

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(\$ in thousands, except per share amounts)

guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening consolidated statement of financial position as at October 1, 2010:

a. Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied IFRS 3 to business combinations that occurred on or after October 1, 2010.

b. Cumulative translation differences

IFRS 1 allows first-time adopters to not comply with the requirements of IAS 21 *The Effects of Foreign Exchange Rates* for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated \$15,918 of cumulative translation difference against retained earnings at the date of transition to IFRS. If subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

c. Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to October 1, 2010 which have been accounted for in accordance with Canadian GAAP.

d. IAS 27 Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 *Business Combinations* retrospectively, IAS 27 *Consolidated and Separate Financial Statements* must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company also elected to apply IAS 27 prospectively.

e. Borrowing costs

IFRS 1 permits the election to start capitalizing borrowing costs in accordance with IAS 23 *Borrowing Costs* subsequent to the date of transition. The Company has elected to apply IAS 23 prospectively.

f. Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. In all material respects, the Company's IFRS estimates as of October 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

IFRS 1 indicates that first-time adopters are allowed to elect i) fair value at the date of transition to IFRS 1, ii) previous GAAP fair value revaluation, iii) previous GAAP depreciated cost, or iv) previous GAAP at event-driven fair value to be deemed cost at the

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transition date in compliance with IAS 16 *Property, Plant and Equipment*. The Company has elected previous GAAP depreciated cost at the date of transition to IFRS to be the deemed cost at October 1, 2010.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the consolidated financial statements to better understand these changes, the Company's Canadian GAAP consolidated statements of income and comprehensive income, consolidated statements of cash flows for the three months and the nine months ended June 30, 2011 and the consolidated statements of financial position as at October 1, 2010, June 30, 2011 and September 30, 2011 have been reconciled to IFRS with resulting differences explained.

g. Revenue

IFRS - Completed contract method is not permitted for revenue recognition under IAS 11 *Construction Contracts* applicable to the long-term contracts at the Company's large die-cast mould businesses.

Canadian GAAP - Completed contract method is permitted for revenue recognition under EIC 78 *Construction Contractors* applicable to the Company's large die-cast mould businesses.

The application of IAS 11 to applicable businesses on the transition date resulted in the introduction of \$9,018 of unbilled revenue and the corresponding \$5,878 reduction of inventories, \$975 increase in income taxes payable and \$2,165 increase in retained earnings in the opening consolidated statement of financial position. For the comparative three months ended June 30, 2011, the application of IAS 11 resulted in a \$399 increase in revenue and a \$212 increase in net income. For the comparative nine months ended June 30, 2011, the application of IAS 11 resulted in a \$1,344 increase in revenue and a \$668 decrease in net income.

h. Property, plant and equipment

The value at the date of transition to IFRS is established based on IAS 16 *Property, Plant and Equipment* which requires the identification of major components of an asset and depreciates them separately over their useful lives. Accordingly, the Company has identified major components of its property, plant and equipment and depreciated them over their estimated useful lives using methods that reflect the patterns of consumption of the economic benefits embodied in the assets. As a result, the carrying value of property, plant and equipment under GAAP was written down on the transition date by \$1,443 with a \$436 corresponding decrease in deferred tax liabilities. For the comparative three months ended June 30, 2011, the application of components accounting for property, plant and equipment under IAS 16 resulted in a \$462 increase in depreciation and amortization expense and a \$5 decrease in loss from disposal of property, plant and equipment or a \$325 decrease in net income in the interim consolidated financial statements. For the comparative nine months ended June 30, 2011, the application of components accounting for property, plant and equipment under IAS 16 resulted in a \$1,481 increase in depreciation and amortization expense and a \$67 decrease in loss from disposal of property, plant and

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equipment or a \$1,025 decrease in net income in the interim consolidated financial statements.

i. Share-based payments

IFRS

Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Forfeiture estimates are recognized in the period that is estimated and are revised for actual forfeitures in subsequent periods.

Canadian GAAP

The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period. Forfeitures of awards are recognized as they occur.

The application of IFRS 2 resulted in a \$119 increase in contributed surplus and a corresponding decrease in retained earnings by the same amount on the transition date. For the comparative three months and nine months ended June 30, 2011, the application of IFRS 2 resulted in insignificant increases in stock option expense in the interim consolidated financial statements.

j. Deferred tax assets/liabilities

IFRS - All deferred tax assets and liabilities must be classified as non-current.

Canadian GAAP - Deferred tax assets and liabilities are classified as current and non-current as appropriate.

k. Other comprehensive income

Other comprehensive income consists of the change in the cumulative translation adjustment ("CTA"). Due to other IFRS adjustments, the balances that are used to calculate the CTA are different in accordance with IFRS than in accordance with Canadian GAAP. As a result, CTA and other comprehensive income are different in accordance with IFRS than in accordance with Canadian GAAP.

l. Impairment of assets

IFRS – If indication of impairment is identified, the asset's carrying value is compared to the asset's discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

Canadian GAAP – If indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

The Company completed an impairment review of its assets as at October 1, 2010 and concluded that the assets were not impaired in accordance with IFRS. There was no indication in the comparative three-month and nine-month periods ended June 30, 2011 and full year ended September 30, 2011 for an impairment review.

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m. Income taxes

Under Canadian GAAP, when an asset is acquired other than in a business combination and the tax basis of that asset is less than its cost, the cost of future income taxes recognized at the time of acquisition should be added to the cost of the asset. Under IFRS, such cost of future income taxes is exempted. The conversion to IFRS resulted in a derecognition of \$426 of property, plant and equipment and the same amount of deferred tax liability related to the acquisition of Hewl Development LLP in 2008.

n. Foreign currency translation

Under GAAP, the method of translation of the foreign operation is dependent on the classification of the foreign operation – an integrated operation or self-sustaining foreign operation. IFRS does not classify the foreign operation into integrated or self-sustaining operations. The entity must determine its own functional currency. The foreign currency translation adjustments for the Company's integrated foreign operations, which were charged to the consolidated statements of income and comprehensive income under GAAP, will be charged directly to the currency translation adjustment account on the consolidated statement of financial position under IFRS. The conversion to IFRS resulted in \$78 increase in the translated value of property, plant and equipment on the opening consolidated statement of financial position. For the comparative three months ended June 30, 2011, the conversion to IFRS resulted in an insignificant change in the translated value of property, plant and equipment and a \$94 reclassification of foreign exchange gain from revaluation of investment to currency translation adjustment or a decrease in net income of \$62 in the interim consolidated financial statements. For the comparative nine months ended June 30, 2011, the conversion to IFRS resulted in an insignificant change in the translated value of property, plant and equipment and a \$358 reclassification of foreign exchange gain from revaluation of investment to currency translation adjustment or a decrease in net income of \$237 in the interim consolidated financial statements. For the comparative full year ended September 30, 2011, the conversion to IFRS resulted in an insignificant change in the translated value of property, plant and equipment and a \$267 reclassification of foreign exchange loss from revaluation of investment to currency translation adjustment or an increase in net income of \$176 in the consolidated financial statements.

o. Presentation

The presentation in accordance with IFRS differs from the presentation in accordance with Canadian GAAP.

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The October 1, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

		October 1, 2010		
	Ref.	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		\$20,186	-	\$20,186
Accounts receivable (note 7)		33,320	-	33,320
Unbilled revenue (note 6)	g	-	9,018	9,018
Inventories (note 8)	g	23,610	(5,878)	17,732
Prepaid expenses and deposits		3,692	-	3,692
Assets held for sale	h	1,206	(119)	1,087
Total current assets		82,014	3,021	85,035
Property, plant and equipment, net (note 4)	h,m,n	66,448	(1,669)	64,779
Deferred tax assets		385	-	385
		\$148,847	\$1,352	\$150,199
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	o	\$21,490	(21,490)	\$-
Trade accounts payable (note 7)	o	-	13,470	13,470
Accrued payroll and taxes	o	-	2,656	2,656
Other accrued liabilities	o	-	4,275	4,275
Provisions (note 5)	o	-	1,089	1,089
Income taxes payable		2,433	-	2,433
Customer advance payments (note 6)	g	1,760	-	1,760
Total current liabilities		25,683	-	25,683
Deferred tax liabilities	g,h,m,n	3,966	115	4,081
Total liabilities		29,649	115	29,764
Shareholders' Equity				
Share capital (note 3)		35,868	-	35,868
Contributed surplus (note 3)	c,i	3,247	119	3,366
Accumulated other comprehensive loss (note 3)	b	(15,918)	15,918	-
Retained earnings	b,g,h,i	96,001	(14,800)	81,201
Total shareholders' equity		119,198	1,237	120,435
		\$148,847	\$1,352	\$150,199

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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The Canadian GAAP interim consolidated statements of income and comprehensive income for the three months and nine months ended June 30, 2011 have been reconciled to IFRS as follows:

	Three Months ended June 30, 2011			Nine Months ended June 30, 2011			
	Ref.	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales	g	\$48,784	\$399	\$49,183	\$147,261	\$1,344	\$148,605
Cost of sales before the following	g	35,767	95	35,862	106,879	2,407	109,286
Selling, general and administrative (notes 3,7)	i,n	5,579	94	5,673	17,279	363	17,642
Depreciation and amortization	h	1,938	462	2,400	5,792	1,481	7,273
Loss (gain) on disposal of property, plant and equipment	h	72	(5)	67	29	(67)	(38)
Interest expense (income)		10	-	10	(27)	-	(27)
		43,366	646	44,012	129,952	4,184	134,136
Income before income taxes		5,418	(247)	5,171	17,309	(2,840)	14,469
Provision for (recovery of) income taxes	g,h,n	1,553	(70)	1,483	4,772	(906)	3,866
Net income for the period		3,865	(177)	3,688	12,537	(1,934)	10,603
Other comprehensive loss							
Unrealized loss on foreign currency translation	h,n	(127)	58	(69)	(2,637)	357	(2,280)
Comprehensive income		\$3,738	(\$119)	\$3,619	\$9,900	(\$1,577)	\$8,323
Earnings per common share							
Basic		\$0.09	(\$0.00)	\$0.09	\$0.31	(\$0.05)	\$0.26
Diluted		\$0.09	(\$0.00)	\$0.09	\$0.31	(\$0.05)	\$0.26

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The June 30, 2011 Canadian GAAP interim consolidated statement of financial position has been reconciled to IFRS as follows:

		June 30, 2011		
	Ref.	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		\$11,259	\$-	\$11,259
Accounts receivable (note 7)		43,398	-	43,398
Unbilled revenue (note 6)	g	-	11,349	11,349
Inventories (note 8)	g	31,219	(9,507)	21,712
Prepaid expenses and deposits		2,159	-	2,159
Assets held for sale	h	5,349	(273)	5,076
Total current assets		93,384	1,569	94,953
Property, plant and equipment, net (note 4)	h,m,n	62,530	(2,853)	59,677
Deferred tax assets		145	-	145
		\$156,059	(\$1,284)	\$154,775
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	o	\$22,167	(\$22,167)	\$-
Trade accounts payable (note 7)	o	-	13,570	13,570
Accrued payroll and taxes	o	-	4,044	4,044
Other accrued liabilities	o	-	3,652	3,652
Provisions (note 5)	o	-	901	901
Income taxes payable		1,785	-	1,785
Customer advance payments (note 6)	g	1,643	(228)	1,415
Total current liabilities		25,595	(228)	25,367
Deferred tax liabilities	g,h,m	4,159	(722)	3,437
Total liabilities		29,754	(950)	28,804
Shareholders' Equity				
Share capital (note 3)		36,046	-	36,046
Contributed surplus (note 3)	c,i	3,346	125	3,471
Accumulated other comprehensive loss (note 3)	b,n	(18,555)	16,275	(2,280)
Retained earnings	c,g,h,i,n	105,468	(16,734)	88,734
Total shareholders' equity		126,305	(334)	125,971
		\$156,059	(\$1,284)	\$154,775

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The September 30, 2011 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

		September 30, 2011		
	Ref.	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		\$15,376	-	\$15,376
Accounts receivable (note 7)		47,224	-	47,224
Unbilled revenue (note 6)	g	-	13,301	13,301
Inventories (note 8)	g	33,242	(11,884)	21,358
Prepaid expenses and deposits		1,938	-	1,938
Total current assets		97,780	1,417	99,197
Property, plant and equipment, net (note 4)	h,m,n	66,976	(4,012)	62,964
Deferred tax assets		760	-	760
		<u>\$165,516</u>	<u>(\$2,595)</u>	<u>\$162,921</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	o	\$27,774	(27,774)	\$-
Trade accounts payable (note 7)	o	-	16,131	16,131
Accrued payroll and taxes	o	-	4,628	4,628
Other accrued liabilities	o	-	6,180	6,180
Provisions (note 5)	o	-	835	835
Income taxes payable		909	-	909
Customer advance payments (note 6)	g	1,629	(1,242)	387
Total current liabilities		30,312	(1,242)	29,070
Deferred tax liabilities	g,h,m,n	4,105	(581)	3,524
Total liabilities		34,417	(1,823)	32,594
Shareholders' Equity				
Share capital (note 3)		36,046	-	36,046
Contributed surplus (note 3)	c,i	3,391	128	3,519
Accumulated other comprehensive (loss) income (note 3)	b,n	(14,847)	15,444	597
Retained earnings	c,g,h,i,n	106,509	(16,344)	90,165
Total shareholders' equity		131,099	(772)	130,327
		<u>\$165,516</u>	<u>(\$2,595)</u>	<u>\$162,921</u>

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The three months and the nine months ended June 30, 2011 Canadian GAAP interim consolidated statements of cash flows has been reconciled to IFRS as follows:

	Three Months ended June 30, 2011			Nine Months ended June 30, 2011			
	Ref.	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
OPERATING ACTIVITIES:							
Net income for the period	g,h,i,n	\$3,865	(\$177)	\$3,688	\$12,537	(\$1,934)	\$10,603
Add (deduct) items not involving a current outlay of cash:							
Depreciation and amortization	h	1,938	462	2,400	5,792	1,481	7,273
Stock-based compensation expense (note 3)	i	46	5	51	222	6	228
Deferred income taxes	h,m,n	679	(1,087)	(408)	431	(868)	(437)
Loss (gain) on disposal of property, plant and equipment	h	72	(5)	67	29	(67)	(38)
Loss (gain) on financial instrument valuation (note 7)		59	-	59	(123)	-	(123)
		6,659	(802)	5,857	18,888	(1,382)	17,506
Net change in non-cash working capital	g	(4,196)	802	(3,394)	(15,602)	1,382	(14,420)
Cash provided by operating activities		2,463	-	2,463	3,286	-	3,286
FINANCING ACTIVITIES:							
Dividends paid (note 3)		(1,024)	-	(1,024)	(3,070)	-	(3,070)
Issuance of share capital (note 3)		115	-	115	139	-	139
Cash used in financing activities		(909)	-	(909)	(2,931)	-	(2,931)
INVESTING ACTIVITIES:							
Business acquisitions, net of cash acquired (note 11)		-	-	-	(1,541)	-	(1,541)
Purchase of property, plant and equipment		(1,634)	-	(1,634)	(7,016)	-	(7,016)
Proceeds on disposal of property, plant and equipment		56	-	56	330	-	330
Cash used in investing activities		(1,578)	-	(1,578)	(8,227)	-	(8,227)
Effect of exchange rate changes on cash		(1,393)	-	(1,393)	(1,055)	-	(1,055)
Net decrease in cash during the period		(1,417)	-	(1,417)	(8,927)	-	(8,927)
Cash, beginning of period		12,676	-	12,676	20,186	-	20,186
Cash, end of period		\$11,259	\$-	\$11,259	\$11,259	\$-	\$11,259

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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 2,196 people and service a diverse and broad customer base.

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