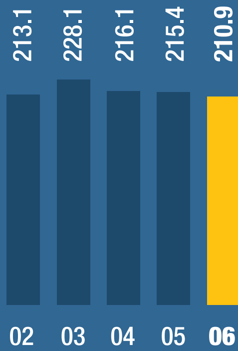
EXCO TECHNOLOGIES LIMITED

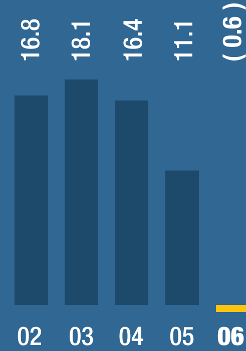
ANNUAL REPORT 2006

FINANCIAL HIGHLIGHTS

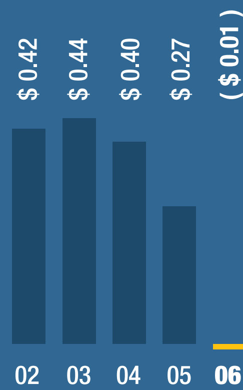
Sales*
($ millions)



Income (Loss)*
($ millions)

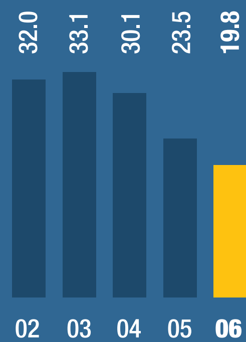


Diluted Earnings (Loss) per Share*

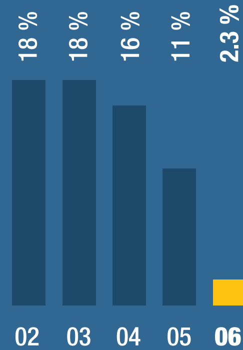


EBITDA* o
($ millions)

Cash Flow from Operations* ƒ
($ millions)



Return on Capital Employed* †



* From continuing operations

o EBITDA is a non-GAAP measure calculated by adding back to income (loss) from continuing operations: taxes, net interest, depreciation, amortization and goodwill impairment charges.

† Return on Capital Employed is a non-GAAP measure calculated by dividing earnings before interest and tax by shareholders' equity plus total debt.

ƒ Before non-cash working capital

A CHALLENGING YEAR A REWARDING YEAR

Fiscal 2006 was both a challenging and rewarding year for Exco. In our automotive divisions we were obliged to retrench and consolidate in response to a deteriorating market place whereas in our industrial products divisions such as extrusion tooling and Castool components, we have accelerated growth in response to a stabilized market and a broadened acceptance of our innovative product offerings.

AUTOMOTIVE BUSINESS:

Many of our customers including the Big 3, but not exclusively them, faced very challenging issues in 2006. As the price of fuel exceeded $3.00/gallon in the U.S., the sales of large SUVs and pick up trucks plummeted. These vehicles had been the mainstay of the Big 3. But also the foreign domestics suffered with their large vehicles such as the Nissan Titan and the Toyota Tundra. The car companies responded by cutting production and, in several cases, particularly the Big 3, incurring huge operating losses. So what does this mean to us? Quite obviously our success is tied to a great extent to the success of our major customers in this competitive global automotive industry. The good news is we enter this period with a very strong balance sheet. Companies that maintain a "business as usual" posture or those that have waited too long to act will find it very difficult to sustain momentum as the competitive environment transforms around them. We have not. We have responded and adjusted our strategy to cope with the issues. Over the past five years we have migrated our customer base from primarily the Big 3 to one where we deal with approximately 15 OEMs. In fact, our automotive customers ranked from largest to smallest in terms of sales, are as follows: Chrysler, Ford, Honda, Toyota, Nissan and GM. Aside from the transplants, we also sell to the imports at point of entry. Recently, our Polytech division won the Toyota Quality Alliance Gold Award and our Neocon division won its first Toyota OEM program for the Highlander. Our Polydesign division won the seat cover and headrest program for all of the Honda Civic production in Europe. The latter program is currently ramping up and should be fully in place by March 2007. These significant achievements verify our revised policy for this business of controlled organic growth with select customers. As well, consistent with our policy of seeking 20% ROI, we have been vigilant on costs and stringent on investment. One of the other rewards we are reaping is a shrinking supplier base which is eliminating irrational pricing while reducing overcapacity. As well, the elevated price of fuel may have impacted unit sales but it has also accelerated programs to lighten the vehicle, improve fuel efficiency and reduce cost. All these issues bode well for Exco's tooling divisions. You might say every cloud has a silver lining. We are seeing a number of new programs for both transmissions and engine blocks. These programs are critical to the automakers' survival and are being pursued aggressively. We are experiencing a high degree of success on these programs with the Big 3 and we are also continuing to develop tooling business with Honda, Toyota and Nissan. These are promising events but not paramount to a healthy customer base. We believe the next two years will be challenging ones for the automakers and hence their supplier base. I do believe though that Exco is positioning itself to deal with all the OEMs and imports and is adapting to the new realities. Above all, Exco will retain a strong engineering capability and will continue to evolve into a lower cost producer.

INDUSTRIAL PRODUCTS:

With respect to our industrial products divisions, we see a far brighter picture. This would include our extrusion tooling divisions and our Castool division which supply a variety of innovative consumable industrial products. In this area we are benefitting from a stabilized marketplace and a market hungry for cost reduction and productivity enhancement. Through our engineering capability we are able to fulfill these needs and are being rewarded accordingly. With respect to the impact of China on these markets, I would say that hollowing out has subsided and stabilized as the commodity-type products have migrated whereas the highly engineered products and short delivery items have been retained. These areas are our mainstay. In response to this growth, we have recently moved our Castool division to a new expanded location in Uxbridge, Ontario. As well, we are upgrading equipment in our extrusion tooling divisions and aggressively seeking new opportunities in the marketplace. In our industrial sector as in the automotive sector we have retained a strong engineering capability focussing on cost and innovation. Techmire also manufactures machines used to make industrial products. This business has struggled greatly over the last few years. We have been impacted by the Canadian dollar and also the migration of the marketplace to Asia. We have responded first by rebuilding the management team and secondly by developing ever more innovative products. We have taken a full year, but I am now confident in our management team, the members of whom possess a breadth of relevant experience and are dedicated and motivated. On the product side we have made significant improvements to our magnesium machine and have developed new automated machines for the production of zinc wheel weights. With the emerging ban on lead wheel weights for environmental issues, this is a market that holds substantial near term opportunity. We already have operating systems in Canada, the UK and Australia. No doubt 2007 will continue to be a challenge, but I do believe we are near to turning this business around.

FINANCIAL STRENGTH:

As mentioned earlier, we enter this period with a strong balance sheet. This is atypical of most of our industry peers. The fact is we expect to emerge from 2007 debt free. We had significant free cash flow in 2006 of about $9.5 million and will continue to do so. This, in spite of reinvesting in capital assets over $10 million in 2006 and approximately the same in 2007. In 2006 our inventory and receivables were reduced by over $5.5 million and we will maintain vigilance in this area. Our disappointing 2006 results were compounded by several one-time charges, the majority of which were non-cash. In light of our strong cash flow and as a signal of our confidence in the future, the Board in November 2006, elected to increase our quarterly dividend by 20% to $0.015 per share.

Generally speaking, 2007 will continue to be challenging and no doubt will surprise us with some new issues, but I believe Exco is evolving and adapting to this business environment. We will continue to cut costs where possible and pursue all new opportunities as they present themselves.

Thanks to the ongoing commitment of our 2,200 employees and a management team that is rich in industry expertise, we have made significant progress in positioning the company for long-term success.

This group drives the vision for the future that is essential in an industry experiencing such dramatic change.

Of course I would be negligent to ignore our shareholders who place their trust in management and our directors who provide guidance and a wealth of experience.

Brian A. Robbins
President and Chief Executive Officer

Richard D. McGraw
Chairman of the Board

FINANCIAL REVIEW

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This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the consolidated financial statements and related notes as at and for the year ended September 30, 2006. This MD&A has been prepared as of November 23, 2006.

Additional information on Exco Technologies Limited ("Exco" or the "Company"), 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). Exco calculates gross margin as sales less cost of sales. Gross margin is used by management to measure performance and we believe some investors and analysts use it as well. This measure, as calculated by Exco, may not be comparable to similarly titled measures used by other companies. All currency is in Canadian dollars unless otherwise indicated.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAUTIONARY STATEMENT

Information in this document contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. This information and statements relate to future events, plans and projections of our future performance, including in respect to projected growth, changing market conditions, improvements in productivity and future results and the assumptions underlying same. All statements other than statements of historical fact are forward-looking statements. 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 these 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 or achievements to be materially different from those expressed, implied or anticipated in the forward-looking information and statements. Information concerning Exco's risks, uncertainties and assumptions are described in the "Risks and Uncertainties" and "Outlook" sections of this Management's Discussion and Analysis, in our 2006 Annual Information Form (AIF) and in other reports and securities filings made by the Company. More information, including Exco's AIF, is available at www.sedar.com or from Exco.

While Exco believes that the expectations expressed by such forward-looking statements and the assumptions underlying such expectations are reasonable, there can be no assurance that they will prove to be correct. In evaluating forward-looking 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 statements. The Company disclaims any obligation to update publicly or otherwise revise any such factors or any forward-looking information or statements contained in this document to reflect subsequent information, events, developments, changes in risk factors or otherwise.

CORE BUSINESSES

Exco is a global designer, developer and manufacturer of dies, moulds, equipment, components and assemblies for the die-cast, extrusion and automotive industries. Exco operates and reports in two business segments.

The Casting and Extrusion segment has been at the core of Exco's business since the Company's incorporation in the 1950s. This segment was expanded with the acquisition of Techmire Limited in fiscal 2001. The other business segment is Automotive Solutions, which was formed with the acquisition of Polytech in fiscal 2000 and expanded in fiscal 2003 with the acquisition of Neocon.

The Casting and Extrusion segment designs, develops and manufactures die-casting and extrusion tooling equipment and consumable parts for both die-casting and extrusion machines. Operations are based in North America and serve automotive and industrial markets around the world. Exco is a leader in most of these markets. In die-casting and extrusion tooling markets Exco is further entrenching itself by reducing lead times and cost through design and process enhancements. In the machine consumables market, Exco is leveraging its long tradition as a reliable, quality supplier of consumable components to die-casters and extruders by evaluating, coordinating and ultimately maximizing the customers' overall equipment performance and longevity. The multi-slide zinc die-cast equipment manufactured by Techmire is traditionally viewed as best in its class with an installed worldwide base of die-cast machines numbering in excess of 1,000. However, this business has experienced a major shift over the last several years which has seriously hindered its

performance. The United States market is Exco's primary focus for die-cast moulds, extrusion dies and machine consumable parts, while Asia is the Company's primary market for die-cast machinery.

The Automotive Solutions segment designs, develops and manufactures automotive interior trim components and assemblies primarily for passenger and light truck vehicles. The Polytech and Polydesign businesses manufacture synthetic net and other cargo restraint products, injection-moulded shift and brake boots and related console componentry and assemblies. Polydesign has also recently become a manufacturer of seat covers. Neocon is a supplier of soft plastic trunk trays and rigid plastic trunk organizer systems. Facilities are located in Canada, Mexico and Morocco, supplying the North American, European and Asian markets.

VISION AND STRATEGY

Over the last few years Exco has signaled its intention to resume building on its record of revenue growth which, between 2000 and 2003, led to a 95% increase in top line growth. By 2004 the debt which had been incurred to fund these acquisitions was paid down to manageable levels and was trending rapidly downward. With integration of the acquisitions complete, it seemed natural to seek out further markets and acquisitions to continue propelling Exco's top line. However, despite this there were primarily three factors which intervened to cause Exco's management to adopt a more introspective course of action.

The North American and European automotive sectors have undergone a restructuring which continues unabated even now. Significant market share moving from traditional domestic original equipment manufacturers to the Asian car companies. Overcapacity at General Motors, Ford and Chrysler, as well as their Tier 1 supplier base, has caused dramatic volume reductions and alarming financial losses and insolvencies. In the automotive industry, the impact of high gasoline prices has affected market dynamics by reducing demand for full size trucks and SUVs and caused further volume reductions at all car companies participating in this market segment, including Asian manufacturers.

Second, in the last several years the Canadian dollar has climbed rapidly against the U.S. dollar. Given Exco's heavy reliance on sales to the U.S., the climb of the Canadian dollar had the effect of reducing Exco's top line sales and putting significant pressure on profit margins at Canadian operations and translated profits from U.S. subsidiaries. Finally, the Techmire operation experienced a perfect storm in the last two years as the strong Canadian dollar increased costs at precisely the time its customers began to migrate to Asia and China in particular.

Instead of fostering growth, the combined impact of these challenges held back the Company's growth and strategy. Techmire's sales in recent years dropped approximately $10 million as compared to its peak in 2003 of $22.6 million while the movements in Canadian exchange rates further reduced Exco's sales by $12 million in 2005 and another $10.7 million in 2006. The sales impact of volume reductions at the OEMs has not yet fully manifested itself. However, this too will put sales further under pressure as sales growth from the launch of new business is undermined by the drop in volume on existing business.

In light of these challenges, management at Exco has responded by focussing on cost reduction, preservation of its cash flow, maintaining a strong consolidated balance sheet and dealing with the Techmire situation. While we continue to look for acquisition prospects we do so with the knowledge that attractive targets are now more difficult to find and, in the current environment, involve greater risk. Our success in responding to these challenges is discussed below.

What follows below is a discussion and analysis of our 2006 financial results. On balance, the Company believes that these results demonstrate its success in several key areas which position Exco for prosperity in the years to come. As difficult as the automotive component and tooling business environment has been in recent years, Exco has consistently generated strong cash flow from its operations and paid down debt year after year, to the point that the Company is trending to be debt free in the year to come. In spite of our reported loss of $616 thousand for the year, Exco's cash provided by operating activities increased from $19.2 million last year to $21.2 million in 2006, bringing its net bank debt down to $6.4 million at year end and its debt to equity ratio down to 0.04:1.

The 2006 discussion and analysis demonstrates that Exco's reported loss in 2006 is attributable to one business unit which represents less than 5% of Exco's consolidated sales. Were it not for the write-off of Techmire's goodwill in the second quarter of $8.3 million and pre-tax losses from Techmire's operation throughout the year of approximately $6 million, Exco's net earnings for 2006 would have been $0.28 per share. Furthermore, it is important to note that approximately $9.8 million of the Techmire charges are non-cash and non-recurring items.

This underscores the fact that, apart from Techmire, Exco's other businesses are performing quite well given the strong Canadian dollar and the difficult business environment. Exco's three extrusion die facilities service industrial markets which are robust and constantly consolidating. These extrusion die businesses, which represent about 20% of consolidated sales, recovered from the raw material spikes of the last several years and, taken together, make up the largest North American extrusion die manufacturer. Accordingly, we are well positioned to increase both our sales and earnings. Among our businesses servicing the automotive components and tooling industry we are well positioned to capitalize on the rapidly growing market share of the foreign domestics. Exco has had a long association with Nissan, Honda and Toyota and, in 2006, business with these three companies or their Tier 1s represented approximately 16% of Exco's sales. The Company has established excellent quality ratings with these customers and is positioned to expand its dealings with them in the years to come.

2006 RESULTS

Consolidated Results

Sales of $210.9 million were down $4.5 million or 2% lower than the prior year. This reduction includes the impact of an average annual exchange rate of $1.14 compared to $1.22 in fiscal 2005, which lowered sales by $10.7 million or 5%. About 72% of sales were denominated in U.S. dollars. Despite the continuing rise of the Canadian dollar which peaked at $0.91 against the U.S. dollar midway through the fiscal year and rising interest rates which traditionally lower demand for automobiles, sales held relatively firm, reflecting stabilization of Techmire sales and the launch of numerous new programs throughout the Company.

Selected Annual Information

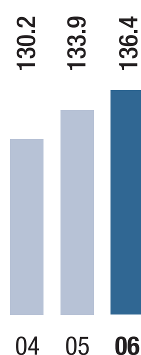
The following table sets out selected financial data relating to the Company's years ended September 30, 2006, 2005 and 2004. This financial data should be read in conjunction with the Company's audited consolidated financial statements for these years:

($ millions except per share amounts)	2006	2005	2004
Sales	$ 210.9	$ 215.4	$ 216.1
Net Income (Loss) for the Year	$ (0.6)	$ 11.1	$ 9.2
Total Assets	$ 201.4	$ 218.3	$ 210.3
Total Long-Term Liabilities	$ 0.1	$ 0.4	$ 0.8
Cash Dividend Declared per share*	$ 0.05	$ 0.05	$ 0.05
Income (Loss) per share from Net Income			
Basic	($ 0.01)	$ 0.27	$ 0.23
Diluted	($ 0.01)	$ 0.27	$ 0.22

** Based on monthly weighted average number of common shares outstanding*

Casting and Extrusion

Sales ($ millions)



Segment Operating Results

- *Casting and Extrusion Segment*

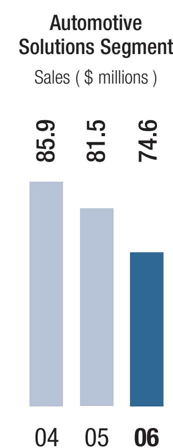
Sales for this segment were up $2.5 million or 2% from the prior year to $136.4 million with foreign exchange depressing sales in fiscal 2006 by approximately $6.3 million.

The sales increase in this segment is attributable to Castool and the extrusion die group which experienced increased sales over last year of 16% and 5% respectively. Castool's growth resulted from increased demand for its products while growth in the extrusion die businesses was relatively more treated to better recovery of steel surcharges and other costs and better pricing for its products. Sales in the large mould businesses were down 4.5% reflecting weakness at our Extec facility for smaller die-cast moulds and delays on delivery of moulds for several customers. Techmire sales experienced a 6.5% drop, compared to its 43.0% decline in 2005.

- ***Automotive Solutions Segment***

This segment reported sales of $74.6 million, a decrease of $7 million or 8.5% from the prior year. There were three principal causes. In the last half of the year Polytech and Neocon sales were impacted by lower production at Ford, GM and Chrysler. These production cuts were prompted by unusually high inventory levels experienced by these customers and their determination to remedy this situation by adjusting capacity and production downward rather than offering deep financing and leasing discounts to move the inventory. Polytech and Neocon also experienced production cuts on certain SUV and light truck programs with the foreign domestics. These production cuts were prompted by weaker demand for these vehicles as gasoline prices increased throughout the year.

Automotive Solutions Segment
Sales ($ millions)



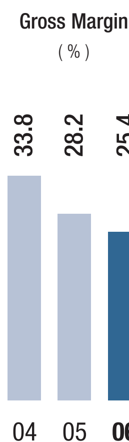
The second factor is the cumulative effect of cost downs on most programs. All customers have a cost down program which requires Exco to reduce its prices by predetermined percentages over three to five years. On mature programs the total cumulative amount can be in excess of 10%. Typically, this decline is offset by new business. However, this year the combined impact of volume reductions and cost downs has exceeded new business secured. Further aggravating this situation is the impact of currency fluctuations. Since this segment's business is almost entirely priced in U.S. dollars the 6.5% weakening of the U.S. dollar has depressed sales by $4.5 million.

New business was launched throughout the year. Most growth has taken place at Polydesign and Neocon USA. Polydesign has launched seat cover business with a Tier 1 to Honda in the year and may secure additional seat cover and headrest business in the years to come. It is also quoting aggressively against traditional European suppliers of interior net and restraint products, although the top line impact is not expected to be as significant as with higher raw material content products. Neocon USA's strategic location in Alabama, has enabled it to secure new rigid organizer business to Chrysler in particular. This business is expected to continue growing regardless of recent efforts by this customer to reduce the price of certain automobiles. This has the potential to de-content these programs or shift them to lower volume trim levels.

Gross Margin

Consolidated gross margin was 25.4% compared to 28.2% in fiscal 2005. Gross margin improved in the extrusion business with the stabilization of stable steel costs, sourcing steel in U.S. dollars and better pricing for dies. Large mould gross margin also improved slightly with higher volumes and better sourcing of high grade steel. Despite improving margins in the third quarter, the Automotive Solutions segment experienced an overall drop in the year as the impact of volume reductions were felt at Polytech and Neocon. In addition, Polydesign product mix shifted more toward seat cover production which has high raw material content and lower margins. Negative gross margin at Techmire accounted for approximately 3% drop in the Company's consolidated gross margin. While direct labour has been reduced, the cost of sourced components at Techmire continues to be unacceptably high. Overall, however, raw material costs appear to have stabilized and there appears to be some ability to pass on price increases in industrial markets. While this ability does not yet exist in the automotive industry there are indications that the pressure for multi-year cost downs on new business is abating.

Gross Margin
(%)

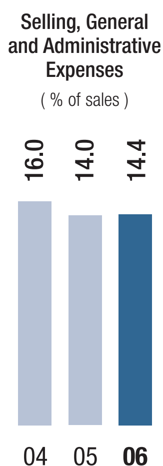


Gross margin was also reduced in both segments at several Canadian business units that sell in U.S. dollars. Once again foreign exchange had a greater effect on the Casting and Extrusion segment. Foreign exchange has no impact on gross margin percentage in our U.S. operations.

Research and development costs are expensed as incurred unless they meet Canadian generally accepted accounting principles for deferral. While these costs are typically not significant, in the last several years projects at Techmire have impacted gross margin. In fiscal 2005 Techmire undertook to modify its magnesium die-cast machine in order to enable it to make high surface polish parts for the automotive and electronics markets and to develop a multi-slide die-cast machine capable of casting aluminum parts at a far faster rate of speed than conventional technology. Techmire expensed $1.86 million on these two projects in fiscal 2005 of which $746 thousand was recoverable through federal and provincial grants. The aluminum die-cast machine prototype which was built and tested in the second quarter of 2006 did not prove sufficiently successful to warrant further investment given the other numerous challenges faced by Techmire.

In fiscal 2006 Techmire invested further in developing the capabilities of its magnesium die-cast machine for use in high surface finish thin wall applications and also invested in development of a die-cast machine specifically suited for the manufacture of wheel weights. Techmire expensed $1.23 million on these projects in fiscal 2006 which is net of $397 thousand recoverable through federal and provincial grants. Techmire has sold several wheel weight machines which are now performing well. The magnesium modifications are still taking place.

Selling, General and Administrative Expenses



Selling, general and administrative expenses as a percentage of sales were unchanged at 14% or $30.4 million compared to $30.2 million in the prior year. A significant portion of Exco's sales, general and administrative costs are denominated in U.S. dollars. These costs have trended downward with the weakening of the U.S. dollar. Management has also continued tightening administrative staffing levels at all locations. Exco has streamlined its management ranks and negotiated, where possible, more favorable arrangements with its commissioned sales force. Included in this category are accruals in the amount of $2.5 million for the cost of severances, retiring allowances and other non-recurring payments associated with the permanent reduction or restructuring of the Company's management, administrative and marketing workforce. This reflects Exco's determination to control costs at all levels. This year Exco did not have the benefit of a one-time reversal of a contractual obligation accrual which last year reduced this category by $2.1 million.

Incentive compensation costs have also declined with lower profits although these incentive plans are based on divisional pre-tax profits rather than consolidated pre-tax profits. Accordingly, incentive compensation was earned and paid at several divisions despite the fact that the Company experienced a consolidated loss for the year.

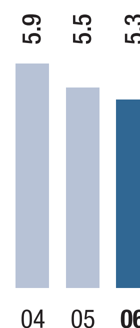
Exco continued the task of reviewing and documenting its internal control environment in order to comply with new regulatory mandates. Given the number of divisions and subsidiaries throughout the world, the cost of visiting those facilities and documenting internal controls and procedures imposes a significant economic burden for a company of Exco's size. These costs shall be incurred each year and are likely to increase, as the mandate requires testing in addition to design and documentation of internal controls.

Exco expensed stock options of $517 thousand compared to $449 thousand in the prior year. This expense relates to the Employee Stock Purchase Plan, which is offered to all employees, the Stock Option Plan and the Board of Directors Deferred Stock Unit Plan. (See note 7 to the 2006 Consolidated Financial Statements).

Exco also relies heavily on commission sales agents in many foreign and niche markets who receive varying commission rates on various products. Depending on the geographic and product mix of sales, commission payments may vary greatly from year to year. Expenses associated with the Company's marketing efforts also vary with the breadth of the Company's marketing effort. In fiscal 2006, the total commission payments were down by approximately $200 thousand from the prior year and travel costs associated with the marketing efforts were down by $500 thousand.

Depreciation

Depreciation expenses were $11.2 million (5.3% of sales) compared to $11.8 million (5.5% of sales) in the prior year. Notwithstanding our investments in building and physical plant in Montreal, depreciation expenses declined in both segments which reflects the maturing of Exco's assets. Furthermore, fixed asset additions in prior years have been less than depreciation expense as management is determined to limit capacity additions during this period of restructuring in the automotive industry.



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 a 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 of each year.

The Company utilizes an income approach to estimate the fair value of each of its 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 of the fiscal year, 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 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 recorded a goodwill impairment charge of $8.3 million. This impairment charge has not been tax benefitted. 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.

Interest

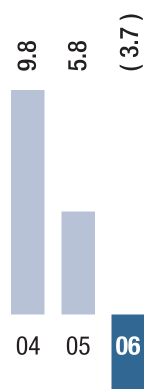
Interest expense was $740 thousand compared to $1.1 million in fiscal 2005. The decrease is due to the lower level of bank borrowings throughout the year. The impact of lower debt more than offset the increase in the cost of borrowing. Exco's average cost of borrowing in fiscal 2006 is slightly under 4.5% which is an increase of 50 basis points. In the last quarter of the fiscal year, Exco retired an interest rate swap which effectively capped the cost of borrowing at 3.88% plus applicable margin and received $28 thousand from the counterparty. (See note 5 to the 2006 Consolidated Financial Statements).

Income Taxes

Exco's effective income tax rate was 121.2% as compared to 37.1% in fiscal 2005. The effective tax rate increased primarily due to the impact of the $8.3 million non-deductible goodwill write-off. This non-deductible expense was partially off-set by the Company's evaluation of tax contingencies in the fourth quarter which resulted in a reduction of current taxes on the consolidated statement of income and retained earnings.

Casting and Extrusion Segment

Operating Earnings ($ millions)



Net Income

- ***Consolidated***

The Company experienced a net loss for the year of $616 thousand or $0.01 per share fully diluted. This compares to net income of $11.1 million or $0.27 per share fully diluted in fiscal 2005. While earnings were down in the Automotive Solutions segment, this loss is largely attributable to the Casting and Extrusion segment and Techmire in particular.

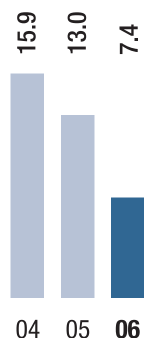
- ***Casting and Extrusion (Operating Earnings)***

This segment reported a loss of $3.7 million compared to a profit of $5.8 million last year. The extrusion die businesses more than doubled earnings from the prior year reflecting better recovery of steel surcharges and pricing in general. The cost of steel has peaked midway through the year and declined moderately thereafter. Earnings at Castool and the large mould businesses were relatively flat with the exception of Extec which lost approximately $0.01 per share due to lower sales.

Exco's operating earnings were reduced by $0.10 per share in the year from Techmire operations compared to $0.08 last year. This performance reflects the difficult task of adjusting Techmire's operation to the realities of current conditions. Management significantly reduced the workforce and made management changes. Working capital has been dramatically reduced as management has sharply curtailed inventory levels and production activity. Expenditures on research and development were reduced and focussed on those technologies that offer the possibility of near term sales. Of these losses $1.4 million relate to inventory provisions taken in the second quarter and another $1.2 million relate to research and development costs (See note 9 to the consolidated financial statements). These losses include another $1.0 million expensed for non-recurring severances and other costs at different business units in this segment.

Automotive Solutions Segment

Operating Earnings ($ millions)



- ***Automotive Solutions Segment (Operating Earnings)***

Earnings for this segment were down by 43% at $7.4 million compared to $13.0 million in fiscal 2005. Lower production volumes by our customers in the last half of the fiscal year have lowered throughput and earnings at all business units. Polytech and Neocon earnings were off from last year by 24% and 38% respectively. Polydesign experienced a loss for the year of $0.02 per share compared to a loss of $0.01 per share last year. This reflects weak sales of netting products at Polydesign and lower than expected volumes associated with the launch of new seat cover business

later in the year. Average resin and steel input costs are moderating, but they are still above historical levels and there remains little ability to increase pricing on existing programs. Performance was affected by the strong Canadian dollar since earnings in this segment are almost all denominated in U.S. dollars.

Quarterly Results

The following table sets out financial information for each of the eight fiscal quarters through to the fiscal year ended September 30, 2006:

$ thousands except per share amounts

2006	Sept/06	June/06	Mar/06	Dec/05	Total
Sales	$54,031	$52,739	$53,968	$50,189	**$210,927**
Net income (loss)	$3,141	$1,607	($7,360)	$1,996	**($616)**
Earnings (loss) per share					
Basic	$0.08	$0.04	($0.18)	$0.05	**($0.01)**
Diluted	$0.08	$0.04	($0.18)	$0.05	**($0.01)**
2005	**Sept/05**	**June/05**	**Mar/05**	**Dec/04**	**Total**
Sales	$58,074	$56,563	$52,507	$48,283	**$215,427**
Net Income	$3,568	$2,634	$2,173	$2,757	**$11,132**
Earnings per share					
Basic	$0.09	$0.06	$0.05	$0.07	**$0.27**
Diluted	$0.09	$0.06	$0.05	$0.07	**$0.27**

Exco typically experiences softer sales and profit in the first quarter, which coincides with our customers' plant shutdowns in North America and Europe during the Christmas season. Exco also experiences a slowdown in the fourth quarter as Exco's European customers typically curtail releases during the month of August to accommodate vacations.

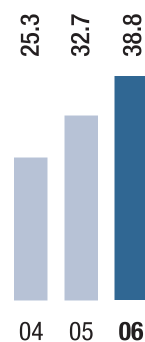
In the fourth quarter sales of $54.0 million were down over last year by 7%. Sales in the Casting and Extrusion segment were generally weaker with the exception of Castool which had a strong shipping quarter. Sales in the Automotive Solutions segment were also down at all business units except Polydesign which began shipment of seat covers during the year.

Net income at $3.1 million for the fourth quarter or $0.08 earnings per share is down over last year by 12%. In the Casting and Extrusion segment, much stronger earnings in the extrusion tooling businesses and Edco were offset by continued losses at Techmire and Extec. In the Automotive Solutions segment, income was down primarily at Polydesign and Neocon Canada. Polydesign recorded losses after being marginally profitable throughout the first three quarters of the year. Neocon was impacted by generally lower volume of sales in the quarter.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL RESOURCES

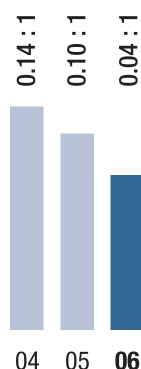
Working Capital

Working Capital
($ millions)



Exco's working capital increased about $6.1 million to $38.8 million at September 30, 2006 as compared to $32.7 million a year earlier. The increase is due to lower bank indebtedness at year-end by $9 million. As part of its general efforts to improve cash flow and maintain a strong balance sheet, management initiated a rigorous working capital improvement program. Accounts receivable were down 7.5% or $3.4 million. Subsequent to year-end Exco collected US$4.4 million from an OEM customer which

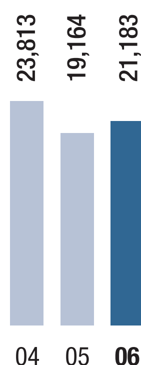
would have further improved Exco's non-cash working capital. Inventories have declined by 5.6% or $2 million. Techmire has focussed on inventory over the year and, in addition to the provision taken in the second quarter of $1.4 million, Techmire has reduced its inventory by an additional $2.5 million. In 2006 inventory is also returning to more traditional levels in the extrusion die and large mould businesses as the availability of steel has improved thus permitting a return to more traditional 'just in time' raw material sourcing terms. The large mould businesses, with the exception of Edco, have also delivered, before year-end, numerous moulds which had been in process. Edco and Polydesign inventory is up as the former has several programs with delayed shipping and the latter is ramping up seat cover and headrest programs that have high raw material content.



Debt to Equity Ratio

Exco's bank debt, net of cash, was less than $7 million at September 30, 2006, down $8.4 million from a year earlier. The Company does not presently require long-term debt in its capital structure. The long-term debt on the balance sheet is negligible and was assumed at the time of the Neocon acquisition in 2003. This long-term debt is offered interest free from Atlantic Canada Opportunities Agency. Bank debt decreased throughout the year as a result of generally lower capital expenditures, lower inventory, better collection of accounts receivable and better profitability. Exco's debt to equity ratio at September 30, 2006 was 0.04:1 as compared to 0.10:1 a year earlier.

Throughout the year Exco had fixed the interest rate on a portion of its current debt at 3.88%, plus applicable margin, by means of an interest rate swap agreement. The notional amount of this swap reduced in equal quarterly increments to $6.4 million in April 2009 at which time the balance was to be absorbed into Exco's demand credit facility. In September 2006 management elected to unwind this interest rate swap and is no longer under any obligation to maintain any notional level of debt.



Cash Flow from Operating Activities

Despite Exco's loss for the year, cash flow from operating activities increased to $21.2 million from $19.2 million in fiscal 2005. Net income for the year was lower, but this was more than offset by non-cash goodwill impairment charges of $8.3 million and improvement in non-cash working capital balances of $6.7 million, particularly, inventory provisions at Techmire in excess of $1.4 million and accruals for other one-time charges of approximately $2.5 million.

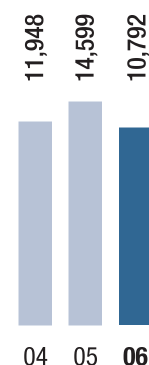
Cash Flow from Financing Activities

Exco continued its practice of spending approximately $2.1 million per annum on dividends to shareholders and expended $705 thousand during the year on the purchase of its shares under its normal course issuer bid. Proceeds from the issue of share capital were down significantly as fewer options were exercised by senior management during the year than in 2005. The balance of the Company's surplus cash was used to reduce bank indebtedness ($8.6 million) and long-term debt ($333 thousand).

Capital Expenditures

Additions to fixed assets totalled $10.8 million compared to $14.6 million in the prior year. Last year's capital expenditures were high compared to this year since the 2005 fiscal year amount includes $4.2 million expended on the construction of a production facility for Techmire in Montreal. This year's capital expenditures include $2.1 million expended on the purchase of land and part of the construction costs for Castool's new production facility in Ontario. The investment in the Automotive Solutions segment was $1.9 million and investment in the Casting and Extrusion segment was $8.9 million compared to $3.4 million and $11.2 million respectively for the prior year.

In fiscal 2007, Exco plans to make capital expenditures of $11.6 million. In the first quarter Exco will spend approximately $2.4 million on the completion of the new Castool production facility although approximately $2.3 million will be realized from the sale of Castool's former premises. Apart from these amounts, the capital investment will be used to purchase equipment to maintain capacity. Capacity increases will likely take place in the extrusion tooling business and at Castool.



Financial Position and Financing Activities

Exco's financial position remains strong despite this year's loss. At year-end the total debt to equity ratio was 0.04:1, with current and long-term borrowings net of cash of $6.8 million. This is down from $15.4 million on September 30, 2005 and reflects Exco's determination to preserve a strong balance sheet.

At year-end, Exco had operating lines of credit totalling $48.4 million, of which $35.9 million was unused and available. Exco has two credit facilities in place. One is with a Canadian banking institution and denominated in Canadian funds and the other in an American banking institution and denominated in U.S. dollars. Throughout the year the U.S. credit facility was not accessed. We expect that in fiscal 2007 our cash flow from operations will exceed anticipated capital expenditures and, accordingly, the lines of credit will be more than sufficient to meet our operating requirements.

At the end of the second quarter of fiscal 2003, Exco began paying a quarterly dividend of $0.0125 per share or $0.05 per share annually. Quarterly payments totalling $2 million were made in each of fiscal 2005 and 2006. The quarterly dividend was raised to $0.015 per share or $0.06 per share annually effective December 29, 2006. This increase reflects the Board's confidence in the Company's financial position and ability to generate strong cash flow. It is expected that the dividend payments will continue to be made at this level through fiscal 2007.

In addition to the obligations disclosed on its balance sheet, Exco also enters into operating lease arrangements from time to time. Exco owns 11 of its 12 manufacturing facilities and virtually all its production equipment. Exco's two main leases are its Mexican manufacturing facility and an aircraft. The expenses associated with these obligations are recorded in Exco's consolidated statement of income and retained earnings.

	PAYMENTS DUE BY PERIOD				
Contractual Obligations ($000)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-Term Debt	417	325	92	-	-
Capital Lease Obligations	-	-	-	-	-
Operating Leases*	2,041	1,471	570	-	-
Purchase Obligations	6,311	6,311	-	-	-
Other Long-Term Obligations	-	-	-	-	-
Total Contractual Obligations	8,769	8,107	662	-	-

** 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; however, it is not uncommon to renew certain leases. Exco does not expect any material liquidity or capital resource impacts.*

CRITICAL ACCOUNTING POLICIES

The preparation of Exco's consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amount of revenue and expenses during the reporting period.

Exco recognizes revenue upon product completion. For large die-cast moulds and die-cast machines, completion is defined as customer acceptance of the mould or machine. For extrusion and other tooling products and the Automotive Solutions segment products, completion is defined as shipment to customers.

Management estimates and expenses the fair value of stock-based compensation granted after January 1, 2002. This fair value is amortized to earnings over the remaining vesting period. The fair value of the options issued each year is determined using the Black-Scholes option-pricing model. The Company believes that the estimate of stock-based compensation is a "critical accounting estimate" because management is required to make significant forward-looking assumptions. Given the varying inputs on which the Black-Scholes option-pricing model is based, it can lead to significantly different results. There may be a material impact on the Company's consolidated balance sheets, consolidated statements of cash flows, and consolidated statements of income and retained earnings. Uncertain changes in expected stock volatility, the change in expected dividend yields and the expected option term may affect the value derived for stock-based compensation. No known trends, commitments, events or other uncertainties are currently believed to affect the assumptions used. Currently the compensation expense is recorded in the selling, general and administration category in the consolidated statement of income and retained earnings.

Goodwill is subject to an annual impairment test or more frequently when an event occurs that more likely than not reduces the fair value of a reporting unit or indefinite life intangible below its carrying value. We evaluate fixed assets and other long-lived assets for impairment whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of, or otherwise change the use of, an existing fixed or other long-lived asset.

We believe that accounting estimates related to goodwill and other long-lived asset impairment assessment are "critical accounting estimates" because: (i) they are subject to a significant measurement uncertainty and are susceptible to changes as management is required to make forward-looking assumptions regarding the impact of improvement plans on current operations, in-sourcing and other new business opportunities, program price and cost assumptions on current and future business, the timing of new program launches and future forecasted production volumes; and (ii) any resulting impairment loss could have a material impact on our consolidated net income and on the amount of assets reported on our consolidated balance sheet.

The Company enters into forward foreign exchange and put and call option contracts to manage exposure to currency rate fluctuations related primarily to its future cash inflows and outflows of U.S. dollars, Euros and Mexican pesos from operations. The Company applies hedge accounting rules from Accounting Guideline 13 for all of its forward foreign exchange and put and call option contracts. The Company believes that hedge accounting is a "critical accounting estimate" because if the hedged item is determined to be ineffective then the gains or losses associated with those contracts would have to be recognized on the consolidated statements of income and retained earnings.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and 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 design and operations of the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP. Changes to the design of the Company's internal controls over financial reporting for external purposes which would materially affect, or is reasonably likely to materially affect the Company's internal controls over financial reporting, have not been identified.

RISKS AND UNCERTAINTIES

Exco's Automotive Solutions segment services automotive component suppliers (and Tier 1 suppliers) around the world. The results of this segment depend on demand for automobiles and the level of automobile production, which can fluctuate significantly with the cost of consumer credit, fuel and the market share of individual OEM customers.

In some cases, OEMs can decide to design the Company's products out of the automobile ("de-contented") for either ascetic or financial reasons. While Exco believes its focus on evolving from component supplier to a designer and integrator of assemblies used in automotive and trunk interiors reduces the risk of de-contenting, Automotive Solutions products are not critical automobile components and may still be de-contented.

The Casting and Extrusion segment is a capital goods business. Interest rates, corporate capital spending, the general economic climate and business confidence affect the demand for Exco's dies, moulds, die-casting machines and consumable parts for die-casting and extruding machines. Abrupt changes in these factors often bring about dramatic changes in demand and pricing. Exco believes that its broad product line, geographic diversification and leadership position mitigate this risk somewhat.

A significant portion of Exco's receivables are with automotive customers. These customers have varying degrees of financial strength with most North American OEMs and Tier 1 customers currently rated below investment grade. These receivables are subject to varying degrees of collectibility. The majority of these receivables are with U.S. entities that can avail themselves of Chapter 11 protection from creditors in certain circumstances and avoid payment on the Company's receivables that are over 20 days from the date of the Chapter 11 filing. The Company uses its best efforts to collect accounts receivable under 60 days; however, particularly in the large mould and Techmire businesses it is not uncommon for significant receivables to be outstanding for considerably longer periods.

Exco has and will continue to seek out acquisition opportunities. Acquisitions inherently involve risk. While Exco has concluded many acquisitions that have been very successful, Bantech Lasing and Techmire are two examples of the risk inherent in even small acquisitions or acquisitions of long established businesses.

The cost of manufacturing our products is a critical factor in determining our success over the long-term. Manufacturing has generally expanded to developing countries where competing technologies and lower labour cost structures exist. Exco must compete against companies doing business in these developing countries. Exco has met this challenge by manufacturing some labour intensive products in Mexico and Morocco; however, many of our operations based in North America must compete with products manufactured in lower-cost environments.

Exco's Canadian operations negotiate sales contracts with customers in both Canadian and U.S. dollars. Exco purchases material in both currencies. U.S. dollar purchases provide a natural hedge against U.S. dollar sales of Exco's Canadian operations. As for the remaining foreign exchange exposure not naturally hedged, Exco enters into forward foreign exchange contracts and incurs U.S. dollar debt, from time to time. However, forward contracts are only short-term exposure mitigating instruments. In the final analysis, Exco is structurally a net seller of U.S. dollars with foreign exchange exposure increasing as the U.S. dollar declines in value against the Canadian dollar.

Note 12 to the Company's Consolidated Financial Statements sets out information concerning Exco's foreign exchange forward contracts. During fiscal 2006, the Canadian dollar appreciated about 6.5% to over $0.91. This is a level not witnessed since 1991. The appreciation of the Canadian dollar to these levels is a challenge for Exco. To remain competitive, we are focussed on a number of initiatives. Wherever possible at its Canadian operations, the Company is attempting to sell in Canadian dollars and source inputs and equipment in U.S. dollars thereby improving its natural hedge. However in some instances, such as sales to China and elsewhere in Asia, it is very difficult to dislodge the dominance of the U.S. dollar as the commercial currency of choice. In addition, pricing in Canadian dollars may make the Company's products uncompetitive and result in lost business. Therefore, Exco is committed to reducing its overall costs to mitigate the impact of the appreciating Canadian dollar.

For fiscal 2007, we estimate our Canadian operations will be exposed to fluctuation in the value of the Canadian dollar relative to the U.S. dollar on about US$29 million. This compares to an exposure of US$40 million in fiscal 2006. These figures represent the estimated net exposure calculated as U.S. dollar revenue less U.S. dollar expenses and U.S. dollar forward foreign exchange contracts. If the Canadian dollar were to strengthen or weaken by 1% in fiscal 2007, we estimate pre-tax profit would change by $290 thousand or about $191 thousand after tax.

Exco's U.S. operations earn profits in U.S. dollars. A stronger Canadian dollar results in lower Canadian dollar profit on translation. This does not, however, affect the competitiveness

of these operations within the U.S. market or other U.S. dollar denominated markets. For fiscal 2007, it is estimated that Exco's U.S. operations will be exposed to foreign exchange risk on the translation of pre-tax profit of about US$9 million. If the Canadian dollar were to strengthen or weaken by 1% in fiscal 2007, pre-tax profit would change by $90 thousand or about $59 thousand after tax.

Exco's Automotive Solutions segment has manufacturing facilities in Mexico and Morocco with these operations incurring some operating expenses, primarily labour, in local currency. In Mexico, sales contracts and major purchases such as material and equipment, are negotiated in U.S. dollars. In Morocco, sales contracts and major purchases are typically negotiated in Euros. Major long-term fluctuations in the value of the local currencies against the U.S. dollar and Euro have the potential to affect Exco's operating results. The Moroccan government does not maintain a transparent exchange rate mechanism and it is difficult to anticipate fluctuations in Moroccan currency.

The Canadian Accounting Standards Board (ASB) has recently adopted and announced the strategy of replacing Canadian GAAP with International Financial Reporting Standards (IFRS) for public companies by the year 2011. While a final decision is expected over the next several years the ASB's Implementation Plan anticipates that certain IFRS will be adopted prior to 2011. If Exco is required to adopt IFRS there may be a major impact on its current accounting methodology for development costs, tooling, fixed assets and goodwill impairment, commodity hedging and revenue recognition. This list is not exhaustive.

OUTLOOK

Over the coming year the Canadian dollar is expected to remain strong. Automobile production at GM, Ford and Chrysler are expected to remain weak throughout the first half of fiscal 2007 as a result of significant market share losses and severe financial losses at the car companies. This will put pressure on Exco's sales and capacity utilization and require Exco to intensify its focus on costs at all levels, but particularly Canadian operations whose competitiveness has been hardest hit by the strong Canadian dollar.

In the first quarter of 2007 Castool will begin to realize efficiencies from consolidation of its existing two building operation into one. Demand for its products is expected to continue growing as die-casters and extruders look for greater efficiencies in their operations. Management will consider other plant consolidations and operational changes in order to realize efficiencies and maximize utilization of assets while being mindful of the need to grow and continue meeting the long-term needs of Exco's customers as they move through this difficult period of adjustment.

The Company also expects to continue building on its strong base of business with the foreign domestics in both of its segments. We are seeing much activity in this market sector and are hopeful that this will lead to near term business. Relatively high fuel prices will continue to drive OEMs to innovate with their powertrain systems in order to achieve fuel efficiencies. However, serious cash flow issues faced by OEMs and their Tier 1 die-casters are expected to continue delays in new engine and transmission mould deliveries.

The recovery from the raw material shocks in the extrusion die industry is expected to slowly, yet steadily, continue taking root. With raw material and energy prices moderating and customers either consolidating their die vendors or outsourcing their in-house die shops, capacity utilization is expected to be good throughout the year.

Techmire is not expected to return to profitability during 2007. The price of zinc is expected to stay high and both dampen demand for zinc die-cast machines and increase demand for magnesium die-cast machines and moulds. Techmire, in the first half of the year, is expected to prove out their magnesium die-cast capabilities with the delivery of mould and/or machines for both thin wall high finish magnesium parts and structural automotive magnesium components.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Exco Technologies Limited and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

The Company maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee meets regularly with management, as well as the external auditors, to discuss internal controls over discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

Exco Technologies Limited
November 8, 2006

AUDITOR'S REPORT

We have audited the consolidated balance sheets of Exco Technologies Limited as at September 30, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants
Toronto, Canada

November 8, 2006

CONSOLIDATED BALANCE SHEETS ($000s)

AS AT SEPTEMBER 30	2006	2005
ASSETS		
Current		
Cash	$ 2,470	$ 3,158
Accounts receivable (note 14)	42,147	45,589
Inventories (note 2)	33,591	35,671
Prepaid expenses and deposits	2,792	2,271
Total current assets	81,000	86,689
Fixed assets (note 3)	82,597	84,010
Goodwill (note 4)	34,765	43,428
Future income tax assets (note 10)	3,031	4,153
	$ 201,393	$ 218,280
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 5)	$ 8,828	$ 17,849
Accounts payable and accrued liabilities	29,768	30,047
Income taxes payable (note 10)	1,228	1,552
Customer advance payments	2,060	4,212
Current portion of long-term debt (note 6)	325	333
Total current liabilities	42,209	53,993
Long-term debt (note 6)	92	417
Future income tax liabilities (note 10)	8,436	9,101
Total liabilities	50,737	63,511
SHAREHOLDERS' EQUITY		
Share capital (note 7)	35,921	35,758
Contributed surplus (note 8)	1,916	1,459
Retained earnings	127,529	130,772
Currency translation adjustment (note 7)	(14,710)	(13,220)
Total shareholders' equity	150,656	154,769
	$ 201,393	$ 218,280

COMMITMENTS AND CONTINGENCIES (NOTE 12)

SEE ACCOMPANYING NOTES

On behalf of the Board:

Brian A. Robbins
Director, President and Chief Executive Officer

Richard D. McGraw
Director, Chairman of the Board

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

($000s except for earnings per share)

YEARS ENDED SEPTEMBER 30	2006	2005
Sales	$ 210,927	$ 215,427
Cost of sales before the following (note 9)	157,332	154,647
Selling, general and administrative (note 7)	30,369	30,175
Depreciation and amortization	11,236	11,846
Goodwill impairment charge (note 4)	8,345	-
Interest expense	740	1,054
	208,022	197,722
Income before income taxes	2,905	17,705
Provision for (recovery of) income taxes (note 10)		
Current	3,107	6,671
Future	414	(98)
	3,521	6,573
Net income (loss) for the year	(616)	11,132
Retained earnings, beginning of year	130,772	121,746
Excess of redemption price over stated value of common shares acquired and cancelled (note 7)	(547)	(29)
Dividends (note 7)	(2,080)	(2,077)
Retained earnings, end of year	$ 127,529	$ 130,772
Earnings (loss) per common share (notes 7 and 13)		
Net income		
Basic	($0.01)	$ 0.27
Diluted	($0.01)	$ 0.27

SEE ACCOMPANYING NOTES

CONSOLIDATED STATEMENTS OF CASH FLOWS ($000s)

YEARS ENDED SEPTEMBER 30	2006	2005
OPERATING ACTIVITIES		
Net income (loss) for the year	($616)	$ 11,132
Add (deduct) items not involving current cash flows		
Goodwill impairment charge (note 4)	8,345	-
Depreciation and amortization	11,236	11,846
Stock based compensation expense (notes 7 and 8)	517	449
Future income taxes	414	(98)
Loss (gain) on sale of fixed assets	(63)	121
	19,833	23,450
Net change in non-cash working capital balances related to operations (note 11)	1,350	(4,286)
Cash provided by operating activities	21,183	19,164
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(8,618)	(3,602)
Decrease in long-term debt	(333)	(1,018)
Dividends (note 7)	(2,080)	(2,077)
Repurchase of share capital (note 7)	(705)	(36)
Issue of share capital (note 7)	321	3,271
Cash used in financing activities	(11,415)	(3,462)
INVESTING ACTIVITIES		
Investment in fixed assets	(10,792)	(14,599)
Proceeds from sale of fixed assets	496	372
Cash used in investing activities	(10,296)	(14,227)
Effect of exchange rate changes on cash	(160)	(145)
Increase (decrease) in cash, during the year	(688)	1,330
Cash, beginning of year	3,158	1,828
Cash, end of year	$ 2,470	$ 3,158

SEE ACCOMPANYING NOTES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of Exco Technologies Limited's (the Company's) wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Inventories

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.

Fixed Assets

Fixed assets are recorded at historical cost, net of related investment tax credits and accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged to income as incurred. Fixed assets retired or otherwise disposed of and the related accumulated depreciation and amortization are removed from the accounts with the net gain or loss being included in income.

Depreciation and amortization are provided over the estimated useful lives of the fixed assets as follows:

Buildings	4% declining balance
Machinery and equipment	20% to 30% declining balance
Tools	25% straight-line
Leasehold improvements	straight-line over the term of the leases

Goodwill

Goodwill represents the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed less any subsequent write downs for impairment. Goodwill is subject to an annual impairment test. Goodwill impairment is evaluated between annual tests upon the occurrence of certain events or circumstances. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

Financial Instruments

Financial instruments recognized in the consolidated balance sheets comprise cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, customer advance payments, long-term debt, and derivatives that do not qualify for hedge accounting. The fair value of these instruments approximates their carrying value.

The Company enters into forward foreign exchange and put and call option contracts to manage exposure to currency rate fluctuations related primarily to its future cash inflows and outflows of U.S. dollars, Euros, and Mexican pesos from operations. The Company uses forecasted future cash flows of foreign currencies to determine the level of hedges required. The purpose of the Company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Items hedged by forward foreign exchange contracts are translated at contract rates and gains or losses on these contracts are recorded as part of the related transactions, for which they are designated as hedges. If the Company's forward foreign exchange contracts ceased to be effective as hedges (for example, if projected net foreign cash inflows declined significantly) previously unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign currency denominated cash flows would be recognized in income, and future changes in the fair value would be recognized into income at the time the condition was identified.

Forward foreign exchange contracts are negotiated with Canadian and United States banks with credit ratings of AA low as determined by the Dominion Bond Rating Service and AA- as determined by Standard and Poor's. The Company does not anticipate non-performance by the banks, which are counterparties to these contracts.

The Company has entered into an interest rate swap agreement to alter the interest characteristics of a portion of its outstanding debt from a floating to a fixed rate basis. The

differential paid or received as a result of the interest rate swap agreement is accrued and recognized as an adjustment to interest expense related to the debt. The Company has designated this interest rate swap agreement as a hedge of the underlying debt. As a result, the fair value of the swap agreement and changes in the fair value as a result of changes in market interest rates are not recognized in the consolidated financial statements. If the agreement fails to qualify for hedge accounting, the gain or loss would be recorded in the consolidated statements of income and retained earnings.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the consolidated balance sheet dates. Revenue and expense transactions denominated in foreign currencies are translated at the rates of exchange prevailing at the dates of the transactions.

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 deferred as a separate component of shareholders' equity.

Other gains and losses resulting from movements in exchange rates are reflected in the consolidated statements of income and retained earnings. In 2006, such gains totalled $907 (2005- losses of $167). Gains and losses on forward foreign exchange contracts and currency option contracts, designated as hedges of anticipated future foreign currency transactions, are accounted for as a component of the related hedged transaction. For forward foreign exchange contracts not designated as hedges, the Company recognizes any changes in fair value during the year in the consolidated statements of income and retained earnings. During the years ended September 30, 2006 and September 30, 2005, all forward foreign exchange contracts were designated as hedges.

Earnings (Loss) Per Share

The Company uses the 'treasury stock method' in computing diluted weighted average number of shares outstanding. Under the treasury stock method:

- exercise of options is assumed at the beginning of the year (or at the time of issuance, if later);
- the proceeds from exercise plus unamortized compensation expense on stock options are assumed to be used to purchase common stock at the average market price during the year; and
- the incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per share computation.

Revenue Recognition

Revenue from the sale of manufactured products is recognized when the price is fixed or determinable, collection is reasonably assured, and:

- for large die-cast moulds and die-cast machines, upon completion of manufacturing and acceptance by the customer of the mould or machine; and
- for extrusion and other tooling, and Automotive Solutions segment products, upon shipment to customers.

Research and Development Expenditures

Research and development expenditures are expensed as incurred unless they meet Canadian generally accepted accounting principles for deferral.

Income Taxes

The Company follows the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Stock-Based Compensation

The Company follows the fair value based method of accounting for stock-based compensation. The fair value of the options is recognized as compensation expense in selling, general and administrative expenses on the consolidated statements of income and retained earnings over the vesting period with a corresponding increase to contributed surplus. The fair value of the options is estimated at the grant date using the Black-Scholes option-pricing model. This model requires the input of a number of assumptions, including expected dividend yields, expected stock volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based upon market conditions generally outside the control of the Company. If other assumptions were used, stock-based compensation expense could be significantly impacted. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in contributed surplus is credited to share capital, along with the proceeds received on exercise.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent; however, actual amounts could differ from those estimates.

2. INVENTORIES

	2006	2005
Raw materials	$ 11,089	$ 16,058
Work in process and finished goods	22,502	19,613
	$ 33,591	$ 35,671

3. FIXED ASSETS

2006

	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	$ 7,083	$ -	$ 7,083
Buildings	43,536	14,048	29,488
Machinery and equipment	186,336	141,006	45,330
Tools	8,231	7,535	696
Leasehold improvements	211	211	-
	$ 245,397	$ 162,800	$ 82,597

2005

	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	$ 7,349	$ -	$ 7,349
Buildings	43,565	12,744	30,821
Machinery and equipment	177,756	132,966	44,790
Tools	8,184	7,204	980
Leasehold improvements	338	268	70
	$ 237,192	$ 153,182	$ 84,010

At September 30, 2006, the Company had deposits relating to property, plant and equipment of $3,145 (2005-$426). These assets are not being amortized because they are under construction and not in use.

4. GOODWILL

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 Company's 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 Company's Techmire division.

Liabilities associated with the purchase of Neocon International in 2003 were settled during the year. As a result, goodwill was reduced an additional $318.

5. BANK INDEBTEDNESS

At September 30, 2006, the Company had available lines of credit totalling $48,360 (2005 - $58,480) of which $ 35,949 (2005 - $40,631) was unused and available. These operating lines are available in both U.S. and Canadian dollars at variable rates not exceeding prime rate, are subject to a general security agreement and are due on demand. The prime rate in Canada at September 30, 2006 was 6.0 % (2005 - 4.5%) and in the United States was 8.25% (2005 - 6.75%). In addition, under the terms of these credit agreements, the Company is permitted to make use of banker's acceptances to borrow at effective interest rates which are usually lower than those charged under the banks' lines of credit. During the year, the Company provided a letter of guarantee for the credit facility of its Moroccan subsidiary for $3,583 which reduced the available lines of credit.

Effective April 7, 2004, the Company entered into an interest rate swap agreement whereby the rate of interest on a portion of amounts outstanding under its demand credit facility is fixed at 3.88% plus applicable margin. The notional principal amount of the swap agreement is $20,000 on the date of the agreement and declines by $714 quarterly to $6,400 in April 2009, at which time the balance will be absorbed into the Company's demand credit facility. The above agreement was retired on September 12, 2006, with the balance of $13,571 being absorbed into the Company's demand credit facility. The fair value gain was $28.

Interest

Interest paid in cash was $727 for the year ended September 30, 2006 (2005 - $1,025).

6. LONG-TERM DEBT

	2006	2005
Government assistance	$ 417	$ 750
Less current portion	325	333
Long-term portion	$ 92	$ 417

Government assistance is comprised of two loans of which $211 is payable to Atlantic Canada Opportunities Agency (ACOA) and $206 is payable to Nova Scotia Business Inc. (NSB). These loans are non-interest bearing and are unsecured. The ACOA loans mature from 2007 to 2009 and are repaid in monthly installments of $11. The NSB loan is repayable in annual installments of approximately $200 and matures in 2007.

Total principal repayment requirements are as follows:

2007	$ 325
2008	81
2009	11
	$ 417

7. 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, 2004	40,817,038	$ 32,376
Issued for cash under Employee Stock Purchase Plan	154,571	969
Issued for cash under Stock Option Plan	674,486	2,302
Purchased and cancelled pursuant to normal course issuer bid	(8,800)	(7)
Contributed surplus on stock options exercised	-	118
Issued and outstanding at September 30, 2005	41,637,295	$ 35,758
Issued for cash under Employee Stock Purchase Plan	281	2
Issued for cash under Stock Option Plan	109,000	319
Purchased and cancelled pursuant to normal course issuer bid	(183,400)	(158)
Issued and outstanding at September 30, 2006	41,563,176	$ 35,921

Currency Translation Adjustment

The currency translation adjustment amount is impacted by fluctuations in the value of the Canadian dollar relative to the U.S. dollar and the Moroccan Dirham.

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 $1,490 (2005 - unrealized currency translation loss of $4,429). For the year ended September 30, 2006, the net unrealized loss of $1,490 is primarily attributable to the strengthening of the Canadian dollar against the U.S. dollar as measured at September 30, 2006 and September 30, 2005.

Cash Dividend

During the year, the Company paid four quarterly cash dividends totalling $2,080 (2005 - $2,077). The dividend rate per quarter was $0.0125 per common share.

Stock Option Plan

The Company has a Stock Option Plan under which common shares may be acquired by employees, officers and directors of the Company. 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 of Directors. The DSU Plan will replace the past practice of granting eligible directors stock options under the Stock Option Plan. The following table shows the changes to stock options outstanding:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	2,282,454	$ 4.46	2,849,245	$ 4.06
Granted during the year	201,890	4.00	174,695	7.18
Exercised during the year	(109,000)	2.93	(674,486)	3.41
Cancelled during the year	(73,288)	4.68	(67,000)	5.23
Balance, end of year	2,302,056	$ 4.49	2,282,454	$ 4.46

The following table summarizes information about stock options outstanding at September 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.43 - $ 3.00	338,618	5.1 years	$ 3.00	270,894	$ 2.99
$ 3.01 - $ 4.00	901,820	3.9 years	$ 3.77	682,730	$ 3.69
$ 4.01 - $ 5.42	486,522	2.3 years	$ 4.81	486,522	$ 4.81
$ 5.43 - $ 7.60	575,096	5.7 years	$ 6.50	266,081	$ 6.33
$ 2.43 - $ 7.60	2,302,056	4.2 years	$ 4.49	1,706,227	$ 4.31

The number of shares available for future issuance of options at September 30, 2006 was 703,310 (2005 – 831,912). The number of options outstanding together with those available for future issuance totals 3,005,366 (2005 – 3,114,366) or 7.2% (2005 – 7.5%) of the issued and outstanding common shares. The options are granted for a term of 5.5 to 10 years and the options vest at 20% each anniversary from the date of grant.

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 2006, payroll deductions were 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 2006, 281 shares (2005 – 154,571) were issued under the terms of the ESPP.

Stock-Based Compensation Expense

The total stock-based compensation for the year is $517 (2005 -$449). This consists of $457 (2005 -$449) from the stock option compensation expense and $60 (2005-Nil) from the Deferred Share Unit Plan. All stock-based compensation has been recorded in selling, general and administrative expenses.

The fair value of the options granted during the year ended September 30 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2006	2005
Risk-free interest rate	4.03%	4.05%
Expected dividend yield	0.72%	0.42%
Expected volatility	27.00%	26.90%
Expected time until exercise	5.11 years	5.23 years
Weighted average fair value of the options granted	$ 1.56	$ 1.85

Deferred Share Unit Plan

	Number of units	Expense
December 31, 2005	3,448	$ 15
March 31, 2006	3,750	14
June 30, 2006	4,286	11
September 30, 2006	3,086	20
Total	14,570	$ 60

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, 2006 replacing the normal course issuer bid which expired on May 6, 2006. The Company's Board of Directors authorized the purchase of up to 2,050,000 common shares representing approximately 5% of the Company's outstanding shares. As at September 30, 2006, the Company purchased under both bids 183,400 shares for cancellation at a cost of $705. The cost to purchase the shares exceeded their stated value by $547. This excess has been charged against retained earnings.

8. 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:

	2006	2005
Balance, beginning of year	$ 1,459	$ 1,128
Stock-option compensation expense (note 7)	457	449
Exercise of options	-	(118)
	$ 1,916	$ 1,459

9. RESEARCH AND DEVELOPMENT

Research and development expenditures during the year were $1,233 (2005 - $1,160). These costs were expensed in the period as they did not meet Canadian generally accepted accounting principles for deferral.

10. INCOME TAXES

The Company's effective income tax rate is as follows:

		2006
Income before income taxes	$ 2,905	100.0 %
Income taxes at Canadian statutory rates	1,049	36.1 %
Manufacturing and processing deduction	(58)	(2.0) %
Foreign rate differential	378	13.0 %
Items not deductible for income tax purposes	3,120	107.4 %
Other	(968)	(33.3) %
	$ 3,521	121.2 %

		2005
Income before income taxes	$ 17,705	100.0 %
Income taxes at Canadian statutory rates	6,395	36.1 %
Manufacturing and processing deduction	(354)	(2.0) %
Foreign rate differential	274	1.5 %
Items not deductible for income tax purposes	411	2.3 %
Other	(153)	(0.8) %
	$ 6,573	37.1 %

Cash outflows during the year for income taxes were $2,988 (2005 - $6,683).

Future income tax assets and liabilities consist of the following temporary differences:

	2006	2005
Assets		
Tax benefit of loss carryforwards	$ (694)	$ (1,945)
Items not currently deductible for income tax purposes	(1,377)	(1,403)
Research and development expenditures	(960)	(805)
Liabilities		
Tax depreciation in excess of book depreciation	8,436	9,101
Net future income tax liabilities	$ 5,405	$ 4,948

11. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

The net change in non-cash working capital balances related to operations consists of the following:

	2006	2005
Accounts receivable	$ 2,630	$ (1,760)
Inventories	1,490	(6,194)
Prepaid expenses and deposits	(1,303)	172
Accounts payable and accrued liabilities	742	3,841
Income taxes payable	(172)	(377)
Customer advance payments	(2,037)	32
	$ 1,350	$ (4,286)

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company has commitments under long-term lease agreements for plant facilities and other operating leases expiring at various dates up to 2010. Future minimum annual lease payments are as follows:

2007	$ 1,471
2008	382
2009	142
2010	46
	$ 2,041

In September 2005, the Company entered into a two-year lease that upon expiry the Company can exercise two options: re-lease or have the lessor sell the equipment. In the event of sale, the Company has agreed that the lessor will sell the asset and recover no less than 88% of the cost of the equipment ($8,935). The Company is responsible for any shortfall should one occur.

Forward Foreign Exchange Contracts

The Company has contracts to sell US$4,220 (2005 – US$13,500) over the next 12 months at rates varying from 1.09 to 1.16 (2005 – 1.22 to 1.38) Canadian dollars for each U.S. dollar sold. Management estimates that a profit of $56 would be realized if the contracts were terminated on September 30, 2006 (2005 – $1,384).

The Company entered into a series of put and call options for the next 36 months. The total contract value is 124.8 million Mexican pesos (2005 – 174.2 million Mexican pesos). The selling price ranges from 11.85 to 12.20 (2005 – 11.40 to 12.70) Mexican pesos to U.S. dollars. Management estimates that a combined profit of $317 would be realized if both series of contracts were terminated on September 30, 2006.

Contingent Liabilities

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. On an on-going basis, the Company assesses the likelihood of any adverse judgements or outcomes to these matters as well as potential ranges of probable costs and losses and a determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. Included in accounts payable and accrued liabilities are accruals for contingencies amounting to $1,725. These accruals represent management's best estimate of what the Company expects to pay; however, the ultimate amount paid could be materially different from the amounts recorded.

13. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per share is calculated using net income (loss) and the monthly weighted average number of common shares outstanding of 41,592,485 (2005 - 41,448,913). There was no effect of outstanding stock options on diluted weighted shares outstanding (2005 – 324,175).

14. SEGMENTED INFORMATION

Business Segments

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 consolidated financial statements.

The Casting and Extrusion 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).

			2006			2005
	Casting and Extrusion	Automotive Solutions	Total	Casting and Extrusion	Automotive Solutions	Total
Sales	$ 136,372	$ 74,555	$ 210,927	$ 133,907	$ 81,520	$ 215,427
Depreciation & amortization	9,066	2,170	11,236	9,583	2,263	11,846
Goodwill Impairment charge	8,345	-	8,345	-	-	-
Segment income (loss)	(3,716)	7,361	3,645	5,797	12,962	18,759
Interest expense			740			1,054
Income before income taxes			2,905			17,705
Fixed asset additions	8,912	1,880	10,792	11,211	3,388	14,599
Total fixed assets, net	65,334	17,263	82,597	66,262	17,748	84,010
Goodwill	-	34,765	34,765	8,345	35,083	43,428
Total assets	$ 90,879	$ 110,514	$ 201,393	$ 110,285	$ 107,995	$ 218,280

Geographic and Customer Information

Sales	2006	2005
Canada	$ 28,513	$ 30,969
United States	147,467	157,953
Europe	19,789	14,453
Asia	4,922	4,467
Other	10,236	7,585
	$ 210,927	$ 215,427

In 2006, sales to the Company's largest customer were 16% (2005 – 18%) of total sales and the account receivable pertaining to this customer was $5,024 (2005 - $8,695). The allocation of sales to the geographic segments is based upon the location of the customer.

Fixed Assets and Goodwill, net	2006	2005
Canada	$ 67,240	$ 76,752
United States	41,419	42,519
Mexico	1,912	2,221
Morocco	6,791	5,946
	$ 117,362	$ 127,438

Fixed assets are attributed to the country in which they are located and goodwill is attributed to the country in which the reporting unit to which the goodwill pertains is located.

15. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the 2006 consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

($000s, except per share amounts)

Financial Results

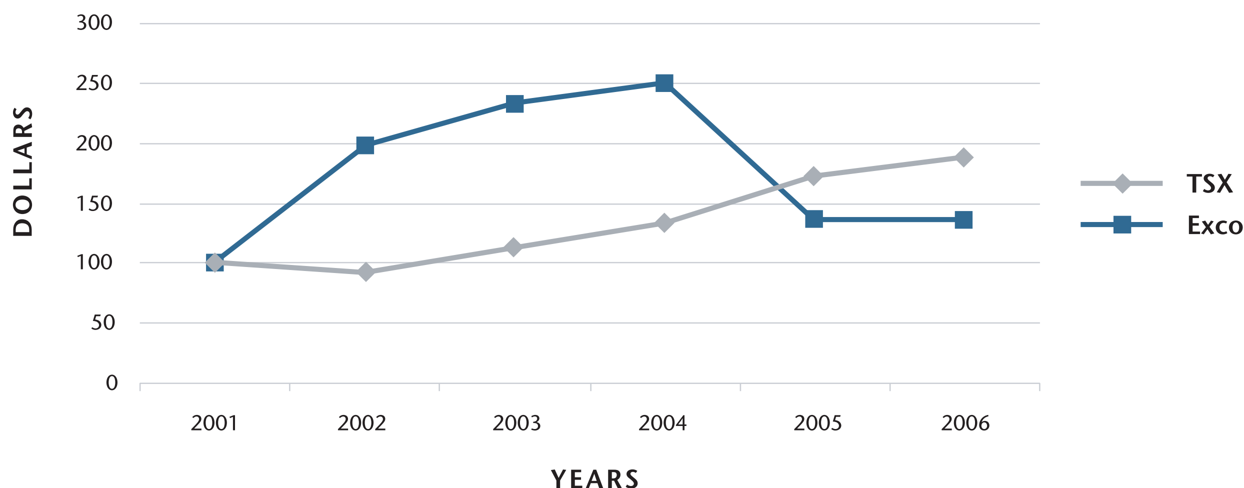
	2006	2005	2004	2003	2002
Sales	$ 210,927	$ 215,427	$ 216,114	$ 228,127	$ 213,141
Net income (loss) from continuing operations	(616)*	$ 11,132	$ 16,408	$ 18,129	$ 16,816
Net income (loss)	(616)*	$ 11,132	$ 9,199	$ 16,681	$ 16,816
Diluted earnings (loss) per share from continuing operations	(0.01)*	$ 0.27	$ 0.40	$ 0.44	$ 0.42
Diluted earnings (loss) per share	(0.01)*	$ 0.27	$ 0.22	$ 0.40	$ 0.42
Cash flow from operations before non-cash items	$ 19,833	$ 23,450	$ 30,072	$ 33,105	$ 31,998
EBITDA**	$ 23,226	$ 30,605	$ 38,485	$ 45,125	$ 43,207
Total net debt to equity	0.04:1	0.10:1	0.14:1	0.21:1	0.19:1
Capital expenditures, net of disposals	$ 10,296	$ 14,227	$ 11,449	$ 9,124	$ 16,549
Acquisitions	0	0	0	$ 9,740	0

* *includes goodwill impairment charge of $8.3 million*

** *EBITDA is a non-GAAP measure calculated by adding back to income (loss) from continuing operations: taxes, net interest, depreciation and amortization and goodwill impairment charge*

Cumulative Shareholder Return

The following graph illustrates the five-year cumulative total shareholder return (assuming reinvestment of dividends) of a $100 investment in shares on September 30, 2001 to September 30, 2006 compared with the return on the S&P/TSX Composite Index.



BOARD OF DIRECTORS AND CORPORATE OFFICERS

DIRECTORS

Laurie Bennett, CA
Corporate Director

Helmut Hofmann
Chairman, Héroux-Devtek

Geoffrey F. Hyland, BEng (Chem), MBA
Corporate Director

Richard D. McGraw, BComm
President
Lochan Ora Group of Companies

Brian A. Robbins, PEng
President and Chief Executive Officer
of the Company

Peter van Schaik
Founder and Chief Executive Officer
Van Rob Inc.

Ralph Zarboni, BComm, FIM
Chairman and Chief Executive Officer
The EM Group

Audrey E. Robbins
Honorary Director
Co-founder of the Company

CORPORATE OFFICERS

Richard D. McGraw
Chairman of the Board

Brian A. Robbins, PEng
President and Chief Executive Officer

Paul Riganelli, MA, MBA, LLB
Vice-President, Finance and
Chief Financial Officer
Secretary

TRANSFER AGENT AND REGISTRAR

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Chartered Accountants

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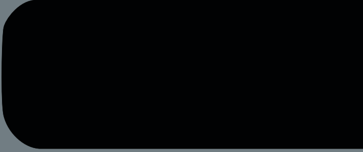
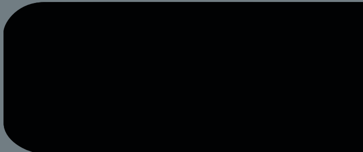
2006 ANNUAL MEETING

The 2006 Annual Meeting of the Shareholders will be held at the Design Exchange, 234 Bay Street, Toronto Dominion Centre, Toronto, Ontario on Wednesday, January 31, 2007 at 4:30 pm.





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