptance Condition is met, you will be able to withdraw your acceptance instructions and will be free to accept the superior proposal.</p> <p>If you have accepted the Initial Offer your acceptance is irrevocable and you will not be able to accept the superior proposal. You will receive 19 cents per Exco Share unless the Acceptance Condition is met.</p>
What are the tax implications of accepting the Offer?	<p>A general outline of the tax implications of accepting the Initial Offer is set out in section 7 of the Bidder's Statement. A similar outline is included in section 7.9 of this Target's Statement.</p> <p>As the outline is general in nature, you should consult your taxation adviser for detailed taxation advice before making a decision as to whether or not to accept into the Revised Offer or the Initial Offer.</p>
Is there a number that I can call if I have further queries in relation to the Revised Offer or the Initial Offer?	<p>If you have any further questions about the Revised Offer, or the Initial Offer, please contact the Shareholder information line on 1800 600 409 (within Australia) or +61 2 8256 3378 (from outside Australia).</p>

## 4. OTHER IMPORTANT INFORMATION ABOUT THE OFFER

### 4.1 Offer consideration

The consideration being offered by WHSP under the Initial Offer is **19 cents** for each Exco Share you own.

The consideration being offered by WHSP under the Revised Offer is **26.5 cents** for each Exco Share you own. Under the Revised Offer, the price offered to Exco Shareholders will be increased from 19 cents to 26.5 cents cash per fully paid Exco Share if WHSP obtains 90% Acceptances, meaning:

- valid acceptances of the Offer; and
- acceptance instructions into the Acceptance Facility,

which in aggregate (together with any other Exco Shares in which WHSP has a relevant interest) represent at least 90% of the issued Exco Shares.

The Offer is unconditional in all other respects.

### 4.2 Acceptance Facility

To facilitate Exco Shareholders being able to accept the Revised Offer, WHSP has established an Acceptance Facility under which all Exco Shareholders are able to lodge acceptance instructions, which will only be released and processed if the Acceptance Condition is met.

Exco Shareholders who wish to follow the unanimous recommendation of the Board and accept the Revised Offer by accepting into the Acceptance Facility, should immediately complete and sign the Acceptance Form by placing an "X" in the GREEN box on the Acceptance Form, and return it, and (if applicable) the Custodian Direction Letter, to the Facility Agent using the enclosed reply paid envelope.

Further details regarding the Acceptance Facility are detailed in section 8.3 of the Bidder's Statement.

### 4.3 Effect of failure to meet Acceptance Condition

If the Acceptance Condition is not satisfied, Exco Shareholders' acceptance instructions into the Acceptance Facility will not be released and processed. Those Exco Shareholders who had accepted into the Acceptance Facility will retain their Exco Shares and will not receive WHSP's Revised Offer consideration of 26.5 cents.

Exco Shareholders who have accepted the Initial Offer will receive the Initial Offer consideration of 19 cents per Exco Share and **will not receive the additional 7.5 cents** under the Revised Offer.

### 4.4 Extension of Offer Period

WHSP may extend the Offer Period at any time before the end of the Offer Period.

In addition if, within the last 7 days of the Offer Period, either:

- WHSP improves the consideration offered under the Offer; or
- WHSP's voting power in Exco increases to more than 50%,

the Offer Period will be automatically extended so that it ends 14 days after the relevant event occurred.

WHSP proposes, if needed, to apply to ASIC for a modification of section 624(2) of the Corporations Act such that the Exco Shares the subject of acceptance instructions are counted towards WHSP's voting power in Exco.

## 4.5 Withdrawal of Offer

As the Offer is not subject to any defeating conditions, WHSP may not withdraw it without the written consent of ASIC and subject to the conditions (if any) specified in such consent.

## 4.6 Effect of acceptance

The effect of acceptance of the Revised Offer or the Initial Offer is set out in sections 8.3 and 9.6 of the Bidder's Statement respectively. You should read these provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Exco Shares and the representations and warranties which you will be giving WHSP by accepting the Initial Offer or the Revised Offer.

If you accept the Revised Offer through the Acceptance Facility, your acceptance instructions will only be released and processed if and when the Acceptance Condition is met. Prior to this time you are free to withdraw your acceptance instructions at any time and deal with your Exco Shares as you wish.

If you accept the Initial Offer, you will be prevented from selling your Exco Shares and WHSP will be able to exercise the rights attaching to your Exco Shares.

## 4.7 Withdrawal of your acceptance

If you accept into the Acceptance Facility you can withdraw your acceptance instructions at any time until the Acceptance Condition is met. If the Acceptance Condition is **not** met, your acceptance instructions will have no effect and you will not receive the Revised Offer consideration.

If you accept the Initial Offer, your acceptance is irrevocable. If the Acceptance Condition is not met, you will receive the Initial Offer consideration of 19 cents per Exco Share.

## 4.8 When you will receive the Offer Consideration

You will not receive the Revised Offer consideration until the Acceptance Condition has been met. If 90% Acceptances is achieved, you will be paid the Revised Offer consideration of 26.5 cents per Exco Share 7 days after the Acceptance Condition is met.

If you accept the Initial Offer you will be paid the Initial Offer consideration of 19 cents within 7 days. You will receive the additional 7.5 cents per Exco Share being offered under the Revised Offer if 90% Acceptances is achieved, in which case you will be paid the additional 7.5 cents per Exco Share 7 days after the Acceptance Condition is met.

See section 9.8 of the Bidder's Statement for further details on when you will be paid the Offer consideration by WHSP.

## 4.9 Compulsory acquisition

WHSP has stated in section 6.3 of the Bidder's Statement that if it becomes entitled to proceed to compulsory acquisition in accordance with the Corporations Act, it intends to compulsorily acquire any outstanding Exco Shares.

The two types of compulsory acquisition under Chapter 6A of the Corporations Act are discussed below.

### a. Follow on compulsory acquisition

Under Part 6A.1 of the Corporations Act, WHSP will be entitled to compulsorily acquire any outstanding Exco Shares for which it has not received acceptances on the same terms as the Offer if, during or at the end of, the Offer Period, WHSP (together with its associates) has relevant interests in at least 90% (by number) of the Exco Shares.

If this threshold is met, WHSP will have up to one month after the end of the Offer Period within which to give compulsory acquisition notices to Exco Shareholders who have not accepted the Offer. The consideration payable by WHSP will be the Offer Price last offered under the Offer.

Exco Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Exco Shareholders to establish to the satisfaction of a court that the terms of the Offer do not represent "fair value" for the Exco Shares.

### b. General compulsory acquisition

Under Part 6A.2 of the Corporations Act, WHSP will be entitled to compulsorily acquire any outstanding Exco Shares, if WHSP (either alone or with a related body corporate) holds full beneficial interests in at least 90% of Exco Shares (by number) (ie if WHSP becomes a "90% holder").

If this threshold is met, WHSP will have six months after WHSP becomes a 90% holder within which to give compulsory acquisition notices to Exco Shareholders. The compulsory acquisition notices sent to Exco Shareholders must be accompanied by an independent expert's report and an objection form.

The independent expert's report must set out whether the terms of the compulsory acquisition give a "fair value" for the Exco Shares and the independent expert's reasons for forming that opinion.

If Exco Shareholders with at least 10% of Exco Shares covered by the compulsory acquisition notice object to the acquisition before the end of the objection period (which must be at least one month), WHSP may apply to the court for approval of the acquisition of the Exco Shares covered by the notice.

#### **4.10 Lapse of Offer**

The Revised Offer will not result if the Acceptance Condition is not met by the end of the Offer Period. The Initial Offer is unconditional and cannot lapse and as such all acceptances of the Initial Offer are irrevocable whether or not the Acceptance Condition is met.

#### **4.11 WHSP's intentions**

Section 6.4 of the Bidder's Statement sets out WHSP's intentions in respect of the business and operations of Exco, if WHSP acquires more than 50% but less than 90% of Exco Shares.

## 5. INFORMATION RELATING TO EXCO AND ITS DIRECTORS

### 5.1 Exco overview

Exco is a mining and exploration company that has been listed on the ASX since 1998. Exco is currently focussed on the exploration of its Northwest Queensland land package which spans more than 3,000 km<sup>2</sup> of prospective tenements across the Cloncurry and Hazel Creek projects.

Further information about Exco is available at <http://www.asx.com.au> or <http://www.excoresources.com.au>.

### 5.2 Financial information

Exco lodged its audited annual financial report to 30 June 2012 with the ASX on 28 September 2012. These accounts contain more detailed information about Exco's assets, business and operations.

Exco shareholders can access this document on the company's website (<http://www.excoresources.com.au>) or on the ASX website (<http://www.asx.com.au>).

At the date of this Target's Statement, Exco's net cash balance totalled approximately \$53 million.

### 5.3 Directors of Exco

As at the date of this Target's Statement, the Directors of Exco are:

- Barry Sullivan (Chairman and Non-Executive Director);
- Geoff Laing (Managing Director);
- Alasdair Cooke (Executive Director);
- Tom Whiting (Non-Executive Director); and
- Michael Spreadborough (Non-Executive Director).

### 5.4 Interests and dealings of Directors in Exco securities

As at the date immediately before the date of this Target's Statement, the Directors had the following relevant interests in Exco Shares\*.

Director	Exco Shares		
	Direct	Indirect	Total
Barry Sullivan	50,000	Nil	50,000
Geoff Laing <sup>1</sup>	381,000	200,000	581,000
Alasdair Cooke <sup>2</sup>	11,327,875	5,990,003	17,317,878
Tom Whiting	Nil	Nil	Nil
Michael Spreadborough	Nil	Nil	Nil

\* No Exco Options are currently on issue. Further, none of the Directors currently hold any Exco Performance Rights; but see section 5.6 of this Target's Statement for discussion of the cash amount payable to Directors in lieu of a recent proposed issue of Exco Performance Rights.

### 5.5 Interests and dealings of Directors in WHSP securities

No Director has acquired or disposed of a relevant interest in any WHSP securities in the 4 month period ending on the date immediately before the date of this Target's Statement.

<sup>1</sup> Geoff Laing is a beneficiary under the Laing Family Trust, which holds 200,000 Exco Shares.

<sup>2</sup> Alasdair Cooke is a director of Hartree Pty Ltd and a director of Glenlaren Pty Ltd, which hold 4,897,113 and 1,092,890 Exco Shares respectively.

## 5.6 Director Benefits and agreements

### a. Cash amount payable to Directors in lieu of performance rights

In March 2012, Exco implemented the Exco Resources Limited Long Term Incentive Awards Plan 2012 ("Plan").

As noted in the announcement to ASX on 30 March 2012, the Board resolved, subject to shareholder approval at its next General Meeting, to issue 3,300,000 performance rights to Directors under the Plan.

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

- i. 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
- ii. the Board determined 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 (to be 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 paragraph (ii) 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.

In determining the cash amount payable, the Board has had regard to the amount offered under the WHSP bid (which triggered a Change of Control Event), and the Market Price of a Share over which a Performance Right is exercisable.

"Market Price" for the above purpose means the market price 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.

The making of the WHSP bid is a Change of Control Event as defined under the Plan.

The Board has resolved that the Offer Price will be used to determine the payments to be made to the relevant Directors. Indicatively, based on the Revised Offer price of 26.5 cents per Exco share the following payments would be made:

Director	Payment
Barry Sullivan	\$79,500
Geoff Laing	\$477,000
Alasdair Cooke	\$212,000
Tom Whiting	\$53,000

See section 7.3 of this Target's Statement for more information on the Plan.

### b. No other benefits to Directors

Other than a benefit otherwise disclosed in this Target's Statement, as a result of the Offer, no person has been, or will be given, any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from the Board, managerial office or related body corporate of Exco.

No Director has agreed to receive, or is entitled to receive, any benefit from WHSP which is related to or conditional on the Offer, other than in their capacity as a holder of Exco securities.

### c. Agreements in connection with or conditional on the Offer

No agreement has been made between any Director and any other person in connection with, or conditional upon, the outcome of the Offer, other than in their capacity as a holder of Exco securities.

### d. Interests in contracts with WHSP

No Director has any interest in any contract entered into by WHSP.

## 6. RISK FACTORS

In considering this Target's Statement and the Offer, Exco Shareholders should be aware that there are a number of risks which may affect the future operating and financial performance of Exco. Some of the risks can be adequately mitigated by the use of safeguards and appropriate systems but many are beyond the control of Exco and its Directors and cannot be mitigated. The principal risks you should consider, when deciding whether to maintain your investment in Exco in the present circumstances include the following matters set out below.

### 6.1 General risks

The price at which Exco Shares trade on the ASX may be influenced by a range of market factors which affect the performance of all industries, not just exploration and mining, and which are outside of Exco's control. Examples of these factors include:

- Global and domestic economic conditions and outlook;
- Changes in Australian and international share markets;
- Currency movement;
- Interest rates and inflation rates;
- Fiscal, monetary and other government policies; and
- Global geopolitical factors including war, terrorism, or other hostilities.

### 6.2 Specific Exco business risks

Specific business risks associated with Exco are outlined below.

#### ***Fluctuation in spot prices for gold and/or copper and exchange rates***

Fluctuations in the spot prices of gold and copper may have a positive or negative effect on Exco's exploration, evaluation and development plans and activities and on the cash flow from its operations. Movements in exchange rates can have a similar impact as international prices of gold and copper are denominated in United States dollars and the operational expenditure of Exco is incurred in Australian dollars.

#### ***Resource estimates***

Exco's resources estimates are expressions of judgment based on knowledge, experience and industry practice. These estimates were appropriate when made but may change significantly when new information becomes available. There are risks associated with such estimates including that the deposits may be of a different quality from the resource estimates or that the gold and copper prices may increase or decrease. Resource estimates are imprecise and depend to some extent on interpretations which may ultimately prove to be inaccurate and require adjustment. Adjustments to resource estimates could affect Exco's future plans and ultimately its financial performance and value.

#### ***Development Risks***

There can be no assurance that Exco will be able to complete the development of Mt Colin and Kangaroo Rat on time or to budget due to, amongst other things, changes in the scope of the projects, general delays, escalation of prices, issues in securing inputs or personnel, issues in securing supplies of services such as power and water, mining and metallurgical extraction issues or Exco's personnel, systems, procedures and controls not being adequate to support the operation.

#### ***Value Realisation of Mt Colin and Kangaroo Rat***

Exco's key development assets, Mt Colin and Kangaroo Rat, are currently of insufficient scale to justify the construction of a standalone processing facility. As such, Exco's ability to realise value from these projects is contingent on Exco's ability to negotiate milling/tolling/processing arrangements and/or the sale of these projects to owners of nearby processing facilities which include CopperChem and Xstrata. WHSP's Revised Offer and Exco's prior sale of its Ernest Henry E1 deposit to Xstrata in June 2011 demonstrate the strategic value of these resources to CopperChem and Xstrata, however no certainty exists as to the price or the terms upon which Exco may be able to realise value for these assets, in the absence of further exploration success which may justify standalone processing facilities.



### **Great Australia Royalty Dispute**

One of Exco's key assets is an existing royalty over CopperChem's Great Australia operations. As previously announced, CopperChem has recently disputed the extent and basis upon which this royalty is payable. If the Offer does not result in WHSP acquiring 100% of Exco, it is expected that this royalty will continue to be in dispute. Exco would intend to continue to confidently defend its position in this regard however the dispute creates a degree of uncertainty, and therefore risk, as to the likely future value and anticipated proceeds from this royalty.

### **Drilling and exploration risks**

Drilling activities may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortages or delays in the delivery of equipment. Drilling, whilst identifying mineralisation, may not achieve economically viable results.

### **Environmental risks**

Mining exploration, development and production can be potentially environmentally hazardous giving rise to substantial costs for environmental rehabilitation, damage control and losses.

### **Licensing and Permitting risks**

Development of Exco's tenements requires the grant of mining and environmental approvals and other ancillary permits and licences (collectively "Project Approvals"). The non-renewal of any currently granted Project Approvals, or refusal to grant any additional Project Approvals, may cause significant loss to Exco through loss of operational cashflow and loss of the opportunity to discover and develop any mineral resources on tenements Exco currently holds.

Exco has applied for a Mining Lease and Environmental Authority for the Kangaroo Rat deposit. The Directors do not foresee any reason why these approvals will not be granted, however, refusal of, or a delay in, their grant will delay the development of Kangaroo Rat and will impact on Exco's development timeline and goals.

Exco has applied for an amendment to the environmental approvals for Mt Colin to facilitate the development of an underground mining operation. The existing Mt Colin mining lease expires in August 2013 and will need to be renewed. The Directors do not foresee any reason why the amendment and renewal will not be granted, however, any refusal or delay will impact on the development of Mt Colin and will impact on Exco's development timeline and goals.

### **Reliance on Key Personnel**

The success of Exco is dependent upon a number of highly qualified and experienced personnel, the loss of whose services could materially and adversely affect the operational success of Exco and impede the realisation of its business plan and materially affect Exco's financial position.

### **Insurance risks**

Insurance of all risks associated with minerals exploration and mining operations is not always available and, where available, the costs can be high. Whilst Exco has insurance in place that is considered appropriate for its needs, it may not always be insured against all possible losses, either because of the unavailability of cover or because the premiums are excessive relative to the benefits that would accrue. Exco will use reasonable endeavours to insure against the risks it considers appropriate for its needs and circumstances however no assurance can be given that Exco will be able to obtain such insurance coverage in the future at reasonable rates or that any coverage it arranges will be adequate and available to cover claims.

## **6.3 Risk of a fall in the Exco Share Price if 90% interest not received**

While there are many factors that influence the market price of Exco Shares, your Directors consider that given WHSP's Revised Offer is at a significant premium to the recent and historical trading of Exco Shares, there is a risk that the market price of Exco Shares may fall if WHSP does not acquire an interest in more than 90% of Exco's Shares before the end of the Offer Period.

## **6.4 Risk of minority ownership**

If WHSP obtains greater than 50% of Exco Shares but less than 90%, Exco Shareholders who have not accepted the Initial Offer will become minority Shareholders in Exco. There are a number of possible implications of being a minority Shareholder, including:

- WHSP will be in a position to cast the majority of votes at a general meeting of Exco. WHSP will therefore be able to control the composition of the Exco Board and senior management of Exco, determine Exco's dividend policy and control the strategic direction of Exco's business. As set out in Section 6.4 of the Bidder's Statement, some or all of the current Directors of Exco may be replaced or supplemented by nominees appointed by WHSP and WHSP has not yet made a decision on the proposed composition of the Board;
- The Exco Share price may fall immediately following the end of the Offer Period. Such an outcome is consistent with the proposition that (in the absence of the Offer or takeover offer being outstanding), the price for an Exco Share on ASX reflects the value of that Share on a portfolio basis while the price payable under a takeover should be higher to reflect the value of an Exco Share on a 100% controlling interest basis;

- The liquidity of Exco Shares may fall substantially below current and historical liquidity levels with the result that it will be more difficult to buy and sell Exco Shares on ASX;
- If the number of Exco Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, WHSP may seek to have Exco Shares removed from listing on ASX. If this occurs Exco Shares will not be able to be traded on ASX; and
- If WHSP acquires more than 75% of Exco Shares, it will be able to ensure the passing of special resolutions at Exco general meetings. This will enable WHSP to, amongst other things, amend Exco's constitution.

## 7. ADDITIONAL INFORMATION

### 7.1 Issued capital

As at the date of this Target's Statement, Exco's issued capital consisted of 367,244,187 ordinary shares.

### 7.2 Substantial holders

As at the date of this Target's Statement, the substantial shareholders of Exco Shares are:

Substantial holder	Number of Exco Shares	Voting power
WHSP	70,852,793	19.293%
Ivanhoe Australia Limited	55,022,862	14.983%

### 7.3 Effect of the Offer on the Exco Long Term Incentive Awards Plan 2012 and Performance Rights issued under that plan

#### a. Immediate vesting of Performance Rights on issue

In March 2012, Exco implemented the Plan. The Plan is a performance rights plan that was introduced following a review of Exco's approach to equity-based, long term, performance-linked compensation. In general terms, employees, contractors and non-executive directors were to be issued Performance Rights by the Board from time to time depending on their position within the organisation. The Performance Rights were to be subject to certain vesting conditions, for example, the fulfilment of performance hurdles over a three year period. When exercised, Performance Rights vest on a 1:1 basis into Exco Shares.

Under the Plan, the Board had the discretion to accelerate the vesting of some or all of the Performance Rights on issue if a Change of Control Event occurred.

Pursuant to the terms of the Plan, the Board exercised its discretion to accelerate the vesting of Performance Rights granted under the Plan following receipt of the unsolicited takeover offer from WHSP, so that all of the Performance Rights vested and became exercisable from 31 August 2012.

On 20 September Exco announced that all 11,200,000 Performance Rights had been exercised and 11,200,000 Exco Shares had been issued to the relevant participants.

#### b. Cash amount payment to Directors in lieu of Performance Rights

See section 5.6 of this Target's Statement for more information on the payment to Directors in lieu of Performance Rights.

### 7.4 Material litigation and disputes

#### a. Exco/CopperChem dispute regarding royalty rights under the Alliance Agreement

As noted in section 2.1 of this Target's Statement, CopperChem disputes Exco's entitlement to the royalty under the Alliance Agreement.

Exco has attempted, without success, to try to understand the basis of CopperChem's position through discussions with CopperChem. Exco may need to trigger the formal dispute resolution process under the Alliance Agreement in order to seek the recovery of outstanding royalty payments and to enforce CopperChem's obligations under the agreement.

#### b. Other material litigation

To the best knowledge of the Directors and senior management of Exco, Exco is not otherwise involved in any litigation or dispute which is material in the context of Exco and its subsidiaries taken as a whole.

## 7.5 Effect on Exco's material contracts

To the best knowledge of the Directors and senior management of Exco, no material contract to which Exco is a party contains change of control provisions which may be triggered as a result of the Offer or acceptances of the Offer, and which may have a material adverse effect on the Exco.

## 7.6 Consents

Macquarie Capital (Australia) Limited has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as Exco's corporate adviser in the form and context in which it is named.

Ashurst Australia has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as Exco's legal adviser in the form and context in which it is named.

Each person named in this section 7.6 as having given its consent to the inclusion of a statement or being named in this Target's Statement:

- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than those statements which have been included in this Target's Statement with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name or role and any statements or reports which have been included in this Target's Statement with the consent of that party.

ASIC has published various Class Orders that modify, or exempt parties from compliance with the operation of various provisions of Chapter 6 of the Corporations Act. Exco has relied on that ASIC Class Order relief.

As permitted by ASIC Class Order 01/1543 this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to ASX. Pursuant to this ASIC Class Order, the consent of persons to whom such statements are attributed is not required for the inclusion of these statements in this Target's Statement. Any Exco Shareholder who would like to receive a copy of any of those documents may obtain a copy free of charge during the Offer Period by contacting the Shareholder information line on 1800 600 409 (within Australia) or +61 2 8256 3378 (from outside Australia).

As permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or a published book, journal or comparable publication.

Pursuant to this ASIC Class Order, the consent of such persons to whom statements or documents are attributed is not required for the inclusion of those statements in this Target's Statement.

In addition, as permitted by ASIC Class Order 07/429, this Target's Statement contains share price trading data sourced from IRESS without its consent.

## 7.7 Continuous disclosure

Exco is a disclosing entity as defined in the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules.

Copies of the documents filed with ASX may be obtained from the ASX website at <http://www.asx.com.au> and Exco's website at <http://www.excoresources.com.au>. There have been no Exco announcements made between the announcement of Exco's 2012 Annual Report and the date of this Target's Statement.

Copies of the documents lodged with ASIC in relation to Exco may be obtained from, or inspected at, an ASIC office. Exco Shareholders may obtain a copy of:

- Exco's annual report; and
- Exco's constitution,

free of charge upon request by contacting Exco on +61 8 9211 2000 or from the ASX website at <http://www.asx.com.au>. Exco's annual report and this Target's Statement are also available on Exco's website at <http://www.excoresources.com.au>.

## 7.8 No other material information

This Target's Statement must include all the information that Exco Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for Exco Shareholders and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Exco Director.

The Directors are of the opinion that the information that Exco Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in Exco's releases to ASX, and in the documents lodged by Exco with ASIC, before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of Exco Shares;
- the matters that Exco Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to Exco Shareholders' professional advisers; and
- the time available to Exco to prepare this Target's Statement.

## 7.9 Taxation

This section provides a general summary of the Australian tax consequences of accepting the Offer. The summary is based upon Australian taxation law and administrative practice in effect at the date of this Target's Statement. It does not anticipate changes in the taxation law after this time, or take into account the taxation law of countries other than Australia. There may also be other Australian tax implications of accepting the Offer.

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian tax considerations of accepting the Offer are set out in section 7 of the Bidder's Statement.

The following comments only apply to Exco Shareholders who hold their Exco Shares on capital account (or are taken, under Australian tax law, to hold their Exco Shares on capital account), and not as revenue assets or trading stock for Australian tax purposes. The discussion in this section does not address the Australian tax consequences for those Exco Shareholders that are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains or losses on their Exco Shares, or the tax consequences for Exco Shareholders who received their Exco Shares in the capacity of employees of Exco. Those Exco Shareholders who do not hold their Exco Shares on capital account or who are employees of Exco should seek their own specific professional advice as to the taxation implications applicable to their circumstances.

### a. Australian resident Exco Shareholders

If you accept the Offer, you will trigger a CGT event and this may result in an Australian CGT liability.

Generally, the CGT cost base of your Exco Shares is the amount you paid for your Exco Shares and any other costs incidental to the acquisition, holding and disposal of those Exco Shares. Exco Shareholders should be aware that, generally, if they participated in the Capital Return in November 2011 the CGT cost base of their shares will be reduced.

You will realise a capital gain on disposal of your Exco Shares to the extent the Offer consideration exceeds the CGT cost base of your Exco Shares. You will realise a capital loss to the extent the Offer consideration is less than the reduced CGT cost base of your Exco Shares. Capital losses may be used to offset capital gains you realise in the same income year or later income years, but cannot be used to offset other types of income.

Your net capital gain for an income year is calculated by aggregating all capital gains you realised in that income year and reducing that amount by the capital losses you realised in that income year and any net capital losses carried forward from previous income years. This is the amount that will be included in your assessable income which is subject to tax at your marginal tax rate plus any additional Medicare levies.

You may be entitled to CGT discount treatment in respect of your Exco Shares if you have held your Exco Shares for at least 12 months. This means that:

- for an Exco Shareholder who is an individual or trustee, any capital gain made in relation to their Exco Shares is reduced by 50%; and
- for an Exco Shareholder that is a trustee of a complying superannuation entity, any capital gain made in relation to its Exco Shares is reduced by 33⅓%.

Companies are not eligible for the CGT discount.

The indexation method for calculating a capital gain may be adopted as an alternative to the CGT discount treatment. The indexation method is available in relation to Exco Shares acquired at or before 11.45am on 21 September 1999.

#### **b. Foreign resident Exco Shareholders**

A capital gain or loss made by a Exco Shareholder that is not a resident of Australia for income tax purposes should be disregarded, unless their Exco Shares are “taxable Australian property”.

Very broadly, an Exco Share should not be “taxable Australian property” for a foreign resident holder of Exco Shares unless:

- i. the following conditions are satisfied:
  - A. the Exco Shareholder (together with its associates) held at least 10% or more of Exco Shares at the time of disposal of the Exco Shares or for at least 12 months during the 24 months before the disposal of the Exco Shares; and
  - B. more than 50% of the value of Exco is attributable to direct or indirect interests in Australian real property, which for this purpose includes mining and exploration leases and licences (Foreign resident Exco Shareholders who satisfy condition (i)(A), should consult their tax adviser in relation to the second condition); or
- ii. the Exco Shareholder has used its Exco Shares at any time in carrying on a business through a permanent establishment in Australia.

A foreign resident who makes a capital gain which is not disregarded and who would otherwise be eligible for the capital gains discount, should be aware that the Federal Government announced that it proposes to remove the capital gains discount for non-residents on capital gains made after 7.30pm (AEST) on 8 May 2012. However, the capital gains discount will remain available for capital gains to the extent they accrued prior to this time provided that non-residents obtain a market valuation of assets as at 8 May 2012.

The comments above have assumed that a foreign resident Exco Shareholder holds their Exco Shares on capital account. If their Exco Shares are held on revenue account (eg as part of a share trading business or profit-making scheme), the foreign resident Exco Shareholder should obtain further advice on the Australian tax consequences of accepting the Offer, including whether they would be entitled to any relief from Australian income tax under the terms of any double tax treaty between Australia and the country in which they are resident for tax purposes.

#### **c. Independent advice**

You should carefully read and consider the taxation consequences of accepting the Offer. Exco Shareholders should not rely on the disclosure of taxation considerations in section 7 of the Bidder’s Statement or in this Target’s Statement as being advice on their own affairs. The outline provided in the Bidder’s Statement and this Target’s Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

Neither Exco nor any of its Directors or advisers accepts any liability or responsibility in respect of any statement concerning the taxation consequences of accepting the Offer in relation to particular Exco Shareholders.

# 8. GLOSSARY AND INTERPRETATION

## 8.1 Definitions

**“90% Acceptances”** means where the aggregate of:

- a. valid acceptances of the Offer; and
- b. acceptance instructions into the Acceptance Facility which would (or if WHSP, acting reasonably, is satisfied would) if released and processed, result in valid acceptances of WHSP’s Offer,

together with any other Exco Shares in which WHSP has a relevant interest, represents at least 90% of the issued Exco Shares.

**“Acceptance Condition”** means either:

- a. WHSP obtaining 90% Acceptances; or
- b. WHSP making a Recommended Varied Offer.

**“Acceptance Facility”** means the acceptance facility established by WHSP to facilitate the Revised Offer, details of which are set out in section 8.3 of the Bidder’s Statement.

**“Acceptance Form”** means the acceptance form which accompanies the Bidder’s Statement.

**“Alliance Agreement”** means the Exco-CopperChem Alliance Agreement entered into in December 2004 and varied in September 2009.

**“ASIC”** means the Australian Securities and Investments Commission.

**“ASX”** means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.

**“ASX Listing Rules”** means the official listing rules of ASX.

**“Bidder’s Statement”** means the replacement bidder’s statement dated 28 September 2012 received by Exco from WHSP under Part 6.5 of the Corporations Act.

**“Board”** means the board of directors of Exco.

**“CGT”** means capital gains tax.

**“CopperChem”** means CopperChem Limited ABN 64 130 641 691.

**“Corporations Act”** means the Corporations Act 2001 (Cth).

**“Directors”** means the current directors of Exco.

**“Exco”** means Exco Resources Limited ABN 99 080 339 671.

**“Exco Option”** means an option to acquire one Exco Share.

**“Exco Performance Right”** means a performance right entitling the holder to receive, on satisfaction of certain criteria, one Exco Share.

**“Exco Share”** means a fully paid ordinary share in Exco.

**“Exco Shareholder”** means a holder of Exco Shares.

**“Facility Agent”** means Pacific Custodians Pty Limited ABN 66 009 682 866.

**“Initial Offer”** means WHSP’s Offer to acquire Exco Shares at the Initial Offer Price.

**“Initial Offer Price”** means 19 cents per Exco Share.

**“Ivanhoe”** means Ivanhoe Australia Limited ABN 20 107 689 878.



**“Offer”** means the offer by WHSP for Exco Shares, which is contained in section 9 of the Bidder’s Statement.

**“Offer Period”** means the period during which the Offer will remain open for acceptance in accordance with section 9.3 of the Bidder’s Statement.

**“Offer Price”** means the Initial Offer Price, the Revised Offer Price, or the price offered under any Recommended Varied Offer, or all three, as the context requires.

**“Plan”** means the Exco Resources Limited Long Term Incentive Awards Plan 2012.

**“Recommended Varied Offer”** means an improved Offer unanimously recommended by the Exco Directors where the Offer Price is 26.5 cents or more.

**“Revised Offer”** means the proposed increase in the Offer Price from 19 cents to 26.5 cents per Exco Share if WHSP obtains 90% Acceptances.

**“Revised Offer Price”** means 26.5 cents per Exco Share, subject to WHSP obtaining 90% Acceptances.

**“Target’s Statement”** means this document (including any attachments), being the statement of Exco under Part 6.5, Division 3 of the Corporations Act.

**“Terms of Appointment”** means the terms of appointment of the Facility Agent, as set out in the Bidder’s Statement.

**“VWAP”** means volume weighted average trading price of Exco Shares on ASX.

**“WHSP”** means Washington H. Soul Pattinson and Company Limited ABN 49 000 002 728.

## 8.2 Interpretation

In this Target’s Statement, unless the context requires otherwise:

- a. headings are inserted for convenience and do not affect the interpretation of this Target’s Statement;
- b. words and phrases in this Target’s Statement have the same meaning given to them (if any) in the Corporations Act;
- c. the singular includes the plural and vice versa;
- d. a gender includes all genders;
- e. a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;
- f. if a word is defined, another part of speech has a corresponding meaning;
- g. a reference to a section or appendix is a reference to a section or appendix of this Target’s Statement;
- h. a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- i. unless expressly stated otherwise, a reference to time is a reference to Sydney time; and
- j. unless expressly stated otherwise, a reference to dollars, \$, A\$ or AUD is a reference to the lawful currency of Australia.

## 9. AUTHORISATION

This Target's Statement is dated 2 October 2012 and has been approved by a resolution passed by the Directors of Exco.

Signed for and on behalf of Exco:

A handwritten signature in black ink, appearing to be 'G. Laing', written over a horizontal line.

**Geoff Laing**

**Managing Director**

