



EXCO TECHNOLOGIES LIMITED

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Interim report
to the shareholders
for the six months
ended March 31, 2006



	6 Months Ended		3 Months ended	
	March 31		March 31	
	(\$000s, except per share amounts)			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Sales	\$104,157	\$100,790	\$53,968	\$52,507
Net income (loss) before taxes*	(\$3,694)	\$7,741	(\$6,653)	\$3,430
Net income (loss)	(\$5,364)	\$4,930	(\$7,359)	\$2,173
Basic and Diluted earnings (loss) per share	(\$0.13)	\$0.12	(\$0.18)	\$0.05
Common shares outstanding	41,606,000	41,616,000	41,606,000	41,616,000

* Including non-cash charge of \$8.3 million for Techmire goodwill and \$1.4 million Techmire inventory provision.

In the quarter, management reviewed the Techmire operation as this business continued to under perform. As a result of this review management recognized that decade high Canadian dollar strength and record high prices for zinc and other raw materials which Techmire machines are designed to process have significantly impacted the prospects of this business. In order to meet these challenges management instituted the following measures in the quarter: 1) reduction of staff by approximately 25%; 2) limiting research and development expenditures to products which can be brought to market in the near term; and 3) focusing sales on a narrower range of core products. This has prompted management to recognize a goodwill impairment charge of \$8.3 million and increase Techmire's inventory provision by \$1.4 million. With these changes management believes it can achieve its goal of significantly reducing Techmire's losses over the balance of fiscal 2006 and 2007 and thereafter return Techmire to profitability, albeit at lower sales levels.

Consolidated sales for the quarter ended March 31, 2006 were \$54.0 million compared to \$52.5 million in the prior second quarter - an increase of \$1.5 million or 2.9%. During the second quarter, the Casting & Extrusion segment reported a 9% sales increase to \$34.3 million compared to \$31.4 million last year. The Automotive Solutions segment reported sales of \$19.6 million in the quarter versus \$21.1 million last year. This is a decrease of \$1.5 million or 7%.

Exco's pre-tax earnings were reduced in the quarter by a goodwill impairment charge of \$8.3 million and an inventory provision of \$1.4 million. These non-cash charges relate to the Techmire operation which has been impacted by a persistently strong Canadian dollar, the high cost of zinc and technical challenges of developing new products.

Net income in the quarter, excluding the impact of the non-cash goodwill and inventory charges, was down slightly to \$0.04 per share compared to \$0.05 per share last year. Techmire operating

losses before the inventory write-down in the quarter of \$0.02 per share masked the improvement in earnings. Excluding the impact of the inventory provision (\$0.02 per share), the goodwill impairment charge (\$0.20 per share) and Techmire's operating losses (\$0.03 per share) Exco's net income would have been unchanged from last year at \$2.9 million or \$0.07 per share. Earnings in the large mould businesses were up over last year in excess of 40% as rising volumes contributed to more efficient overhead absorption. The extrusion businesses experienced an increase in quarterly earnings in excess of 60% as selling price increases and surcharge recoveries began to take hold in the market. Automotive Solutions segment earnings fell overall as lower profits at Polytech and Neocon in North America more than offset earnings improvement at Polydesign.

Cash flow from operations improved to \$1.6 million in the quarter compared to \$1.1 million in the same period last year. The goodwill impairment charge and inventory provision were non-cash items and do not affect cash flow. Cash used in investing activities was down by almost 60% in the quarter as Exco reduced expenditures on fixed assets.

Exco's performance through the year will continue to be impacted by a very unstable business environment. Recent highs in the value of the Canadian dollar will continue to be a drag on both our revenue and profit prospects. Rising interest rates are expected to reduce demand for automobiles and adversely impact the construction industry and industrial markets. Lower automotive component production is expected to persist throughout 2006 and be further aggravated by possible supply disruptions occasioned by insolvencies of certain lower tier North American suppliers.

Neocon and Polydesign have won new business which is expected to launch throughout the latter part of this year and the first quarter of next fiscal year. Sales in the Casting and Extrusion segment are also expected to continue growing as the large mould business continues to quote on programs and the extrusion businesses and Castool increase market share. The difficult raw material environment appears to be moderating in certain areas and should afford our businesses an opportunity to improve gross margin.

(refer to Management Discussion and Analysis, Financial Statements and Notes, and the 2005 Annual Information Form)

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 2005 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 or through the SEDAR website at 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 accounting 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

Operating Results

Consolidated sales for the quarter ended March 31, 2006 were \$54.0 million compared to \$52.5 million in the prior second quarter - an increase of \$1.5 million or 2.9%. Year-to-date sales of \$104.2 million were \$3.4 million or 3.3% higher than last year. The automotive industry in North America and Europe continues to be challenging. The industry is characterized by significant overcapacity, fierce competition and destabilizing insolvencies in the automotive supply base. Domestic automakers have lowered production levels on most key platforms, particularly in the truck and SUV market segment. The strong Canadian dollar has also continued to negatively impact sales in the quarter by \$2.5 million, as the average exchange rate for the quarter was much stronger at \$1.15 compared to \$1.23 last year. The year-to-date average exchange rate of \$1.16 compared to the prior year rate of \$1.22 also affected sales by \$3.6 million.

During the second quarter, the Casting & Extrusion segment reported a 9% sales increase to \$34.3 million compared to \$31.4 million in the prior second quarter. Sales in the large mould businesses, the extrusion businesses and Castool were up 13% over last year. Techmire sales, while relatively soft, were flat when compared to last year's levels. In the extrusion businesses this increase reflects the combined impact of stronger demand for Exco's extrusion dies and price increases to recover the cost of steel and other rising production costs. At Castool and the large mould businesses strong sales reflect increasing demand for their respective products. Year-to-date sales in this segment were up \$4.7 million or 8% at \$65.4 million compared to \$60.7 million last year. Generally, second quarter sales continued to build on the strong top line growth in this segment in the first quarter. The second quarter impact of foreign exchange on this segment's sales was a reduction of approximately \$1.4 million.

The Automotive Solutions segment reported sales of \$19.6 million in the quarter versus \$21.1 million last year. This is a decrease of \$1.5 million or 7%. Lower releases were experienced at all North American business units in this segment – particularly in January and February. While the decline in sales at Polytech was largely limited to GM and Ford programs, the Neocon businesses also experienced slow releases on several transplant and Chrysler large vehicle programs. Polydesign sales for the quarter more than doubled over last year owing to the launch of several interior trim ‘cut and sew’ programs for Honda. This segment’s diversified customer base and geographic footprint has moderated the impact of the current volatility in the automotive industry. Despite this difficult environment, year-to-date sales in this segment are \$38.7 million compared to \$40.1 million last year – a modest decline of \$1.4 million or 3.5%. The second quarter impact of foreign exchange on this segment’s sales was a reduction of approximately \$1.1 million.

In the quarter management reviewed the Techmire operation as this business continued to under perform. As a result of this review management recognized that decade high Canadian dollar strength and record high prices for zinc and other raw materials which Techmire machines are designed to process have significantly impacted the prospects of this business. In order to meet these challenges management instituted the following measures in the quarter: 1) reduction of staff by approximately 25%, 2) limiting research and development expenditures to products which can be brought to market in the near term and 3) focusing sales on a narrower range of core products. This has prompted management to recognize a goodwill impairment charge of \$8.3 million and increase Techmire’s inventory provision by \$1.4 million. The reasons for the goodwill impairment charge are further set out in the ‘Goodwill Impairment Charges’ section below and note 5 of the financial statements. The inventory provision relates to finish product and work-in-process inventory. This is caused by the following: i) the lower levels of sales at Techmire which has caused certain inventory items to turn over less frequently and ii) the decision to discontinue certain product offerings as recent research and development improvements have come to market.

Exco reported a net loss in the quarter (including the goodwill impairment charge and the inventory provision) of \$7.4 million or \$0.18 per share. Excluding the impact of the inventory provision (\$0.02 per share), the goodwill impairment charge (\$0.20 per share) and Techmire’s operating losses (\$0.03 per share) Exco’s net income would have been unchanged from last year at \$2.9 million or \$0.07 per share. Year-to-date, Exco reported a net loss of \$5.4 million or \$0.13 per share. Before the goodwill impairment charge, inventory provision and Techmire operating losses (\$1.8 million or \$0.04 per share) Exco reported year-to-date net income of \$5.6 million or \$0.14 per share compared to \$6.2 million or \$0.15 per share last year.

Segment income in the Automotive Solutions segment was \$2.1 million in the quarter compared to \$3.1 million last year. Year-to-date earnings of \$4.8 million were less than last year by \$1.6 million. At the Company’s North American operations, releases from Ford, GM and, to a lesser extent, Chrysler were down. Neocon production was further impacted by its relatively greater emphasis on cargo systems for larger vehicles. These lower sales reduced earnings at Polytech and Neocon. Polydesign earnings improved considerably over last year as a result of higher sales. However, profitability continued to be impacted by start up costs and weak demand on several programs for European customers. Raw material costs in the

Automotive Solutions segment appear to have stabilized and improvement in earnings should take place as releases return to more traditional levels and additional business is launched at both Neocon and Polydesign in the latter part of the fiscal year.

The Casting & Extrusion segment reported a loss of \$8.6 million for the quarter. In addition to the Techmire goodwill impairment of \$8.3 million and inventory charge of \$1.4 million, this loss also includes an additional loss from Techmire operations of \$1.5 million in the quarter. Contributing to this loss at Techmire in the quarter was lower sales associated with more focused product offering and additional costs associated with further staffing adjustments. Techmire's year-to-date loss excluding the goodwill and inventory charges was \$2.7 million. In the quarter, earnings in the large mould businesses were up over last year in excess of 40% as rising volumes contributed to more efficient overhead absorption. The extrusion businesses experienced an increase in quarterly earnings in excess of 60% as selling price increases and surcharge recoveries began to take hold in the market. Raw material pricing appears to be stable although the cost of energy, freight and other production inputs continue to be unpredictable.

The gross margin for the second quarter and year-to-date were 22% and 24% respectively versus 28% and 29% in the comparable periods of the previous year. Excluding the inventory charge of \$1.4 million, gross margin for the quarter and year-to-date periods was 25%. Despite this year over year decline, management believes it is making progress on gross margin. The Company's second quarter gross margin, excluding the inventory charge, of 25% is unchanged when compared to the gross margin in the first quarter. This quarter over quarter consistency (excluding the inventory charge) is the result of the stabilization of steel and resin costs, increased selling prices and cost cutting. Raw material costs have, by no means, returned to traditional levels, however, their upward trajectory has leveled off. While our selling prices have not materially increased in the Automotive Solutions segment, there has been some ability to pass on increased costs to our customers on new programs. Furthermore, steps taken to reduce operating costs in response to the challenge of a strong Canadian dollar have now begun to be reflected in cost of goods sold.

In the quarter, Exco expensed stock-based compensation of \$147 thousand versus \$119 thousand in the prior year quarter. Year-to-date, Exco expensed stock-based compensation of \$278 thousand compared to \$223 thousand in the prior year. This expense relates to the Employee Stock Purchase Plan, which is offered to all employees of Exco, the Stock Option Plan, and the Deferred Stock Unit Plan (See note 3 of the Financial Statements).

Goodwill Impairment Charges

As of September 30, 2005 the Company had recorded goodwill of approximately \$43.4 million. Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment, or decline in value, may have occurred. In conducting our impairment testing, we compare the fair value of each of our reporting units to the related net book value. If the fair value of a reporting unit exceeds its net book value, goodwill is considered not to be impaired. If the net book value of a reporting unit exceeds its fair value, an impairment loss is

measured and recognized. We conduct our annual impairment testing in the fourth quarter each year.

The Company utilizes an income approach to estimate the fair value of each of our reporting units. The income approach is based on projected cash flow which is discounted to the present value using discount factors that consider the timing and risk of cash flows. This approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating cash flow performance. This approach also mitigates the impact of cyclical downturns that occur in the industry. Fair value is estimated based on internally developed forecasts, as well as commercial, wage and benefit, inflation and discount rate assumptions. Other significant assumptions include terminal values, future capital expenditures and changes in future working capital requirements. While there are inherent uncertainties related to the assumptions used and to management's application of these assumptions to this analysis, we believe that the income approach provides a reasonable estimate of the fair value of our reporting units.

During the second quarter, events occurred which indicated that it was more likely than not that there was a significant decline in the fair value of our Techmire division. These events included a persistently strong Canadian dollar which reached levels in the quarter not experienced since 1991; reduced demand for zinc components caused by the high cost of zinc; and the challenges associated with bringing to market in the near term larger tonnage die-cast machinery and machinery capable of running lower cost and lighter weight materials. As a result, the Company tested the goodwill associated with the Techmire division in advance of the annual impairment test and the Company recorded a goodwill impairment charge of \$8.3 million. This impairment charge has not been tax benefited. After this impairment charge, there remains no goodwill associated with the Techmire division. There have been no events that would indicate the requirement for an early impairment review of the goodwill associated with the Company's other reporting units.

Financial Resources, Liquidity and Capital Resources

Exco's accounts receivable at quarter end are up slightly at \$46.8 million in keeping with higher sales. Exco's inventory at \$37.5 million increased over year end by 5%. This reflects work in process buildup in the large mould businesses and higher inventory at Castool and Polydesign associated with stronger sales. Exco's bank debt, net of cash, is \$19.0 million – an increase from last year end of \$4.3 million. The rise relates to an increase in non cash working capital. Exco's debt to equity ratio on March 31, 2006 remains strong at 0.13:1.

Cash flow from operations improved to \$1.6 million in the quarter compared to \$1.1 million in the same period last year. The goodwill impairment charge and inventory provision are non-cash items and do not affect cash flow. Cash used in investing activities was down by almost 60% in the quarter as Exco reduced expenditures on fixed assets.

Exco currently has fixed the interest rate on a portion of its current debt at 3.88%, plus applicable margin, by entering into an interest rate swap agreement. The notional amount of this swap reduces in equal quarterly increments to \$6.4 million at the end of 5 years at which

time the balance is absorbed into our demand credit facility. At quarter end, the notional amount reduced to \$14.3 million. As a result of this fixed rate instrument, rising interest income on cash deposits and generally lower average debt throughout the quarter Exco's net interest cost in the quarter has declined to \$195 thousand.

Contractual Obligations (\$000)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$487	\$325	\$162	-	-
Capital lease obligations	-	-	-	-	-
Operating leases*	\$1,866	\$1,387	\$454	\$25	-
Purchase obligations	\$11,917	\$11,917	-	-	-
Other long-term obligations	-	-	-	-	-
Total contractual obligations	\$14,270	\$13,629	\$616	\$25	-

**Exco leases vehicles, an aircraft and other miscellaneous office equipment. It is not Exco's policy to purchase these assets at the expiry of their terms. 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 second quarter of fiscal 2006 ended March 31, 2006:

(\$ thousands except per share amounts)

	Mar. 06	Dec. 05	Sept. 05	June 05
Sales	\$53,968	\$50,189	58,074	\$56,563
Net income (loss) from continuing operations	(\$7,360)	\$1,996	\$3,568	\$2,634
Net income (loss)	(\$7,360)	\$1,996	\$3,568	\$2,634
Net income before goodwill impairment*	\$785	\$1,996	\$3,568	\$2,634
Earnings (loss) per share from continuing operations				
Basic	(\$0.18)	\$0.05	\$0.09	\$0.06
Diluted	(\$0.18)	\$0.05	\$0.09	\$0.06
Earnings (loss) per share				
Basic	(\$0.18)	\$0.05	\$0.09	\$0.06
Diluted	(\$0.18)	\$0.05	\$0.09	\$0.06
Earnings per share before goodwill impairment*				
Basic	\$0.02	\$0.05	\$0.09	\$0.06
Diluted	\$0.02	\$0.05	\$0.09	\$0.06

	Mar. 05	Dec. 04	Sept. 04	June 04
Sales	\$52,507	\$48,283	\$53,826	\$57,014
Net income from continuing operations	\$2,173	\$2,757	\$4,990	\$4,794
Net income (loss)	\$2,173	\$2,757	\$4,407	(\$265)
Net income (loss) before goodwill impairment*	\$2,173	\$2,757	\$4,407	(\$265)
Earnings per share from continuing operations				
Basic	\$0.05	\$0.07	\$0.12	\$0.12
Diluted	\$0.05	\$0.07	\$0.12	\$0.12
Earnings (loss) per share				
Basic	\$0.05	\$0.07	\$0.11	(\$0.01)
Diluted	\$0.05	\$0.07	\$0.11	(\$0.01)
Earnings (loss) per share before goodwill impairment*				
Basic	\$0.05	\$0.07	\$0.11	(\$0.01)
Diluted	\$0.05	\$0.07	\$0.11	(\$0.01)

* Net income before goodwill impairment and earnings per share before goodwill impairment are not measures of financial performance under Canadian generally accepted accounting principles ("GAAP"). The Company included information concerning this measure because it is used by management as a measure of performance and management believes they are used by certain investors and analysts as a measure of the Company's financial performance. These measures are not necessarily comparable to similarly titled measures used by other companies.

Exco typically experiences softer sales and profit in the first quarter. The first quarter coincides with reduced business activity associated with our customers' plant shutdown in North America during the Christmas season. Performance in the second quarter was also impacted by those factors outlined in the above Operating Results section.

Outlook

Exco's performance through the year will continue to be impacted by a very unstable business environment. Recent highs in the value of the Canadian dollar will continue to be a drag on both our revenue and profit prospects. Rising interest rates are expected to reduce demand for automobiles and adversely impact the construction industry and industrial markets. Lower automotive component production is expected to persist throughout 2006 and be further aggravated by possible supply disruptions occasioned by insolvencies of certain lower tier North American suppliers. However, Neocon and Polydesign in particular have won new business which is expected to launch throughout the later part of this year and the first quarter of next fiscal year. Sales in the Casting and Extrusion segment are also expected to continue growing as the large mould business continues to quote on programs and the extrusion businesses and Castool increase market share.

The difficult raw material environment appears to be moderating and should afford our businesses an opportunity to improve gross margin. The Casting and Extrusion segment is expected to outperform the Automotive Solutions segment in this regard although the Automotive Solution segment is quoting on future business based on current raw material costs. Sourcing of steel by the Casting and Extrusion segment in US dollars will be a natural hedge against foreign exchange fluctuations. Also Castool and the extrusion businesses will adjust pricing to recover steel cost and other costs such as freight, packaging and utilities which have also been rising.

Management will continue to closely monitor demand for Techmire's products with a focus on selling core products. Management has, during the quarter, reduced staffing at Techmire by approximately 25% and limited research and development expenditures to products which can be brought to market in the very near term. With these changes management believes it can achieve its goal of significantly reducing Techmire's losses over the balance of fiscal 2006 and 2007 and thereafter return Techmire to profitability, albeit at lower sales levels.

Management has finalized plans to construct a new production facility for the Castool division in Uxbridge, Ontario. Demand for Castool's extrusion/die cast machine accessories and consumables have been growing. The current 38,000 square foot production facility in Scarborough, Ontario will be sold later in the year when the new 46,000 square foot facility is completed.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which such statements are based will occur. Forward-looking statements include 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 or implied by such statements. These risks, uncertainties and assumptions include, among other things: industry cyclicality; global economic conditions, causing decreases in automobile production volume and demand for capital goods; price reduction pressures; pressure to absorb certain fixed costs; dependence on major customers; technological

changes; fluctuations in currency exchange and interest rates; employee work stoppages; dependence on key employees; the competitive nature of the automotive and capital goods industries, product supply and demand; and other risks, uncertainties and assumptions as described in the Company's 2005 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 represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company disclaims any obligations to update any such factors or publicly announce the result of any such revisions to any of the forward-looking statements contained herein to reflect future events or developments.

NOTICE TO READER

The attached consolidated financial statements have been prepared by management of the Company. The consolidated financial statements for the six-month period ended March 31, 2006 and 2005 have not been reviewed by the auditors of the Company.

EXCO TECHNOLOGIES LIMITED
INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

(\$ in thousands)

	As at March 31, 2006	As at September 30, 2005
ASSETS		
Current		
Cash	\$7,695	\$3,158
Accounts receivable	46,820	45,589
Inventories	37,537	35,671
Prepaid expenses and deposits	2,733	2,271
Total Current Assets	94,785	86,689
Fixed assets	82,784	84,010
Goodwill (note 5)	35,083	43,428
Future tax assets	3,001	3,159
	\$215,653	\$217,286
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	\$26,672	\$17,849
Accounts payable & accrued liabilities	25,874	30,047
Income taxes payable	1,398	1,552
Customer advance payments	3,759	4,212
Current portion of long-term debt	325	333
Total Current Liabilities	58,028	53,993
Long-term debt	162	417
Future tax liabilities	8,146	8,107
Total Liabilities	66,336	62,517
Shareholders' Equity		
Share capital (note 2)	35,860	35,758
Contributed surplus (note 2)	1,708	1,459
Retained earnings	124,080	130,772
Currency translation adjustment	(12,331)	(13,220)
Total shareholders' equity	149,317	154,769
	\$215,653	\$217,286

See accompanying notes

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

(\$ in thousands except per share amounts)

	3 Months ended March 31		6 Months ended March 31	
	2006	2005	2006	2005
Sales	\$53,968	\$52,507	\$104,157	\$100,790
Cost of sales and operating expenses				
before the following (note 4)	42,091	37,959	79,562	71,205
Selling, general and administrative	7,172	7,869	13,921	15,428
Depreciation and amortization	2,818	2,984	5,647	5,880
Goodwill impairment charge (note 5)	8,345	-	8,345	-
Interest expense	195	265	376	536
	60,621	49,077	107,851	93,049
Income (loss) before income taxes	(6,653)	3,430	(3,694)	7,741
Provision for income taxes	707	1,257	1,670	2,811
Net income (loss) for the period	(7,360)	2,173	(5,364)	4,930
Retained earnings, beginning of period	132,077	123,986	130,772	121,746
Excess of redemption price over stated value of shares acquired and cancelled (note 2)	(116)	-	(288)	-
Dividends (note 2)	(521)	(519)	(1,040)	(1,036)
Retained earnings, end of period	\$124,080	\$125,640	\$124,080	\$125,640
Earnings (loss) per common share				
Net income (loss)				
- Basic	(\$0.18)	\$0.05	(\$0.13)	\$0.12
- Diluted	(\$0.18)	\$0.05	(\$0.13)	\$0.12

See accompanying notes

EXCO TECHNOLOGIES LIMITED
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$ in thousands)

	3 Months ended March 31		6 Months ended March 31	
	2006	2005	2006	2005
OPERATING ACTIVITIES:				
Net (loss) income for the period	(\$7,360)	\$2,173	(\$5,364)	\$4,930
Add (deduct) items not involving cashflows:				
Goodwill impairment charge	8,345	-	8,345	-
Depreciation and amortization	2,818	2,984	5,647	5,880
Future income taxes	236	125	197	241
Stock-based compensation (note 2)	147	119	278	223
Gain on sale of fixed assets	(95)	(94)	(95)	(94)
	4,091	5,307	9,008	11,180
Net change in non-cash working capital balances related to operations	(2,504)	(4,199)	(7,690)	(5,178)
Cash provided by operating activities	1,587	1,108	1,318	6,002
FINANCING ACTIVITIES:				
Increase in bank indebtedness	2,766	4,042	8,823	5,158
Decrease in long-term debt	(19)	(149)	(263)	(410)
Dividends	(521)	(519)	(1,040)	(1,036)
Repurchase of share capital (note 2)	(147)	-	(366)	-
Issue of share capital (note 2)	148	988	180	3,166
Cash provided by financing activities	2,227	4,362	7,334	6,878
INVESTING ACTIVITIES:				
Investment in fixed assets	(2,160)	(4,987)	(4,340)	(10,812)
Proceeds on sale of fixed assets	187	275	210	275
Cash used in investing activities	(1,973)	(4,712)	(4,130)	(10,537)
Effect of exchange rate changes on cash	15	66	15	(328)
Net increase in cash during period	1,856	824	4,537	2,015
Cash, beginning of period	5,839	3,019	3,158	1,828
Cash, end of period	\$7,695	\$3,843	\$7,695	\$3,843

See accompanying notes

Exco Technologies Limited**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

March 31, 2006 (\$000s, 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, 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 2005 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 annual 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	
	Number of shares	Stated value
Issued and outstanding at September 30, 2005	41,637,295	\$35,758
Issued for cash under Stock Option Plan	10,000	30
Issued for cash under the Employee Share Purchase Plan	281	2
Purchased and cancelled pursuant to normal course issuer bid	(54,200)	(47)
Issued and outstanding at December 31, 2005	41,593,376	\$35,743
Issued for cash under Stock Option Plan	49,000	149
Purchased and cancelled pursuant to normal course issuer bid	(36,800)	(32)
Issued and outstanding at March 31, 2006	41,605,576	35,860

Cash dividend

During the period ended March 31, 2006, the Company paid cash dividends as outlined in the table below. The dividend rate per quarter was \$0.0125 per common share.

	Fiscal 2006	Fiscal 2005
December 31	\$519	\$517
March 31	521	519
Total dividends paid	\$1,040	\$1,036

Stock option plan

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

Exco Technologies Limited

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2006 (\$000s, except per share amounts)

	Fiscal 2006			Fiscal 2005		
	Options outstanding			Options outstanding		
	Number of options	Weighted average exercise price	Options exercisable	Number of options	Weighted average exercise price	Options exercisable
Opening balance	2,282,454	\$4.46	1,597,603	2,849,245	\$4.06	1,890,784
Granted	201,890	\$4.00	-	164,695	\$7.15	-
Exercised	(10,000)	\$3.00	(10,000)	(386,832)	\$3.13	(386,832)
Vested	-	-	219,312	-	-	346,905
Cancelled	(2)	\$3.00	(2)	-	-	-
Balance, December 31	2,474,342	\$4.49	1,806,913	2,627,108	\$4.01	1,850,857
Granted	-	-	-	10,000	\$7.60	-
Exercised	(49,000)	\$3.02	(49,000)	(257,654)	\$3.83	(257,654)
Vested	-	-	47,400	-	-	63,400
Cancelled	-	-	-	(12,000)	\$4.38	(12,000)
Balance, March 31	2,425,342	\$4.52	1,805,313	2,367,454	\$4.04	1,644,603

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 2006, payroll deductions will be made supporting the purchase of a maximum of 339,496 shares at \$4.16 per share. The purchase and payroll deductions with respect to these shares will be completed in the first quarter of fiscal 2007. Employees must decide annually whether or not they wish to purchase their shares. During the six months ended March 31, 2006, 281 shares (2005 – 154,571) were issued under the terms of the ESPP.

Stock-based compensation

Stock-based compensation resulting from applying the Black-Scholes option-pricing model on the Company's Stock Option Plan and the ESPP was \$249 for the six months ended March 31, 2006 (six months ended March 31, 2005 - \$233) and for the three months ended March 31, 2006 was \$133 (three months ended March 31, 2005 - \$119). The weighted average assumptions used in the six months ended March 31 measuring the fair value of stock options and the weighted average fair value of options granted are as follows:

	March 31	
	2006	2005
Risk free interest rates	4.03%	4.05%
Expected dividend yield	0.72%	0.42%
Expected volatility	27.1%	26.9%
Expected time until exercise	5 years	5 years
Weighted average fair value of the options granted	\$1.56	\$1.84

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 DSU Plan will replace the past practice of granting eligible directors stock options under the Stock Option Plan.

Exco Technologies Limited**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****March 31, 2006** (\$000s, except per share amounts)

	Number of units	Expense
December 31, 2005	3,448	\$15
March 31, 2006	3,750	14
Total	7,198	\$29

All stock-based compensation has been recorded in selling, general and administrative expense.

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:

	Fiscal 2006	Fiscal 2005
Balance, September 30	\$1,459	\$1,128
Stock-based compensation expense	116	104
Exercise of options	-	(113)
Balance, December 31	1,575	1,119
Stock-based compensation expense	133	119
Exercise of options	-	(5)
Balance, March 31	\$1,708	\$1,233

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 6, 2005. The Company's Board of Directors authorized the purchase of up to 2,080,804 common shares representing approximately 5% of the Company's outstanding shares. During the six months ended March 31, 2006, the Company purchased 91,000 shares for cancellation at a cost of \$366. The cost to purchase the shares exceeded their stated value by \$288. This excess has been charged against retained earnings.

3. COMMITMENTS

In the first quarter, the Company entered into foreign exchange contracts to sell 3.2 million Euros from November 2005 to October 2006 at a fixed rate of 11.093 Moroccan dirhams for each Euro sold. Gains and losses on the foreign exchange contracts, designated as hedges of anticipated future foreign currency transactions, are accounted for as components of the related hedged transaction. As of March 31, 2006, the remaining contract value was 1.8 million Euros and management estimates that a loss of \$16 would be incurred if the contracts were terminated on March 31, 2006.

4. RESEARCH AND DEVELOPMENT

Research and development expenditures during the six months ended March 31, 2006 were \$677 (six months ended March 31, 2005 - \$320) and during the three months ended March 31, 2006 were \$314 (three months ended March 31, 2005 - \$161). These costs were expensed in the period as they did not meet Canadian generally accepted accounting principles for deferral.

Exco Technologies Limited**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

March 31, 2006 (\$000s, except per share amounts)

5. GOODWILL IMPAIRMENT CHARGE

During the second quarter, events occurred which indicated that it was more likely than not that there was a significant decline in the fair value of the Techmire division. These events include a persistently strong Canadian dollar which reached levels in the quarter not experienced since 1991; reduced demand for zinc components caused by the high cost of zinc; and the challenges associated with bringing to market in the near term larger tonnage die-cast machinery and machinery capable of running lower cost and lighter weight materials. As a result, the Company tested the goodwill associated with the Techmire division in advance of the annual impairment test and the Company recorded a goodwill impairment charge of \$8,345. This impairment charge is not deductible for tax purposes; therefore there is no corresponding tax benefit. After this impairment charge, there remains no goodwill associated with the Techmire division. The goodwill impairment charge is an estimate. The valuation of Techmire will be finalized in the third quarter. If the final goodwill impairment amount is reduced, the adjustment will be recognized in the third quarter. There have been no events that would indicate the requirement for an early impairment review of the goodwill associated with the Company's other reporting units.

6. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS

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 of 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 storage and restraint for sale to automotive manufacturers and Tier 1 suppliers (suppliers to automakers).

	3 Months ended March 31, 2006		
	Casting and Extrusion Technology	Automotive Solutions	Total
Sales	\$34,327	\$19,641	\$53,968
Depreciation and amortization	\$2,238	\$580	\$2,818
Segment income (loss)	(\$8,600)	\$2,142	(\$6,458)
Interest expense			\$195
Loss before income taxes			(\$6,653)
Fixed asset additions	\$1,666	\$494	\$2,160
Total fixed assets, net	\$65,382	\$17,402	\$82,784
Goodwill	\$ -	\$35,083	\$35,083
Total assets	\$104,888	\$110,765	\$215,653

Exco Technologies Limited**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

March 31, 2006 (\$000s, except per share amounts)

3 Months ended March 31, 2005			
	Casting and Extrusion Technology	Automotive Solutions	Total
Sales	\$31,368	\$21,139	\$52,507
Depreciation	\$2,428	\$556	\$2,984
Segment income	\$577	\$3,118	\$3,695
Interest expense			\$265
Income before income taxes			\$3,430
Fixed asset additions	\$3,924	\$1,063	\$4,987
Total fixed assets, net	\$68,698	\$18,269	\$86,967
Goodwill	\$8,345	\$35,083	\$43,428
Total assets	\$124,048	\$93,766	\$217,814

6 Months ended March 31, 2006			
	Casting and Extrusion Technology	Automotive Solutions	Total
Sales	\$65,444	\$38,713	\$104,157
Depreciation and amortization	\$4,533	\$1,114	\$5,647
Segment income (loss)	(\$8,070)	\$4,752	(\$3,318)
Interest expense			\$376
Loss before income taxes			(\$3,694)
Fixed asset additions	\$3,501	\$839	\$4,340
Total fixed assets, net	\$65,382	\$17,402	\$82,784
Goodwill	\$ -	\$35,083	\$35,083
Total assets	\$104,888	\$110,765	\$215,653

6 Months ended March 31, 2005			
	Casting and Extrusion Technology	Automotive Solutions	Total
Sales	\$60,668	\$40,122	\$100,790
Depreciation	\$4,784	\$1,096	\$5,880
Segment income	\$1,958	\$6,319	\$8,277
Interest expense			\$536
Income before income taxes			\$7,741
Fixed asset additions	\$8,114	\$2,698	\$10,812
Total fixed assets, net	\$68,698	\$18,269	\$86,967
Goodwill	\$8,345	\$35,083	\$43,428
Total assets	\$124,048	\$93,766	\$217,814

5 YEAR FINANCIAL HIGHLIGHTS

as of September 30

(\$ in thousands except per share amounts)

	2005	2004	2003	2002	2001
Sales	\$215,427	\$216,114	\$228,127	\$213,141	\$184,133
Net income from continuing operations	\$11,132	\$16,408	\$18,129	\$16,816	\$10,985
Net income	\$11,132	\$9,199	\$16,681	\$16,816	\$10,985
Diluted earnings per share from continuing operations	\$0.27	\$0.40	\$0.44	\$0.42	\$0.27
Diluted earnings per share	\$0.27	\$0.22	\$0.40	\$0.42	\$0.27
Cash flow from operations before non-cash working capital	\$23,450	\$30,072	\$33,105	\$31,998	\$29,072
EBITDA*	\$30,605	\$38,485	\$45,125	\$43,207	\$36,970
Total Net Debt to Equity	0.10:1	0.14:1	0.21:1	0.19:1	0.35:1
Capital Expenditures, net of disposals	\$14,227	\$11,449	\$9,124	\$16,549	\$14,065
Acquisitions	\$-	\$-	\$9,740	\$-	\$14,752

* EBITDA is a non-GAAP measure calculated by adding back to income from continuing operations: taxes, interest, depreciation and amortization.

CORPORATE INFORMATION

Exco Technologies Limited is a global supplier of innovative technologies servicing the die-cast, extrusion and automotive industries. Through our 13 strategic locations, we employ 1,950 people and service a diverse and broad customer base.

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TORONTO STOCK EXCHANGE LISTING

XTC

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