

28 August 2012



Dear Fellow Shareholder

TAKE NO ACTION IN RELATION TO THE SOUL PATTINSON UNSOLICITED TAKEOVER OFFER

On 23 August 2012, Washington H. Soul Pattinson & Company Limited (**Soul Pattinson**) announced its intention to make an unsolicited takeover offer for all of your shares in Exco at a price of 19 cents.

Your directors have now had an opportunity to consider the Soul Pattinson offer. Exco non-executive director, Mr Mike Spreadborough, is a representative of Ivanhoe Australia Limited which has sold part of its shareholding in Exco and committed to accept the Soul Pattinson offer in the absence of a superior proposal for Ivanhoe. For that reason, Mr Spreadborough will not be making a recommendation to Exco shareholders in relation to the Soul Pattinson offer.

For the reasons summarised on the following pages, all of the directors of Exco other than Mr Spreadborough (referred to in this letter as the "Independent Directors") have unanimously concluded that the Soul Pattinson offer is INADEQUATE and UNFAIR.

Your Independent Directors believe that taking control of Exco is important to Soul Pattinson in the context of the challenges its subsidiary CopperChem faces with a limited mine life at the Great Australia project. In principle, your Independent Directors have no problem with Soul Pattinson taking control of Exco if, and only if, minority shareholders receive a fair price for their shares.

In approximately four weeks you will receive a Target's Statement from your directors which will provide you with all of the information you need to consider the Soul Pattinson offer. Until you receive the Target's Statement you should **TAKE NO ACTION IN RELATION TO YOUR EXCO SHARES**.

As Soul Pattinson has now lodged its Bidder's Statement, it is entitled to purchase more shares in Exco on market at the offer price. Accordingly, your Independent Directors think it appropriate to provide you with a more detailed response now than they might otherwise have provided in advance of issuing the Target's Statement because there is a risk that control of Exco might pass to Soul Pattinson before you have had a chance to consider relevant issues.

Furthermore, we have received strong messages of support from a number of our key shareholders since the offer was announced and you can rest assured that your Independent Directors intend to do everything possible to ensure that this inadequate and unfair offer fails. To assist us in dealing with the offer, we have appointed Macquarie Capital as our financial adviser and Ashurst as our legal adviser.

Your board looks forward to your continuing support as we respond to the offer.

Yours sincerely

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

Barry Sullivan
Chairman

WHY YOUR INDEPENDENT DIRECTORS BELIEVE THE SOUL PATTINSON OFFER IS INADEQUATE AND UNFAIR

The view of your Independent Directors that the Soul Pattinson offer is inadequate and unfair is based on the following key conclusions:

1. **The Soul Pattinson offer does not fairly reflect the value of Exco's assets.**
2. **The takeover premium offered by Soul Pattinson is inadequate.**
3. **The offer is opportunistic as it appears to capitalise on recent difficulties that have forced Ivanhoe Australia Limited to sell non core assets.**

1. The Soul Pattinson offer does not fairly reflect the value of Exco's assets

Exco currently holds approximately \$53 million in cash which represents approximately 14.4 cents for each of your Exco shares (fully diluted).

The Soul Pattinson offer therefore values all of Exco's remaining assets at just **\$16.9 million**, a value your Independent Directors regard as wholly inadequate taking into account the following factors.

The Value of the Royalty Payable by CopperChem

Exco has a right to a royalty entitlement over the sulphide ores under the Great Australia mining lease in Cloncurry, Qld, which is being mined by CopperChem Limited ("**CopperChem**") (a subsidiary of Washington H. Soul Pattinson and Company Limited) pursuant to the terms of the Exco-CopperChem Alliance Agreement entered into in December 2004 and varied in September 2009 ("**Alliance Agreement**").

Exco has previously informed the market that due to the uncertainty of future events including future LME copper prices and future quantities of qualifying ore being mined, it is not possible to reliably estimate the potential future amount of royalty to be received from CopperChem.

Whilst acknowledging that uncertainty, Exco has previously advised the market that, based on the 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, the royalty could generate gross cash to Exco of around A\$25 million over the expected life of the Great Australia project.

Your Independent Directors believe that the value of the CopperChem royalty alone, could exceed the \$16.9 million valuation placed on ALL of Exco's non cash assets by the Soul Pattinson offer. This belief is based on the following:

- Based on survey data provided by CopperChem, to 30 June 2012, Exco calculates that CopperChem has mined between 331,400 and 507,100 tonnes of ore that would ordinarily be subject to royalty. Based on the royalty rates applicable over this period this results in total royalty payable to Exco of \$5m to \$8m. Further information is required from CopperChem to quantify the final amount.
- Based on a total remaining depleted sulphide ore resource of around 1,400,000 tonnes and information from CopperChem that implies that they plan to mine up to a further 900,000 tonnes

of ore from Great Australia, and assuming a future royalty rate of \$13.75/tonne based on the prevailing copper price of US\$3.47/lb, future royalties payable to Exco could be up to \$12.375m.

CopperChem has now disputed Exco's entitlement to the royalty under the Alliance Agreement.

Exco has attempted, without success, to enter into discussions with CopperChem to try and understand the basis of their dispute and may need to trigger the dispute resolution process under the Alliance Agreement to seek the recovery of outstanding royalty payments and confirm CopperChem's obligations under the agreement.

Your Independent Directors believe that negating the adverse financial impact of CopperChem's obligation to pay the Great Australia royalty to Exco may be one of the key motivating factors behind the Soul Pattinson Offer.

The Value of Mt Colin

Mt Colin has a JORC compliant indicated and inferred resource of 1.9 million tonnes at a grade of 2.59% copper and 0.42 grams per tonne gold for 50,000 tonnes of contained copper and 26,000 ounces of gold.

A scoping study involving an underground mine with ore being processed by a third party in the Cloncurry area has been completed by an external technical consultant.

That scoping study has indicated that the resource at Mt Colin has the potential to unlock significant value to other producers in the Cloncurry region with excess processing capacity – particularly CopperChem.

Further information about the value of Mt Colin will be provided in full in the Target's Statement which will be sent to Exco shareholders in the coming weeks.

Your Independent Directors believe that Great Australia has a limited remaining mine life of less than 2 years and that Exco's resources at Mt Colin are therefore strategically important to CopperChem. In this regard, for more than 2 years, Exco has had various discussions with CopperChem about the potential for CopperChem to gain access to Mt Colin ore or acquire the project outright. During this time, CopperChem have had access to confidential information including the scoping study.

In the circumstances, your Independent Directors are surprised that Soul Pattinson's Bidder's Statement says nothing about the potential to gain access to Exco's resources at Mt Colin and potentially at Kangaroo Rat.

This is a matter which your Independent Directors intend to raise directly with Soul Pattinson and we will seek a Takeovers Panel order if we do not get a satisfactory response.

Your Independent Directors believe that gaining access to Mt Colin resources to extend the life of the Great Australia mine and processing facilities may be another key motivating factor behind the Soul Pattinson Offer.

The Value of Kangaroo Rat

Kangaroo Rat has a JORC compliant inferred resource of 1.25 million tonnes grading 1.29% copper and 0.6 grams per tonne of gold for 16,000 tonnes of contained copper and 25,500 ounces of gold.

Exco is in the process of completing a pit optimisation study on the Kangaroo Rat deposit which will be released as soon as possible.

Based on work completed to date, your Independent Directors believe that CopperChem or one of the other miners in the Cloncurry region could potentially mine and process the Kangaroo Rat deposit quickly to unlock the value of that deposit.

Further information about Kangaroo Rat will be provided in full in the Target's Statement which will be sent to Exco shareholders in the coming weeks.

Your Independent Directors believe that gaining short term access to Kangaroo Rat resources to augment current production at the Great Australia mine and processing facilities may be another key motivating factor behind the Soul Pattinson offer.

The Value of Exco's Exploration Interests

Your Independent Directors believe that the Soul Pattinson offer is not ascribing any value to Exco's sizeable land package in the highly prospective Mt Isa Block in North West Queensland.

The Cloncurry Project covers over 1,900km² and includes a number of high priority prospects including the Salebury - Tanbah and the Weatherly Creek - Canteen project areas.

The Hazel Creek Project incorporates over 1,000km² of prospective land that remains relatively unexplored. Exco has indicated the prospectivity of the Hazel Creek project area through the discovery of several key prospects including the Turpentine Resource.

Your Independent Directors intend to appoint an independent technical consultant to opine on the value of Exco's tenement package in North West Queensland. The results of that analysis will be included in the Target's Statement which will be sent to shareholders in the coming weeks.

The Value of White Dam Revenue

Despite being in the final phase of its operation, White Dam is expected to generate approximately \$4 million of revenue to Exco in the next 4 months.

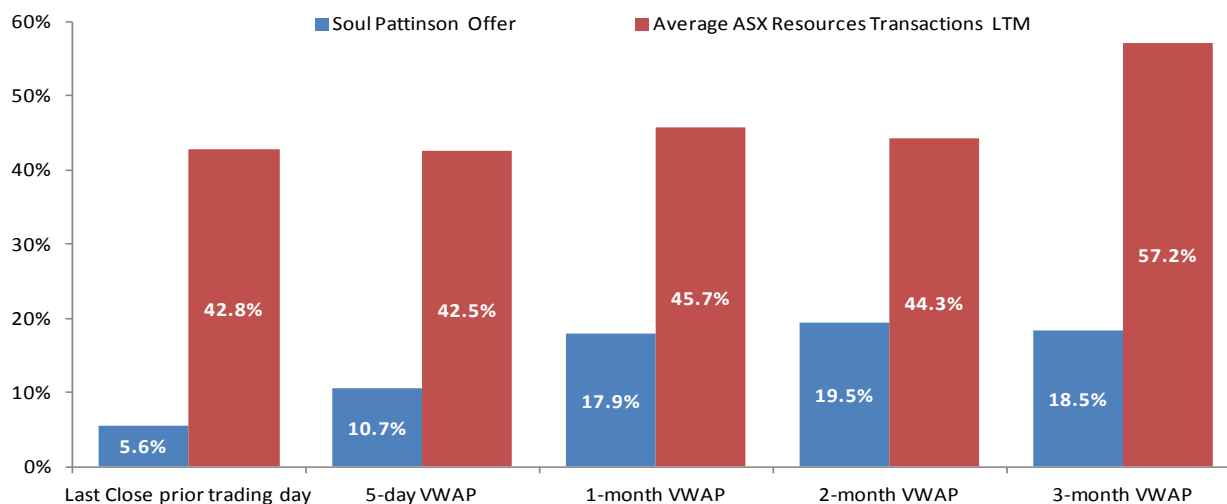
2. The takeover premium offered by Soul Pattinson is inadequate

In the days leading up to the announcement of the Soul Pattinson offer, Exco had made a number of important announcements to the ASX.

Your Independent Directors believe that these announcements had resulted in the Exco share price increasing from around 15 cents to close at 18 cents on 22 August (the day before the Soul Pattinson offer was announced).

The premium offered by Soul Pattinson to that closing price is just 5.6%

The following graph compares the premium offered to Exco shareholders by Soul Pattinson with all resource transactions announced on the ASX in the last 12 months and demonstrates that the premium offered by Soul Pattinson is inadequate when compared to average market control premia.



The Bidder's Statement from Soul Pattinson includes a graph on page 4 which graphically misrepresents the scale of the premium being offered by basing the Y axis off a 10 cents base rather than 0.

Your Independent Directors believe that presentation of the premium in this way by Soul Pattinson is not consistent with Takeovers Panel guidance and we intend to request Soul Pattinson to rectify it.

3. The offer is opportunistic as it appears to capitalise on recent difficulties that have forced Ivanhoe Australia Limited to sell non-core assets

Ivanhoe Australia Limited has been Exco's major shareholder since 2008 and has held a stake in Exco of approximately 23% for 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 evaluate options to secure funding of its development projects, namely the Merlin Moly-Rhenium project which has an estimated total capital cost in the order of A\$345m.

Given that it had become obvious that Ivanhoe was likely to try and dispose of non-core assets, Exco management commenced discussions with Ivanhoe about an orderly sale of its shareholding. In this regard, a proposal was put to Ivanhoe to sell its shares to a range of investors. Rather than proceed with that proposal, Ivanhoe entered into an agreement to sell part of its shareholding to Soul Pattinson and has committed to accept the offer in the absence of an alternative proposal for Exco that is superior for Ivanhoe.

Your Independent Directors believe that Soul Pattinson may now be taking advantage of Ivanhoe's need to sell to take control of Exco at a price that does not fairly reflect the underlying value of Exco's assets.

In the opinion of your Independent Directors, the price at which Ivanhoe is now willing to sell does not provide any guide to the underlying value of Exco shares.

AS NOTED ABOVE, A TARGET'S STATEMENT WILL BE ISSUED BY THE DIRECTORS OF EXCO IN THE COMING WEEKS.

THAT TARGET'S STATEMENT WILL CONTAIN ALL OF THE INFORMATION YOU NEED TO CONSIDER THE SOUL PATTINSON OFFER.

PENDING RECEIPT OF THE TARGET'S STATEMENT, YOUR DIRECTORS RECOMMEND THAT YOU TAKE NO ACTION IN RELATION TO THE SOUL PATTINSON OFFER.

Forward looking statements & competent persons' statement

This letter 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 letter are to AUD currency, unless otherwise stated.

Information in this letter 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.