

EXCO TECHNOLOGIES LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

\$(000)'s except per share amounts

1. CORPORATE INFORMATION

Exco Technologies Limited (the “Company”) is a global designer, developer and manufacturer of dies, moulds, components and assemblies, and consumable equipment for the die-cast, extrusion and automotive industries. Through 21 strategic locations in 9 countries, the Company services a diverse and broad customer base. The Company is incorporated and domiciled in Canada. The registered office is located at 130 Spy Court, Markham, Ontario, Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These unaudited condensed interim consolidated financial statements present the Company’s financial results of operations and financial position as at and for the three- and twelve- month periods ended September 30, 2023 and have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). The accounting policies used in preparing these unaudited condensed interim financial statements are consistent with those used in the preparation of the 2022 audited annual consolidated financial statements.

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. During 2018, the Company agreed with a customer (the “Customer”) to utilize a government-sponsored third party (the “Third Party”) tool financing program (the “Program”). The Program allows the Company to receive payment from the Third Party in advance (the “Advance Payments”) of either tool delivery or the Customer’s receipt of payment from the Original Equipment Manufacturer (the “OEM”). The Customer is obligated to pay all costs of the Program including principal and interest. The Third Party retains recourse against the Company if the Customer fails to repay the Advance Payments to the Third Party within 24 months of the Advance Payment. In previous years these contingent liabilities were disclosed by a note to financial statements however, effective January 1, 2023 the Company has included these amounts in the condensed interim consolidated statements of financial position under accounts receivable (\$4,752) and other accrued liabilities (\$4,752). In addition, in the September 30, 2022 consolidated statement of financial position the Company recorded an increase to accounts receivable of \$5,321 and increase in other accrued liabilities of \$5,321.

The Company’s preparation of unaudited condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the application of the Company’s accounting policies. The Company’s critical accounting estimates are affected as a result of the various ongoing economic, geopolitical and social impacts, including the global pandemic, Russian invasion of Ukraine and recessionary conditions. There continues to be significant uncertainty as to the likely effects these items which may, among other things, impact our employees, suppliers, and customers. It is not possible to predict the impact these items will have on the Company, its financial position and the results of operations in the future. The Company is monitoring the future impact of all these items on all aspects of its business. Each reporting period, management carries out this assessment for indications that goodwill and other long-lived assets may be impaired. As required, management will continue to assess these assumptions as the situation changes.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s 2023 audited annual consolidated financial statements, which are available at www.sedar.com and on the Corporation’s website at www.excocorp.com. The unaudited condensed interim consolidated financial statements and accompanying notes for the three- and twelve- month periods ended September 30, 2023 were authorized for issue by the Board of Directors on November 29, 2023.

Basis of consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company, its subsidiaries. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all of the following: power over the investee; exposure or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns. The financial statements of the subsidiaries are included in the condensed interim consolidated financial

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The carrying value and fair value of all financial instruments are as follows:

	September 30, 2023		September 30, 2022	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Cash and cash equivalents	\$15,796	\$15,796	\$17,024	\$17,024
Accounts receivable	128,449	128,449	119,261	119,261
Trade accounts payable	(54,043)	(54,043)	(51,359)	(51,359)
Bank indebtedness	(4,964)	(4,964)	(12,363)	(12,363)
Customer advance payments	(5,152)	(5,152)	(3,169)	(3,169)
Accrued liabilities	(35,884)	(35,884)	(39,862)	(39,862)
Derivative instruments	5,401	5,401	2,066	2,066
Long-term debt	(\$105,000)	(\$105,000)	(\$95,000)	(\$95,000)

7. LONG-TERM DEBT

On February 23, 2022, the Company renewed the Committed Revolving Credit Facility (“the Credit Facility”) increasing amount to \$125,000 and to extend the maturity date to February 28, 2025. As at September 30, 2023 \$109,964 was utilized (September 30, 2022 - \$106,828). The facility is collateralized by a general security agreement covering all assets of the Company’s subsidiaries located in Canada and the US, with the exception of real property. Effective November 7, 2022 the Company closed an amendment to increase the Credit Facility by \$25,000 to \$150,000 with no changes to terms or conditions.

The Credit Facility is available to fund working capital, capital expenditures and other general corporate purposes of the Company and its subsidiaries, including acquisitions. Interest rates vary based on prime, bankers’ acceptance or CDOR base rates plus a relevant margin depending on the level of the Company’s net leverage ratio and as at September 30, 2023 average interest rate was 7.6%.

Pursuant to the terms of the Credit Facility, Exco is required to maintain compliance with certain financial covenants. The Company was in compliance with these covenants as at September 30, 2023.

8. SHARE CAPITAL

In each of February 2023 and 2022 the Company received approval from the Toronto Stock Exchange for a normal course issuer bid for the following 12-month period. The Company’s Board of Directors authorized the purchase of up to 1,785,000 and 1,955,000 common shares under each of these normal course issuer bids, respectively, which represented approximately 5% of the Company’s outstanding common shares at each approval date. During the fourth quarter and year to date no common shares were repurchased (2022- 0, 385,033).

As at September 30, 2023 the Company had 38,912,464 common shares issued and outstanding.

9. SEGMENTED INFORMATION

Business segments

The Company operates in two business segments: Casting and Extrusion Technology (“Casting and Extrusion”) and Automotive Solutions.

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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 and Europe.

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

The Company evaluates the performance of its operating segments primarily based on pre-tax income before interest.

The Corporate segment involves administrative expenses that are not directly related to the business activities of the above two operating segments.

Three Months Ended September 30, 2023				
	Casting and Extrusion	Automotive Solutions	Corporate	Total
Sales	\$79,364	\$88,180	\$-	\$167,544
Intercompany sales	(6,797)	(595)	-	(7,392)
Net sales	72,567	87,585	-	160,152
Depreciation	6,137	1,064	20	7,221
Amortization	334	838	-	1,172
Segment pre-tax income (loss) before interest	5,331	9,985	(808)	14,508
Net interest expense				(2,275)
Income before income taxes				12,233
Property, plant and equipment additions	6,632	2,707	-	9,339
Property, plant and equipment, net	186,273	34,879	1,277	222,429
Intangible asset additions	194	36	-	230
Intangible assets, net	10,487	20,114	-	30,601
Goodwill	27,844	63,486	-	91,330
Total assets	391,920	235,567	(15,416)	612,071
Total liabilities	66,801	68,074	106,176	241,051

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Three Months Ended September 30, 2022				
	Casting and Extrusion	Automotive Solutions	Corporate	Total
Sales	\$81,122	\$66,824	\$-	\$147,946
Intercompany sales	(6,729)	(806)	-	(7,535)
Net sales	74,393	66,018	-	140,411
Depreciation	5,678	743	25	6,446
Amortization	337	829	-	1,166
Segment pre-tax income (loss) before interest	2,558	6,478	(110)	8,926
Net interest expense				(1,392)
Income (loss) before income taxes				7,534
Property, plant and equipment additions	11,248	4,702	150	16,100
Property, plant and equipment additions from business acquisition	25,729	-	-	25,729
Property, plant and equipment, net	173,730	32,025	1,348	207,103
Intangible asset additions	259	29	-	288
Intangible asset additions from business acquisition	9,649	-	-	9,649
Intangible assets, net	10,713	23,733	-	34,446
Goodwill	26,051	62,648	-	88,699
Total assets	357,708	231,966	(13,358)	576,316
Total liabilities	63,340	59,809	104,658	227,807

Twelve Months Ended September 30, 2023				
	Casting and Extrusion	Automotive Solutions	Corporate	Total
Sales	\$321,567	\$329,767	\$-	\$651,334
Intercompany sales	(29,374)	(2,657)	-	(32,031)
Net sales	292,193	327,110	-	619,303
Depreciation	23,141	4,006	84	27,231
Amortization	1,305	3,381	-	4,686
Segment pre-tax income (loss) before interest	15,142	34,851	(7,420)	42,573
Net interest expense				(8,068)
Income before income taxes				34,505
Property, plant and equipment additions	31,980	6,455	14	38,449
Property, plant and equipment, net	186,273	34,879	1,277	222,429
Intangible asset additions	444	90	-	534
Intangible assets, net	10,487	20,114	-	30,601
Goodwill	27,844	63,486	-	91,330
Total assets	391,920	235,567	(15,416)	612,071
Total liabilities	66,801	68,074	106,176	241,051

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	Twelve Months Ended September 30, 2022			
	Casting and Extrusion	Automotive Solutions	Corporate	Total
Sales	\$253,500	\$256,056	\$-	\$509,556
Intercompany sales	(17,466)	(2,147)	-	(19,613)
Net sales	236,034	253,909	-	489,943
Depreciation	18,216	3,135	94	21,445
Amortization	721	3,206	-	3,927
Segment pre-tax income (loss) before interest	11,970	20,904	(5,229)	27,645
Net interest expense				(2,446)
Income before income taxes				25,199
Property, plant and equipment additions	40,422	11,487	203	52,112
Property, plant and equipment additions from business acquisition	25,729	-	-	25,729
Property, plant and equipment, net	173,730	32,025	1,348	207,103
Intangible asset additions	1,249	144	-	1,393
Intangible asset additions from business acquisition	9,649	-	-	9,649
Intangible assets, net	10,713	23,733	-	34,446
Goodwill	26,051	62,648	-	88,699
Total assets	357,708	231,966	(13,358)	576,316
Total liabilities	63,340	59,809	104,658	227,807

10. NET CHANGE IN NON-CASH WORKING CAPITAL

	Twelve months ended September 30	
	2023	2022
Accounts receivable	(\$7,445)	(\$18,453)
Inventories	(11,745)	(13,165)
Prepaid expenses and deposits	(252)	(708)
Trade accounts payable	1,640	10,204
Accrued payroll liabilities	1,710	(1,013)
Other accrued liabilities	(6,921)	4,161
Provisions	746	209
Customer advance payments	1,872	(1,776)
Income taxes recoverable	8,316	(5,702)
	(\$12,079)	(\$26,243)

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11. INCOME TAXES

The consolidated effective income tax rates for the three- and twelve- month periods ended September 30, 2023 were 24.7% and 23.8% (three- and twelve- month periods ended September 30, 2022 – 26.1% and 24.7%). The income tax rate in the current quarter and year to date were impacted by geographic distribution and foreign rate differentials.

12. ACQUISITION

On May 2, 2022 the Company completed the acquisition of 100% of the ownership interest in Halex extrusion operations (“Halex”) for consideration of \$60.2 million. Halex Extrusion Dies operates four key manufacturing locations – two in Germany and two in Italy.

Management determined that the assets and processes comprised a business and therefore accounted for the transaction as a business combination using the acquisition method of accounting with the results of operations included in the Company’s consolidated financial statements from the date of acquisition. The results of Halex are reported within the Casting and Extrusion segment.

Assets acquired and liabilities assumed have been recorded at their estimated fair value at the date of acquisition as follows:

Cash and cash equivalents	\$ 2,592
Accounts receivable	10,750
Inventories	5,198
Other current assets	153
Property, plant and equipment	25,729
Intangible assets	9,649
Current liabilities	(13,722)
Lease liabilities – long term portion	(6,650)
Deferred tax liability	(3,264)
Net identifiable assets	30,435
Residual purchase price allocated to goodwill	29,773
	\$60,208
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Acquisition funded as follows:	
Cash	\$ 60,208
	\$ 60,208

During fiscal 2022 the Company incurred acquisition related costs of \$584 which were expensed under selling, general and administrative expenses on the condensed interim consolidated statements of income and comprehensive income (loss).

The fair value of trade accounts receivable equals the gross amount of the trade accounts receivable less allowance for bad debts and amounts to \$9,871. The net contractual amount was considered collectible at the date of acquisition.

The primary factors that contributed to the residual purchase price allocation and resulted in the recognition of goodwill are: the existing Halex business; the acquired workforce; and the combined strategic value to the Company’s growth plan.

CORPORATE INFORMATION

Exco Technologies Limited is a global supplier of innovative technologies servicing the die-cast, extrusion and automotive industries. Through our 21 strategic locations in 9 countries, we employ approximately 5,000 people and service a diverse and broad customer base.

Telephone: 905-477-3065

Fax: 905-477-2449

Web: www.excocorp.com

TORONTO STOCK EXCHANGE LISTING

TSX:XTC, OTCQX:EXCOF

DIRECTORS

Edward H. Kernaghan

Darren M. Kirk, President and CEO

Robert B. Magee, Lead Director

Colleen M. McMorrow

Paul E. Riganelli

Brian A. Robbins, Executive Chairman

CORPORATE OFFICERS

Brian A. Robbins, PEng

Executive Chairman

Darren M. Kirk, CFA, MBA

President and CEO

Matthew Posno, CPA, CA, MBA

Vice President Finance, CFO and Secretary

Paul E. Riganelli, MA, MBA, LLB

Executive Vice President

TRANSFER AGENT

TSX Trust Company

301-100 Adelaide Street West

Toronto, Ontario

M5H 4H1

Shareholder Inquiries:

Telephone: 1-866-600-5869

Email: tmxeinvestorservices@tmx.com

Web: www.tsxtrust.com