



**EXCO TECHNOLOGIES LIMITED**

130 SPY COURT, 2ND FLOOR  
MARKHAM, ON L3R 5H6  
T. 905.477.3065 F. 905.477.2449  
[www.excocorp.com](http://www.excocorp.com)

---

Interim report  
to the shareholders  
for the nine months  
ended June 30, 2009

---

	9 Months ended June 30		3 Months ended June 30	
	<i>(\$000s, except per share amounts)</i>			
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Sales	106,022	151,549	28,345	47,677
Net income (loss) from continuing operations	(18,030)	7,355	(998)	3,147
Net loss from discontinued operations	-	(111)	-	(62)
Net income (loss)	(18,030)	7,244	(998)	3,085
Basic and diluted earnings (loss) per share	(\$0.44)	\$0.18	(\$0.02)	\$0.08
Common shares outstanding	40,666,000	40,989,000	40,666,000	40,989,000

*The following is management's interim discussion and analysis of operations and financial position and should be read in conjunction with the consolidated financial statements and Management's Discussion and Analysis in the Company's 2008 Annual Report.*

*This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102) of the Canadian Securities Administrators. Additional information regarding Exco, including copies of its continuous disclosure materials such as its annual information form, is available on its website at [www.excocorp.com](http://www.excocorp.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).*

*In this MD&A, reference is made to gross margin which is not a measure of financial performance under Canadian generally accepted principles ("GAAP"). The Company calculates gross margin as sales less cost of sales. The Company included information concerning this measure because it is used by management as a measure of performance and management believes it is used by certain investors and analysts as a measure of the Company's financial performance. This measure is not necessarily comparable to similarly titled measures used by other companies.*

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The financial results for the nine months ended June 30, 2009 and 2008 reflect the financial results of continuing operations and discontinued operations. Techmire was purchased in December 2000 and sold for cash on September 28, 2007. Results from this operation and proceeds realized on its sale have been classified as discontinued operations in the consolidated financial statements. All references in the MD&A are to continuing operations unless otherwise stated.

Consolidated sales from continuing operations for the quarter ended June 30, 2009 were \$28.3 million compared to \$47.7 million last year – a decrease of \$19.4 million or 41%. Year-to-date sales were \$106 million – a decrease of \$45.5 million or 30% compared to last year. This reflects another quarter of exceptional contraction in global automotive production, commercial construction and overall industrial output. In addition to poor sales caused by the recessionary economic environment, Exco's sales in this quarter were disrupted in North America by no less than three customer bankruptcies in the automotive sector (Chrysler, General Motors and Visteon) and the bankruptcy of its largest extrusion tooling customer (Indalex). Although each situation was different, in all cases traditional patterns of production and releases was disrupted with the most extreme case being Chrysler which ceased all production in May and June. Also in this quarter the Canadian dollar experienced extreme foreign exchange volatility against the US dollar. The US dollar was 14 cents and 21 cents stronger against the Canadian dollar in the current quarter (\$1.15) and year-to-date (\$1.21) compared to last year (\$1.01 and \$1.00 respectively) increasing sales by approximately \$2.7 million and \$13.2 million respectively.

During the third quarter, the Casting and Extrusion segment reported sales of \$19.0 million compared to \$26.1 million in the third quarter of last year – a decrease of 27%. Year-to-date, the segment reported sales of \$70.1 million compared to \$84.6 million last year – a decrease of 17%. Sales at the Extrusion group were lower than the prior year by 19% in the quarter and 8% year-to-date. Included in the quarterly sales decline is the cessation of sales to Indalex during its Chapter 11 bankruptcy process. Year to date the decline is more modest as the business unit sells primarily to industrial markets which have not been as dramatically impacted by the current recession as Exco's automotive accounts. Castool sales were lower than last year by 40% in the quarter and 16% year-to-date. While Castool also has a strong presence in industrial markets, sales to automotive accounts were hit hard as capital investments by these accounts were sharply curtailed. Sales at the large mould group were lower than the same quarter last year by 34% and 32% year-to-date. This business' largest customer, Chrysler, ceased all production for two months and virtually no sales activity took place during this quarter.

Sales in the Automotive Solutions segment decreased to \$9.4 million in the third quarter compared to \$21.5 million in the same quarter last year – a decrease of 56%. Year-to-date, the segment reported sales of \$35.9 million compared to \$66.9 million – a decrease of 46%. Production of the Honda CRV and Civic in Europe was completely shut down in January for six months. This impacted Polydesign's deliveries of seat covers in the quarter by approximately \$8 million in sales. In June deliveries of seat covers on these programs resumed albeit at much lower volumes. Other sales in this segment have been under pressure as all other OEMs manufacturing in North America and Europe have significantly reduced production of automobiles in response to the dramatic drop in light vehicle sales and bankruptcy induced production disruptions at Chrysler, Visteon

and General Motors. Deliveries to Asian OEM port of entry programs were also impacted.

Net loss from continuing operations for the third quarter was \$998 thousand or \$0.02 per share compared to net income of \$3.1 million or \$0.08 per share last year. Year-to-date, Exco reported a net loss from continuing operations of \$18 million or \$0.44 per share compared to net income of \$7.4 million or \$0.18 per share in the prior year. In the quarter low sales at all business units impacted efficient absorption of overheads and caused the disappointing loss from continuing operations. This loss was further widened by severances of \$598 thousand, inventory writedowns of \$482 thousand and bad debt write offs of \$108 thousand. Exco also experienced a foreign exchange gain from fair valuation of forwards and collars of \$1.15 million. Year to date net income from continuing operations was impacted by a goodwill impairment charge of \$10.1 million associated with its Polytech business unit. After this impairment charge there remained no goodwill on the balance sheet of the Company. Year-to-date consolidated pre tax loss from continuing operations, before the impact of this goodwill charge, was \$9.4 million. Also in the second quarter, Exco determined that the carrying value of certain assets held for sale and property, plant and equipment was impaired and a charge of \$1.4 million was taken against the Techmire building and \$590 thousand was taken against equipment held at Neocon USA. All of these charges were non cash in nature and did not affect cash flow. Net income in the current year was also impacted by higher than normal severance charges, bad debt write offs and loss from fair valuation of forwards and collars in the pre tax amounts of \$2 million, \$1.7 million and \$1.3 million respectively. Excluding all the above items, year-to-date pre tax loss from continuing operations was \$1.5 million or a loss of \$0.07 per share compared to a pre tax profit of \$8.6 million or income of \$0.17 per share last year. The following tables outline the above mentioned items and their prior year comparative figures.

	Three Months ended June 30		Nine Months ended June 30	
	2009	2008	2009	2008
( \$thousands)				
Pretax income (loss) from continuing operations	<b>(\$1,628)</b>	\$3,725	<b>(\$19,432)</b>	\$9,399
Goodwill impairment	-	-	<b>10,086</b>	-
Loss (gain) on sale of fixed assets	<b>25</b>	(1,868)	<b>25</b>	(2,432)
Fixed assets impairment	-	-	<b>590</b>	-
Techmire building write-down	-	-	<b>1,415</b>	-
Extec closing charges	-	191	-	538
Severance	<b>598</b>	72	<b>1,989</b>	76
Foreign exchange (gain) loss from fair valuation of forwards and collars	<b>(1,154)</b>	(166)	<b>1,334</b>	(112)
Inventory write-down	<b>482</b>	342	<b>822</b>	564
Bad debt write-offs	<b>108</b>	131	<b>1,666</b>	542
Pretax income (loss) before items above	<b>(\$1,569)</b>	\$2,427	<b>(\$1,505)</b>	\$8,575

	Three Months ended June 30		Nine Months ended June 30	
	2009	2008	2009	2008
Reported diluted earnings (loss) per share	<b>(\$0.02)</b>	\$0.08	<b>(\$0.44)</b>	\$0.18
Goodwill impairment charge (not tax deductible)	<b>0.00</b>	0.00	<b>0.25</b>	0.00
Loss (gain) from disposal of fixed assets	<b>0.00</b>	(0.03)	<b>0.00</b>	(0.04)
Fixed assets impairment	<b>0.00</b>	0.00	<b>0.01</b>	0.00
Techmire's building write-down	<b>0.00</b>	0.00	<b>0.02</b>	0.00
Extec closing charges	<b>0.00</b>	0.00	<b>0.00</b>	0.01
Severance	<b>0.01</b>	0.00	<b>0.03</b>	0.00
Foreign exchange (gain) loss from fair valuation of forwards and collars	<b>(0.02)</b>	0.00	<b>0.02</b>	0.00
Inventory write-down	<b>0.01</b>	0.01	<b>0.01</b>	0.01
Bad debt write-offs	<b>0.00</b>	0.00	<b>0.03</b>	0.01
EPS (loss per share) before items above	<b>(\$0.02)</b>	\$0.06	<b>(\$0.07)</b>	\$0.17

The current year-to-date consolidated tax rate was 7.2% compared to 21.7% last year. The low tax rate in the current year was caused by the non-tax deductibility of the goodwill impairment charge. This was partially offset by the effect of

\$830 thousand withholding tax paid on repatriation of \$16.6 million of subsidiary profits and a much reduced benefit from lower tax rates on Polydesign earnings as the division's profit contribution is much less this year compared to last year.

The Casting and Extrusion segment reported pre tax losses of \$1.2 million for the current quarter compared to pre tax income of \$1.2 million last year. Once again lower sales precluded efficient absorption of overhead costs. This segment also experienced \$443 thousand severance charges mainly at the extrusion businesses and \$721 thousand foreign exchange loss caused by the weakening of the U.S. dollar during the quarter. Year-to-date, the segment reported earnings of \$835 thousand compared to \$4.1 million last year. This reflects weak sales in the second and third quarters and includes year-to-date severance charges of \$577 thousand and bad debt write-offs of \$1.2 million mainly from the bankruptcy of Indalex - a major extrusion die customer that filed for Chapter 11 protection in March 2009.

The Automotive Solutions segment also reported pre tax losses of \$781 thousand for the current quarter compared to pre tax earnings of \$1.6 million last year. Year-to-date, the segment reported pre tax losses of \$15.3 million compared to \$6.7 million pre tax earnings last year. The impact of volume reductions on overhead cost absorption was most extreme in this segment. However, in the quarter Polytech was able to be marginally profitable. All other businesses in this segment were not profitable and Neocon USA, with its small base of business, experienced the widest loss of almost 1 cent per share in the quarter. Included in the current year-to-date loss was a \$10.1 million goodwill impairment charge associated with the Polytech business unit, a \$590 thousand fixed asset impairment charge at Neocon USA, \$1.4 million in severance charges related mostly to staff reductions at Polytech in the second quarter and \$908 thousand foreign exchange loss mainly from the Mexican peso collars. Excluding these special charges, the segment reported losses of \$606 thousand for the quarter and \$2.3 million year-to-date. Apart from expected plant shutdowns in the next quarter, volumes are generally beginning to improve at a slow and gradual rate. Polydesign did resume production of seat cover deliveries for the Honda CRV and Civic in the month of June. This is expected to dramatically improve the performance of our European business over the coming quarters. The prospects for Neocon USA, on the other hand, are not that promising. With its small base of business the recent recession has impacted its sales to the point where management determined that it was no longer economically viable. Its operation will be wound down in the fourth quarter and some blow moulding and thermoforming capability will be moved to our existing Polytech production facility in Matamoros, Mexico. The balance of the land, building and equipment will be sold in order to reduce capacity and fixed costs.

Corporate recorded an income for the quarter amounted to \$417 thousand compared to \$978 thousand in the prior year. Included in the current quarter was \$1.2 million foreign exchange gain from the fair valuation of forwards and collars

versus \$166 thousand last year. Last year also experienced a \$1.8 million gain from the sale of the Extec production facility in Markham. Year-to-date, Corporate expense amounted to \$4.9 million compared to \$1.2 million last year. Included in the current year were \$1.4 million write-down of the Techmire building which was sold in May 2009 and \$1.3 million foreign exchange loss from the fair valuation of forwards and collars versus \$2.2 million gain from the sales of surplus land and the Extec facility and \$112 thousand foreign exchange gain from fair valuation of forwards and collars in the prior year. Lower bonus expense and lower travel expenses, primarily due to the termination of the aircraft in early 2008, also contributed to lowering overall expenses in the current year. Excluding these items, expenses for the current quarter and year-to-date were \$737 thousand and \$2.2 million or 28 % and 39% lower than last year.

Gross margin for the third quarter was 20% compared to 21% in the prior year. Year-to-date, gross margin was 19.2% compared to 21.3% last year. Gross margin in the third quarter and year-to-date improved in the Extrusion group due to more favourable steel costs. However, margin at the Casting group and, to a lesser extent, Castool declined mostly from lack of sales to automotive accounts. In the Automotive Solutions segment, despite dramatically lower sales in the quarter, staffing cuts and other overhead reduction initiatives have enabled the segment to retain positive margin – although 3% lower than last year.

Selling, general and administrative expenses decreased in the quarter by \$943 thousand to \$4.8 million in the third quarter compared to \$5.7 million in the prior year. Included in the current quarter was \$1.2 million foreign exchange gain from the fair valuation of forwards and collars and \$598 thousand severance charges compared to \$166 thousand foreign exchange gain and \$72 thousand in severance expense last year. Excluding these items, selling, general and administrative expenses for the quarter were \$5.3 million compared to \$5.8 million in the prior year. Year-to-date, selling, general and administrative expenses increased to \$20.3 million from \$18.1 million in the prior year. Included in the current year were \$2.0 million severance, \$1.7 million bad debts and \$1.3 million foreign exchange loss from fair valuation of forwards and collars compared to \$76 thousand, \$542 thousand and \$122 thousand gain for the same items respectively in the prior year. Excluding these special charges, selling, general and administrative expenses in the current year were \$15.3 million compared to \$17.6 million last year.

In the quarter, Exco expensed stock-based compensation of \$110 thousand versus \$102 thousand in the prior year quarter. Year-to-date, the Company expensed stock-based compensation of \$269 thousand compared to \$329 thousand in the prior year. This expense relates to the Employee Stock Purchase Plan, the Stock Based Compensation Plan, and the Deferred Share Unit Plan (see note 2 of the Financial Statements).

## **Financial Resources, Liquidity and Capital Resources**

Operating cash flow from continuing operations in the current quarter decreased to \$2.6 million from \$4.2 million in the prior year primarily due to lower income and build-up in inventory for large moulds due to be shipped throughout the balance of the fiscal year and into fiscal 2010. Year-to-date, operating cash flow increased slightly to \$11.9 million from \$11.6 million last year despite lower sales as the Company effectively reduced non-cash working capital, especially accounts receivable, in response to lower sales. Further improvement in non-cash working capital is expected to take place in the coming quarters as shipments from inventory, particularly with respect to large moulds on the Chrysler Phoenix engine block program, begin once these customers resume production. Aggressive measures implemented by management including staff reduction, overhead and selling, general and administrative cuts and implementation of production efficiencies have enabled the Company to generate positive operating cash flow despite North American industry production levels of less than 10 million units per annum.

Cash used in financing activities was \$1.2 million in the current quarter versus \$305 thousand last year as bank indebtedness decreased by \$344 thousand compared to an increase of \$533 thousand in the same quarter last year. Year-to-date, cash used in financing activities increased to \$9.2 million compared to \$2.8 million last year as available funds were used to pay off bank indebtedness.

Cash flow generated from investing activities in the quarter was \$1.7 million versus \$2.9 million used in the same quarter last year. The sale of the Techmire building and reduced capital expenditures in the current quarter accounted for the difference. Year-to-date, cash used in investing activities totalled \$2.8 million versus \$5.3 million last year. Included in the current year were expenditures of approximately \$1.5 million incurred for the expansion of the Moroccan production facility and \$1.5 million incurred for the construction of our new die cast mould maintenance facility in Queretaro, Mexico. Apart from these construction projects, the cost of which was completely offset from the proceeds of the sale of the Techmire building, Exco does not expect to invest significant capital throughout the balance of the fiscal year. Capital expenditures are to be funded by the Company's cash flows and if necessary, access to the Company's operating credit facilities.

The Company's net cash position at quarter end totalled \$8.9 million compared to \$3.5 million at the beginning of the fiscal year. This improvement stems in large part from the reduction of working capital, accounts receivable in particular, and the sale of the Company's Techmire facility in May 2009.

During the third quarter Exco confronted the bankruptcy of some of its largest automotive customers including Chrysler, General Motors and Visteon. The Company was able to collect, or expects to collect, essentially all accounts



receivable from these customers as Exco was fortunate enough to be sourced on powertrain and interior trim programs which continue to be vital to these customers. Ironically, the vast majority of accounts receivable lost to bankruptcy in the year have stemmed from our non-automotive customer base. The Company continues to utilize, where deemed prudent to do so, Export Development Corporation insurance to minimize its exposure to customer defaults although no claims were made against this insurance in the quarter. Management believes that the period of greatest risk to its balance sheet from bankruptcy of its largest customers is behind us. Attention now turns to generation of further cash from the sale of inventory and further cost, especially fixed cost, reductions in order to achieve traditional levels of profitability from lower unit sales.

( \$thousands)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
<i>Contractual Obligations</i>					
Capital leases*	\$283	\$133	\$150	-	-
Operating leases*	1,227	553	614	60	-
Purchase obligations	3,351	3,351	-	-	-
<b>Total contractual obligations</b>	<b>\$4,861</b>	<b>\$4,037</b>	<b>\$764</b>	<b>\$60</b>	<b>\$ -</b>

\* Exco leases vehicles, a warehouse and other miscellaneous office equipment. It is not Exco's policy to purchase these assets at the expiry of their terms; however, it is not uncommon to renew certain leases. Exco does not expect any material liquidity or capital resource impacts.

## Quarterly Results

The following table sets out certain financial information for each of the eight fiscal quarters up to and including the third quarter of fiscal 2009 ended June 30, 2009:

<i>(\$ thousands except per share amounts)</i>	Jun. 09	Mar. 09	Dec. 08	Sep. 08	Total
Sales	\$28,345	\$33,233	\$44,444	\$50,132	\$156,154
Net income (loss) from continuing operations before goodwill impairment	(\$998)	(\$4,521)	(\$2,425)	\$2,833	(\$5,111)
Earnings (loss) per share					
Basic	(\$0.02)	(\$0.11)	(\$0.06)	\$0.07	(\$0.12)
Diluted	(\$0.02)	(\$0.11)	(\$0.06)	\$0.07	(\$0.12)
Net loss from continuing operations	(\$998)	(\$14,607)	(\$2,425)	(\$20,753)	(\$38,783)
Loss per share					
Basic	(\$0.02)	(\$0.36)	(\$0.06)	(\$0.51)	(\$0.95)
Diluted	(\$0.02)	(\$0.36)	(\$0.06)	(\$0.51)	(\$0.95)
Net loss	(\$998)	(\$14,607)	(\$2,425)	(\$21,178)	(\$39,208)
Loss per share					
Basic	(\$0.02)	(\$0.36)	(\$0.06)	(\$0.52)	(\$0.96)
Diluted	(\$0.02)	(\$0.36)	(\$0.06)	(\$0.52)	(\$0.96)

<i>(\$ thousands except per share amounts)</i>	Jun. 08	Mar. 08	Dec. 07	Sep. 07	Total
Sales	\$47,677	\$55,898	\$47,974	\$50,485	\$202,034
Net income from continuing operations before goodwill impairment	\$3,147	\$2,844	\$1,364	\$341	\$7,696
Earnings per share					
Basic	\$0.08	\$0.07	\$0.03	\$0.01	\$0.19
Diluted	\$0.08	\$0.07	\$0.03	\$0.01	\$0.19
Net income (loss) from continuing operations	\$3,147	\$2,844	\$1,364	(\$752)	\$6,603
Earnings (loss) per share					
Basic	\$0.08	\$0.07	\$0.03	(\$0.02)	\$0.16
Diluted	\$0.08	\$0.07	\$0.03	(\$0.02)	\$0.16
Net income (loss)	\$3,085	\$2,844	\$1,315	(\$2,073)	\$5,171
Earnings (loss) per share					
Basic	\$0.08	\$0.07	\$0.03	(\$0.05)	\$0.13
Diluted	\$0.08	\$0.07	\$0.03	(\$0.05)	\$0.13

### Seasonal Variability of Results

Exco does not operate in seasonal industries. However, in the automotive industry automobile manufacturers typically schedule plant shutdowns in the summer for vacations and during the Christmas holiday season. Polydesign usually experiences reduced business activity during August when its European

customers typically close for one month. Therefore usually the first and the fourth fiscal quarters are the weakest. This year the global economic environment has disrupted this usual pattern with bankruptcies impacting production in the third quarter as well.

### **Disclosure Controls and Procedures**

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, after evaluating the effectiveness of the Company's disclosure controls and procedures, have concluded that the Company's disclosure controls and procedures are adequate and effective in ensuring that material information relating to the Company and its consolidated subsidiaries would have been known to them.

### **Internal Controls over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, after having designed internal controls over financial reporting and conducted an evaluation of its effectiveness based on the integrated framework issued by the Committee of Sponsoring Organization of the Treadway Commission to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with generally accepted accounting principles, have not identified any changes to the Company's internal control over financial reporting which would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Transition to International Financial Reporting Standard (IFRS)**

Our implementation plan to meet the requirements of IFRS remains on schedule. The plan comprised of three phases: 1) Diagnostic Assessment 2) Evaluation and Design and 3) Implementation and Review. We have completed the diagnostic phase and have entered the early stage of the evaluation and design phase of our plan. Due to anticipated changes in the International Accounting Standards prior to our transition to IFRS, we are not in a position to determine the impact on our financial results.

### **Outstanding Share Capital**

As at June 30, 2009 Exco had 40,666,176 common shares issued and outstanding and stock options outstanding to purchase up to 1,929,429 common shares at exercise prices ranging from \$1.03 to \$7.60 per share. Since that time no options have been exercised and the Company repurchased no common shares.

## Outlook

Management is cautiously optimistic about Exco's performance for the balance of the fiscal year. We have resumed shipments on the CRV and Civic seat cover programs in June with the ramp up expected to be gradual throughout the fourth quarter. Takeover business recently secured with Visteon for instrument panel and door panel leather inserts will launch at Polydesign in the next quarter and Polytech and Neocon Canada are launching new programs ranging from trays for the Toyota Prius to cluster hoods on the Buick LaCross instrument panel. While management is not increasing its previously announced new business awards of approximately \$25 million, new opportunities for interior trim components, particularly shift boots, continue to present themselves. Disruption to vehicle production caused by OEM and Tier insolvencies or efforts by OEMs to rebalance inventory now seem to be abating. This will allow for better absorption of overhead costs which management has been aggressively reducing. These efforts have caused management to cease production at Neocon USA in Alabama during the fourth quarter with a view to permanently closing and thereafter selling that facility.

Shipments of Phoenix V6 engine block moulds to Chrysler and its tier are expected to resume in the fourth quarter now that Chrysler has successfully emerged from bankruptcy protection. This should dramatically reduce inventory, increase cash flow and also enable this customer to release additional powertrain programs, especially transmission.

Management also expects that it will in the next quarter, secure significant extrusion die business as the assets of Indalex, one of its largest customers, are purchased out of bankruptcy by one of Exco's other existing customers. This business, once secured, could launch within weeks utilizing existing production capacity.

Despite the gyrations of the Canadian dollar and dramatic reduction in sales during the quarter the Company has retained gross margin in the 20% range and generated positive cash flow from operations both before and after non cash working capital is considered. In this chaotic environment the Company has completely paid off all bank debt and improved its cash deposits to almost \$9 million. However, substantial improvement in the Company's profitability will require a stabilization and increase in sales which Management expects to take place over the next several quarters. With continuing focus on right sizing of the Company's capacity and fixed costs our expectation is to achieve better profitability at existing lower sales levels and to improve profitability once volumes begin to improve.

*This Management Discussion and Analysis contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. We use words such as "anticipate", "plan", "may", "will", "should", "expect", "believe", "estimate" and similar expressions to identify forward-looking information and statements. Such forward-looking*

*information and statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be relevant and appropriate in the circumstances. Readers are cautioned not to place undue reliance on forward-looking information and statements, as there can be no assurance that the assumptions, plans, intentions or expectations upon which such statements are based will occur. Forward-looking information and statements are subject to known and unknown risks, uncertainties, assumptions and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed, implied or anticipated by such information and statements. These risks, uncertainties and assumptions are described in the Company's Management's Discussion and Analysis included in our 2008 Annual Report, in our 2008 Annual Information Form and, from time to time, in other reports and filings made by the Company with securities regulatory authorities.*

*While the Company believes that the expectations expressed by such forward-looking information and statements are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors which could cause actual results or events to differ materially from those indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company disclaims any obligations to update publicly or otherwise revise any such factors or any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.*

**NOTICE TO READER**

*The attached consolidated financial statements have been prepared by management of the Company. The consolidated financial statements for the nine-month period ended June 30, 2009 and 2008 have not been reviewed by the auditors of the Company.*

**EXCO TECHNOLOGIES LIMITED**  
**INTERIM CONSOLIDATED BALANCE SHEETS (Unaudited)**

\$(000)'s

	As at June 30, 2009	As at September 30, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$8,862	\$8,141
Accounts receivable (note 4)	22,265	34,120
Inventories (note 5)	30,745	30,527
Prepaid expenses and deposits	2,539	3,013
Income taxes receivable	1,390	-
Assets held for sale (note 8)	-	5,068
Discontinued operations	-	540
Total current assets	65,801	81,409
Mortgage receivable	600	600
Fixed assets (notes 3 and 9)	75,799	74,915
Goodwill (note 10)	-	10,086
Future income tax assets	1,604	1,373
	<u>\$143,804</u>	<u>\$168,383</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness	\$-	\$4,634
Accounts payable and accrued liabilities	15,266	25,125
Income taxes payable	-	641
Customer advance payments	4,321	944
Capital lease obligations (note 7)	128	-
Total current liabilities	19,715	31,344
Long-term capital lease obligations (note 7)	141	-
Future income tax liabilities	4,865	5,277
Total liabilities	24,721	36,621
<b>Shareholders' Equity</b>		
Share capital (note 2)	35,435	35,681
Contributed surplus (note 2)	3,046	2,789
Retained earnings	89,455	109,912
Accumulated other comprehensive loss (note 2)	(8,853)	(16,620)
Total shareholders' equity	119,083	131,762
	<u>\$143,804</u>	<u>\$168,383</u>

See accompanying notes

**EXCO TECHNOLOGIES LIMITED**
**INTERIM CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME (Unaudited)**

\$(000)'s except for earnings (loss) per share

	3 Months ended		9 Months ended	
	June 30		June 30	
	2009	2008	2009	2008
Sales	\$28,345	\$47,677	\$106,022	\$151,549
Cost of sales and operating expenses before the following (note 5)	22,689	37,684	85,662	119,248
Selling, general and administrative (notes 2 and 4)	4,773 <sup>a</sup>	5,716	20,275 <sup>b</sup>	18,077
Depreciation and amortization (note 9)	2,436	2,355	7,905 <sup>c</sup>	7,093
Goodwill impairment (note 10)	-	-	10,086	-
Asset held for sale write-down (note 8)	-	-	1,415	-
Loss (gain) on sale of fixed assets	25	(1,868)	25	(2,432)
Interest expense	50	65	86	164
	29,973	43,952	125,454	142,150
Income (loss) from continuing operations before income taxes	(1,628)	3,725	(19,432)	9,399
Provision (recovery) for income taxes	(630)	578	(1,402)	2,044
Income (loss) from continuing operations	(998)	3,147	(18,030)	7,355
Loss from discontinued operations, net of tax	-	(62)	-	(111)
<b>Net income (loss) for the period</b>	<b>(\$998)</b>	<b>\$3,085</b>	<b>(\$18,030)</b>	<b>\$7,244</b>
Other comprehensive income (loss)				
Unrealized gain (loss) on foreign currency translation of self-sustaining operations	(4,307)	(733)	7,767	3,157
<b>Comprehensive income (loss)</b>	<b>(\$5,305)</b>	<b>\$2,352</b>	<b>(\$10,263)</b>	<b>\$10,401</b>
<b>(Loss) earnings per common share</b>				
Basic and diluted from continuing operations	(\$0.02)	\$0.08	(\$0.44)	\$0.18
Basic and diluted from discontinued operations	\$0.00	\$0.00	\$0.00	\$0.00
<b>Basic and diluted (loss) earnings</b>	<b>(\$0.02)</b>	<b>\$0.08</b>	<b>(\$0.44)</b>	<b>\$0.18</b>

a. Includes \$399 foreign exchange valuation gain, \$598 severance charges and \$108 bad debts

b. Includes \$1,880 foreign exchange valuation loss, \$1,989 severance charges and \$1,666 bad debts

c. Includes \$590 impairment charge on fixed assets.

See accompanying notes



**EXCO TECHNOLOGIES LIMITED****INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)**

\$(000)'s

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, October 1, 2008	\$35,681	\$2,789	\$109,912	(\$16,620)	\$131,762
Net loss for the quarter	-	-	(2,425)	-	(2,425)
Dividends	-	-	(712)	-	(712)
Stock option expense	-	67	-	-	67
Repurchase of share capital	(239)	-	(290)	-	(529)
Unrealized gains on translation of self-sustaining operations	-	-	-	12,187	12,187
Balance, December 31, 2008	35,442	2,856	106,485	(4,433)	140,350
Net loss for the quarter	-	-	(14,607)	-	(14,607)
Dividends	-	-	(712)	-	(712)
Stock option expense	-	102	-	-	102
Unrealized losses on translation of self-sustaining operations	-	-	-	(113)	(113)
Balance, March 31, 2009	\$35,442	\$2,958	\$91,166	(\$4,546)	\$125,020
Net loss for the quarter	-	-	(998)	-	(998)
Dividends	-	-	(711)	-	(711)
Stock option expense	-	88	-	-	88
Repurchase of share capital	(7)	-	(2)	-	(9)
Unrealized losses on translation of self-sustaining operations	-	-	-	(4,307)	(4,307)
<b>Balance, June 30, 2009</b>	<b>\$35,435</b>	<b>\$3,046</b>	<b>\$89,455</b>	<b>(\$8,853)</b>	<b>\$119,083</b>

See accompanying notes

**EXCO TECHNOLOGIES LIMITED**
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

\$(000)'s

	3 Months ended		9 Months ended	
	June 30		June 30	
	2009	2008	2009	2008
<b>OPERATING ACTIVITIES:</b>				
Net (loss) income from continuing operations	(\$998)	\$3,147	(\$18,030)	\$7,355
Add (deduct) items not involving a current outlay of cash				
Goodwill impairment (note 10)	-	-	10,086	-
Assets held for sale write-down (note 8)	-	-	1,415	-
Depreciation and amortization (note 9)	2,436	2,355	7,905	7,093
Stock-based compensation expense (note 2)	110	102	269	329
Future income taxes	800	104	(651)	(66)
Loss (gain) on sale of fixed assets	25	(1,868)	25	(2,432)
(Gain) loss on financial instrument valuation (note 4)	(1,154)	(166)	1,334	(112)
	1,219	3,674	2,353	12,167
Net change in non-cash working capital balances related to continuing operations	1,339	539	9,591	(570)
<b>Cash provided by operating activities of continuing operations</b>	<b>2,558</b>	<b>4,213</b>	<b>11,944</b>	<b>11,597</b>
<b>FINANCING ACTIVITIES:</b>				
Increase (decrease) in bank indebtedness	(344)	533	(6,381)	1,122
Increase (decrease) in long-term debt	-	(22)	-	(85)
Repayment of capital lease obligations	(99)	-	(99)	-
Dividends paid (note 2)	(711)	(718)	(2,135)	(2,055)
Repurchase of share capital (note 2)	(9)	(98)	(538)	(1,738)
<b>Cash used in financing activities of continuing operations</b>	<b>(1,163)</b>	<b>(305)</b>	<b>(9,153)</b>	<b>(2,756)</b>
<b>INVESTING ACTIVITIES:</b>				
Investment in fixed assets	(1,966)	(4,936)	(6,486)	(8,363)
Proceeds on sale of fixed assets	3,673	2,009	3,676	3,062
<b>Cash provided by (used in) investing activities of continuing operations</b>	<b>1,707</b>	<b>(2,927)</b>	<b>(2,810)</b>	<b>(5,301)</b>
<b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>				
Net cash used in discontinued operations	-	(143)	-	(261)
<b>Net cash used in discontinued operations</b>	<b>-</b>	<b>(143)</b>	<b>-</b>	<b>(261)</b>
Effect of exchange rate changes on cash	(355)	(34)	740	69
Net increase in cash during the period	2,747	804	721	3,348
Cash, beginning of period	6,115	8,221	8,141	5,677
<b>Cash, end of period</b>	<b>\$8,862</b>	<b>\$9,025</b>	<b>\$8,862</b>	<b>\$9,025</b>

See accompanying notes

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*\$(000)'s except per share amounts*

### **1. ACCOUNTING POLICIES**

#### **Basis of presentation**

These unaudited interim consolidated financial statements of Exco Technologies Limited (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), except that certain disclosures required for annual financial statements have not been included. Accordingly, the unaudited interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements included in the 2008 Annual Report. The unaudited interim consolidated financial statements have been prepared on a basis that is consistent with the accounting policies set out in the Company's 2008 annual consolidated financial statements, except for the changes described below.

#### **Accounting policy changes**

Effective October 1, 2008, the Company has adopted the new CICA accounting sections: 3064 (Goodwill and Intangible Assets), 3031 (Inventories) and 1400 (General standards of financial statement presentation).

Section 3064 (Goodwill and Intangible Assets) provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses and whether these assets are separately acquired or are developed internally. Adoption of this new section has no material impact on the Company's unaudited interim consolidated financial statements.

Section 3031 (Inventories) which has replaced Section 3030, establishes new standards for the measurement and disclosure of inventories. It requires inventories to be measured at the lower of cost and net realizable value, provides guidance on the determination of cost and requires the reversal of prior write downs when the net realizable value of impaired inventory subsequently recovers. Adoption of this new section has no material impact on the Company's unaudited interim consolidated financial statements.

Section 1400 (General standards of financial statement presentation) was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Adoption of the amendment of this section did not have an impact on the Company's unaudited interim consolidated financial statements.

Credit risk and the fair value of financial assets and financial liabilities (EIC 173) – On January 20, 2009, the emerging issues committee (EIC) issued the above abstract which provides further guidance on the determination of the fair value of financial assets and financial liabilities under Section 3855. EIC 173 concluded that when determining the fair value of financial assets and financial liabilities, the entity should consider its own credit risk as well as the credit risk of the counterparty. This abstract should be applied retrospectively, without restatement of prior periods, to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. Adoption of this abstract has no material impact on the Company's unaudited interim consolidated financial statements.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

### Future accounting policy changes

In February 2008, the Canadian Accounting Standards Board (ACSB) confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for publicly accountable companies. The official change over date is for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. IFRS will be required for the Company's interim and annual consolidated financial statements for the fiscal year beginning on October 1, 2011. The Company is currently formulating and developing an implementation plan to comply with the new standards and its future reporting requirements.

In January, 2009, the CICA issued Section 1582, Business Combinations which replaced former guidance on business combinations (Section 1581). This standard establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Section 1601, Consolidated Financial Statements (replaced Section 1600), and Section 1602, Non-controlling interests. Section 1602 provides guidance for the treatment of non controlling interests subsequent to a business combination. These new standards are effective for the Company's annual reporting period on October 1, 2011. The Company is currently assessing the impact of these standards on its consolidated financial statements.

## 2. SHARE CAPITAL

### Authorized

The Company's authorized share capital consists of an unlimited number of common shares, an unlimited number of non-voting preference shares issuable in one or more series and 275 special shares.

### Issued

The Company has not issued any non-voting preference shares or special shares. Changes to the issued common shares are shown in the following table:

	Common Shares	
Issued and outstanding at September 30, 2008	40,948,276	\$35,681
Purchased and cancelled pursuant to normal course issuer bid	(274,100)	(239)
Issued and outstanding at December 31, 2008	40,674,176	35,442
Purchased and cancelled pursuant to normal course issuer bid	-	-
Issued and outstanding at March 31, 2009	40,674,176	35,442
Purchased and cancelled pursuant to normal course issuer bid	(8,000)	(7)
Issued and outstanding at June 30, 2009	<b>40,666,176</b>	<b>35,435</b>

### Currency translation adjustment

All of the Company's foreign operations are self-sustaining. Gains and losses arising from the translation of the Company's net investment in its foreign subsidiaries are included in accumulated other comprehensive loss in shareholders' equity. The appropriate amount of exchange gain or loss included in accumulated other comprehensive loss is reflected in earnings when there is a sale or partial sale of the Company's investment in these operations or upon a complete or substantially complete liquidation of the investment.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

Unrealized translation adjustments which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations resulted in an unrealized currency translation loss of \$4,307 during the three months ended June 30, 2009 (three months ended June 30, 2008 - the unrealized translation loss was \$733). For the nine months ended June 30, 2009 the unrealized gain was \$7,767 (nine months ended June 30, 2008 - the unrealized gain was \$3,157). Year-to-date unrealized gain of \$7,765 is primarily attributable to the strengthening of the U.S. dollar against the Canadian dollar as measured at June 30, 2009 and September 30, 2008.

### Cash dividend

During the three months ended June 30, 2009, the Company paid cash dividends as outlined in the table below. The dividend rate in the quarter was \$0.0175 (2008 - \$0.0175) per common share.

	2009	2008
December 31	<b>\$712</b>	\$618
March 31	<b>712</b>	719
June 30	<b>711</b>	718
<b>Total dividends paid</b>	<b>\$2,135</b>	\$2,055

### Stock option plan

The Company has a stock option plan under which common shares may be acquired by employees and officers of the Company. Non-executive directors are not eligible to participate in the stock option plan. The following is a continuity schedule of options outstanding (number of options in the table below is expressed in whole numbers and has not been rounded to the nearest thousand):

	2009			2008		
	Options outstanding			Options outstanding		
	Number of options	Weighted average exercise price	Options exercisable	Number of options	Weighted average exercise price	Options exercisable
Opening balance	2,265,414	\$4.36	1,793,196	2,410,849	\$4.50	1,817,387
Granted	87,049	\$1.52	-	73,777	\$3.79	-
Vested	-	-	157,629	-	-	183,021
Expired	(348,034)	\$3.50	(348,034)	(179,212)	\$5.42	(179,212)
Balance, December 31	2,004,429	\$4.39	1,602,791	2,305,414	\$4.41	1,821,196
Granted	30,000	\$1.03	-	-	-	-
Vested	-	-	2,000	-	-	6,000
Expired	(40,000)	3.88	(40,000)	-	-	-
Cancelled	-	-	-	(30,000)	6.85	(24,000)
Balance, March 31	1,994,429	\$4.35	1,564,791	2,275,414	\$4.38	1,803,196
Expired	(65,000)	\$4.78	(65,000)	-	-	-
Balance, June 30	<b>1,929,429</b>	<b>\$4.33</b>	<b>1,499,791</b>	2,275,414	\$4.38	1,803,196

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

### Employee stock purchase plan

The Company has an employee stock purchase plan (ESPP). The ESPP allows employees to purchase shares annually through payroll deductions at a predetermined price. During fiscal 2009, payroll deductions will be made supporting the purchase of a maximum of 421,094 at \$1.29 per share. The purchase and payroll deductions with respect to these shares will be completed in the first quarter of fiscal 2010. Employees must decide annually whether or not they wish to purchase their common shares. During the nine months ended June 30, 2009 no shares (2008 – nil) were issued under the terms of the ESPP.

### Stock-based compensation

Stock-based compensation resulting from applying the Black-Scholes option-pricing model to the Company's Stock Option Plan and the ESPP was \$88 for the three months ended June 30, 2009 (three months ended June 30, 2008 - \$95) and for the nine months ended June 30, 2009 was \$257 (nine months ended June 30, 2008 - \$329). All stock-based compensation has been recorded in selling, general and administrative expenses. The weighted average assumptions measuring the fair value of stock options and the weighted average fair value of options granted in the nine months ended June 30, 2009 are as follows:

	June 30, 2009	June 30, 2008
Risk free interest rates	2.48%	4.00%
Expected dividend yield	6.24%	1.71%
Expected volatility	36.89%	26.00%
Expected time until exercise	5.63 years	6.10 years
Weighted average fair value of the options granted	\$0.18	\$0.84

On November 18, 2005, the Company's Board of Directors adopted a Deferred Share Unit Plan ("DSU Plan") for eligible directors. The deferred share units will be redeemed by the Company in cash payable after the eligible director departs from the Board. The number of units in the table below is expressed in whole numbers and has not been rounded to the nearest thousand:

	Number of units	Expense
December 31, 2008	11,535	(\$18)
March 31, 2009	12,088	8
June 30, 2009	10,144	22
	<b>33,767</b>	<b>\$12</b>

### Contributed surplus

Contributed surplus consists of accumulated stock option expense less the fair value of the options at the grant date that have been exercised and reclassified to share capital. The following is a continuity schedule of contributed surplus:

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

*\$(000)'s except per share amounts*

	2009	2008
Balance, September 30	\$2,789	\$2,364
Stock option compensation expense	67	137
Balance, December 31	2,856	2,501
Stock option compensation expense	102	97
Balance, March 31	2,958	2,598
Stock option compensation expense	88	95
<b>Balance, June 30</b>	<b>\$3,046</b>	<b>\$2,693</b>

**Normal course issuer bid**

The Company received approval from the Toronto Stock Exchange for a normal course issuer bid for a 12-month period beginning on May 8, 2009 replacing the normal course issuer bid which expired on May 7, 2009. The Company's Board of Directors authorized the purchase of up to 2,000,000 common shares, representing approximately 5% of the Company's outstanding common shares. During the nine months ended June 30, 2009, the Company purchased 282,100 common shares under both bids (2008 - 489,000) at a total cost of \$538 (2008 - \$1,738). The cost to purchase these shares exceeded their stated value by \$292 (2008 - \$1,312). This excess has been charged against retained earnings.

**3. FIXED ASSETS**

	June 30, 2009		
	Cost	Accumulated Depreciation & Amortization	Net Book Value
<b>Land</b>	<b>\$7,084</b>	<b>\$-</b>	<b>\$7,084</b>
<b>Buildings</b>	<b>50,358</b>	<b>15,648</b>	<b>34,710</b>
<b>Machinery and equipment</b>	<b>182,589</b>	<b>149,069</b>	<b>33,520</b>
<b>Tools</b>	<b>5,855</b>	<b>5,370</b>	<b>485</b>
	<b>\$245,886</b>	<b>\$170,087</b>	<b>\$75,799</b>

	September 30, 2008		
	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	\$6,972	\$-	\$6,972
Buildings	44,128	14,059	30,069
Machinery and equipment	182,099	144,768	37,331
Tools	8,278	7,735	543
	\$241,477	\$166,562	\$74,915

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

At June 30, 2009, the Company had machinery and deposits relating to fixed assets of \$5,293 (2008 - \$4,906). These assets are not being amortized because they are under construction and not in use. Fixed assets under capital leases amounted to \$394 (2008 - nil) less accumulated depreciation of \$80 (2008- nil).

### 4. FINANCIAL INSTRUMENTS

Financial instruments of the Company consist primarily of cash, accounts receivable, mortgage receivable, bank indebtedness, accounts payable and accrued liabilities, customer advance payments, capital lease obligations and forward foreign exchange contracts. With the exception of forward foreign exchange contracts which the Company fair values quarterly and recognizes any changes in value in the consolidated statements of earnings and comprehensive income the carrying value of these financial instruments approximates their fair value due to their short-term maturity nature.

The Company classifies its financial instruments as follows:

Cash	Financial assets - held for trading
Accounts receivable*	Financial assets - loans and receivables
Mortgage receivable*	Financial assets - loans and receivables
Bank indebtedness	Financial liabilities - held for trading
Accounts payable and accrued liabilities	Financial liabilities - other financial liabilities
Customer advance payments	Financial liabilities - held for trading
Forward foreign exchange contracts	Financial assets - held for trading

\* Recorded at amortized cost

#### Foreign exchange contracts

The Company has forward foreign exchange contracts to sell US\$3,300 over the next 6 months at the rate ranges from 1.08 to 1.23 Canadian dollars for each US dollar sold. The Company also entered into a series of put and call options ("Collars") extending through to September 22, 2011. The total value of these collars is 98.8 million Mexican pesos (September 30, 2008 - 138.1 million Mexican pesos). The selling price ranges from 11.00 to 12.20 Mexican pesos to each U.S. dollar.

Management estimates that a combined loss of \$1,565 would be realized if these contracts and collars were terminated on June 30, 2009. As at June 30, 2009, the estimated fair value loss of \$1,334 has been included in the selling, general and administrative expense on the consolidated statements of earnings and comprehensive income.

#### Financial risk management

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of the risks and how they are managed:

##### a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party fails to meet its contractual obligations. The Company's primary credit risk is its outstanding trade accounts receivable. The carrying amount of its outstanding trade accounts receivable



## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

represents the Company's estimate of its maximum credit exposure. The Company regularly monitors its credit risk exposure and takes steps such as credit approval procedures, establishing credit limits, utilizing credit assessments and monitoring practices to mitigate the likelihood of these exposures from resulting in an actual loss. The carrying amount of the trade accounts receivable disclosed in the unaudited interim consolidated balance sheets is net of allowances for doubtful accounts, estimated by the Company's management, based on prior experience and assessment of current financial conditions of customers as well as the general economic environment. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of earnings and comprehensive income. As at June 30, 2009, the accounts receivable balance (net of allowance for doubtful accounts) is \$22,265 (September 30, 2008 - \$34,120) and the Company's five largest trade debtors accounted for 37% of the total accounts receivable balance. At June 30 2009, accounts receivable in the amount of \$7,000 are insured against default.

The following table presents a breakdown of the Company's accounts receivable balances:

	June 30, 2009	September 30, 2008
Trade accounts receivable	\$21,820	\$34,191
Employee receivable*	338	64
Sales tax receivable	388	160
Vendor rebates	5	81
Others	20	105
Allowance for doubtful accounts	(306)	(481)
<b>Total accounts receivable, net</b>	<b>\$22,265</b>	<b>\$34,120</b>

\* The indebtedness of Mr. Robbins to the Company is a loan in the amount of \$186 evidenced by a promissory note due on the date on which the Company makes demand. The promissory note provides for a maximum loan amount of \$300. Interest is payable on the outstanding balance at a rate equal to the Company's cost of borrowing plus 1%. No security has been provided to the Company and no other understanding, agreement or intention to limit recourse exists. In addition, Mr. Robbins owes the Company \$38 on account of non-business expenses paid by the Company.

The aging of trade accounts receivable balances is as follows:

	June 30, 2009	September 30, 2008
Not past due	\$14,240	\$26,593
Past due 1-30 days	2,207	4,155
Past due 31-60 days	907	1,035
Past due 61-90 days	1,411	599
Over 91 days past due	3,055	1,809
Less: allowance for doubtful accounts	(306)	(481)
<b>Total trade accounts receivable, net</b>	<b>\$21,514</b>	<b>\$33,710</b>

The movement in the allowance for doubtful accounts is as follows:

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

	June 30, 2009	September 30, 2008
Opening balance	\$481	\$696
Bad debt expense	1,666	1,120
Write-off	(1,841)	(1,335)
<b>Closing balance</b>	<b>\$306</b>	<b>\$481</b>

### b) Liquidity risk

Liquidity risk refers to the possibility that the Company may not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by minimizing its financial leverage and arranging credit facilities in order to ensure sufficient funds are available to meet its financial obligations. This is achieved by continuously monitoring its cash flows from its operating, investing and financing activities. As at June 30, 2009, the Company has a net cash balance of \$8,862 and unused credit facilities of \$23,437.

### c) Foreign exchange risk

The Company's functional and reporting currency is in Canadian dollars. It operates in Canada with subsidiaries located in the United States, Mexico and Morocco. It is exposed to foreign exchange transaction and translation risk through its operating activities and self-sustaining foreign operations. Unfavourable changes in the exchange rates may affect the operating results and shareholders' equity of the Company. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. In order to mitigate the foreign currency exposure, the Company reduces part of its foreign exchange risk by sourcing a significant portion of its manufacturing inputs in the currency that its sales are denominated in. In addition to above natural hedge, depending on the timing of foreign currency receipts and payments, the Company will occasionally enter into short term forward foreign exchange contracts to mitigate part of the remaining foreign exchange exposure. These contracts are classified as "held for trading" on the balance sheet and fair valued each quarter. The resulting gain or loss on the valuation of these financial instruments is recognized in the consolidated statements of earnings and comprehensive income. The Company does not mitigate the translation risk exposure of its self-sustaining foreign operations due to the fact that these investments are considered to be long-term in nature.

With all other variables held constant, a one percent fluctuation of the Canadian dollar against the U.S. dollar and Moroccan Dirham and a one percent fluctuation between the Euro and Dirham, U.S. dollar and Mexican peso compared with the average year-to-date exchange rate would have the following effects on the Company's year-to-date loss before income taxes and other comprehensive loss.

	1 % Fluctuation USD vs. CDN	1 % Fluctuation Dirham vs. CDN	1 % Fluctuation Euro vs. Dirham	1 % Fluctuation USD vs. MXN peso
<i>\$ thousands</i>				
Income (loss) before income taxes	+/- \$199	+/- \$5	+/- \$59	+/- \$33
Other comprehensive income (loss)	+/- \$924	+/- \$135	na	na

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

### d) Interest rate risk

The Company's exposure to interest rate risk relates to its net cash position and variable rate credit facilities. The Company mitigates its interest risk exposure by reducing or eliminating its overall debt position. As at June 30, 2009, the Company has a net cash position of \$8,862; therefore its interest rate risk exposure is insignificant.

## 5. INVENTORIES

	June 30, 2009	September 30, 2008
Finished goods	\$4,375	\$ 4,905
Work in process	15,769	12,322
Raw materials	10,047	12,628
Production supplies	554	672
	<u>\$30,745</u>	<u>\$30,527</u>

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials and, in the case of work in process and finished goods, direct labour and the applicable share of manufacturing overhead.

During the nine months ended June 30, 2009, inventories of \$46,097 (2008 - \$69,821) were expensed and write downs of inventory amounting to \$822 (2008 - \$564) were included in cost of goods sold. No reversals of write downs were recorded during the nine months ended June 30, 2009 and 2008.

## 6. CAPITAL MANAGEMENT

The Company defines capital as net debt and shareholders' equity. As at June 30, 2009, total managed capital was \$119,083 (September 30, 2008 - \$131,762) consisting of nil net debt (September 30, 2008 - nil) and shareholders' equity of \$119,083 (September 30, 2008 - \$131,762).

The Company's objectives when managing capital are to:

- utilize short-term funding sources to manage its working capital requirements and fund capital expenditures required to execute its operating and strategic plans, and
- maintain low overall debt levels relative to shareholders' equity with a strong bias for short-term debt in order to minimize the cost of capital and allow maximum flexibility to respond to current and future industry, market and economic risks and opportunities.

The following ratios are used by the Company to monitor its capital:

	June 30, 2009	September 30, 2008
Net debt to equity	0.00:1	0.00:1
Current ratio	2.89:1	2.55:1

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

The following table details the net debt calculation used in the net debt to equity ratio as at the periods ended as indicated:

	June 30, 2009	September 30, 2008
Bank indebtedness	\$-	\$4,634
Capital lease obligations	269	-
Less: cash	(8,862)	(8,141)
<b>Net debt</b>	<b>nil</b>	<b>nil</b>

The current ratio is calculated by dividing current assets (excluding cash and assets held for sale) by current liabilities (excluding bank indebtedness).

The Company is not subject to any capital requirement imposed by regulators; however, the Company must adhere to certain financial covenants related to the terms of its bank credit facility. As at June 30, 2009, the Company was in compliance with the required financial covenants.

### 7. CAPITAL LEASE OBLIGATIONS

<i>(in thousands)</i>	June 30, 2009	September 30, 2008
Total minimum lease payments	\$283	\$-
Less: amount representing interest at average rate of 5.0%	(14)	-
Capital lease obligations	269	-
Less: current portion	(128)	-
	<b>\$141</b>	<b>\$-</b>

Future minimum lease payments are as follows:

<i>(in thousands)</i>	Capital Lease Obligations	Interest	Total Minimum Lease Payments
2009	\$35	\$3	\$38
2010	121	8	129
2011	97	3	100
2012	16	-	16
	<b>\$269</b>	<b>\$14</b>	<b>\$283</b>

### 8. ASSETS HELD FOR SALE

In May 2009, the Company concluded the sale of the Techmire production facility with a net loss of \$1,415. This loss was recorded as a write-down of assets held for sale in the second quarter of the current year when the sale and purchase agreement was signed.

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*\$(000)'s except per share amounts*

### **9. FIXED ASSETS IMPAIRMENT**

During the second quarter of the year, the Company's Automotive Solutions segment (Neocon USA) recorded an asset impairment charge on its machinery and equipment in the amount of \$590. The impairment charge was included in the depreciation of its fixed assets. It was determined by comparing the current pricing of similar machinery and equipment. As a result, management estimated the fair value of its machinery and equipment exceeded its carrying value by \$590 as at March 31, 2009.

### **10. GOODWILL**

During the second quarter of the year events occurred which indicated that it was more likely than not that there was a significant further decline in the fair value of the Company's Polytech division due to the global economic crisis, generally negative development in the North American automotive industry, continuing poor light vehicle sales and tightening consumer credit. As a result, the Company tested the goodwill associated with the Polytech division in advance of the annual impairment test and the Company recorded a goodwill impairment charge of \$10,086. This impairment charge was not deductible for tax purposes; therefore there was no corresponding tax benefit. After this impairment charge, there remained no goodwill on the Company's balance sheet.

### **11. SEGMENTED INFORMATION**

The Company operates in two business segments: Casting and Extrusion Technology and Automotive Solutions. The accounting policies followed in the operating segments are consistent with those outlined in note 1 to the annual consolidated financial statements.

The Casting and Extrusion Technology segment designs and engineers tooling and other manufacturing equipment. Its operations are substantially for automotive and other industrial markets in North America.

The Automotive Solutions segment produces automotive interior components and assemblies primarily for cargo storage and restraint for sale to automotive manufacturers and Tier 1 suppliers (suppliers to automakers).

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

*\$(000)'s except per share amounts*

<b>Three Months ended June 30, 2009</b>				
	<b>Casting and Extrusion</b>	<b>Automotive Solutions</b>	<b>Corporate</b>	<b>Total</b>
<b>Sales</b>	<b>\$18,965</b>	<b>\$9,380</b>	<b>\$-</b>	<b>\$28,345</b>
<b>Depreciation</b>	<b>1,817</b>	<b>608</b>	<b>11</b>	<b>2,436</b>
<b>Segment income (loss)</b>	<b>(1,214)</b>	<b>(781)</b>	<b>417</b>	<b>(1,578)</b>
<b>Interest expense</b>				<b>50</b>
<b>Loss before taxes</b>				<b>(1,628)</b>
<b>Fixed asset additions</b>	<b>997</b>	<b>950</b>	<b>19</b>	<b>1,966</b>
<b>Fixed assets, net</b>	<b>53,210</b>	<b>21,034</b>	<b>1,555</b>	<b>75,799</b>
<b>Total assets</b>	<b>\$61,375</b>	<b>\$79,914</b>	<b>\$2,515</b>	<b>\$143,804</b>

<b>Three Months ended June 30, 2008</b>				
	<b>Casting and Extrusion</b>	<b>Automotive Solutions</b>	<b>Corporate</b>	<b>Total</b>
Sales	\$26,136	\$21,541	\$-	\$47,677
Depreciation	1,734	609	12	2,355
Segment income	1,196	1,616	978	3,790
Interest expense				65
Income before taxes				3,725
Fixed asset additions	2,819	2,086	31	4,936
Fixed assets, net	52,106	20,701	1,567	74,374
Goodwill	-	33,672	-	33,672
Total assets - continuing operations	65,843	124,996	2,721	193,560
Total assets - discontinued operations	806	-	-	806
Total assets	\$66,649	\$124,996	\$2,721	\$194,366

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

*\$(000)'s except per share amounts*

<b>Nine Months ended June 30, 2009</b>				
	<b>Casting and Extrusion</b>	<b>Automotive Solutions</b>	<b>Corporate</b>	<b>Total</b>
<b>Sales</b>	<b>\$70,082</b>	<b>\$35,940</b>	<b>\$-</b>	<b>\$106,022</b>
<b>Depreciation</b>	<b>5,347</b>	<b>2,524</b>	<b>34</b>	<b>7,905</b>
<b>Goodwill impairment</b>	<b>-</b>	<b>10,086</b>	<b>-</b>	<b>10,086</b>
<b>Segment income (loss)</b>	<b>835</b>	<b>(15,253)</b>	<b>(4,928)</b>	<b>(19,346)</b>
<b>Interest expense</b>				<b>86</b>
<b>Loss before taxes</b>				<b>(19,432)</b>
<b>Fixed asset additions</b>	<b>4,463</b>	<b>1,980</b>	<b>43</b>	<b>6,486</b>
<b>Fixed assets, net</b>	<b>53,210</b>	<b>21,034</b>	<b>1,555</b>	<b>75,799</b>
<b>Total assets</b>	<b>\$61,375</b>	<b>\$79,914</b>	<b>\$2,515</b>	<b>\$143,804</b>

<b>Nine Months ended June 30, 2008</b>				
	<b>Casting and Extrusion</b>	<b>Automotive Solutions</b>	<b>Corporate</b>	<b>Total</b>
Sales	\$84,641	\$66,908	\$-	\$151,549
Depreciation	5,315	1,743	35	7,093
Segment income (loss)	4,087	6,709	(1,233)	9,563
Interest expense				164
Income before taxes				9,399
Fixed asset additions	5,290	2,955	118	8,363
Fixed assets, net	52,106	20,701	1,567	74,374
Goodwill	-	33,672	-	33,672
Total assets - continuing operations	65,843	124,996	2,721	193,560
Total assets - discontinued operations	806	-	-	806
Total assets	\$66,649	\$124,996	\$2,721	\$194,366

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

*\$(000)'s except per share amounts*

**5 YEAR FINANCIAL HIGHLIGHTS**

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Sales	\$201,681	\$201,759	\$199,271	\$202,957	\$194,251
Net income (loss) from continuing operations	(\$13,398)	\$5,794	\$3,311	\$14,579	\$15,950
Net income (loss)	(\$13,934)	\$3,062	(\$616)	\$11,132	\$9,199
Diluted earnings (loss) per share from continuing operations	(\$0.33)	\$0.14	\$0.08	\$0.35	\$0.39
Diluted earnings (loss) per share	(\$0.34)	\$0.07	(\$0.01)	\$0.27	\$0.22
Cash flow from operations before non-cash items	\$15,990	\$17,698	\$22,581	\$27,306	\$28,642
Total net debt to equity	0.00:1	0.00:1	0.04:1	0.10:1	0.14:1
Capital expenditures, net of disposals	\$8,151	\$11,392	\$9,774	\$8,477	\$8,645



## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*\$(000)'s except per share amounts*

### **CORPORATE INFORMATION**

---

Exco Technologies Limited is a global supplier of innovative technologies servicing the die-cast, extrusion and automotive industries. Through our 10 strategic locations, we employ 1,500 people and service a diverse and broad customer base.

Telephone: 905-477-3065  
Fax: 905-477-2449  
Web: [www.excocorp.com](http://www.excocorp.com)

### **TORONTO STOCK EXCHANGE LISTING**

XTC

### **DIRECTORS**

Laurie Bennett, Chairman  
Geoffrey F. Hyland  
Edward Kernaghan  
Brian A. Robbins, President and CEO  
Stephen Rodgers  
Peter van Schaik

### **TRANSFER AGENT**

Equity Transfer & Trust Company  
200 University Avenue  
Suite 400  
Toronto, Ontario  
M5H 4H1

Shareholder Inquiries:

Telephone: 416-361-0930  
Web: [www.equitytransfer.com](http://www.equitytransfer.com)