



EXCO TECHNOLOGIES LIMITED

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Interim report
to the shareholders
for the three months ended
December 31, 2011

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

\$(000)'s except per share amounts

The purchase price was allocated to the assets acquired and liabilities assumed based on the fair value for the total consideration as follows:

Cash	\$480
Accounts receivable	1,320
Inventories	1,089
Property, plant and equipment and other long-term assets	494
Accounts payable and accrued liabilities	(1,228)
Fair value of assets acquired and purchase price	\$2,155

On September 19, 2011, the Company also acquired for cash some assets from Empresa Metalmeccanica de Aluminio S.A., an existing extrusion tooling customer in Colombia. The acquisition secures for Exco an experienced workforce and an agreement to supply the majority of the customer's extrusion tooling requirements. The purchase price was allocated to the assets acquired based on the fair value for the total consideration as follows:

Inventories	\$139
Fixed assets and other long-term assets	724
Fair value of assets acquired and purchase price	\$863

These acquisitions were accounted for using the acquisition method of accounting with the results of operations included in the Company's consolidated financial statements from the respective dates of the acquisitions.

12. COMPARATIVE FIGURES

Certain comparative figures for the prior year have been reclassified to conform with the financial statement presentation adopted in the current year.

13. ADOPTION OF IFRS

The Company has adopted IFRS effective October 1, 2011. The Company's financial statements for the year ending September 30, 2012 will be the first annual financial statements that comply with IFRS. The Company's transition date is October 1, 2010 and the Company has prepared its opening IFRS statement of financial position at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 2, including the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The Company will ultimately prepare its opening IFRS statement of financial position by applying all applicable existing IFRS standards with a mandatory effective date of September 30, 2012 or prior. Accordingly, the opening IFRS statement of financial position and the September 30, 2011 comparative statement of financial position presented in the consolidated financial statements for the year ending September 30, 2012 may differ from those presented at this time.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets forth

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

a. Business combinations

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

b. Cumulative translation differences

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

c. Share-based payment transactions

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

d. IAS 27 Consolidated and Separate Financial Statements

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

e. Borrowing costs

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

f. Estimates

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

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

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

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of income and comprehensive income, statement of cash flows for the period ended December 31, 2010 and the statements of financial position as at October 1, 2010, December 31, 2010 and September 30, 2011 have been reconciled to IFRS with resulting differences explained.

g. Revenue

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

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

The application of IAS 11 to applicable businesses on the transition date resulted in the introduction of \$9,018 of unbilled revenue and the corresponding \$5,878 reduction of inventories, \$975 increase in income taxes payable and \$2,165 increase in retained earnings in the opening statement of financial position. For the comparative three months ended December 31, 2010, the application of IAS 11 resulted in a \$399 decrease in revenue and a \$662 decrease in net income. For the comparative full year ended September 30, 2011, the application of IAS 11 resulted in a \$3,023 increase in revenue and \$157 decrease in net income.

h. Property, plant and equipment

The value at the date of transition to IFRS is established based on IAS 16 *Property, Plant and Equipment* which requires the identification of major components of an asset and depreciates them separately over their useful lives. Accordingly, the Company has identified major components of its property, plant and equipment and depreciated them over their estimated useful lives using methods that reflect the patterns of consumption of the economic benefits embodied in the assets. As a result, the carrying value of property, plant and equipment under GAAP was written down on the transition date by \$1,443 with a \$436 corresponding decrease in deferred tax liabilities. For the comparative three months ended December 31, 2010, the application of components accounting for property, plant and equipment under IAS 16 resulted in a \$482 increase in depreciation and amortization expense and a \$39 decrease in loss from disposal of property, plant and equipment or a \$324 decrease in net income in the interim consolidated financial statements. For the comparative full year ended September 30, 2011, the application of components accounting for property, plant and equipment under IAS 16 resulted in a \$2,097 increase in depreciation and amortization expense and a \$81 decrease in loss from disposal of

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property, plant and equipment or a \$1,472 decrease in net income in the consolidated financial statements.

i. Share-based payments

IFRS

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

Canadian GAAP

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

The application of IFRS 2 resulted in a \$119 increase in contributed surplus and a corresponding decrease in retained earnings by the same amount on the transition date. For the comparative three months ended December 31, 2010, the application of IFRS 2 resulted in a \$3 increase in stock option expense in the interim consolidated financial statements.

j. Deferred tax assets/liabilities

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

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

k. Other comprehensive income

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

l. Impairment of assets

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

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

The Company completed an impairment review of its assets as at October 1, 2010 and concluded that the assets were not impaired in accordance with IFRS. There was no

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indication in the comparative three-month period ended December 31, 2010 and full year ended September 30, 2011 for an impairment review.

m. Income taxes

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

n. Foreign currency translation

Under GAAP, the method of translation of the foreign operation is dependent on the classification of the foreign operation – an integrated operation or self-sustaining foreign operation. IFRS does not classify the foreign operation into integrated or self-sustaining operations. The entity must determine its own functional currency. The foreign currency translation adjustments for the Company's integrated foreign operations, which were charged to the consolidated statement of income and comprehensive income under GAAP, will be charged directly to the currency translation adjustment account on the consolidated statement of financial position under IFRS. The conversion to IFRS resulted in \$78 increase in the translated value of property, plant and equipment on the opening consolidated statement of financial position. For the comparative three months ended December 31, 2010, the conversion to IFRS resulted in an insignificant change in the translated value of property, plant and equipment and a \$132 reclassification of foreign exchange gain from revaluation of investment to currency translation adjustment or a decrease in net income of \$87 in the interim consolidated financial statements. For the comparative full year ended September 30, 2011, the conversion to IFRS resulted in an insignificant change in the translated value of property, plant and equipment and a \$267 reclassification of foreign exchange loss from revaluation of investment to currency translation adjustment or an increase in net income of \$176 in the consolidated financial statements.

o. Presentation

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

\$(000)'s except per share amounts

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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The Canadian GAAP interim consolidated statement of income and comprehensive income for the three months ended December 31, 2010 have been reconciled to IFRS as follows:

	Ref.	Three Months ended December 31, 2010		IFRS
		Canadian GAAP	Effect of transition to IFRS	
Sales	g	\$45,592	(\$399)	\$45,193
Cost of sales and operating expenses before the following	g	33,618	667	34,285
Selling, general and administrative (notes 3,7)	i,n	5,544	135	5,679
Depreciation and amortization	h	1,956	482	2,438
Gain on disposal of property, plant and equipment	h	53	(39)	14
Interest income		(25)	-	(25)
		41,146	1,245	42,391
Income before income taxes		4,446	(1,644)	2,802
Provision for income taxes	g,h,n	1,320	(572)	748
Net income for the period		3,126	(1,072)	2,054
Other comprehensive loss				
Unrealized loss on foreign currency translation	h,n	(2,003)	178	(1,825)
Comprehensive income		\$1,123	(\$894)	\$229
Earnings per common share				
Basic		\$0.08	(\$0.03)	\$0.05
Diluted		\$0.08	(\$0.03)	\$0.05

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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The December 31, 2010 Canadian GAAP interim consolidated statement of financial position has been reconciled to IFRS as follows:

					December 31, 2010		
	Ref.	Canadian GAAP	Effect of transition to IFRS	IFRS			
ASSETS							
Current							
Cash		\$12,540	-	\$12,540			
Accounts receivable (note 7)		35,640	-	35,640			
Unbilled revenue (note 6)	g	-	8,937	8,937			
Inventories (note 8)	g	27,872	(7,163)	20,709			
Prepaid expenses and deposits		2,229	-	2,229			
Assets held for sale	h	4,304	638	4,942			
Total current assets		82,585	2,412	84,997			
Property, plant and equipment, net (note 4)	h,m,n	64,809	(2,773)	62,036			
Deferred tax assets		115	-	115			
		\$147,509	(\$361)	\$147,148			
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current							
Accounts payable and accrued liabilities	o	\$21,521	(21,521)	\$-			
Trade accounts payable	o	-	14,443	14,443			
Accrued taxes and payroll costs	o	-	2,036	2,036			
Other accrued liabilities	o	-	4,014	4,014			
Provisions (note 5)	o	-	1,028	1,028			
Income taxes payable		307	-	307			
Customer advance payments (note 6)	g	2,398	(300)	2,098			
Total current liabilities		24,226	(300)	23,926			
Deferred tax liabilities	g,h,m	3,935	(401)	3,534			
Total liabilities		28,161	(701)	27,460			
Shareholders' Equity							
Share capital (note 3)		35,868	-	35,868			
Contributed surplus (note 3)	c,i	3,297	116	3,413			
Accumulated other comprehensive loss (note 2)	b,n	(17,921)	16,096	(1,825)			
Retained earnings (note 3)	c,g,h,i,n	98,104	(15,872)	82,232			
Total shareholders' equity		119,348	340	119,688			
		\$147,509	(\$361)	\$147,148			

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(Unaudited)

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

		September 30, 2011		
	Ref.	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		\$15,376	-	\$15,376
Accounts receivable (note 7)		47,224	-	47,224
Unbilled revenue (note 6)	g	-	13,301	13,301
Inventories (note 8)	g	33,242	(11,884)	21,358
Prepaid expenses and deposits		1,938	-	1,938
Total current assets		97,780	1,417	99,197
Property, plant and equipment, net (note 4)	h,m,n	66,976	(4,012)	62,964
Deferred tax assets		760	-	760
		\$165,516	(\$2,595)	\$162,921
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	o	\$26,990	(26,990)	\$-
Trade accounts payable	o	-	16,131	16,131
Accrued taxes and payroll costs	o	-	4,628	4,628
Other accrued liabilities	o	-	5,396	5,396
Provisions (note 5)	o	-	835	835
Income taxes payable		909	-	909
Finance lease obligations - current portion (note 7)		45	-	45
Customer advance payments (note 6)	g	1,629	(1,242)	387
Total current liabilities		29,573	(1,242)	28,331
Finance lease obligations - long-term portion (note 7)		739	-	739
Deferred tax liabilities	g,h,m,n	4,105	(581)	3,524
Total liabilities		34,417	(1,823)	32,594
Shareholders' Equity				
Share capital (note 3)		36,046	-	36,046
Contributed surplus (note 3)	c,i	3,391	128	3,519
Accumulated other comprehensive (loss) income (note 2)	b,n	(14,847)	15,444	597
Retained earnings (note 3)	c,g,h,i,n	106,509	(16,344)	90,165
Total shareholders' equity		131,099	(772)	130,327
		\$165,516	(\$2,595)	\$162,921

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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The three months ended December 31, 2010 Canadian GAAP interim consolidated statement of cash flows has been reconciled to IFRS as follows:

	Three Months ended December 31, 2010			
	Ref.	Canadian GAAP	Effect of transition to IFRS	IFRS
OPERATING ACTIVITIES:				
Net income for the period	g,h,i, n	\$3,126	(\$1,072)	\$2,054
Add (deduct) items not involving a current outlay of cash				
Depreciation and amortization	h	1,956	482	2,438
Stock-based compensation expense (note 3)	i	90	(3)	87
Deferred income taxes	h,m,n	231	(547)	(316)
Loss on disposal of fixed assets	h	53	(39)	14
Gain on financial instrument valuation (note 7)		(267)	-	(267)
		<u>5,189</u>	<u>(1,179)</u>	4,010
Net change in non-cash working capital	g	(5,621)	1,179	(4,442)
Cash used in operating activities		<u>(432)</u>	<u>-</u>	(432)
FINANCING ACTIVITIES:				
Repayment of finance lease obligations (note 7)		(27)	-	(27)
Dividends paid (note 3)		(1,023)	-	(1,023)
Repurchase of share capital (note 3)		-	-	-
Issue of share capital (note 3)		-	-	-
Cash used in financing activities		<u>(1,050)</u>	<u>-</u>	(1,050)
INVESTING ACTIVITIES:				
Business acquisitions, net of cash acquired (note 11)		(1,541)	-	(1,541)
Purchase of property, plant and equipment		(3,973)	-	(3,973)
Proceeds on sale of property, plant and equipment		44	-	44
Cash used in investing activities		<u>(5,470)</u>	<u>-</u>	(5,470)
Effect of exchange rate changes on cash		(694)		(694)
Net increase in cash during the period		(7,646)	-	(7,646)
Cash, beginning of period		20,186	-	20,186
Cash, end of period		<u>\$12,540</u>	<u>\$-</u>	\$12,540

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CORPORATE INFORMATION

Exco Technologies Limited is a global supplier of innovative technologies servicing the die-cast, extrusion and automotive industries. Through our 10 strategic locations, we employ 2,112 people and service a diverse and broad customer base.

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