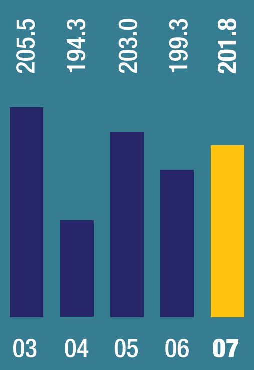
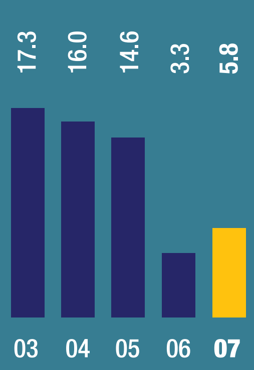
EXCO TECHNOLOGIES LIMITED **2007**
ANNUAL REPORT

FINANCIAL HIGHLIGHTS

Sales*
($ millions)



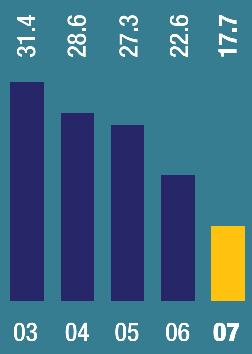
Net income (loss) from continuing operations*
($ millions)



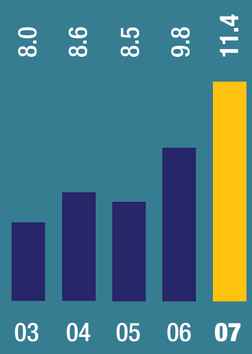
Diluted earnings (loss) per share from continuing operations*

EBITDA*°
($ millions)

Cash flow from operations before non-cash items*ƒ
($ millions)



Capital expenditures, net of disposals*
($ millions)



* From continuing operations

° 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.

ƒ Before non-cash working capital

LETTER TO THE SHAREHOLDERS

CHANGE AND OPPORTUNITY

The competitive pressures of globalization have wrought profound changes in the North American automobile industry during the past few years. It's a process that's far from over.

We are positioning Exco to adapt and prosper in this new environment by focusing on our core businesses, selectively investing in opportunities for growth in low cost countries and working closely with an expanding roster of customers.

It was another year of firsts in the automotive industry. As of September 30, 2007 Toyota was poised to capture General Motor's crown as the world's largest vehicle manufacturer. China had surpassed Japan as the world's second largest vehicle market behind the United States and its largest domestic auto manufacturer was on track to begin exporting cars to Eastern Europe and Latin America sometime next year.

Closer to home, Canadian market share for the North American OEMs fell below 50% for the first time in history; trends were similar in the U.S., where Detroit lost ground to both new domestic and import manufacturers. In an unprecedented response, GM, Ford and Chrysler and their unions worked to stem the tide by negotiating a two-tiered wage system and a new deal on health care that promised to bring Detroit's labour costs much more closely into line with foreign competitors. In Canada, the year closed with the Canadian dollar at par and rising – adding futher momentum to a new wave of cost containment and efficiency improvements for Canadian manufacturers.

Amid this changing environment, Exco continued to make the tough decisions required for our long-term prosperity. We are keenly aware of the challenges faced by our North American customers. And we are carefully positioning the company to take advantage of its opportunities in a period of rapid change.

In September 2007, we announced the sale of our Techmire division in an all cash transaction. Techmire is a strong global brand with significant strategic value in improving magnesium and aluminum die-cast manufacturing standards, and we expended considerable effort to improve its operating performance. Ultimately, however, we concluded the company would not contribute to Exco's profitability for some time, given the continuing migration of customers to Asia and the persistent strength of the Canadian dollar. As a result of this transaction, we have significantly improved our cost structure by exiting a business that had reduced consolidated pre-tax profit by $3 million to $5 million in each of the past three years.

Efforts to streamline operations have also continued throughout the company by way of numerous continuous improvement initiatives and an overall reduction in head-count of approximately 5% during the past year. Recently improved manufacturing processes in our Canadian extrusion operations are expected to help mitigate the effect of a rising Canadian dollar.

At the same time, we recognize that cost cutting our way to prosperity is not a viable strategy for long-term success. Indeed, Exco continues to make significant investments where we see the greatest opportunities. What's more, we have many reasons to be optimistic about our prospects despite the current downturn in the North American auto industry.

One of the most encouraging is our promising large mould business. In June 2007, Exco announced its success in winning Chrysler's next-generation V6 Phoenix engine program and a rear wheel drive transmission program, as well as an important new engine block program for Ford and a new domestic automotive manufacturer. Starting in 2008, and over the next five years, these contracts are expected to generate approximately $75 million in sales. The introduction of these programs reflects the determination of auto makers to produce more fuel efficient vehicles and streamline product offerings, trends which bode very well for Exco. As these and other contracts come on stream, we expect to significantly improve profitability as higher rates of capacity utilization are achieved.

We are also pleased by double-digit growth in our Automotive Solutions business, which develops and manufactures interior trim components and assemblies for customers in North America, Europe and Asia. Our Polydesign division in Morocco contributed to Exco's consolidated profit for the first time in 2007. Five years ago, we believed auto manufacturers in Europe would embrace the services of a low-cost manufacturing facility in close proximity to their operations. It has been gratifying to see that conviction bear fruit. Our investment in Polydesign has allowed us to do more business in Europe, which now represents approximately 14% of Exco's total sales, up from 4% in 2005. Looking ahead, Polydesign is planning an expansion of its Moroccan facility to keep pace with expected demand.

In Mexico, our Polytech division purchased its facility in Matamoros during the year, replacing a facility Polytech had leased for over a decade. This reflects a growing level of confidence in our relationships with both domestic and foreign manufacturers who are now committed to growing their Mexican operations. The new facility now has room to double its current 130,000 sq. ft. building when our customers require it.

Meanwhile, efforts to diversify Exco's customer base are proving successful. Over the past six years, we have transformed our automotive customer base from primarily the Big 3 to one that includes over 20 OEMs, and their tiers, in North America, Europe and Asia. This year, Honda business has overtaken Chrysler and Ford to become our largest OEM. Next in size are Chrysler, Ford, GM, Nissan and Toyota. The last three are all roughly the same size. We also continue to build on our presence in global industrial markets with customers such as Alcoa and Indalex.

At the same time, we recognize that the prosperity of the North American OEMs will continue to have a large impact on the company's fortunes. And in the short term, we know these valued customers will continue to face significant difficulties. Sales of large SUVs and trucks continue to languish as North American consumers cope with the high price of gasoline and an uncertain economy. In response, the Big 3 will continue to re-develop their product lines and eliminate excess capacity. Nonetheless, we are encouraged by the progress Detroit's car companies have already made in restructuring their operations and are working closely with them as they respond to meet the challenges of a rapidly changing domestic market

Going forward, the business environment will remain challenging for Exco as this process continues. The elevated value of the Canadian dollar will also be unhelpful as 54% of our sales are manufactured in Canada, but only 14% of our sales are sold in Canada. However, we are confident that Exco is charting the right course. During the past year, we have taken prudent steps to preserve cash and maintain profitability. We have also made the investments that will help Exco grow with an increasingly diverse roster of customers. Equally important, and unlike most of our peers in the industry, we have a balance sheet that is free of net debt, which gives us the flexibility to weather the current industry downturn.

We would like to acknowledge the contribution of our director, Ralph Zarboni, who will not be standing for re-election to the Board after eight years with us. Ralph has been a diligent contributor to the Board, the Audit Committee and other committees and we wish him well.

With the help of our 2,100 employees around the world, and the continued support of our valued customers, suppliers and investors, we are confident Exco is well positioned to adapt and prosper in the months and years ahead.

Brian A. Robbins
President and Chief Executive Officer

Richard D. McGraw
Chairman of the Board

FINANCIAL REVIEW

CONTENTS

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 for the year-ended September 30, 2007. This MD&A has been prepared as of November 23, 2007.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAUTIONARY STATEMENT

Information in this document relating to projected growth, improvements in productivity and future results are forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements as the plans, intentions or expectations upon which these statements are based may not occur. Forward-looking statements include known and unknown risks, uncertainties, assumptions and other factors which may cause actual results or achievements to be materially different from those expressed or implied. Exco's risks are described in this annual report, our 2007 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.

While Exco believes that the expectations represented by such forward-looking statements are reasonable, we cannot assure that they will be correct. The Company disclaims any obligation to update any risk factors or publicly announce the result of any revisions to any of the forward-looking statements contained in this document.

CORE BUSINESSES

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

The Casting and Extrusion segment designs, develops and manufactures die-casting and extrusion tooling 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, high-quality supplier of consumable components to die-casters and extruders by evaluating, coordinating and ultimately maximizing customers' overall equipment performance and longevity.

The Canadian and United States markets are Exco's primary focus for die-cast moulds, extrusion dies and machine consumable parts, although South America, Europe and Asia are also being developed.

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 components and assemblies. Polydesign is also a manufacturer of seat covers and other cut and sew products. Neocon is a supplier of soft plastic trunk trays and rigid plastic trunk organizer systems. Automotive Solutions facilities are located in Canada, the United States, Mexico and Morocco, supplying the North American, European and Asian automotive markets.

VISION AND STRATEGY

In last year's MD&A, we outlined a number of significant challenges facing the Company as well as our plans to address them.

First and foremost among our challenges was the restructuring of the North American and European automotive industries – a process that continued unabated in fiscal 2007. In both jurisdictions, domestic manufacturers have continued to lose market share to new American and European domestic and import manufacturers. In the North American market, which represents more than 80% of the Company's sales, Asian based manufacturers continue to gain market share at the expense of Detroit's Big 3 manufacturers. Overcapacity at General Motors, Ford and Chrysler, as well as their Tier 1 supplier base, has continued, with dramatic volume reductions and poor financial performance. The persistently high price of gasoline has continued to erode demand for full-size trucks and large SUV vehicles upon which the Big 3 had been heavily reliant in terms of sales, and especially, profitability. In the past 12 months, Detroit has introduced a large number of smaller, more fuel efficient vehicles to compete more effectively with Asian manufacturers who enjoy the benefits of a significant lead in this segment of the market. The Big 3 have also continued to rationalize manufacturing capacity to reflect lower production levels and negotiate new union agreements that narrow the wage differential between their operations and those of foreign competitors. More recently, they have announced plans to streamline their product offerings and eliminate slow-moving or low-volume models. While these initiatives promise to improve the competitive position and financial health of GM, Ford and Chrysler going forward, Exco does not expect demand for components from these customers to return to historical levels in the near future.

We do, however, expect that our position as a global leader in the design and manufacture of automotive power train component moulds will result in significant business as the North American OEMs and new domestics introduce next-generation power train standardized engines and transmissions and generally develop more fuel-efficient power train systems.

Another of the major challenges we cited a year ago was the lofty value of the Canadian dollar. More specifically, we mentioned Exco's reliance on sales to the U.S., noting that the climb of the Canadian dollar had produced the unwelcome effect of reducing top line sales while putting significant pressure on profit margins at Canadian operations and translated profits from U.S. subsidiaries. During the past year, the Canadian dollar continued to climb, rising from just under US$0.90 on September 30, 2006 to more than US$1.00 on September 30, 2007.

The third challenge we cited was continued operating losses at Techmire, our Quebec-based die-cast machinery division. Techmire had struggled with the consequences of a strengthening Canadian dollar for several years, a period of time during which many of its customers were migrating to lower-cost jurisdictions in Asia.

In light of these challenges, management at Exco shared its commitment to focus on cost reduction, preserve cash flow, maintain a strong balance sheet and deal with the Techmire situation. The following paragraphs provide a report on our progress over the past 12 months.

Our numerous efforts to reduce costs have been progressing successfully. Staff reductions throughout Exco's Canadian operations were approximately 10% during the year. As of September 30, 2007, Exco employed approximately 525 people in Canada. As expected, associated severance expenses have been reflected in higher Cost of Sales and Sales, General & Administrative (SG&A) expenses.

At the same time, our efforts to preserve cash and protect the balance sheet have borne fruit. Over the past 12 months, net debt was eliminated and accounts receivable were reduced by almost $9 million or 22%. Day Sales Outstanding (DSOs) for the same period decreased from 72 days last year to 55 days – reflecting careful management of the Company's cash flow. With respect to Techmire, management realized early in the year that our operations could not be restored to profitability without a substantial investment in relocating the facility. Despite years of investment in aluminum and magnesium research and development, the continuing rise of the Canadian dollar against its U.S. counterpart had severely affected the competitive positioning of this otherwise promising, Quebec-based business. As a result, it became evident that the best course of action was a responsible exit from Techmire.

Accordingly, we readied Techmire for sale by conservatively managing inventory levels and accounts receivable. On September 28, 2007, we announced the sale of Techmire to Dynacast Canada Inc., receiving substantially full value for assets sold. The last phase of the exit strategy will be concluded with the sale of the facility's non-mortgaged land and building.

Going forward, this transaction has eliminated a business that reduced Exco's consolidated pre-tax profit by $3 million to more than $5 million in each of the past three years. The sale has also significantly reduced Exco's exposure to the adverse foreign exchange effects of a strong Canadian dollar and converted non-productive assets back to cash, which can be redeployed in more profitable ventures.

Each of the preceding initiatives has helped us maintain Exco's financial health and flexibility during the current industry downturn. However, we have been equally mindful of the future. That's why we continued to strengthen and diversify our customer relationships and geographic footprint during the past year while making the selective investments required to support profitable, long-term growth.

Through Polydesign's operations in Morocco, we have significantly expanded our relationships with vehicle manufacturers in the European market, diversifying our business with respect to geographic location and currency in the process. Polydesign provides a growing range of cargo restraint products, injection-moulded shift and brake boots and related console components and assemblies. In 2007, Polydesign expanded into the production of seat covers for Honda vehicles. Double-digit sales growth at the division has led to a planned expansion of Polydesign's operations in 2008.

Our Polytech division in Mexico, which manufactures similar systems and components, derives approximately half of its sales from Ford and General Motors or their tiers. This division has been re-establishing itself after severe production cuts of larger vehicles by some of its major customers. During the past year, Exco's confidence in the prospects for its Mexican manufacturing base was demonstrated by the purchase of a manufacturing facility for Polytech which replaces a 100,000 sq. ft. leased facility.

Our Neocon division, which produces trunk organizer systems, provides a similar buffer against the turbulence in the North American vehicle market. Neocon has been forging relationships with a growing number of new domestic manufacturers; in fiscal 2007, the majority of Neocon's business was derived from such customers and Neocon launched its first program with Toyota on an OEM basis. In fact, our persistence in nurturing relationships with the new domestic OEMs has been met with significant success. Honda (including its tiers) is now our largest customer, representing 13.4% of consolidated sales. This is up from 8.9% last year. Combined sales to Honda, Nissan, and Toyota (including their tiers) are 19.4% of Exco's sales in 2007 – up from 14.8% in 2006.

Selective investments also continue to be made in higher-cost jurisdictions such as Canada. During the past year, Exco invested in a new and larger state-of-the-art facility for Castool and invested heavily in advanced machining equipment at our extrusion die facilities in Newmarket and Markham, Ontario in order to optimize productivity and help mitigate the effect of a rising Canadian dollar.

As a result of these initiatives, Exco is better positioned to meet the challenges of the current industry environment. Some of our customers will continue to be challenged during the year ahead as the industry restructures. In the meantime, Exco is in reasonably good shape, with a strong balance sheet, increasingly efficient operations and a significantly more diversified revenue base.

2007 RESULTS

Consolidated Results

Our results in fiscal 2007 and 2006 have been restated to reflect the financial results of Techmire as a discontinued operation. Techmire was purchased in December 2000 and sold for cash on September 28, 2007. Results from this operation and proceeds realized on its sale have been classified as discontinued operations in the Consolidated Financial Statements (see Note 15 of the Consolidated Financial Statements). All references in the MD&A are to continuing operations unless otherwise stated.

Sales of $201.8 million were up slightly more than 1% over the prior year. This increase includes the impact of an average annual exchange rate of $1.11 compared to $1.14 in fiscal 2006, which lowered sales this year by $3.6 million or 1.8%. About 66% of sales were denominated in U.S. dollars. Despite the continuing rise of the Canadian dollar, sales held firm over the course of the year, reflecting strong overall demand for our products and greater market penetration at several business units.

Selected Annual Information

The following table sets out selected financial data relating to the Company's years ended September 30, 2007, 2006 and 2005. This financial data should be read in conjunction with the Company's audited consolidated financial statements for these years:

$ millions except per share amounts

	2007	2006	2005
Sales	$ 201.8	$ 199.3	$ 203.0
Earnings from continuing operations	$ 5.8	$ 3.3	$ 14.5
Net earnings (loss) for the year	$ 3.1	($ 0.6)	$ 11.1
Total assets	$ 184.1	$ 201.4	$ 218.3
Total long-term liabilities	$ 0.0	$ 0.1	$ 0.4
Cash dividend declared per share	$ 0.06	$ 0.05	$ 0.05
Earnings per share from continuing operations			
Basic	$ 0.14	$ 0.08	$ 0.35
Diluted	$ 0.14	$ 0.08	$ 0.35
Earnings (loss) per share from net earnings			
Basic	$ 0.07	($ 0.01)	$ 0.27
Diluted	$ 0.07	($ 0.01)	$ 0.27

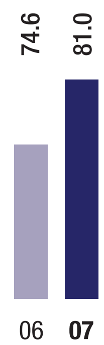
Casting and Extrusion
Sales ($ millions)

Segment Operating Results

- ***Casting and Extrusion Segment***

Sales for this segment were $120.8 million, 3.1% less than the prior year. All businesses in this segment, except the large mould businesses, experienced top line growth despite the effect of a weakening U.S. dollar. The extrusion tooling businesses increased sales by 7% in spite of a very competitive market. Castool, a manufacturer of extrusion and die-cast machine accessories and consumable parts, increased sales by 9.1%. Most of this increase was in the U.S. and European markets where we believe our focus on customer service, timely delivery and continuous improvement is growing our share of the market. Overall sales in the large mould businesses dropped significantly as our customers delayed decisions regarding the design and release of next-generation engines and transmissions. With the recent award of Chrysler's V6 Phoenix engine and other programs, our large mould businesses are poised to return to more traditional sales volumes.

Automotive Solutions Segment
Sales ($ millions)



- ***Automotive Solutions Segment***

This segment achieved sales of $81.0 million compared to $74.6 million last year, an increase of $6.4 million or 8.6%. Polytech's sales were off by almost $10 million reflecting the combined impact of: 1) the translation effect of a weaker U.S. dollar; 2) production cuts by the Big 3 and new domestics on SUV and truck programs; and 3) a weak year for new program launches. Sales at both Neocon locations in Nova Scotia and Alabama increased slightly as sales from new program launches, such as organizers for Toyota and bumper pads for Nissan, were about evenly offset by the impact of a weak U.S. dollar. Polydesign, however, doubled its sales to $29.7 million as the seat cover business for Honda was fully ramped up during the year.

Gross Margin
(%)

Gross Margin

Consolidated gross margin declined to 24.7% from 28.2% in fiscal 2006. Rising input costs affected consolidated gross margin. Steel price and surcharge increases moderated during the early part of the year but resumed to climb gradually thereafter. Resin prices were also stable at the start of the year but subsequently increased at a gradual rate. In addition, severance costs associated with staffing reduction initiatives in our Canadian operations this year negatively impacted margin by almost half a percent. Continuous improvement initiatives and sourcing in U.S. dollars at our Canadian operations mitigated much of this impact; however, each segment was affected by several factors which impeded our overall progress on gross margin.

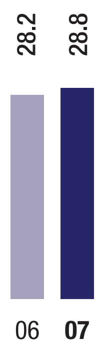
The Casting and Extrusion segment margin declined 2.5% from 28.4% last year to 25.9% this year. Within this segment, Exco's extrusion tooling business was able to retain its margin through better recovery of steel surcharges and freight costs and operational improvements. Increasing sales from strong industrial markets also helped keep capacity utilization at record high levels. Our large mould businesses, however, experienced weaker margins owing primarily to lower capacity utilization causing poorer absorption of fixed costs – particularly at our flagship Newmarket, Ontario facility. This situation, combined with Castool's lower margin caused by one-time moving costs, changing product mix and higher costs associated with development of new products and manufacturing processes overwhelmed the improvement in the extrusion die businesses.

The Automotive Solutions segment margin declined 4.5% from 26.7% to 22.2%. This segment manufactures a broad array of products with varying margin profiles. In 2007, sales of products with relatively higher raw material content and relatively lower margin, increased dramatically. Seat cover business doubled in the year and Polytech launched a GM package tray program with significantly higher raw material requirements. Meanwhile, production levels and pricing of traditional higher margin net and interior trim parts at Polytech and Neocon came under pressure. In effect, product mix migration negatively impacted this sector despite higher overall sales and full-capacity production at two of the four plants (Morocco and Nova Scotia).

Generally, gross margin at Exco's Canadian business units is also under pressure as the rising Canadian dollar erodes the value of their U.S. dollar sales. This trend reduced margins at both segments but disproportionately affected Casting and Extrusion. The Automotive Solutions segment only has one Canadian plant and the Casting and Extrusion segment has five plants in Canada. Foreign exchange has no impact on gross margin at our U.S. operations.

Research and development costs are expensed as incurred unless they meet Canadian GAAP for deferral. These costs are typically not significant in our continuing operations, and in 2007, this was also the case.

Selling, General and Administrative Expenses
($ millions)



Selling, General and Administrative Expenses

SG&A expenses as a percentage of sales were stable at 14.3% or $28.8 million compared to $28.2 million in the prior year. This apparent consistency conceals major decisions taken in the last year to reduce Exco's SG&A expenses. The process of reducing staffing levels has been ongoing for several years. This year, the process continued resulting in severance and notice payments in excess of $350 thousand. Commission payments were down about $250 thousand even though sales increased. This reflected a reduction in the number of sales agents used in the Automotive Solutions segment. General and administrative salaries were $400 thousand lower than last year and further reflects Exco's determination to control costs at all levels.

Incentive compensation costs have declined in the year by $900 thousand in keeping with lower divisional profits. Several divisions that achieved maximum bonus levels in fiscal 2006 did not achieve them this year, reflecting a more even distribution of pre-tax profits.

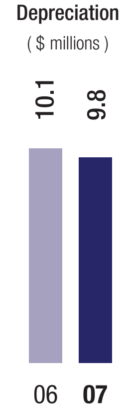
Exco continued the task of reviewing and documenting its internal control environment in order to comply with new regulatory mandates. It also revisited and refined its governance structure and began planning the migration to International Financial Reporting Standards (IFRS) which are mandated to replace Canadian GAAP in 2011. Given the number of Exco's 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 will be incurred each year and are likely to increase SG&A costs, as the mandate requires testing in addition to design and documentation of internal controls.

This expense category also includes the cost of a strategic decision to discontinue the operation of an aircraft by the Company. For numerous years Exco has serviced the needs of its large mould and extrusion die customers, who are generally located in remote communities, by use of an aircraft operated by Exco. Given the rising costs of fuel and lease financing, recent regulatory complexities of operating an aircraft and the current weakness in the automotive sector in North America, management has decided to discontinue the operation of this aircraft in the coming months. Accordingly, the Company has taken a charge against earnings of $2 million in fiscal 2007 for the cost of exiting this operating lease arrangement. Management expects that annual savings in future years will be approximately $1 million.

Exco expensed stock options of $597 thousand compared to $517 thousand in the prior year. This expense relates to the Employee Stock Purchase Plan, the Stock Option Plan and the Board of Directors Deferred Stock Unit Plan (see Note 7 to the 2007 Consolidated Financial Statements).

Depreciation and Amortization

Depreciation and amortization expenses were $9.8 million (4.9% of sales) compared to $10.1 million (5.0% of sales) in the prior year. Notwithstanding Exco's investment of $4.1 million in the completion of the new Castool production facility in Uxbridge, Ontario, depreciation expense declined in the Casting and Extrusion segment by $480 thousand. This reflects the maturing of this segment's assets. In the Automotive Solutions segment, the purchase of a US$1.9 million production facility for Polytech in Matamoros, Mexico increased depreciation expense as the prior premises was an operating lease. Fixed asset additions in future years may increase as our operations invest in new machinery and equipment to improve manufacturing processes and access state-of-the art machining technology. Two plants are also being expanded in 2008 which will also increase depreciation.



As of September 30, 2006 the Company had recorded goodwill of approximately $34.8 million. Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment, or decline in value, may have occurred. In conducting our impairment testing, we compare the fair value of each of our reporting units to the related net book value. If the fair value of a reporting unit exceeds its net book value, goodwill is considered not to be impaired. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We conduct our annual impairment testing in the fourth quarter each year.

The Company utilizes an income approach to estimate the fair value of each of 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 fourth 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 our Neocon USA subsidiary. These events included pre-tax losses for the year of $ 1.3 million, a consistent inability over numerous years to achieve profitability or other goals and difficulty in securing and launching sufficient business, in the near term, to grow its sales and achieve profitability at a level necessary to warrant the retention of the goodwill. As a result, the Company tested the goodwill associated with the Neocon USA subsidiary and the Company recorded a goodwill impairment charge of $1.1 million. This impairment charge was not deductible for tax purposes; therefore, there was no corresponding tax benefit. After this impairment charge, there remains no goodwill associated with the Neocon USA subsidiary.

Interest

Interest expense was $219 thousand compared to $740 thousand in fiscal 2006. The decrease is due to the lower level of bank borrowings throughout the year. Exco's average cost of borrowing in fiscal 2007 was 4.5%, an increase of 65 basis points from the prior year. The impact of lower debt more than offset the increase in the cost of borrowing in the first half of the year. With the sale of Techmire at the end of 2007, we expect Exco will be a net recipient of interest income in the year ahead.

Income Taxes

Exco's effective income tax rate for continuing operations was 44% compared to 63% in fiscal 2006. The effective tax rate decreased primarily due to the impact of a smaller non-deductible goodwill write-off this year of $1.1 million compared to $8.3 million last year. Effective tax rates are also impacted by the presentation of discontinued operations which requires that future tax recoveries from losses on the Techmire operation be applied to reduce losses from discontinued operations rather than recorded against future tax provisions of continuing operations. For further discussion of the tax recoveries applied to discontinued operations see Note 15 to the Consolidated Financial Statements.

Foreign Exchange

During the year, the Canadian dollar appreciated about 10.7% against the U.S. dollar from $1.12 to par. As a result of foreign contracts and U.S. dollar debt, the impact of this appreciation on Exco's Canadian working capital was a loss of $530 thousand compared to a gain of $907 thousand last year. This amount is higher than last year because, this year, Exco had less U.S. dollar debt. Techmire accounted for $195 thousand of this loss. With the sale of Techmire this foreign exchange exposure has been eliminated for future years. For further discussion of the Company's foreign exchange see "Risks and Uncertainties" in this MD&A and Note 1 to the Consolidated Financial Statements.

Net Income

- ***Consolidated***

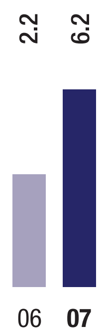
Consolidated net income from continuing operations increased 75% to $5.8 million or $0.14 per share fully diluted compared to $3.3 million or $0.08 per share in fiscal 2006. Net income this year was impacted by a one time expense of $2 million or $0.03 per share associated with the exit from Exco's aircraft operating lease. For further discussion of this charge see "Sales, General and Administrative Expenses" in this MD&A. During the year Exco recorded goodwill impairment charges of $1.1 million (Neocon USA) compared to $8.3 million (Techmire) last year. Consolidated net income from continuing operations, before the impact of goodwill impairment charges, would have been $4.7 million or 40.5% less than last year.

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

Casting and Extrusion earnings were up $4 million to $6.2 million compared to $2.2 million last year. Excluding the impact of last year's goodwill impairment charge for Techmire, which reduced fiscal 2006 operating earnings by $8.3 million, operating earnings have declined by 41.0 %. Our combined extrusion die businesses were slightly more profitable than last year mostly due to better recovery of steel surcharges and continuous improvement initiatives. Castool earnings were steady although they were negatively impacted in the year by costs associated with moving to a new location in the first quarter of the fiscal year. Activity in our large mould businesses was limited by manufacturers' delays in releasing next-generation engine and transmission mould programs, which adversely affected capacity utilization and earnings. Looking ahead, however, prospects for the large mould business are expected to improve significantly with new orders recently announced by Exco estimated to generate sales of $75 million over the next five years.

Casting and Extrusion Segment

Operating Earnings ($ millions)

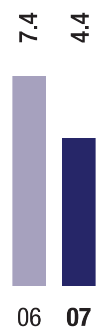


- ***Automotive Solutions Segment (Operating Earnings)***

Earnings for the Automotive Solutions segment were down by 41% at $4.4 million compared to $7.4 million in fiscal 2006. Performance was adversely affected by the strong Canadian dollar since North American earnings in this segment are denominated in U.S. dollars. Polydesign's record earnings this year were offset by weaker performances at Polytech and Neocon Canada and a pre-tax loss at Neocon USA of approximately $1.3 million. This loss was caused by launch delays of several Chrysler programs early in the year and start-up costs on several other programs. In 2007, this segment's sales increase caused a higher proportion of Exco's SG&A costs to be allocated to the segment.

Automotive Solutions Segment

Operating Earnings ($ millions)



Quarterly Results

The following table sets out financial information for each of the eight fiscal quarters through to the fiscal year-ended September 30, 2007:

$ thousands except per share amounts

2007	Sept/07	June/07	Mar/07	Dec/06	Total
Sales	$50,485	$51,574	$53,249	$46,451	**$201,759**
Net income from continuing operations before Goodwill	$341	$2,254	$2,517	$1,775	**$6,887**
Earnings per share from continuing operations before Goodwill					
Basic	$ 0.01	$ 0.05	$ 0.06	$ 0.05	**$ 0.17**
Diluted	$ 0.01	$ 0.05	$ 0.06	$ 0.05	**$ 0.17**
Net income (loss) from continuing operations	($752)	$2,254	$2,517	$1,775	**$5,794**
Earnings (loss) per share from continuing operations					
Basic	($ 0.02)	$ 0.05	$ 0.06	$ 0.05	**$ 0.14**
Diluted	($ 0.02)	$ 0.05	$ 0.06	$ 0.05	**$ 0.14**
Net income (loss)	($2,073)	$2,168	$1,859	$1,108	**$3,062**
Earnings (loss) per share					
Basic	($ 0.05)	$ 0.05	$ 0.04	$ 0.03	**$ 0.07**
Diluted	($ 0.05)	$ 0.05	$ 0.04	$ 0.03	**$ 0.07**

2006	Sept/06	June/06	Mar/06	Dec/05	Total
Sales	$51,411	$49,294	$51,250	$47,316	**$199,271**
Net income from continuing operations before Goodwill	$4,035	$2,332	$2,609	$2,680	**$11,656**
Earnings per share from continuing operations before Goodwill					
Basic	$ 0.10	$ 0.06	$ 0.06	$ 0.06	**$ 0.28**
Diluted	$ 0.10	$ 0.06	$ 0.06	$ 0.06	**$ 0.28**
Net income (loss) from continuing operations	$4,035	$2,332	($5,736)	$2,680	**$3,311**
Earnings (loss) per share from continuing operations					
Basic	$ 0.10	$ 0.06	($ 0.14)	$ 0.06	**$ 0.08**
Diluted	$ 0.10	$ 0.06	($ 0.14)	$ 0.06	**$ 0.08**
Net income (loss)	$3,141	$1,606	($7,363)	$2,000	**($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)**

Exco typically experiences softer sales and profit in the first quarter, which coincides with our customers' plant shutdowns in North America 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. This year Exco also experienced a slowdown in North American sales in the fourth quarter as carmakers idled production facilities during the summer months. This may become the norm in the North American market in years to come.

In the fourth quarter sales of $50.5 million were down over last year by almost 2%. The Canadian dollar achieved parity with the U.S. dollar in the quarter, strengthening on average by 8 cents over last year. While the strong Canadian dollar has unquestionably hindered our top line performance, weakness in the sale of large moulds during the fourth quarter was a more important factor. Large mould sales were down $4.9 million compared to last year. This offset an increase of almost $2 million in sales at other operations in the Casting and Extrusion segment and also offset an increase of $1.5 million in sales in the Automotive Solutions segment. Sale of large moulds will improve as deliveries of our order backlog begin to take place throughout this year.

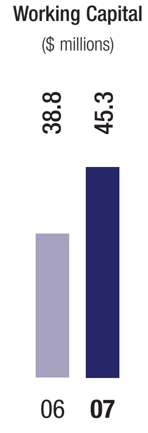
The Company reported a fourth quarter net loss from continuing operations of $752 thousand. This loss includes a non deductible goodwill charge of $1.1 million taken in the fourth quarter to reflect impairment at our Neocon USA operation which has been struggling with building a solid revenue base as customers delay and change product design and production schedules. The Company also recorded a pre-tax charge of $2 million in the quarter for the estimated cost of exiting an operating lease for an aircraft which has long serviced our large mould and extrusion die customers. This charge accounts for the increase in SG&A expenses in the quarter of $1.9 million. Exco's earnings were also eroded in the quarter by severance costs related to staff reductions in our Canadian operations which increased Cost of Sales by about $350 thousand. Further contributing to this quarterly loss is a tax provision of $1.4 million. Two factors account for such a high tax provision. Techmire's classification as a discontinued operation has caused tax recoveries flowing from its operating losses to be allocated against losses from discontinued operations even though these tax recoveries are still available to the Company in future years. The amount so classified is $684 thousand. The other factor is the non-deductibility of the $1.1 million goodwill charge which adds another $375 thousand to the tax provision.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL RESOURCES

Working Capital

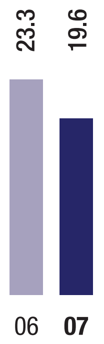
Exco's working capital increased about $6.5 million to $45.3 million at September 30, 2007 compared to $38.8 million a year earlier. The increase is mostly attributable to the inclusion of assets held for sale in the amount of $5.6 million. With the sale of the Techmire business, the production facility, which was not sold to Dynacast but listed for sale, was reclassified from fixed assets to current assets, as the facility is expected to be sold within the next twelve months. Exco's improvement in net debt also eroded working capital, as cash balances increased by $3.2 million in 2007 and bank indebtedness decreased by $7.7 million.

Partially mitigating these two factors is the dramatic decrease in accounts receivable by $8.8 million and our handling of Techmire's working capital. Lower receivables generally reflect better payment terms with certain customers and our desire to avoid, as much as possible, arrangements whereby payment for tools is based on pre-production approval of moulds by our customers. With the sale of Techmire, current assets remaining on the balance sheet at year-end dropped $6.4 million.



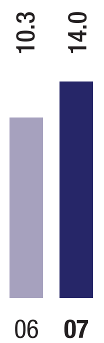
Cash Flow from Operating Activities

($ millions)



Capital Expenditures

($ millions)



Bank Debt (Net of Cash)

Exco had no bank debt, net of cash, at September 30, 2007 as it closed the year with net cash deposits of $4.5 million. This compares to $6.8 million net bank debt last year-end and represents an improvement of over $11.3 million. Bank debt decreased throughout the year as a result of better collection of accounts receivable, better profitability and deposit of proceeds from the sale of Techmire. The Company does not presently anticipate the need for long-term debt in its capital structure.

Cash Flow from Operating Activities

Cash flow from operating activities declined to $19.6 million from $23.3 million in fiscal 2006. Exco's increased profitability and better non-cash working capital this year improved cash flow from operating activities. However this was more than offset by lower non-cash goodwill charges of $1.1 million (compared to $8.3 million last year).

Capital Expenditures

Additions to fixed assets totalled $14.0 million compared to $10.3 million in the prior year. The investment in the Automotive Solutions segment was $4.5 million and investment in the Casting and Extrusion segment was $9.5 million.

About US$1.9 million of the Automotive Solutions investment was spent on the purchase of a production facility for Polytech in Matamoros, Mexico to replace a leased facility. During the year Exco completed the construction of a new production facility for Castool in Uxbridge, Ontario. This project took place over two quarters which straddled the 2006 fiscal year-end – about $4.1 million to complete the building was spent in this fiscal year. Also, proceeds of about $2.5 million were realized from the sale of Castool's old facility in Scarborough, Ontario.

In fiscal 2008, Exco plans to make capital expenditures of $14.1 million. In the Casting and Extrusion segment the bulk of the capital investment will be used to purchase equipment to maintain capacity. However, an addition to Exco's extrusion die facility requiring an investment of approximately US$1 million is budgeted for the year in order to enable this business to better meet rising demand. In the Automotive Solutions segment Exco is also addressing a lack of capacity at Polydesign by adding approximately 80,000 sq. ft. to its existing production facility in Tangier, Morocco at an approximate cost of US $3.5 million. Offsetting these capital expenditures will be proceeds from the sale of the Techmire production facility in Anjou, Quebec, which is currently listed for sale, and other assets which Exco may sell throughout the year. The combined anticipated receipts from the sale of these properties are approximately $10 million, thereby resulting in net capital expenditures of approximately $4.1 million for the 2008 fiscal year.

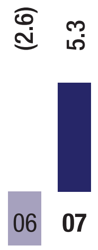
Dispositions

On September 28, 2007, Exco sold its multi-slide die-cast machine manufacturing business in Anjou, Quebec, which it acquired in December 2000. Techmire had struggled for considerable time with the migration of its North American customer base to Asia and, more recently, the high cost of zinc. Efforts to develop magnesium and aluminum machines, which initially looked promising and prompted a move to a new and larger production facility, ultimately yielded insufficient results. The ultimate adversity for Techmire was the sustained strengthening of the Canadian dollar which made efforts to return the business to profitability, as a stand alone concern, improbable. Management's re-assessment of the business prompted a controlled reduction in working capital and a search for an industry participant that could incorporate the Techmire business in an existing operation, thereby facilitating the continuation of the Techmire business and eventual sale of the production facility which is now surplus to Exco's needs. The Techmire facility in Anjou, Quebec is now listed for sale and classified in the Consolidated Financial Statements as assets held for sale. Note 15 to the Consolidated Financial Statements outlines the accounting impact of the discontinuation of this business.

Cash Flow from Discontinued Operations

Net cash provided by discontinued operations generated $5.3 million. Operating activities of Techmire during the year and proceeds from the sale of Techmire's working capital generated net cash of $3 million as operating losses were reduced and inventory was tightly controlled. The sale of fixed assets (other than the production facility) in an all cash transaction generated further net cash flow of $2.3 million. For further discussion of the Company's Discontinued Operation see Note 15 to the Consolidated Financial Statements.

Cash Flow from Discontinued Operations
($ millions)



Financial Position and Financing Activities

Exco's financial position remains strong despite some profit weakness, higher working capital and capital investments in physical plant. At year-end Exco had no net bank debt and no material long-term debt. Exco's determination to preserve a strong balance sheet will continue unabated in order to preserve flexibility during these uncertain times.

At year-end, Exco had operating lines of credit totalling $48.0 million, of which $43.3 million was unused and available. We expect that in fiscal 2008 our cash flow from operations will exceed anticipated capital expenditures and, accordingly, our cash deposits and 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. In the first quarter of this year the quarterly dividend was raised to $0.015 per share or $0.06 per share annually. Total quarterly payments this year of $2.5 million reflect the higher dividend rate. In the prior year, total dividends paid were $2.1 million. It is expected that the dividend payments will continue to be made at this level through fiscal 2008.

In addition to the obligations disclosed on its balance sheet, Exco also enters into operating lease arrangements from time to time. Exco now owns all of its 11 manufacturing facilities and all its production equipment. This year Exco purchased a Mexican manufacturing facility after leasing for many years. The only substantial lease remaining is for an aircraft which management has elected not to renew beyond 2008. The anticipated expense associated with this obligation ($2 million) is recorded in Exco's statement of earnings and is expected to be payable, at the time of sale of the aircraft, in fiscal 2008.

	PAYMENTS DUE BY PERIOD				
Contractual Obligations ($000)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-term debt	$ 85	$ 85	–	–	–
Capital lease obligations	–	–	–	–	–
Operating leases*	$ 708	$ 528	$ 180	–	–
Purchase obligations	$ 9,603	$ 9,603	–	–	–
Other long-term obligations	–	–	–	–	–
Total contractual obligations	$10,396	$10,216	$ 180	–	–

** Exco leases vehicles and other miscellaneous office equipment. It is not Exco's policy to purchase these assets at the expiry of their terms. Exco does not expect any material liquidity or capital resource impacts.*

CRITICAL ACCOUNTING POLICIES

The preparation of Exco's financial statements in conformity with GAAP 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 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 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 including expected stock volatility, the change in expected dividend yields and the expected option term. Currently the compensation expense is recorded in the SG&A 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 assessments 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 sheets.

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 Company's disclosure controls and procedures are adequate and effective in ensuring that material information relating to the Company and its consolidated subsidiaries would have been known to them.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, after having designated 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, have not identified any changes to the Company's internal control over financial reporting which would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 and fuel, as well as 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 aesthetic, cost or product redesign 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 power train components and may still be de-contented.

The Casting and Extrusion segment is a capital goods business. Interest rates, exchange rates, corporate capital spending, the general economic climate and business confidence affect the demand for Exco's dies, moulds and consumable parts for die-cast 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 against this risk, but some risk remains.

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, it is not uncommon for significant receivables to be outstanding for considerably longer periods, particularly in the large mould business.

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 (which was sold in 2004) and Techmire (which was sold in 2007) 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 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. We also purchase 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 may enter into forward contracts and incur U.S. dollar debt, from time to time. However, forward contracts are only short-term 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. Depending on exchange rates, markets which Exco currently service may experience rising competition from imports which have become more competitive as a result of exchange rate movements.

Note 12 to the Consolidated Financial Statements sets out information concerning Exco's foreign exchange forward contracts. During fiscal 2007, the Canadian dollar appreciated about 10.7% to close the year at par. This is a level not witnessed since the 1960s. The appreciation of the Canadian dollar to these levels is a challenge for Exco. To remain competitive, we are focused on a number of initiatives. The Company sold Techmire, a Canadian operation that was not contributing to the Company's earnings. Wherever possible, throughout its Canadian operations, the Company is attempting to sell in Canadian dollars and source inputs and equipment in U.S. dollars. However, in some instances, it is very difficult to dislodge the dominance of U.S. dollars 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 and may need to further reduce, consolidate or relocate its Canadian operations to low or lower-cost countries.

For fiscal 2008, 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$25 million. This compares to an exposure of US$29 million in fiscal 2006. These figures represent the estimated net exposure calculated as U.S. dollar revenue less U.S. dollar expenses. There are no U.S. dollar forward foreign exchange contracts at this time. If the Canadian dollar were to strengthen or weaken by $0.01 in fiscal 2008, we estimate pre-tax profit would change by $250 thousand or about $165 thousand after tax. These estimates are based on historical norms and may be materially different in 2008 if customers deviate materially from their past practices.

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 2008, 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$8.6 million. If the Canadian dollar were to strengthen or weaken by $0.01 in fiscal 2008, pre-tax profit would change by $86 thousand or about $57 thousand after tax.

Exco's Automotive Solutions segment has manufacturing facilities in Mexico and Morocco and these operations incur 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 commencing fiscal years beginning on or after January 1, 2011. The ASB is expected to confirm this decision by March 31, 2008. If Exco is required to adopt IFRS, there may be changes to its current accounting methodology for, among other things, development costs, tooling, fixed assets and goodwill impairment, commodity hedging and revenue recognition.

OUTLOOK

With the sale of Techmire on the last day of the fiscal year, 2008 will not be burdened by its previously recurring losses. This transaction will also improve Exco's overall foreign exchange risk profile, working capital and cash flow with the anticipated sale of the Techmire facility in Anjou, Quebec. Exco management will also be able to focus its full attention on its core businesses.

Fiscal 2008 is shaping up to be a banner year for the Casting and Extrusion segment. As previously announced our large mould businesses have secured significant engine block and transmission housing mould business. These are major long-term contracts which should considerably improve our capacity utilization and confirm Exco as a highly regarded supplier in this very specialized power train sector. We will continue to work closely with our major customers and look forward to supporting their global requirements.

Our extrusion die and Castool businesses are also experiencing strong sales. U.S. industrial markets for extruded products are very strong despite signs of an economic slowdown in other sectors of the U.S. economy. Our investments in these businesses over the years have enabled us to offer advanced design, quality and delivery capabilities which set us apart from most of our competitors on delivery lead times and customer support. With our customer base consolidating we are quickly becoming the supplier of choice to global customers. This is causing smaller, less sophisticated competitors to lose market share to us – especially in Canada where the weak U.S. dollar is most detrimental.

In the Automotive Solutions segment we can also expect continuing top-line growth, however, Polydesign margins will remain softer in keeping with the product mix evolution to high raw material content seat, headrest and console cover business. While more of this business is expected management is working diligently to round out the product mix both at Polydesign and overall in this segment by increasing sales of its traditional products at Polytech and the Neocons.

Much will depend on the overall economic climate in North America and the performance of the U.S. dollar. With the Canadian dollar having well exceeded parity with its U.S. counterpart, manufacturers in Canada are now facing a situation not previously experienced in recent times. Exco is carefully considering the long term ramifications of this new environment. If current exchange rates persist management stands ready to take whatever steps are warranted to remain competitive, including further cost rationalization, consolidation of operations and possible relocation of business activity. Bolstered by a strong balance sheet and the valuable experience of working with an expanding range of customers in lower cost jurisdictions, we believe that Exco is well positioned to respond to these challenges.

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 9, 2007

AUDITORS' REPORT

To the Shareholders of Exco Technologies Limited

We have audited the consolidated balance sheets of Exco Technologies Limited as at September 30, 2007 and 2006 and the consolidated statements of earnings and changes in comprehensive loss, changes in shareholders' equity 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, 2007 and 2006 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 (“signed”)
Chartered Accountants
Licensed Public Accountants
Toronto, Canada

November 9, 2007

CONSOLIDATED BALANCE SHEETS $(000)'s

AS AT SEPTEMBER 30	2007	(Restated - notes 1 and 15) 2006
ASSETS		
Current		
Cash	$ 5,677	$ 2,470
Accounts receivable (note 14)	30,288	39,083
Inventories (note 2)	29,296	29,336
Prepaid expenses and deposits	2,429	2,661
Assets held for sale (note 15)	5,568	–
Discontinued operations (note 15)	1,349	7,450
Total current assets	74,607	81,000
Fixed assets, net (note 3)	73,380	72,636
Discontinued operations (note 15)	–	9,961
Goodwill (note 4)	33,672	34,765
Future income tax assets (note 10)	2,407	3,031
	$ 184,066	**$ 201,393**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 5)	$ 1,112	$ 8,828
Accounts payable and accrued liabilities	25,216	27,903
Income taxes payable	840	1,228
Customer advance payments	1,377	1,586
Current portion of long-term debt (note 6)	85	325
Discontinued operations (note 15)	693	2,339
Total current liabilities	29,323	42,209
Long-term debt (note 6)	–	92
Future income tax liabilities (note 10)	8,475	8,436
Total liabilities	**37,798**	**50,737**
SHAREHOLDERS' EQUITY		
Share capital (note 7)	$ 36,142	$ 35,921
Contributed surplus (note 8)	2,364	1,916
Retained earnings	128,000	127,529
Accumulated other comprehensive loss (notes 1 and 7)	(20,238)	(14,710)
Total shareholders' equity	146,268	150,656
	$ 184,066	**$ 201,393**

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 EARNINGS AND COMPREHENSIVE LOSS

$(000)'s except for earnings per share

YEARS ENDED SEPTEMBER 30	2007	2006 (Restated - notes 1 and 15)
Sales	$ 201,759	$ 199,271
Cost of sales before the following (note 9)	151,997	143,111
Selling, general and administrative (note 7)	28,835	28,153
Depreciation and amortization	9,801	10,057
Goodwill impairment charge (note 4)	1,093	8,345
Gain on sale of fixed assets	(522)	–
Interest expense	219	740
	191,423	190,406
Income from continuing operations before income taxes	10,336	8,865
Provision for income taxes (note 10)		
Current	3,195	3,107
Future	1,347	2,447
	4,542	5,554
Income from continuing operations	5,794	3,311
Loss from discontinued operations, net of tax (note 15)	(2,732)	(3,927)
Net income (loss) for the year	**$ 3,062**	**($616)**
Other comprehensive loss		
Unrealized loss on foreign currency translation of self-sustaining operations (note 7)	(5,528)	(1,490)
Comprehensive loss	**($2,466)**	**($2,106)**
Earnings (loss) per common share (notes 7 and 13)		
Basic and diluted from continuing operations	0.14	0.08
Basic and diluted from discontinued operations	(0.07)	(0.09)
Basic and diluted earnings (loss)	**$ 0.07**	**($0.01)**

SEE ACCOMPANYING NOTES

CONSOLIDATED STATEMENTS OF CASH FLOWS $(000)'s

YEARS ENDED SEPTEMBER 30	2007	*(Restated - notes 1 and 15)* 2006
OPERATING ACTIVITIES		
Net income from continuing operations	$ 5,794	$ 3,311
Add (deduct) items not involving current cash flows		
Goodwill impairment charge (note 4)	1,093	8,345
Depreciation and amortization	9,801	10,057
Future income taxes	707	414
Stock-based compensation expense (notes 7 and 8)	597	517
Gain on sale of fixed assets	(522)	(63)
Loss on financial instrument valuation (note 1)	228	–
	$ 17,698	**$ 22,581**
Net change in non-cash working capital balances related to continuing operations (note 11)	1,857	707
Cash provided by operating activities of continuing operations	**19,555**	**23,288**
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(6,936)	(8,618)
Decrease in long-term debt	(332)	(333)
Dividends (note 7)	(2,486)	(2,080)
Repurchase of share capital (note 7)	(613)	(705)
Issue of share capital (note 7)	277	321
Cash used in financing activities of continuing operations	**(10,090)**	**(11,415)**
INVESTING ACTIVITIES		
Investment in fixed assets	(13,959)	(10,270)
Proceeds from sale of fixed assets	2,567	496
Cash used in investing activities of continuing operations	**(11,392)**	**(9,774)**
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Net cash provided by (used in) operating activities (note 15)	3,007	(2,105)
Net cash provided by (used in) investing activities (note 15)	2,317	(522)
Net cash provided by (used in) discontinued operations	**5,324**	**(2,627)**
Effect of exchange rate changes on cash	(190)	(160)
Increase (decrease) in cash during the year	3,207	(688)
Cash, beginning of year	2,470	3,158
Cash, end of year	**$ 5,677**	**$ 2,470**

SEE ACCOMPANYING NOTES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

$ IN THOUSANDS

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss *(Restated note 1)*	Total shareholders' equity
Balance, October 1, 2005	$35,758	$1,459	$130,772	($13,220)	$154,769
Net loss for the year	–	–	(616)	–	(616)
Dividends	–	–	(2,080)	–	(2,080)
Stock option expense	–	457	–	–	457
Repurchase of share capital (note 7)	(158)	–	(547)	–	(705)
Issuance of share capital	321	–	–	–	321
Unrealized loss on translation of self-sustaining foreign operations	–	–	–	(1,490)	(1,490)
Balance, September 30, 2006	35,921	1,916	127,529	(14,710)	150,656
Change in accounting policy (note 1)	–	–	373	–	373
Balance, October 1, 2006	35,921	1,916	127,902	(14,710)	151,029
Net income for the year	–	–	3,062	–	3,062
Dividends	–	–	(2,486)	–	(2,486)
Stock option expense	–	527	–	–	527
Repurchase of share capital (note 7)	(135)	–	(478)	–	(613)
Issuance of share capital	356	(79)	–	–	277
Unrealized loss on translation of self-sustaining foreign operations	–	–	–	(5,528)	(5,528)
Balance, September 30, 2007	**$36,142**	**$2,364**	**$128,000**	**($20,238)**	**$146,268**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

$(000)'s except per share amounts, September 30, 2007

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.

Accounting Policy Changes

Effective October 1, 2006, the Company implemented the new CICA accounting sections: 3855 (Financial Instruments – Recognition and Measurement), 3861 (Financial Instruments – Disclosure and Presentation), 3865 (Hedges), and 1530 (Comprehensive Income). These new accounting policy changes have been implemented prospectively with no restatement of comparative consolidated financial statements, except as noted below.

The purpose of the Company's foreign currency contracts is to mitigate its exposure to foreign exchange fluctuations on its foreign revenues and expenses. The Company forecasts cash flows to determine the level of contracts required. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and it has chosen not to designate them as hedges. Therefore, as required under Section 3865, these contracts must be designated as "held for trading" on the balance sheet and fair valued each quarter. The resulting gain or loss on the valuation of these financial instruments is recognized in the consolidated statement of earnings. As a result of this change, on October, 1, 2006, the Company recorded an other asset of $373, included in prepaid expenses and deposits in the accompanying consolidated balance sheets, to reflect the estimated fair value of its foreign currency contracts, and a corresponding credit to opening retained earnings.

Comprehensive income includes net income and other comprehensive income. Comprehensive income is defined as the change in equity (net assets) of a company during the period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during the period except those resulting from investments by owners and distributions to owners. Due to the Company's decision to not implement hedge accounting for its foreign currency contracts, the only item included in other comprehensive income is the foreign currency translation of self-sustaining foreign operations. As a result, the previously recorded currency translation account on the consolidated balance sheets' shareholders' equity section has been eliminated and included as "accumulative other comprehensive income" in shareholders' equity. Furthermore, the gain (loss) from translating the Company's self-sustaining foreign operations is now recorded as other comprehensive loss. Prior years' consolidated financial statements have been restated to reflect this change. The Company's earnings per common share presented on the consolidated statements of earnings is based upon its net income and not comprehensive income.

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 expensed 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 the consolidated statements of earnings.

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 financial 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, Moroccan dirham and Mexican pesos from operations. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and it has chosen not to designate them as hedges. Therefore, as required under Section 3865, these contracts must be designated as "held for trading" on the balance sheet and fair valued each quarter. The resulting gain or loss on the valuation of these financial instruments is recognized in the consolidated statements of earnings.

Forward foreign exchange contracts are negotiated with Canadian and U.S. 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 counter-parties to these contracts.

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 included in accumulated other comprehensive loss in shareholder's' equity. The appropriate amounts of exchange gains or losses included in accumulated other comprehensive loss are reflected in earnings when there is a sale or partial sale of the company's investment in these operations or upon a complete or substantially complete liquidation of the investment.

Other gains and losses resulting from movements in exchange rates are reflected in the consolidated statements of earnings. In 2007, such losses totalled $530 (2006 – gains of $907). Forward foreign exchange contracts this year are not designated as hedges. The Company recognizes any changes in fair value during the year in the consolidated statements of earnings.

Earnings (Loss) Per Common Share

The Company uses the "treasury stock method" in computing diluted weighted average number of common 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 common 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 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 expense on the consolidated statements of 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

	2007	2006
Raw materials	$ 10,935	$ 11,010
Work in process and finished goods	18,361	18,326
	$ 29,296	$ 29,336

3. FIXED ASSETS

2007

	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	$ 7,327	$ –	$ 7,327
Buildings	40,643	13,100	27,543
Machinery and equipment	175,156	137,124	38,032
Tools	8,310	7,832	478
Leasehold improvements	107	107	–
	$ 231,543	**$ 158,163**	**$ 73,380**

2006

	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	$ 6,544	$ –	$ 6,544
Buildings	37,440	13,654	23,786
Machinery and equipment	175,015	133,405	41,610
Tools	8,231	7,535	696
Leasehold improvements	107	107	–
	$ 227,337	$ 154,701	$ 72,636

At September 30, 2007, the Company had deposits relating to fixed assets of $1,882 (2006 – $3,089). These assets are not being amortized because they are under construction and not in use.

4. GOODWILL

During the fourth 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 Company's Neocon USA division. These events included a pre-tax loss for the year of $1,334, a consistent inability over numerous years to be profitable or achieve its budget, and difficulty in securing and launching sufficient business to grow its sales to a size necessary to effectively cover operating overheads. As a result, the Company recorded a goodwill impairment charge of $1,093. The impairment charge was not deductible for income tax purposes; therefore there was no corresponding tax benefit. After this impairment charge, there remains no goodwill associated with the Neocon USA division.

During the prior year's 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 included a persistently strong Canadian dollar which reached levels in the quarter not experienced since 1991, reduced demand for zinc components caused by the high cost of zinc, and the challenges associated with bringing to market in the near term larger tonnage die-cast, machinery and machinery capable of running lower cost and lighter weight materials. As a result, the Company tested the goodwill associated with the Techmire division in advance of the annual impairment test and the Company recorded a goodwill impairment charge of $8,345. This impairment charge was not deductible for income tax purposes; therefore, there was no corresponding tax benefit. After this impairment charge, there remains no goodwill associated with the Techmire division.

5. BANK INDEBTEDNESS

At September 30, 2007, the Company had available lines of credit totalling $48,000 (2006 – $48,360) of which $43,268 (2006 – $35,949) was unused and available. These operating lines are available in both U.S. and Canadian dollars at variable rates not exceeding prime rate and are subject to a negative pledge whereby the Company has agreed with The Bank of Nova Scotia not to pledge its assets to any other party. The prime rate in Canada at September 30, 2007 was 6.25% (2006 – 6.0%) and in the U.S. was 7.75% (2006 – 8.25%). 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 in the amount of $3,620 (2006 – $3,583), which reduced the available lines of credit.

Interest

Net interest paid in cash was $211 for the year-ended September 30, 2007 (2006 – $727).

6. LONG-TERM DEBT

	2007	2006
Government assistance	$ 85	$ 417
Less current portion	85	325
Long-term portion	**$ 0**	$ 92

Government assistance is comprised of two loans of which $85 (2006 – $211) is payable to Atlantic Canada Opportunities Agency (ACOA) and $0 (2006 – $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 was repayable in annual installments of approximately $200 and matured in 2007.

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 number of issued common shares are shown in the following table:

	Common Shares	
	Number of Shares	Stated Value
Issued and outstanding at September 30, 2005	41,637,295	$ 35,758
Issued for cash under 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
Issued for cash under Stock Option Plan	72,000	277
Purchased and cancelled pursuant to normal course issuer bid	(156,700)	(135)
Contributed surplus on stock options exercised	–	79
Issued and outstanding at September 30, 2007	**41,478,476**	**$ 36,142**

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 $5,528 (2006 – unrealized currency translation loss of $1,490). For the year-ended September 30, 2007, the net unrealized loss of $5,528 is primarily attributable to the strengthening of the Canadian dollar against the U.S. dollar as measured at September 30, 2007 and 2006.

Cash Dividend

During the year, the Company paid four quarterly cash dividends totalling $2,486 (2006 – $2,080). The dividend rate per quarter was $0.015 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 the number of stock options outstanding:

	2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	2,302,056	$ 4.56	2,282,454	$ 4.46
Granted during the year	250,481	4.00	201,890	4.00
Exercised during the year	(72,000)	3.85	(109,000)	2.93
Expired and cancelled during the year	(69,688)	5.10	(73,288)	4.68
Balance, end of year	**2,410,849**	**$ 4.50**	**2,302,056**	**$ 4.56**

The following table summarizes information about stock options outstanding at September 30, 2007:

	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	4.12 years	$ 3.00	338,618	$ 3.00
$ 3.00 - $ 4.00	1,050,613	4.54 years	$ 3.81	647,620	$ 3.70
$ 4.00 - $ 5.42	486,522	1.28 years	$ 4.81	486,522	$ 4.81
$ 5.43 - $ 7.60	535,096	5.14 years	$ 6.53	344,627	$ 6.41
$ 2.43 - $ 7.60	**2,410,849**	**3.96 years**	**$ 4.50**	**1,817,387**	**$ 4.38**

The number of common shares available for future issuance of options at September 30, 2007 was 522,517 (2006 – 703,310). The number of options outstanding together with those available for future issuance totals 2,933,366 (2006 – 3,005,366) or 7.1% (2006 – 7.2%) 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 common shares annually through payroll deductions at a predetermined price. During 2007, payroll deductions were made supporting the purchase of a maximum of 319,464 common shares at $4.04 per common share. The purchase and payroll deductions with respect to these common shares will be completed in the first quarter of fiscal 2008. Employees must decide annually whether or not they wish to purchase their common shares. During 2007, no shares (2006 – 281) were issued under the terms of the ESPP.

Stock-Based Compensation Expense

The total stock-based compensation for the year is $597 (2006 – $517). This consists of $527 (2006 – $457) from the stock-option expense and $70 (2006 – $60) from the DSU 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:

	2007	2006
Risk-free interest rate	4.02 %	4.03 %
Expected dividend yield	0.90 %	0.72 %
Expected volatility	27.00 %	27.00 %
Expected time until exercise	5.58 years	5.11 years
Weighted average fair value of the options granted	$ 1.52	$ 1.56

Deferred Share Unit Plan

	Number of units	Expense
December 31, 2006	3,933	$ 10
March 31, 2007	3,173	14
June 30, 2007	2,677	27
September 30, 2007	3,686	19
Total	**13,469**	**$ 70**

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, 2007, replacing the normal course issuer bid which expired on May 7, 2007. 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 common shares. As at September 30, 2007, the Company has purchased under both bids 156,700 common shares (2006 – 183,400) for cancellation at a cost of $613 (2006 – $705). The cost to purchase the shares exceeded their stated value by $478 (2006 – $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:

	2007	2006
Balance, beginning of year	$ 1,916	$ 1,459
Stock-option compensation expense (note 7)	527	457
Exercise of stock options	(79)	–
	$ 2,364	$ 1,916

9. RESEARCH AND DEVELOPMENT

Research and development expenditures during the year were from the discontinued operations (note 15) in the amount of $307 (2006 – $1,233). These costs were expensed during the year as they did not meet Canadian generally accepted accounting principles for deferral.

10. INCOME TAXES

		2007
Income from continuing operations before income taxes	$ 10,336	100.0 %
Income taxes at Canadian statutory rates	3,733	36.1 %
Manufacturing and processing deduction	(207)	(2.0) %
Foreign rate differential	(488)	(4.7) %
Items not deductible for income tax purposes	1,174	11.4 %
Other	330	3.2 %
	$ 4,542	**44.0 %**

		2006
Income from continuing operations before income taxes	$ 8,865	100.0 %
Income taxes at Canadian statutory rates	3,201	36.1 %
Manufacturing and processing deduction	(177)	(2.0) %
Foreign rate differential	378	4.3 %
Items not deductible for income tax purposes	3,120	35.2 %
Other	(968)	(10.9) %
	$ 5,554	**62.7 %**

Cash outflows during the year for income taxes were $2,601 (2006 - $2,998).

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

	2007	2006
Assets		
Tax benefit of loss carry forward	$ (31)	$ (694)
Items not currently deductible for income tax purposes	(1,111)	(1,377)
Research and development expenditures	(1,265)	(960)
Liabilities		
Tax depreciation in excess of book depreciation	8,475	8,436
Net deferred income tax liabilities	**$ 6,068**	**$ 5,405**

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:

	2007	2006
Accounts receivable	$ 6,127	$ 1,141
Inventories	(2,218)	1,290
Prepaid expenses and deposits	(3,007)	(1,363)
Accounts payable and accrued liabilities	667	1,884
Income taxes payable	259	(172)
Customer advance payments	29	(2,073)
	$ 1,857	$ 707

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:

2008	$ 528
2009	145
2010	35
	$ 708

In September 2005, the Company entered into a two-year lease that, upon expiry, the Company can exercise one of two options: re-lease or have the lessor sell the equipment. The Company has chosen not to re-lease and accordingly has accrued approximately $2 million to exit this lease. This represents management's best estimate of what the Company expects to pay the lessor; however, the ultimate amount paid could be materially different from the amount recorded.

Foreign Exchange Contracts

The Company has forward foreign exchange contracts to sell euro 900 over the next three months at the rate of 11.07 Moroccan dirham for each euro sold. The Company also entered into a series of put and call options over the next seven months. The total contract value is 52.7 million Mexican pesos (2006 – 124.8 million Mexican pesos). The selling price ranges from 11.35 to 12.20 (2006 – 11.85 to 12.20) Mexican pesos to each U.S. dollar. Management estimates that a combined profit of $145 (2006 – $317) would be realized if both series of contracts were terminated on September 30, 2007.

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 ongoing basis, the Company assesses the likelihood of any adverse judgments 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 as of September 30, 2006 was an accrual of $1,725, which was resolved in 2007.

13. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per common share is calculated using net income (loss) and the monthly weighted average number of common shares outstanding of 41,443,859 (2006 – 41,592,485). There was no material effect of outstanding stock options on diluted weighted average number of common shares outstanding for 2007 and 2006.

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 to 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.

			2007			2006
	Casting and Extrusion	Automotive Solutions	Total	Casting and Extrusion	Automotive Solutions	Total
Sales	$ 120,769	$ 80,990	$ 201,759	$ 124,716	$ 74,555	$ 199,271
Depreciation & amortization	7,407	2,394	9,801	7,887	2,170	10,057
Goodwill impairment charge	–	1,093	1,093	8,345	–	8,345
Segment income	6,202	4,353	10,555	2,244	7,361	9,605
Interest expense			219			740
Income before income taxes			10,336			8,865
Fixed asset additions	9,474	4,485	13,959	8,912	1,880	10,792
Fixed asset, net						
– continuing operations	54,667	18,713	73,380	55,373	17,263	72,636
– discontinuing operations	–	–	–	9,961	–	9,961
Total fixed assets, net	54,667	18,713	73,380	65,334	17,263	82,597
Goodwill	–	33,672	33,672	–	34,765	34,765
Assets						
– continuing operations	67,135	110,014	177,149	73,468	110,514	183,982
– discontinuing operations	6,917	–	6,917	17,411	–	17,411
Total assets	$ 74,052	$ 110,014	$ 184,066	$ 90,879	$ 110,514	$ 201,393

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

Geographic and Customer Information

Sales	2007	2006
Canada	$ 26,894	$ 28,087
United States	126,371	142,972
Europe	36,175	17,895
Asia	814	1,886
Other	11,505	8,431
	$201,759	**$199,271**

In 2007, sales to the Company's largest customer were 13% (2006 – 17%) of total sales and the account receivable pertaining to this customer was $2,994 (2006 – $5,024). The allocation of sales to the geographic segments is based upon the location of the customer.

Fixed Assets and Goodwill, net	2007	2006
Canada	$ 57,868	$ 57,279
United States	38,814	41,419
Mexico	3,606	1,912
Morocco	6,764	6,791
	$107,052	**$107,401**

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. DISCONTINUED OPERATIONS

Included in discontinued operations is the Company's Techmire division which was located in Montreal. On September 28, 2007, the Company announced the sale of this division to Dynacast Canada Inc. (Dynacast), a global manufacturer of precision engineered, die-cast metal and small components. The cash sale includes all assets of the Techmire business excluding the production facility which will be leased to Dynacast on a short-term basis. The production facility is now listed for sale and is reflected in the accompanying consolidated balance sheets as assets held for sale. The sale of the production facility is not expected to be materially different from its carrying value.

The results from discontinued operations have been reported separately within these consolidated financial statements.

Summarized financial information for the discontinued operations is as follows:

	2007	2006
Sales	$ 10,032	$ 11,656
Operating losses	(2,894)	(5,961)
Write down of assets held for sale	(690)	–
Loss on disposition	(563)	–
Discontinued operations before income taxes	(4,147)	(5,961)
Future income taxes	1,415	2,034
Net losses from discontinued operations	($2,732)	($3,927)

	2007	2006
Net assets of discontinued operations:		
Current assets	$ 1,349	$ 7,450
Assets held for sale	5,568	–
Fixed assets	–	9,961
Total assets	6,917	17,411
Less: Current liabilities	693	2,339
Net assets of discontinued operations	$ 6,224	$ 15,072

FIVE-YEAR FINANCIAL SUMMARY

($000s, except per share amounts)

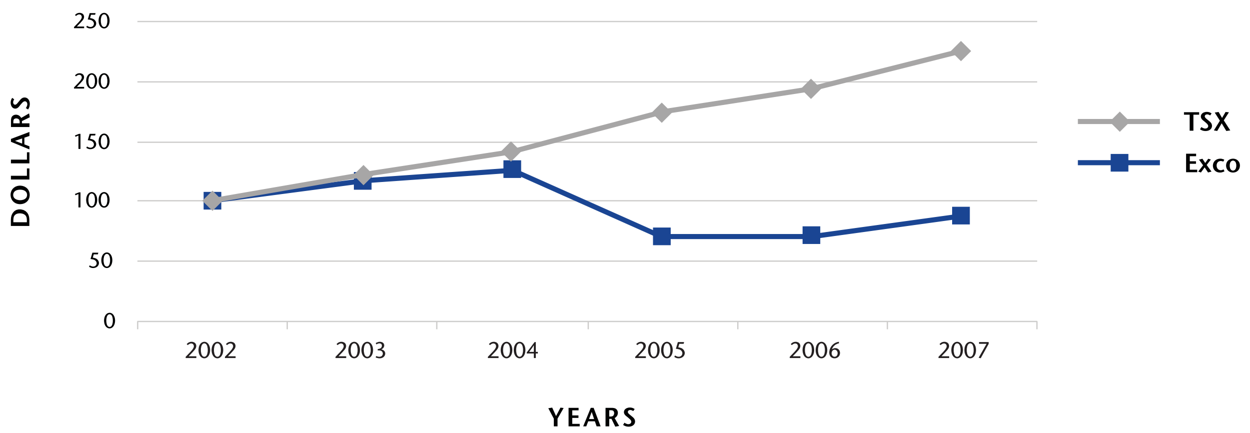
Financial Results

	2007	2006	2005	2004	2003
Sales	$ 201,759	$ 199,271	$ 202,957	$ 194,251	$ 205,477
Net income (loss) from continuing operations	$ 5,794	$ 3,311	$ 14,579	$ 15,950	$ 17,348
Net income (loss)	$ 3,062	$ (616)	$ 11,132	$ 9,199	$ 16,681
Diluted earnings (loss) per share from continuing operations	$ 0.14	$ 0.08	$ 0.35	$ 0.39	$ 0.42
Diluted earnings (loss) per share	$ 0.07	$ (0.01)	$ 0.27	$ 0.22	$ 0.40
Cash flow from operations before non-cash items	$ 17,698	$ 22,581	$ 27,306	$ 28,642	$ 31,361
EBITDA*	$ 21,449	$ 28,007	$ 34,461	$ 37,055	$ 43,381
Total net debt to equity	0:01	0.04:1	0.10:1	0.14:1	0.21:1
Capital expenditures, net of disposals	$ 11,392	$ 9,774	$ 8,477	$ 8,645	$ 7,964

* *EBITDA is a non-GAAP measure calculated by adding back to income (loss) from continuing operations: taxes, net interest, depreciation & 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, 2002 to September 28, 2007 compared with the return on the S&P/TSX Composite Index.



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Corporate Director

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Brian A. Robbins, PEng
President and Chief Executive Officer
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GS Global Solutions

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Van Rob Inc.

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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
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Chartered Accountants

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2007 ANNUAL MEETING

The 2007 Annual Meeting of the Shareholders will be held at EXCO at 130 Spy Court, 2nd Floor, Markham, Ontario on Wednesday, January 30, 2008 at 4:30 pm.

EXCO TECHNOLOGIES LIMITED
130 Spy Court, 2nd Floor
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