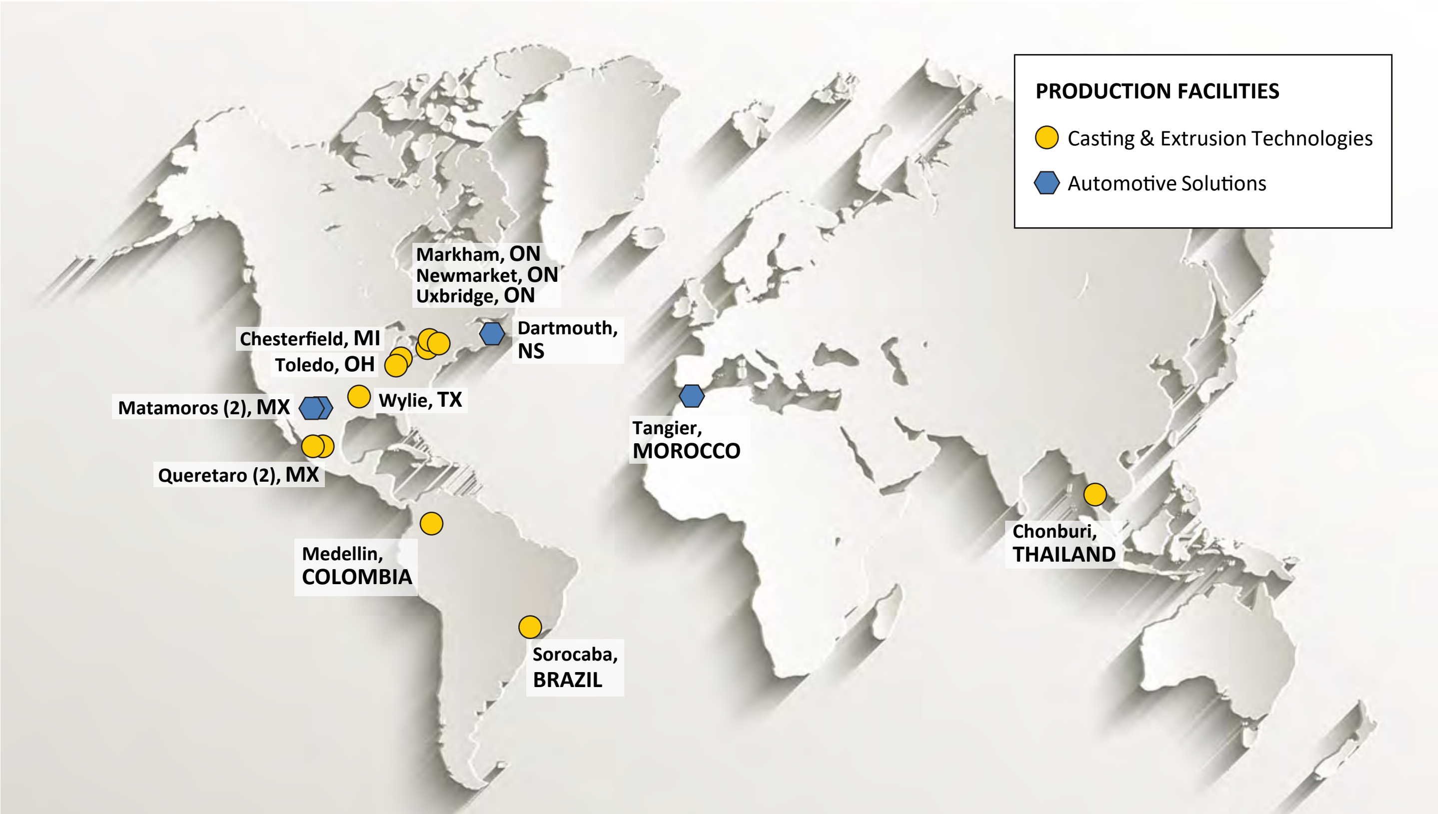
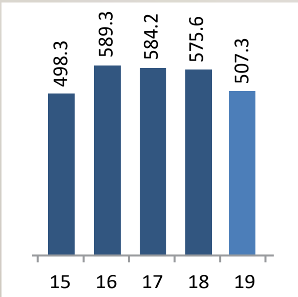
EXCO® Technologies Limited

2019 ANNUAL REPORT

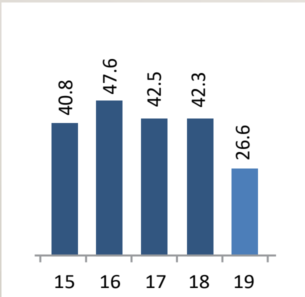
EXCO® Technologies Limited



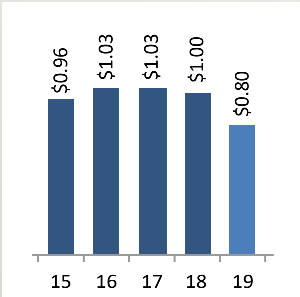
SALES
($ millions)



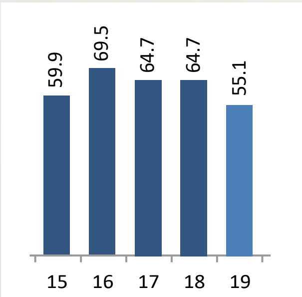
NET INCOME
($ millions)



DILUTED ADJUSTED EARNINGS PER SHARE (1)



CASH FLOW FROM OPERATING ACTIVITIES (2)
($ millions)



(1) Earnings before other income/ expense (2) Before net change in non-cash working capital.

CASTOOL TOOLING SYSTEMS®

ETS EXCO TOOLING SOLUTIONS®

AFX

EXCO ENGINEERING

Polydesign EXCO® automotive solutions

Polytech EXCO® automotive solutions

Neocon EXCO® automotive solutions

LETTER TO STAKEHOLDERS

Exco faced a number of challenges in fiscal 2019 contributing to a shortfall in earnings against our expectations for growth. Yet, we remain encouraged with our overall results for the year having demonstrated good progress on a number of fronts. We made tough decisions to adapt to changing market conditions, continued to innovate across our portfolio of businesses and expanded our tooling operations with new building activity, all of which has enhanced our future growth prospects. While overall industry conditions have clearly softened, our diverse portfolio of businesses remain exceptionally well positioned to capitalize on opportunities we see within our various market niches. Tangibly, we enter fiscal 2020 with good underlying sales momentum and expect near term relief against some of the inflationary cost pressures that hurt our results in the past year. Meanwhile, our exceptional cash generating ability and solid balance sheet remain unquestionably intact. With these characteristics, it can be no surprise that we remain very optimistic about our prospects in the years ahead.

Adapting to Change

Fiscal 2019 certainly presented us with a number of sizeable challenges. After consuming considerable financial and operational resources over the past several years, it became apparent that ALC's operations would be unable to attain sustained profitability. Consequently, after recording $2.1 million of operating losses ($0.05 per share) in the first quarter of fiscal 2019 ALC filed a voluntary liquidation petition and ceased production in January 2019 resulting in an additional $6.4 million ($0.15 per share) charge to our earnings. No sooner did we resolve ALC's fate when we were presented with exceptional labour challenges at two of our large factories in Mexico. As a result of an unprecedented Federal policy change which doubled the minimum wage, the traditionally reliable union workforce undertook to strike in order to realize large bonus payments that were contractually tied to the percentage increase in the minimum wage rate. We settled these labour issues relatively quickly albeit at significant costs that hurt our results throughout the year. Initial indications are that in fiscal 2020, Mexican published minimum wage increases that are contractually tied to union bonuses will be back in line with fiscal years prior to fiscal 2019.

More broadly, we continue to adapt to lower vehicle production volumes in our Automotive Solutions segment by focusing our efforts on market niches where there are undercurrents of growth. These include: 1) the trend of OEMs to make their vehicles more appealing and profitable through the greater promotion of accessories and up-trimming vehicle interiors including increased use of leather, 2) increasing consumer demand for larger vehicles that have more cargo and cabin space, and 3) growing acceptance by European automakers that Morocco is a low-cost and dependable supply base. Pursuing these themes provides Exco with opportunity for growth in our accessory and interior trim components despite weakness in overall unit vehicle production levels. To point, excluding the impact of ALC and foreign exchange rate movements this segment recorded revenue growth of 10% in the last quarter of fiscal 2019 despite a modest reduction in vehicles produced.

Meanwhile, as it relates to all three of our tooling businesses, demand for the aluminum products they help create continues to grow across many applications. This is particularly true within the automotive industry where an acute focus on vehicle light-weighting is driving the higher use of aluminum in all vehicles –including those with electric powertrains. We have been adapting our manufacturing processes and capabilities to capitalize on these trends for many years now. While the general extrusion market weakened in 2019, we saw great traction on our initiatives including a sharp rebound in the profitability of our large mould group. We fully expect our position as the leading independent tooling player will assist our efforts to realize above market growth for the foreseeable future.

Innovating Our Way to Even Greater Success

Continuous innovation is a critical factor to our continued success and we promote a culture that keeps this core principle at the heart of each of our businesses. Neocon's operations are a great example where innovation is evident across the entire organization. This of course can be easily seen looking at Neocon's growing portfolio of vehicle protection and organization products created by its in-house design studio. Less visible is the innovation Neocon employs to its production methods where efficiency innovation teams are dedicated to streamlining production processes to get a better product to customers, faster. Neocon has grown significantly over the years including a 16% sales gain in fiscal 2019. We have great optimism that with continuous innovation, Neocon has unbounded potential for additional growth.

We also innovate day in and day out across our entire tooling group. Castool's systems approach to designing and selling consumable and capital equipment that enable our customers to achieve maximum die cast and extrusion production efficiency is just one such example. But perhaps there is no better indication of our ability to innovate over the past year than with our progress in additive manufacturing. We are now regularly incorporating 3D printed components into the design of our moulds which greatly enhances the overall quality and performance of the die-cast process. The use of additive manufacturing in this regard is still quite nascent but growing strongly. And we have a clear lead evidenced by our receipt of the Automotive News prestigious PACE award during the year.

Building for a Strong Future

Over the years Exco has built a diverse collection of leading businesses in typically niche industries that provide our customers with innovative, quality solutions from low-cost operations. Together with our preponderance of "capital light" businesses, geographic diversity and exceptional ¬financial strength, Exco has tremendous staying power, all of which underlies our sustainable earnings growth and generation of significant free cash flow.

Our building activity remained front and center in fiscal 2019 with the construction of our sixth extrusion tooling plant. This facility – located in Mexico to service the domestic market – began commercial production halfway through the year and its results handily beat our expectations. The success of our newest facility clearly speaks to the benefit of our standardized manufacturing processes, which provides increased fluidity and unmatched efficiency across our multi-plant footprint.

Elsewhere in our tooling business Castool further expanded its main plant in Uxbridge Ontario over the past year to provide additional capacity and keep up with strong demand growth. Looking forward, Castool will commence construction of a new facility in Morocco in order to better penetrate the European market, which we expect will be operational in early fiscal 2021. We also continue to explore additional growth projects across our entire tooling group where we see opportunity for both revenue enhancing and cost reduction capital projects. An in-house heat-treat facility is one such example which promises to not only reduce our costs but provide strategic benefits, including a further reduction in lead times and product quality improvements.

Leveraging our Strong Human and Financial Resources

While earnings fell short of our expectations in f scal 2019 our cash generating ability and strong f nancial position are clearly nothing to be disappointed about. In fiscal 2019 we generated Free Cash Flow of $0.89 per share and returned a record $26.9 million or $0.65 cents per share to shareholders even as we improved our balance sheet, ending the year in a net cash position. For 2020, we expect capital spending will remain healthy in support of our organic growth agenda, but we still expect to produce Free Cash Flow well in excess of our dividend payments. Acquisitions continue to remain of interest however we will be very selective in whatever we pursue. Absent any acquisition activity we expect to use much of our cashflow to continue buying back our shares, which we see as a bargain at current trading levels.

No discussion of our prospects could be complete without acknowledging the dedication of our seasoned and diverse human resources, totaling 5,358 strong. Exco was founded on a commitment to excellence and a culture of entrepreneurship. We encourage continuance of these traits by providing incentives for our managers to grow their business and giving our employees the latitude to push the envelope on innovation. We are also mindful that sustainable operations require continuous investment in technical training, human resource planning and, above all, a safe and healthy work environment.

In closing, I would like to thank all of our stakeholders for contributing to our continued success. I have full confidence that with the strength of our partnership we will build, innovate and adapt our way to produce great results in the years ahead.

Darren M. Kirk
President and CEO

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This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements and related notes of Exco Technologies Limited ("Exco", or "Company") for the year ended September 30, 2019. This MD&A has been prepared as of November 27, 2019.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding Exco, including copies of its continuous disclosure materials such as its annual information form, is available on its website at www.excocorp.com or through the SEDAR website at www.sedar.com.

In this MD&A, reference may be made to Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted EPS, Adjusted Net Income, Adjusted Pretax Profit and Free Cash Flow which are not measures of financial performance under International Financial Reporting Standards ("IFRS"). Exco calculates Adjusted EBITDA as earnings before other income/expense, interest, taxes, depreciation and amortization and Adjusted EBITDA Margin as Adjusted EBITDA divided by sales. Exco calculates Adjusted EPS as earnings before other income/expense divided by the weighted average number of shares. Adjusted Net Income is calculated as net income before other income/expense and Pretax Profit as segmented earnings before other income/expense, interest and taxes. Free Cash Flow is calculated as cash provided by operating activities less interest paid less investment in fixed assets net of proceeds of disposal. Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted EPS, Pretax Profit and Free Cash Flow are used by management, from time to time, to facilitate period-to-period operating comparisons and we believe some investors and analysts use these measures as well when evaluating Exco's financial performance. These measures, as calculated by Exco, do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other issuers.

CAUTIONARY STATEMENT

Information in this document relating to: projected North American light vehicle sales and production, original equipment manufacturer's (OEM) capital investment levels, the rate and intensity of OEM development of all-electric or hybrid powertrain systems, the level of order backlog of the Company's business units, contribution of our start-up business units, contribution of awarded programs yet to be launched, margin performance, financial performance of acquisitions and operating efficiencies are forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements found mainly in the MD&A section but also elsewhere throughout this document. These forward-looking statements are based on our plans, intentions or expectations which are based on, among other things, assumptions about the number of automobiles produced in North America and Europe, the number of extrusion dies required in North America and South America, the rate of economic growth in North America, Europe and emerging market countries, investment by OEMs in drivetrain architecture and other initiatives intended to reduce fuel consumption and/or the weight of automobiles, raw material prices, economic conditions, currency fluctuations, trade restrictions, our ability to integrate acquisitions and the rate at which certain of our operations achieve sustained profitability. These 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. For a more extensive discussion of Exco's risks and uncertainties see the 'Risks and Uncertainties' section in this Annual Report and other reports and securities filings made by the Company. This information is available at www.sedar.com.

While Exco believes that the expectations expressed by such forward-looking statements are reasonable, we cannot assure that they will be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors which could cause actual results or events to differ materially from those indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company will update its disclosure upon publication of each fiscal quarter's financial results and otherwise disclaims any obligations to update publicly or otherwise revise any such factors or any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 aluminum die-casting and aluminum extrusion machines. Operations are based in North America, South America and Thailand and serve automotive and industrial markets around the world. Exco is a leader in most of its markets which principally consist of North America for die-cast tooling, North, Central and South America for extrusion tooling and globally for consumable tooling parts and related equipment. Across its markets, Exco is focused on further entrenching itself by reducing lead times and manufacturing costs through design and process enhancements. Major capital projects have been implemented in recent years to increase capacity, reduce lead times, further improve quality and reduce costs. In the machine consumables market, Exco is leveraging its long tradition as a reliable, high-quality supplier of consumable components for the injection system of die-cast machines and aluminum extrusion presses by evaluating, coordinating and ultimately maximizing customers' overall equipment performance and longevity.

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 components, shift/ brake boots, related interior trim components and assemblies. Polydesign is also a manufacturer and/or finisher of injection moulded interior trim and instrument panel components, sun visors, seat covers, head rests and other cut and sew products. Neocon is a supplier of soft plastic trunk trays, rigid plastic trunk organizer systems, floor mats and bumper covers. AFX Industries is a tier 2 supplier of leather and leather-like interior trim components to the North American automotive market. AFX also supplies die cut leather sets for seating and many other interior trim applications as well as injection-molded, hand-sewn, machine-sewn and hand-wrapped interior trim components of all sorts. Automotive Solutions manufacturing facilities are located in Canada, the United States, Mexico, and Morocco supplying the automotive markets in North America, Europe and to a lesser extent, Asia.

VISION AND STRATEGY

For the past few years, Exco has pursued several key strategies designed to achieve sustainable revenue and earnings growth. These include: (1) strengthening our leadership and competitive position in our chosen markets through automation and technology, (2) minimizing our cost structure, (3) maintaining the bulk of our productive capacity in lower-cost jurisdictions and in close proximity to our customers' operations, (4) diversifying our revenue base with new products and services that leverage our competitive strengths, and (5) capitalizing on organic and inorganic growth opportunities in both our existing and select developing markets.

The North American automotive industry is Exco's largest end market. This end market contracted in Exco's fiscal 2019 with industry vehicle sales and production levels declining modestly from prior year levels. Passenger cars and light trucks (including sport utility and crossover vehicles) continue to exhibit divergent trends whereby demand for the former has been declining and demand for the latter is holding fairly steady or growing slightly. Nonetheless, despite the decline, overall vehicle sales and production volumes remain near historically high levels and the consensus outlook is that volumes will decline modestly or remain relatively stable for the next few years. This view is supported by low interest rates, moderate gas prices, an aging fleet and widespread introduction of new vehicle models. As well, automobile manufacturers continue to invest in the development and production of more innovative and fuel-efficient powertrains in response to consumer demand, as well as government-mandated clean air initiatives. These developments provide meaningful growth opportunities for our tooling businesses, but also for our interior trim businesses, which sell components that are generally lighter in weight than the products they aim to displace.

During fiscal 2019, Exco continued to solidify its technological leadership with the production of die-cast moulds for structural parts. To date, Exco has shipped numerous such moulds. As well, quoting activity and new order flow for various additional structural part programs is ongoing, although the pace of such activities has lagged our earlier expectations. Exco believes moulds for structural aluminum components will be a significant driver of growth in the medium term and that this demand will occur regardless of prevailing powertrain developments. To point, reducing weight in an electric vehicle is critical to extend the range of the battery. This business unit has also landed orders for nine and ten speed transmission cases and numerous four and three cylinder engine block programs which are at the vanguard of OEM efforts to improve vehicle fuel efficiency. Quoting activity for these types of powertrain moulds remains fairly robust. Offsetting these positive benefits however is the maturation of certain established programs that have benefited Exco's large mould group over the past several years. Some of these programs were long-running requiring a high number of moulds that have similar or identical configurations. Typically, programs such as these provide a larger base over which to absorb any engineering/ development costs and also provide Exco with the opportunity to become more efficient with each successive mould produced. Recently, automotive OEM's have increased the speed at which they alter powertrain designs in order to achieve their fuel efficiency and emission reduction goals. This provides Exco with less opportunity to leverage the efficiency measures as noted in the forgoing. In response to and in anticipation of these trends continuing, Exco has invested significant capital in new machinery and equipment to reduce costs, increase efficiency, meet shorter lead times, further enhance the quality of its products and expand capacity.

End market applications for extruded aluminum components are very diverse and demand variance generally correlates well with GDP growth over time. Exco's extrusion tooling facilities focus on the markets in North, Central and South America, although the US market is the Company's largest. While US GDP continues to grow, the pace of this activity slowed over the past year and demand for extruded aluminum components contracted in this timeframe. Nonetheless, secular trends remain favorable with the automotive end market for aluminum extrusions continuing to grow owing to the same light-weighting trends noted above. Moreover, anti-dumping and/or countervailing duties against Chinese imports into Canada and the US on aluminum extrusions remain in place following completion of the 2016 sunset review. While it is difficult to say how long current weaker market conditions will persist, we are making the necessary investments to further solidify our leading market position and take advantage of opportunities for market share gains regardless of market conditions.

Over the past several years Exco has expanded its footprint in the Americas to gain increased exposure to markets that the Company expects will have higher growth prospects over the longer term. These investments have included a new extrusion die production facility in Medellin, Colombia, which commenced operations in January 2012 and a new extrusion die production facility near Sao Paulo, Brazil, which commenced operations in June 2014. These investments produced mixed results over the last few years with our Colombia operations performing very strongly while our Brazilian operations remain challenged. Nonetheless, the financial performance of our Brazilian operations improved in fiscal 2019 and we continue to hone our skills and capabilities. During fiscal 2019, Exco completed construction of a new extrusion die facility in Mexico to better service the local market in that country. The new facility began commercial operation on April 1, 2019 and achieved very strong performance given the early stage of the operation.

In addition to its investments in South America, Exco has expanded its presence in the North America extrusion die market to provide increased growth in a distinct market segment where proximity to customers is a key element to success. In 2013, the Company acquired and subsequently expanded an existing toolshop in Wylie Texas to better service the south-central region of the United States. Exco is now focused on harmonizing the manufacturing process of its various extrusion die plants and implementing various changes in order to improve the growth prospects and the efficiency of these operations.

Our Castool business also continues to have solid growth prospects in both the die cast and extrusion markets globally. This growth is driven by the increasing focus of extrusion press and die cast operators on the efficiency of their performance coupled with Castool's leading portfolio of products and systems that support these goals. To better capitalize on the growth prospects for Castool's machine consumable parts, we constructed a production facility in Thailand in 2014 which positioned us closer to customers in Asia and Europe. This facility began production in July 2014 and remains profitable despite weaker market conditions evident in Asia through much of fiscal 2019. In fiscal 2019, Castool began construction of an approximately 20,000 square feet addition to its existing building in Uxbridge, Ontario to provide additional manufacturing capacity. As well, Castool is currently in the process of acquiring land in Morocco for construction of a new facility which will enable Castool to better penetrate the European market.

Over the past few years, strong vehicle production volumes in both North American and Europe have helped fuel sales and profit growth in our Automotive Solutions interior trim segment. Furthermore, the introduction of new SUV/ CUV's and light trucks is growing each year compared to regular passenger vehicles. In addition, OEMs have been updating and refreshing vehicle interiors mid-production cycle. These developments have created greater cabin and cargo areas which generally increases opportunity for the Company's products. Meanwhile, we continue to expand our capabilities and broaden our product offerings. All of this helps us to increase our content per vehicle and replace older programs which have been 'costed down' over the years with new programs reflecting current costs and better margins. Cost inflation of labour and major raw materials used by the segment has generally picked up over the past year and contributed to softer financial performance in fiscal 2019. We continue to take various initiatives to offset these pressures and expect any further impact to be manageable through the near term.

While we believe North American and European vehicle production volumes appear sustainable near current levels for the next few years, we believe prospects for further growth are limited by several structural trends. These include: a steadily aging population and historically high levels of consumer and government debt. As a result, it is likely that the US and the Euro zone economies will, over the long term, underperform the economies of most developing countries – particularly, in Latin and South America and Southeast Asia. Admittedly certain emerging economies are currently under pressure. However, over the long term we believe the underlying structural trends will reassert themselves.

Exco remains committed to establishing its presence in these markets to lay the groundwork for revenue and earnings growth in future years. Our focus has been traditionally on relatively low-risk opportunities in markets that are already familiar to us, and which leverage our technological leadership and existing product and service capabilities – such as South America and Asia. Exco has exported to these emerging markets for many years and we are familiar with the customers and the general business climate. We have also operated several large plants in low-cost jurisdictions such as Mexico and Morocco for many years with exceptional performance and financial results. The increasingly sophisticated customers in these emerging markets are looking for superior quality, innovative product solutions and the benefit of local sourcing, product development and service. By manufacturing locally, we also significantly reduce transportation costs and mitigate the effect of unfavorable currency trends.

Notwithstanding Exco's investment in developing markets, we also continue to look for selective acquisitions that will bolster our position and enhance profitability in North America and Europe. On March 1, 2014 we purchased Automotive Leather Company which specialized in the manufacture and export of luxury leather interior trim components to the middle and luxury automotive sector. The performance of these operations however became increasingly difficult over the past year given a concentration of activity with one large labor-intensive program coupled with falling unemployment rates, rising wages and fixed-price program pricing that was established when labor conditions were materially more favorable. After ALC failed to secure a permanent price increase from its primary customer, ALC voluntarily filed a liquidation petition in Bulgaria and ceased operations in January 2019. Consequently, Exco recorded a $6.4 million provision to write-off its remaining equity in ALC during fiscal 2019. ALC was de-consolidated from Exco's financial statements in the second quarter of fiscal 2019, eliminating approximately $23.1 million of total assets and $23.1 million of total liabilities from Exco's balance sheet, including $4.2 million in net debt.

On April 4, 2016 we acquired AFX Industries LLC. The acquisition builds on Exco's significant leather-based interior trim stable of products while also providing new customers, suppliers, products and capabilities in a region that is very familiar to us. As well, the increased scale and diversity provides incremental opportunities across Exco's Automotive Solutions Group. AFX is based in Port Huron, Michigan with manufacturing operations in Matamoros, Mexico. The company is a tier 2 supplier of leather and leather-like interior trim components to the North American automotive market. AFX supplies die-cut leather sets for seating and many other interior trim applications as well as injection-molded, hand sewn, machine-sewn and hand-wrapped interior components of all types.

More generally, Exco management remains focused on exiting or repricing business with inadequate profitability in both of its business segments. While this initiative may dampen future sales, it is expected to have a positive impact on profitability and margins.

2019 RESULTS

Consolidated Results - Sales

Annual sales totalled $507.3 million compared to $575.6 million last year – a decrease of $68.3 million or 12% over last year. The decline reflects the deconsolidation of ALC in January 2019 offset by modest growth in the rest of our operations. The US dollar averaged 3% higher ($1.33 versus $1.29) against the Canadian dollar over the year increasing sales by $11.2 million. The Euro averaged 2% lower ($1.50 versus $1.53) against the Canadian dollar over the year reducing sales by $1.9 million.

Selected Annual Information

The following table sets out selected financial data relating to the Company's years ended September 30, 2019 and 2018. This financial data should be read in conjunction with the Company's audited consolidated financial statements for these years:

(in $ millions except per share amounts)	**2019**	2018
Sales	**$507.3**	$575.6
Net income for the year	**$26.6**	$42.3
Earnings per share from net income		
Basic and diluted	**$0.65**	$1.00
Earnings per share from Adjusted Net Income (Adjusted EPS)		
Basic and diluted	**$0.80**	$1.00
Total assets	**$426.0**	$447.9
Cash dividend paid per share	**$0.36**	$0.33
EBITDA	**$62.6**	$76.6

Segment Sales

- *Automotive Solutions Segment*

Sales in this segment were $303.1 million – a decrease of $72.5 million or 19% from the prior year. The sales decline was driven by the deconsolidation of ALC from Exco's results following ALC's filing of a voluntary liquidation petition in January 2019, which removed $86.0 million of sales year over year. The appreciation of the US dollar versus the Canadian dollar in fiscal 2019 compared to fiscal 2018 increased segment sales in North America by $6.8 million. The weakening of the Euro against the Canadian dollar decreased segment sales in Europe by $1.7 million year over year. Excluding results from ALC and foreign exchange rate movements, segment sales were higher by $8.4 million, or 3% compared to fiscal 2018. During the year, overall industry vehicle production volumes were modestly lower in both North America and Europe. Segment sales were nonetheless supported by a number of program launches for both new and existing products, particularly at Polydesign and Neocon. More broadly, the segments four businesses continue to focus their efforts on higher margin activity. Relatedly, the curtailment of uneconomic programs modestly dampened sales during the year, particularly at AFX. Despite generally soft vehicle production levels, management sees continuing opportunity for future growth supported by recent program wins and decent quoting activity for new programs in both North American and Europe.

- *Casting and Extrusion Segment*

Sales in this segment were $204.3 million – an increase of $4.4 million or 2% from the prior year. Most of this increase was effectively driven by foreign exchange rate movements, which increased segment sales by $4.3 million. Within the segment, sales were higher in both the Castool and Extrusion groups but lower in the Large Mould group. Castool's sales benefited from solid demand for certain of its capital equipment products, including extrusion containers and die ovens. This more than offset slowing demand for some of Castool's consumable components due to softer market conditions, particularly in Asia. Extrusion group sales were buoyed by the launch of the group's new facility in Mexico during the year as well as higher steel prices. Steel prices generally increased over the past year due to the implementation of US tariffs, which we aim to mostly recapture from customers through pass-through pricing mechanisms. Market conditions within the North American extrusion industry however weakened compared to the prior year. This reduced sales opportunities for the Extrusion group's mature plants, particularly as the year progressed.

Sales were modestly lower at the Large Mould group due to the completion/ wind-down of uneconomic programs and – to a much lesser extent – customer timing requirements. While overall market conditions for our tooling operations were undoubtedly softer in fiscal 2019 compared to the prior year, quoting activity remains reasonable and we remain confident we are making the necessary investments to further improve our share potential and the efficiency of our operations.

Cost of Sales

Cost of sales totalled $400.5 million – a decrease of $53.4 million or 12% from the prior year. Cost of sales as a percentage of sales remained stable at 79% as lower direct material costs were offset by slightly higher direct labor and factory overhead costs. This, in turn, is largely driven by a mix shift between the Company's various businesses and reporting segments, particularly related to the deconsolidation of ALC's operations during the year. More generally, inflationary pressures increased in fiscal 2019 relative to the prior year, particularly as it relates to labour in Mexico for the Company's Automotive Solutions segment. Costs related to Exco's major input materials – petroleum/natural gas-based resin and plastic products in the Automotive Solutions segment were generally stable over the past year while tool grade steel in the Casting and Extrusion segment increased, mostly due to US steel tariffs. Where possible, Exco has been passing along these tariffs to its customers through effective price increases in order to mitigate the negative impact on its profitability. US steel tariffs however began to recede during the year as importers began to receive exemptions.

Selling, General and Administrative Expenses

Selling, general and administrative expense in the current year decreased to $44.4 million from $46.1 million last year, a reduction of 4% mainly due to the deconsolidation of ALC. As a percentage of sales however, these expenses increased modestly, to 9% versus 8% the prior year.

Depreciation and Amortization

Consolidated depreciation expense in fiscal 2019 totalled $15.4 million, which was modestly lower than the $15.7 million expense last year. Depreciation expense within the Casting and Extrusion segment totalled $12.5 million in fiscal 2019 versus $12.3 million in fiscal 2018 and depreciation expense within the Automotive Solutions segment totalled $2.8 million this year versus $3.4 million last year. Amortization expense decreased to $4.1 million in fiscal 2019 from $5.2 million the prior year with the difference primarily attributable to accelerated amortization of the remaining intangibles related to ALC last fiscal year. The carrying value of total intangible assets amounted to $33.9 million as at September 30, 2019. The Company expects the associated annual amortization expense will total approximately $4.0 million in fiscal 2020, although this could vary depending on USD/ CAD exchange rates.

Interest

Net interest expense in the current year totalled $0.8 million in fiscal 2019 compared to $1.0 million in fiscal 2018. The reduction is primary attributable to lower average debt levels in fiscal 2019 compared to fiscal 2018.

Income Taxes

Exco's effective income tax rate was 26.0% in fiscal 2019 compared to an effective income tax rate of 22.6% in fiscal 2018. The higher effective income tax rate in fiscal 2019 was driven by 'Other Expense' related to the de-consolidation of ALC in the amount of $6.4 million, which was not deductible for tax purposes. Excluding the impact of this charge, the effective income tax rate for fiscal 2019 was 22.0%. Exco's tax rate in fiscal 2019 benefited from a modest reduction in the US corporate income tax rate during the year which was partially offset by a shift in the proportion of earnings from jurisdictions which have a higher tax rate.

Net Income

- *Consolidated*

The Company reported consolidated net income of $26.6 million or basic and diluted earnings of $0.65 per share in fiscal 2019, compared to consolidated net income of $42.3 million or basic and diluted earnings of $1.00 per share the prior year. Net income in fiscal 2019 included a $6.4 million charge ($0.15 per share) to earnings related to the write-off of Exco's remaining equity in ALC. Excluding this item, net income would have been $33.0 million ($0.80 per basic and diluted share) in fiscal 2019 (Adjusted Net Income and Adjusted EPS).

- *Automotive Solutions Segment (Operating Earnings)*

The Automotive Solutions segment recorded operating earnings of $31.9 million for the year compared to $44.4 million last year – a decrease of $12.5 million or 28%. Current year results were adversely impacted by a number of factors. In particular, AFX and Polytech's operations incurred higher wages and bonus payments to production staff associated with the January annual wage settlement. Management estimates these incremental amounts totalled approximately $7.0 million, of which the bonus payments represented about $4.4 million. As well, AFX and Polytech experienced additional overtime and expedited freight costs associated with the labour disruption in January 2019 while severance costs associated with improving future efficiencies also increased current period costs. Profitability in the current year benefited from foreign exchange gains but costs were also adversely impacted by unfavorable product mix and start-up costs/ front-end inefficiencies associated with several new program launches, particularly at Polydesign and Neocon but also AFX. In addition, operating losses at ALC in the current year totaled $2.1 million ($0.05 per share) compared to $1.2 million ($0.03 per share) the prior year for an increase of $0.9 million. Lastly, segment profitability was boosted in the prior year by a gain on the sale of a building of $1.8 million in the fourth quarter of fiscal 2018. Despite the profitability decline in fiscal 2019 and weaker potential vehicle production volumes in the year ahead, management remains optimistic on the segment's prospects for returning to growth. This view is supported by program wins over the past year and decent quoting activity for new business where our efforts are directed to adding new business that maximizes our profitability. Management also expects cost improvements will accrue in fiscal 2020 as inefficiencies associated with the ramp up of several new programs during fiscal 2019 recede and bonus payments to production staff in Mexico are anticipated to be at a lower level than the prior year.

- *Casting and Extrusion Segment (Operating Earnings)*

Casting and Extrusion operating earnings were relatively stable at $18.0 million compared to $18.2 million in the prior year. The Large Mould group experienced a rebound in profitability during the year despite lower revenues. This occurred as efficiencies associated with the ramp up of new equipment/ processes gained traction, work was completed on previous loss-making programs and contributions from the group's additive manufacturing operations increased. Profitability within the Extrusion group declined during the year despite a $0.9 million asset disposition charge in fiscal 2018. Results were hampered by softer overall market conditions which negatively impacted overhead absorption rates at some of the group's facilities and tempered efficiency gains from various operational initiatives. Start up losses at the group's new tooling facility in Mexico also modestly contributed to the reduction in group profits during the year. At the Castool group, profits declined modestly year over year despite higher sales driven by strong capital equipment demand. The reduction in the group's profitability was driven by weaker market conditions in Asia and a mix shift towards lower margin products. Generally, management remains focused on reducing its overall cost structure, improving manufacturing efficiencies and building out new greenfield operations. Such activities are expected to lead to improved segment profitability over time.

- *Corporate Segment (Operating Expense)*

Corporate expense in the current year amounted to $6.7 million compared to $6.9 million the prior year. The year over year decrease was primarily driven by lower incentive compensation expense in 2019 relative to 2018 offset by higher salary and benefit costs as well as higher professional fees.

EBITDA

EBITDA in the current year amounted to $62.6 million compared to $76.6 million the prior year – a decrease of $14.0 million or 18%. The EBITDA margin decreased to 12.3% compared to 13.3% the prior year. EBITDA in the Casting and Extrusion segment was $31.2 million, which was $0.2 million lower than in fiscal 2018. Casting and Extrusion segment EBITDA margin declined to 15.3% from 15.7% the prior year. The Automotive Solution segment EBITDA was $38.1 million, which was lower by $13.9 million, or 27% compared to fiscal 2018. The segment EBITDA margin deteriorated to 12.6% in fiscal 2019 compared to 13.8% the prior year.

Quarterly Results

The following table sets out financial information for each of the eight fiscal quarters through to the fiscal year ended September 30, 2019:

($ thousands except per share amounts)	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018[1]
Sales	$121,815	$119,944	$123,465	$142,124
Net income	$6,773	$7,477	$8,564	$3,818
Earnings per share				
Basic	$0.17	$0.18	$0.21	$0.09
Diluted	$0.17	$0.18	$0.21	$0.09

($ thousands except per share amounts)	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Sales	$139,538	$152,755	$148,390	$134,871
Net income	$11,587	$11,211	$10,556	$8,916
Earnings per share				
Basic	$0.27	$0.27	$0.25	$0.21
Diluted	$0.27	$0.27	$0.25	$0.21

[1] Net income in the first quarter of fiscal 2019 was reduced by $6.4 million ($0.15 per share) due to charges associated with the liquidation of ALC.

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

Fourth Quarter

In the fourth quarter, consolidated sales were $121.8 million – a decrease of $17.7 million or 13% from the prior year. Excluding $26.2 million in revenue from ALC in the fourth quarter of fiscal 2018, consolidated revenues increased by $8.5 million, or 8% year over year. Over the quarter the average USD/CAD exchange rate was 2% higher ($1.32 versus $1.30 last year) increasing sales by $1.5 million. The average EUR/ CAD exchange rate was 4% lower ($1.46 versus $1.51 last year) decreasing sales by $0.7 million compared to the fourth quarter of fiscal 2018.

The Automotive Solutions segment experienced a 22% decrease in sales, or a reduction of $19.7 million, to $69.4 million from $89.0 million in the fourth quarter of 2018. The decrease was driven by the deconsolidation of ALC from Exco's consolidated results in January 2019. Excluding $26.2 million of contributions from ALC in the fourth quarter of fiscal 2018, segment sales increased by $6.6 million, or 11%. The higher average value of the US dollar compared to the Canadian dollar increased segment sales by $0.9 million while the lower value of the Euro compared to the Canadian dollar decreased segment sales by $0.7 million in the current quarter. In North America, overall vehicle production volumes were roughly 2% lower during the quarter compared to a year ago. The groups three North American businesses however recorded higher revenues as newer programs ramped up, particularly at AFX. In Europe, market conditions softened during the quarter with a notable reduction in the amount of near-term takeover business available. Polydesign nonetheless recorded solid growth year over year driven by new programs launched both during the year and in the quarter.

The Casting and Extrusion segment recorded sales of $52.4 million compared to $50.5 million last year – an increase of $1.9 million or 4%. The higher average value of the US dollar compared to the Canadian dollar increased segment sales by $0.6 million in the current quarter while the weaker Euro against the Canadian dollar reduced segment sales by $0.1 million. Segment sales gains were driven mainly by the Castool group, which continued to experience strong demand for its capital equipment goods and generally firm demand for its consumable tooling. Markets in Asia however remained soft, negatively impacting the group's operations in Thailand. Revenue generated by the Extrusion group were essentially flat during the quarter despite the benefit of sales from the group's new facility in Mexico, which began commercial production on April 1, 2019. Sales gains from this facility were offset by softer market conditions for extrusion dies elsewhere in North America. Within the segment, US steel tariffs continued to reduce during the quarter as certain steel distributors began receiving exemptions of these tariffs earlier in the year. Large mould group sales were higher due to customer timing requirements, commencement of work on new programs, and an improvement in the demand of spare parts. Looking forward, quoting activity for new work within the Large Mould group remains fairly robust. This is particularly the case for work that takes advantage of the group's enhanced capabilities, including its ability to deliver high quality complex dies relatively quickly and its leadership position in additive manufacturing for certain mould components.

The Company's fourth quarter consolidated net income decreased to $6.7 million or earnings of $0.17 per share compared to $11.6 million or earnings of $0.27 per share in the same quarter last year – an EPS decrease of 37%. The effective income tax rate was 16% in the current quarter compared to 19% in the same quarter last year. The effective tax rate in the current period was improved by approximately $1.4 million of foreign exchange gains that are not subject to tax as well as a reduction to the corporate income tax rate in the US and a greater proportion of earnings generated in lower tax rate jurisdictions.

Fourth quarter pretax earnings in the Automotive Solutions segment totalled $5.0 million, a decrease of $7.8 million or 35% over the same quarter last year. Prior year results benefited from $2.4 million of operating earnings generated by ALC (nil in the fourth quarter of fiscal 2019) as well as a $1.8 million gain from the sale of a building. Current period results benefited from foreign exchange gains but were also adversely impacted by ongoing higher labour costs at Polytech and AFX, significant inefficiencies at Polytech and Polydesign associated with launch programs, unfavorable product mix shifts, higher severance costs and inefficiencies related to the General Motors strike, which was settled subsequent to quarter end. While General Motors strike related costs will continue into the first quarter of fiscal 2020, management is optimistic that its overall cost structure will improve as newer programs mature and labour costs are expected to improve.

Pretax earnings in the Casting and Extrusion segment improved by $0.6 million or 18% over the same quarter last year to $4.0 million. The earnings improvement was mainly driven by increased contributions from the Large Mould group which benefited from its ongoing efficiency efforts as well as the completion of a few loss-making programs which negatively impacted results the prior year quarter. Profitability within the Extrusion group was lower during the quarter, as it was adversely impacted by reduced market demand for extrusion dies within North America as well as operational support and start-up costs for the new Extrusion facility in Mexico. Nonetheless, despite initial losses, management remains encouraged by the early results of this facility. As is the case with Exco's prior greenfield operations, these operations typically require several quarters after production commences to mature and reach sustained profitability. Castool's profitability was down modestly in the quarter due to higher delivery and selling costs associated with slower market conditions in Asia as well as a mix shift towards lower margin products. Generally, management remains focused on reducing its overall cost structure and improving manufacturing efficiencies and expects such activities together with its sales efforts should lead to improved segment profitability over time.

The Corporate segment in the fourth quarter recorded expenses of $0.9 million compared to $1.8 million last year mainly due to lower incentive compensation expense in the current year. As a result of the forgoing, consolidated EBITDA in the quarter decreased to $13.3 million (11% of sales) compared to $20.1 million (14% of sales) last year.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

Operating cash flow before net changes in non-cash working capital was $55.1 million in fiscal 2019 compared to $64.7 million in fiscal 2018. The $9.6 million year over year reduction was driven by $9.2 million of lower net income excluding the non-cash write-off of the remaining equity in ALC. The remaining variance was mostly driven by modestly lower other non-cash expenses in fiscal 2019 including depreciation, amortization, stock-based compensation and deferred income taxes. Net change in non-cash working capital was $9.7 million cash provided in fiscal 2019 compared to $15.9 million cash used last year. The year over year swing amounting to $25.6 million was primarily driven by timing of accounts receivable collection, lower unbilled revenue and inventory levels. Trades and other accruals were also generally higher year over year, mostly due to timing differences. The positive working capital variance boosted cash provided by operating activities to $64.8 million in fiscal 2019, which was 33% higher than the $48.8 million generated last year.

Cash Flows from Financing Activities

Cash used by financing activities amounted to $41.4 million compared to a use of $34.3 million in fiscal 2018 for a year over year increase of $7.1 million. The higher use in fiscal 2019 is mainly attributable to an incremental $6.6 million of cash used to repurchase share capital and $14.5 million of debt reduction compared to $12.8 million the prior year. Higher dividends of $14.6 million in fiscal 2019 compared to $14.1 million last year also contributed to the variance.

In addition to the obligations disclosed on its consolidated statements of financial position, Exco also enters into operating lease arrangements from time to time. Exco owns all of its 15 manufacturing facilities and most of its production equipment. The Company also leases sales and support centers in Troy, Michigan and Port Huron, Michigan, and a warehouse in Brownsville, Texas. The following table summarizes the Company's significant short-term and long-term commitments on an undiscounted basis:

(000's)	Total	< 1 year	1-3 years	Over 3 years
Bank indebtedness	$578	$578	-	-
Trade accounts payable	44,183	44,183	-	-
Long-term debt	17,186	93	17,093	-
Operating leases	772	280	436	56
Purchase commitments	29,426	29,426	-	-
Capital expenditures	7,931	7,931	-	-
	$100,076	$82,491	$17,529	$56

∗ Exco leases facilities, automotive, material handling vehicles and other miscellaneous office equipment. It is not Exco's policy to purchase these assets at the expiry of their terms but occasionally it may purchase the assets at the end of the lease terms when the purchase options are favorable. Exco does not expect any material liquidity or capital resource impacts from these possible purchases.

Cash Flows from Investing Activities - Capital Expenditures

Cash used in investing activities in the current year totalled $27.5 million compared to $20.4 million last year. Most of the difference is explained by higher capital spending in the current year of $27.4 million compared to $22.9 million last year. Capital spending in the current year included about $9.5 million to construct a new extrusion tooling facility in Mexico while the prior year included $5.1 million to purchase the building where AFX's operations are located. The balance of the capital spending in both years is mostly related to machinery and equipment needed to maintain or upgrade our production capacity. Cash flow from Investing Activities was favourably impacted by $0.5 million in proceeds from the disposal of property, plant and equipment in the current year and $3.1 million the prior year related to the sale of a building in Huntsville, Alabama which was leased to a third-party tenant.

In fiscal 2020, Exco plans to invest approximately $32.0 million in capital expenditures of which roughly $16.0 million is for maintenance, ongoing equipment upgrades and the expansion of existing facilities within the Casting and Extrusion segment, about $10.0 million is for the construction and build-out of a greenfield facility in Morocco and plant expansion in Uxbridge for the Castool group and approximately $6.0 million is for maintenance expenditures and targeted capacity additions in the Automotive Solutions segment.

We expect that in fiscal 2020 our cash flow from operations will exceed anticipated capital expenditures. Together with our cash deposits and our unused credit lines we believe we have ample financial resources to fund our operating and capital requirements.

Financial Position and Cash Balance

Exco's financial position and liquidity remains strong. The Company's conservative financial policies have served it well throughout the years and has allowed it to take advantage of acquisition opportunities and further organic growth as circumstances permit.

Exco's balance sheet was in a $8.7 million net cash position at September 30, 2019 compared to net debt position of $2.7 million as at September 30, 2018, for an improvement of $11.4 million. This primarily occurred through the generation of $36.5 million of Free Cash Flow less dividends paid of $14.6 million and net share repurchases of $11.6 million during fiscal 2019. The deconsolidation of ALC also removed $4.2 million of net debt.

In addition to its cash balances of $26.5 million, Exco retains access to $33.0 million of its $50.0 million committed credit facility, which matures February 2021. 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, 2019.

Non-IFRS Measures

The following table provides a reconciliation of net income for the periods to adjusted net income, adjusted pretax profit, adjusted EBITDA, adjusted basic earnings per share as well as a reconciliation of cash provided by operating activities to free cash flow.

	Three Months ended September 30		Twelve Months ended September 30	
	(in $ thousands)			
	2019	2018	**2019**	2018
Net income	**$6,773**	$11,587	**$26,632**	$42,270
Other expense	**-**	-	**6,409**	-
Adjusted net income	**6,773**	11,587	**33,041**	42,270
Provision for income tax	**1,272**	2,667	**9,344**	12,348
Adjusted Pretax Profit	**8,045**	14,254	**42,385**	54,618
Depreciation	**4,095**	4,151	**15,398**	15,734
Amortization	**998**	1,492	**4,062**	5,180
Net interest expense	**130**	199	**790**	1,022
Adjusted EBITDA	**13,268**	20,096	**62,635**	76,554
Sales	**$121,815**	$139,538	**$507,348**	$575,554
Adjusted EBITDA margin	**10.9%**	14.4%	**12.3%**	13.3%
Weighted average basic shares outstanding	**41,017**	42,152	**41,334**	42,313
Adjusted EPS	**$0.17**	$0.27	**$0.80**	$1.00
Cash provided by operating activities	**$29,437**	$5,465	**$64,816**	$48,833
Interest	**(130)**	(199)	**(790)**	(1,022)
Investment in Fixed assets net of proceeds of disposal	**(8,277)**	($1,799)	**($27,518)**	($20,377)
Free Cash Flow	**$21,030**	$3,467	**36,508**	27,434

Outstanding Share Capital

As at September 30, 2019, the Company had 40,527,663 common shares outstanding. In addition, as at September 30, 2019, the Company had outstanding stock options for the purchase of up to 785,400 common shares at exercise prices ranging from $8.86 to $14.58 per share.

CRITICAL ACCOUNTING POLICIES

The preparation of Exco's financial statements in conformity with International Financial Reporting Standards 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 percentage of completion of long-term contracts in the large die-cast moulds business and upon product completion for all other businesses. For short-term contracts in the large die-cast moulds business and all contracts in the 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. 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 selling, general and administration category in the consolidated statements of income and comprehensive income.

We evaluate property, plant and equipment 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, property, plant and equipment 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 statements of financial position.

RECENT ACCOUNTING CHANGES AND EFFECTIVE DATES

Refer to Note 2 to the consolidated financial statements for information pertaining to the accounting changes and issued accounting pronouncements effective in 2019 and future years.

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 Chief Financial Officer, together with other members of management, after having designed internal controls over financial reporting and conducted an evaluation of its effectiveness based on the integrated framework issued by the Committee of Sponsoring Organization of the Treadway Commission to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with generally accepted accounting principles, 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, the type of automobiles (which demand has been shifting away from passenger cars towards SUV/ CUV's in North America), the rate at which the electric vehicle is more widely adopted and the level of automobile production, which can fluctuate significantly with consumer confidence, general economic conditions, the cost and/or availability of consumer credit and gasoline, as well as, the market share of individual OEM customers. Contraction and slowing GDP growth in emerging economies, North America and Europe may also have a dampening effect on consumer demand for automobiles in these regions.

A significant portion of Exco's receivables are with automotive customers. These customers have varying degrees of financial strength which could ultimately impact the collectability of the respective receivable. 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 of the Company's receivables that are over 20 days from the date of the Chapter 11 filing. Exco's receivables may also be with highly leveraged customers that may have recently merged or chosen to leverage their balance sheet for tax purposes or otherwise increase their investment yield. Doing business with such customers typically increases the risk of default and filing for bankruptcy protection. The Company uses its best efforts to collect accounts receivable under 60 days but in some cases the terms may be notably longer and often in other currencies thereby requiring Exco to bear the exchange rate risk. The Company often has the benefit of statutory or common law liens on its products, however, it is not uncommon for significant receivables to be outstanding for considerable periods, particularly in the large mould business.

In some cases, OEMs can decide to design the Company's products out of the automobile ("de-contented") or reduce the trim level on which the Company's products are installed for either aesthetic, cost or product redesign reasons. While Exco believes its focus on evolving from component supplier to a designer and integrator of small assemblies and sub-assemblies used in automotive and trunk interiors reduces the risk of de-contenting and trimming down decisions, some of Automotive Solutions products are not critical components and may still be de-contented.

OEMs or their tiers may have excess production capacity or collective agreements which preclude efficient capacity reduction during times of declining sales. In these cases, OEMs and/or their tiers may choose to fill their excess capacity by taking production from their suppliers and manufacturing the parts themselves. This process of 'in-sourcing' may have the impact of reducing the amount of business available to suppliers such as Exco.

Exco has a significant number of employees worldwide and accordingly availability of labour is critical and wages are a major manufacturing input cost. While real wage increases have been relatively muted over the last decade, especially in low-cost countries, this may not continue to be the case. In Mexico particularly, where Exco has approximately half its employees at four production facilities, all of which are represented by national labor unions, real wage increases may materially impact the Corporation's financial performance.

Exco sells to its automotive customers pursuant to purchase orders which typically sets out price per unit but not volumes or fixed terms. These purchase orders may be terminated at any time with limited recourse for compensation or damages and pricing is typically adjusted downward from time to time in the form of 'cost downs'. Termination of purchase orders and 'cost downs' may impact Exco's margin and overall earnings if not contemporaneously offset by new business at better margin or cost reductions. Furthermore, in any given year, any number of programs will be expiring. While Exco is constantly quoting on replacement programs or new programs, there is no assurance that these new programs will be awarded or that if awarded, the pricing and margin will be comparable to those of programs ending.

The Casting and Extrusion segment is a capital goods business. Interest rates, exchange rates, corporate capital spending, the general economic climate, business confidence and the financial strength of our customers affect the demand for Exco's dies, moulds and consumable parts for die-cast and extrusion 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 in its niche markets mitigate against this risk but some risk remains.

Exco is a global manufacturer which has organized its global production and logistics footprint based on, among other things, the extent of duties/levies imposed on the import/export of our products and raw material inputs. As a general rule governments have been encouraging greater trade and more liberal access to their markets by reducing or eliminating tariffs. This has benefited Exco over the years. More recently, certain governments have postured with a more protectionist tone. In particular, NAFTA is currently being renegotiated and, while the terms of a replacement agreement ("USMCA") have been reached in principle, it is not yet ratified by all parties. Furthermore, USA/China trade negotiations have taken longer and appear more contentious than originally expected and are currently ongoing. As well the US is weighing whether to impose large tariffs on foreign built automobiles. If governments pursue protectionist trade practises with respect to automotive components or their raw materials or subassemblies, Exco may be prejudiced.

Exco has in 2010, 2011, 2013, 2014 and 2016 made five acquisitions (Allper AG, Exco Colombia, Extrusion Texas, Automotive Leather Company and AFX Industries) and may make others in the future. Acquisitions inherently involve risk. While Exco has concluded many acquisitions that have been very successful, there have also been disappointing acquisitions which have adversely impacted earnings.

Exco's Canadian operations negotiate sales contracts with customers in both Canadian and U.S. dollars and Euro. We also purchase, where we can, raw material in these currencies. U.S. dollar and Euro purchases provide a natural hedge against U.S. dollar and Euro sales of Exco's Canadian operations. As for the remaining foreign exchange exposure in these currencies not naturally hedged, Exco does not enter into forward contracts but prefers to incur U.S. dollar or Euro debt, from time to time as appropriate. Despite these measures, Exco is structurally a net seller of U.S. dollars and, to a lesser extent Euro, with increasing adverse financial impact as the U.S. dollar and Euro decline in value against the Canadian dollar. While Exco has made considerable progress in reducing its reliance on U.S. dollar sales, markets which Exco currently services may experience rising competition from imports which have become more competitive as a result of foreign exchange movements.

Exco's U.S. operations earn profits in U.S. dollars while our Canadian operations are exposed to fluctuations in the value of the Canadian dollar relative to the U.S. dollar on U.S. dollar sales less purchases. For fiscal 2020, it is estimated that Exco's total corresponding U.S. dollar foreign exchange risk exposure before tax will amount to approximately US$70.0 million. Therefore, if the Canadian dollar were to strengthen or weaken by $0.01 in fiscal 2020 from a baseline level of $1.30 USD/CAD, it is estimated that pre-tax profit would change by about $700 thousand or about $550 thousand after tax. These estimates are based on historical norms and may be materially different in 2020 if customers deviate from their past practices.

Exco's has four manufacturing operations in Mexico and accordingly incurs a portion of its labour and other expenses in Mexican pesos. In turn, these Mexican pesos expenses are incurred to mainly support US dollar denominated sales. Consequently, any strengthening of the Mexican pesos against the US dollar reduces our profitability, all other things equal. In recognition of this risk, Exco hedges a portion of its Mexican pesos/ US dollar exposure with various foreign exchange contacts and options. For fiscal 2020, we estimate our pesos exposure net of hedges and pesos denominated sales to be approximately 250 million pesos. If the Mexican pesos were to strengthen or weaken by 1% versus the US dollar from a baseline USD/MEX rate of 19:1, and further assuming the Canadian dollar strengthens or weakens against the US dollar also by 1% from a baseline USD/CAD rate of 1.30, we estimate pre-tax profit would change by $280 thousand or about $185 thousand after tax. These estimates are based on historical norms and may be materially different in fiscal 2020 if customers deviate from their past practices.

Exco also has manufacturing facilities in Colombia, Brazil, Thailand and Morocco and Exco's presence in jurisdictions such as these has generally been increasing in recent years. Some of these operations incur labor costs and often other operating expenses in local currency. In several of these countries, sales contracts and major purchases such as material and equipment are negotiated in U.S. dollars or Euro. In other countries, sales contracts and major purchases are negotiated in local functional currencies as well. 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, retained earnings and value of its investment in these countries. Exco may enter into forward contracts or 'collar' contracts from time to time in order to protect itself from currency fluctuations. These contracts are derivative instruments which, depending on their structure, may not qualify for hedge accounting treatment and accordingly may be 'marked to market' each quarter and expensed if necessary. It is difficult to anticipate fluctuations in these local currencies in the event of major economic, fiscal or political instability in these countries.

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 labor-cost structures exist. Exco must compete against companies doing business in these developing countries. Exco has met this challenge by manufacturing some labour-intensive products in Mexico, Thailand and Morocco; however, many of our operations based in Canada and the U.S. must compete with products manufactured in lower-cost environments.

Although we have established and continue to enhance security controls intended to protect our IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyber attacks. A significant breach of our IT systems could: result in theft of funds; cause disruptions in our manufacturing operations; lead to the loss, destruction or inappropriate use of sensitive data; or result in theft of our, our customers' or our suppliers' intellectual property or confidential information. The occurrence of any of the foregoing could adversely affect our operations and/or reputation and could lead to claims against us that could have a material adverse effect on our profitability.

Independent auditor’s report

To the Shareholders of Exco Technologies Limited

Opinion

We have audited the consolidated financial statements of Exco Technologies Limited and its subsidiaries (the “Group”), which comprise the consolidated statements of financial position as at September 30, 2019 and 2018, and the consolidated statements of income and comprehensive income, consolidated statements of changes in shareholders’ equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2019 and 2018 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management’s Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor’s report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis and Annual Report prior to the date of this auditor’s report. If based on the work we have performed, we conclude that there is a misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with

Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness for of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Blake Langill.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
November 27, 2019

EXCO TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
$(000)'s

	As at September 30, 2019	As at September 30, 2018
ASSETS		
Current		
Cash and cash equivalents (note 9)	**$26,488**	$31,343
Accounts receivable (note 9)	**93,552**	102,520
Unbilled revenue (note 8)	**18,719**	24,438
Inventories (note 10)	**57,850**	63,771
Prepaid expenses and deposits	**2,874**	3,585
Derivative instruments (note 9)	**-**	779
Income taxes recoverable	**1,875**	3,170
Total current assets	**201,358**	229,606
Property, plant and equipment, net (note 5)	**126,787**	117,549
Intangible assets, net (note 6)	**33,891**	36,639
Goodwill (note 6)	**62,834**	62,843
Deferred tax assets (note 14)	**1,174**	1,247
Total assets	**$426,044**	$447,884
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (notes 4 and 9)	**$578**	$11,764
Trade accounts payable (note 9)	**44,183**	46,966
Accrued payroll liabilities (note 9)	**12,643**	14,498
Other accrued liabilities (note 9)	**8,041**	9,834
Derivative instruments (note 9)	**278**	-
Provisions (note 7)	**2,672**	1,267
Customer advance payments (note 9)	**1,010**	2,865
Long-term debt - current portion (notes 4 and 9)	**93**	4,108
Total current liabilities	**69,498**	91,302
Long-term debt - long-term portion (notes 4 and 9)	**17,093**	18,181
Deferred tax liabilities (note 14)	**9,972**	8,238
Total liabilities	**96,563**	117,721
Shareholders' equity		
Share capital (note 3)	**50,538**	51,230
Contributed surplus (note 3)	**4,349**	4,391
Accumulated other comprehensive income (note 3)	**9,480**	10,895
Retained earnings	**265,114**	263,647
Total shareholders' equity	**329,481**	330,163
Total liabilities and shareholders' equity	**$426,044**	$447,884

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

Darren M. Kirk
President and
Chief Executive Officer

Brian A. Robbins
Director,
Executive Chairman

EXCO TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
$(000)'s except for income per common share

	Years ended September 30	
	2019	2018
Sales (notes 8 and 12(A))	**$507,348**	$575,554
Cost of sales	**400,494**	453,932
Selling, general and administrative expenses (note 3)	**44,445**	46,101
Depreciation (note 5)	**15,398**	15,734
Amortization (note 6)	**4,062**	5,180
Gain on disposal of property, plant and equipment (note 5)	**(226)**	(1,033)
Interest expense, net (note 17)	**790**	1,022
Other expense (note 18)	**6,409**	-
	471,372	520,936
Income before income taxes	**35,976**	54,618
Provision for (recovery of) income taxes (note 14)		
Current	**7,598**	11,438
Deferred	**1,746**	910
	9,344	12,348
Net income for the year	**$26,632**	$42,270
Other comprehensive income (loss)		
Items that may be reclassified to net income in subsequent periods:		
Net unrealized gain (loss) on derivatives designated as cash flow hedges (notes 3 and 9)	**(779)**	805
Unrealized gain (loss) on foreign currency translation (note 3)	**(636)**	5,858
	(1,415)	6,663
Comprehensive income	**$25,217**	$48,933
Income per common share		
Basic	**$0.65**	$1.00
Diluted	**$0.65**	$1.00
Weighted average number of common shares outstanding (note 13)		
Basic	**41,245**	42,264
Diluted	**41,253**	42,296

The accompanying notes are an integral part of these consolidated financial statements.

EXCO TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
$(000)'s

				Accumulated other comprehensive income (loss)			
	Share capital	**Contributed surplus**	**Retained earnings**	Net unrealized gain (loss) on derivatives designated as cash flow hedges	Unrealized gain (loss) on foreign currency translation	**Total accumulated other comprehensive income (loss)**	**Total shareholders' equity**
Balance, September 30, 2017	$51,707	$3,998	$241,321	($233)	$4,465	$4,232	$301,258
Net income for the year	-	-	42,270	-	-	-	$42,270
Dividends paid (note 3)	-	-	(14,136)	-	-	-	($14,136)
Stock option grants (note 3)	-	504	-	-	-	-	$504
Issuance of share capital (note 3)	370	(111)	-	-	-	-	$259
Repurchase of share capital (note 3)	(847)	-	(5,808)	-	-	-	($6,655)
Other comprehensive income (note 3)	-	-	-	805	5,858	6,663	$6,663
Balance, September 30, 2018	51,230	4,391	263,647	572	10,323	10,895	330,163
Net income for the year	-	-	26,632	-	-	-	26,632
Dividends paid (note 3)	-	-	(14,597)	-	-	-	(14,597)
Stock option grants (note 3)	-	270	-	-	-	-	270
Issuance of share capital (note 3)	1,041	(312)	-	-	-	-	729
Repurchase of share capital (note 3)	(1,733)	-	(10,568)	-	-	-	(12,301)
Other comprehensive loss (note 3)	-	-	-	(779)	(636)	(1,415)	(1,415)
Balance, September 30, 2019	**$50,538**	**$4,349**	**$265,114**	**($207)**	**$9,687**	**$9,480**	**$329,481**

The accompanying notes are an integral part of these consolidated financial statements.

EXCO TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
$(000)'s

	Years ended September 30	
	2019	2018
OPERATING ACTIVITIES:		
Net income for the year	**$26,632**	$42,270
Add (deduct) items not involving a current outlay of cash		
Depreciation (note 5)	**15,398**	15,734
Amortization (note 6)	**4,062**	5,180
Stock-based compensation expense	**305**	600
Deferred income tax expense (recovery) (note 14)	**1,746**	910
Net interest expense (note 17)	**790**	1,022
Non-cash cost of ALC plant closures (note 18)	**6,409**	-
Gain on disposal of property, plant and equipment	**(226)**	(1,033)
	55,116	64,683
Net change in non-cash working capital (note 15)	**9,700**	(15,850)
Cash provided by operating activities	**64,816**	48,833
FINANCING ACTIVITIES:		
Decrease in bank indebtedness	**(9,356)**	(3,953)
Repayment of long-term debt (note 4)	**(5,103)**	(8,804)
Interest paid, net	**(790)**	(1,022)
Dividends paid (note 3)	**(14,597)**	(14,136)
Repurchase of share capital (note 3)	**(12,301)**	(6,655)
Issuance of share capital (note 3)	**729**	259
Cash used in financing activities	**(41,418)**	(34,311)
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment (note 5)	**(27,401)**	(22,920)
Purchase of intangible assets (note 6)	**(567)**	(592)
Proceeds on disposal of property, plant and equipment	**450**	3,135
Cash used in investing activities	**(27,518)**	(20,377)
Effect of exchange rate changes on cash	**229**	1,322
Net decrease in cash during the year	**(3,891)**	(4,533)
De-consolidation of ALC cash (note 18)	**(964)**	-
Cash, beginning of year	**31,343**	35,876
Cash, end of year	**$26,488**	$31,343

The accompanying notes are an integral part of these consolidated financial statements.

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 15 strategic locations in 7 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

The Company's significant accounting policies are outlined below:

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Certain amounts in the prior period have been reclassified to conform with current period presentation.

The consolidated financial statements and accompanying notes as at and for the year ended September 30, 2019 were authorized for issue by the Board of Directors on November 27, 2019.

Basis of consolidation
The 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 consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

Functional and presentation currency
Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange at the consolidated statements of financial position dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the consolidated statements of income and comprehensive income.

Translation of foreign operations
The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the consolidated statements of financial position; and
- Income and expenses for each statement of income and comprehensive income are translated at the exchange rates prevailing at the dates of the transactions.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recorded in other comprehensive income.

When a foreign operation is sold, exchange differences that were recorded in accumulated other comprehensive income are recognized in the consolidated statements of income and comprehensive income as part of the gain or loss on sale.

Segment reporting
Management has determined the operating segments based on the information regularly reviewed for the purposes of decision making, allocating resources and assessing performance by the Company's chief operating decision maker, which is the chief executive officer. Factors used to identify reportable segments include product categories, customers served and geographical region of operations. The chief operating decision maker evaluates the financial performance of its operating segments primarily based on net income before interest, income taxes, depreciation and amortization.

Interest in joint arrangement
The Company has an interest in a joint arrangement, whereby the parties to the arrangement have a contractual arrangement that establishes joint control over the economic activities of the individual entity. As the arrangement is considered to be a joint operation for accounting purposes, the Company recognized its share of the joint operation's assets, liabilities, revenues and expenses in the consolidated financial statements. The financial statements of the joint operation are prepared for the same reporting period as the Company.

Business combinations
Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets acquired and liabilities incurred or assumed. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations,* are recognized at their fair values at the acquisition date. Acquisition costs are expensed as incurred.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Where goodwill forms part of a Cash-Generating Unit ("CGU") or group of CGUs and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of under this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the group of CGU retained.

Revenue recognition
For all periods presented that ended prior to October 1, 2018 the following was the Company's accounting policy for revenue recognition.

Revenue is recognized when it can be measured reliably, the significant risks and rewards of ownership are transferred to the customer, and it is probable that future economic benefits will flow to the Company. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes and duties.

- Revenue from short-term casting contracts, extrusion and other tooling, and Automotive Solutions segment products is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon shipment or acceptance by customers.

- Revenue from long-term large die-cast mould contracts is recognized using the percentage of completion method according to IAS 11, *Construction Contracts,* under which:

  - When the outcome of a contract can be reliably estimated, revenue and costs associated with a contract are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract at the consolidated statements of financial position dates. The stage of completion is determined by the percentage of the costs incurred to date to the total estimated cost.

- When the outcome of a contract cannot be reliably estimated, revenue is recognized only to the extent of contract costs incurred. When the uncertainties that prevented reliable estimation of the outcome of a contract no longer exist, contract revenue and expenses are recognized using the percentage of completion method.

- If the expected outcome of a contract is a loss, the loss is recognized immediately regardless of whether or not work has commenced on the contract.

- For contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings, a gross amount due from customers for contract work is recognized as unbilled revenue − an asset in the consolidated statements of financial position. For all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses), a gross amount due to customers for contract work is recognized as customer advance payments − a liability in the consolidated statements of financial position.

Share-based payments
The Company grants stock options to buy common shares of the Company to officers and employees. The Board of Directors grants such options for periods of up to 10 years, with vesting periods determined at its sole discretion and at prices equal to the average closing market prices for the five days preceding the date on which the options were granted.

The Company follows the fair value based method of accounting for stock-based compensation. The fair value of the options is recognized as compensation expense in selling, general and administrative expenses in the consolidated statements of income and comprehensive income over the vesting period with a corresponding increase to contributed surplus. 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.

On November 18, 2005, the Board of Directors adopted a Deferred Share Unit ("DSU") plan for Independent Directors. The DSU plan replaces the past practice of granting eligible directors stock options under the Stock Option Plan. Under the DSU plan, a portion of the quarterly remuneration of a director is credited to the director's DSU account in the form of deferred share units on the last business day of the quarter. The number of DSUs credited to the director's account is determined by dividing the portion of a director's quarterly remuneration allocated to DSUs by the weighted average price of the common share value traded in the last five business days of the quarter. DSUs are fully vested upon being credited to a director's DSU account. The DSUs will be redeemed by the Company in cash payable 60 days after the Independent Director departs from the Board of Directors at the fair market value at the payment date. The fair value of DSUs is recognized as compensation expense in selling, general and administrative expenses in the consolidated statements of income and comprehensive income with the corresponding credit or debit to other accrued liabilities.

Income taxes
Income tax expense consists of current and deferred income taxes. Income tax expense is recognized in the consolidated statements of income and comprehensive income.

Current income tax expense is the expected income taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to income taxes payable with regards to previous years.

Deferred income taxes are recorded using the statement of financial position liability method. Under the statement of financial position liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible timing differences can be utilized.

Deferred income taxes are charged or credited in the consolidated statements of income and comprehensive income, except when they relate to items credited or charged directly to equity, in which case the deferred income taxes are also recorded in equity.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that all or part of the deferred income tax asset will be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that the benefit will be recovered.

Other comprehensive income
Other comprehensive income includes unrealized gains and losses on translation of the Company's foreign operations that use the local currency as the functional currency, net of taxes, the change in fair value of available-for-sale investments, net of taxes, and to the extent that cash flow hedges are effective, the change in their fair value, net of income taxes.

Accumulated other comprehensive income is a separate component of shareholders' equity which includes the accumulated balances of all components of other comprehensive income which are recognized in comprehensive income but excluded from net income.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with remaining maturities at their acquisition date of three months or less.

Property, plant and equipment

(i) *Machinery and equipment*

Machinery and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. All direct costs related to the acquisition and installation of machinery and equipment are capitalized until the properties to which they relate are capable of carrying out their intended use. Machinery and equipment are depreciated using the diminishing balance method based on their estimated useful lives, which range from 4 to 20 years.

(ii) *Other assets*

Other assets are recorded at cost less accumulated depreciation and accumulated impairment losses and are depreciated using the straight-line method based on estimated useful lives of the assets, which generally range from 3 to 10 years, with the exception of buildings, which have estimated useful lives of 30 years. Land is not depreciated.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects are capitalized and no depreciation is recorded until the asset is brought to a working condition for its intended use.

The costs of day-to-day servicing are expensed as incurred. These costs are more commonly referred to as "maintenance and repairs".

The depreciation methods and useful lives are assessed annually or when critical events occur that may affect the useful lives and expected pattern of consumption of economic benefits embodied in the asset.

(iii) *Subsequent costs*

The cost of replacing part of an item within property, plant and equipment is capitalized when the cost is incurred or if it is probable that the future economic benefits will flow to the business unit and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other costs are expensed as incurred.

Intangible assets
An intangible asset is defined as being identifiable, able to bring future economic benefits to the Company and controlled by it. Intangible assets are recorded initially at cost and relate primarily to computer software, production and technology rights and customer relationships. An intangible asset is recognized when it is probable that the expected future economic benefits attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is provided based on the following estimated useful lives using the straight-line method:

- Customer relationships: 5 to 15 years
- Computer software and production and technology rights: 2 to 4 years
- Non-compete agreements: 5 years
- Trade name: 7 years

Intangible assets acquired in a business acquisition are primarily customer relationships and are initially recorded at fair value and subsequently at cost less amortization and impairment losses. Other intangible assets are comprised of computer software and production and technology rights.

Identifiable intangible assets are recognized separately from goodwill.

Impairment of long-lived assets and goodwill
(i) *Impairment of long-lived assets*
The Company's property, plant and equipment and intangible assets are reviewed for indicators of impairment as at each consolidated statements of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated and an impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment loss is recognized in income or loss for the year. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. In determining fair value less costs to sell, recent market transactions are taken into account, if available.

The Company bases its impairment calculation on detailed budgets that are prepared for each of the CGUs and generally cover a period of three years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the third year.

A previous impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(ii) *Impairment of goodwill*
Goodwill is allocated to a CGU or a group of CGUs for the purpose of impairment testing based on the level at which it is monitored by management. The Company manages its goodwill at the level of its two operating segments, Automotive Solutions and Casting and Extrusion. Goodwill is tested for impairment annually during the fourth quarter of the year or whenever there is an indicator that the CGU group in which it resides may be

impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU group to which the goodwill relates. Where the recoverable amount of the CGU group is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The recoverable amounts of the CGU groups are determined based on the greater of fair value less costs to sell or value in use.

Inventories

Inventories, comprising raw materials, work in process, finished goods and production supplies, are valued at the lower of cost and net realizable value. Cost is determined substantially on a first-in, first-out basis and an appropriate portion of normal overhead expenditure and labour. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Obsolete, redundant and slow-moving stock is identified and written down. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

Determination of fair value

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

A fair value measurement on a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, the cost of the asset is reduced by the amount of the grant.

Financial instruments

For all periods presented that ended prior to October 1, 2018 the following was the Company's accounting policy for financial instruments.

Under IAS 39, *Financial Instruments,* financial assets and liabilities are recognized in the Company's consolidated statements of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Company no longer has the rights to such cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired.

Financial instruments recognized in the consolidated statements of financial position comprise cash and cash equivalents, accounts receivable, trade accounts payable, bank indebtedness, other accrued liabilities, customer advance payments, derivative instruments and long-term debt.

Financial instruments are measured at their fair values on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held to maturity or financial liabilities classified as loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest rate method.

Changes in fair value are included in the consolidated statements of income and comprehensive income unless the instrument is included in a cash flow hedge. If the instruments are included in a cash flow hedging relationship that is effective, changes in value are recorded in other comprehensive income. When the hedged forecast transaction occurs, amounts previously recorded in other comprehensive income are recognized in the consolidated statements of income and comprehensive income. Amounts recognized as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast purchase occurs.

Accounts receivable are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of accounts receivable is based on a review of all outstanding amounts at year-end. Payment terms are generally based on the customers' payment schedules, which typically range from 30 to 90 days from the invoice date. Payment is typically made through a lump-sum payment, however, milestone payments throughout the asset fabrication process are sometimes agreed to. Payments made in advance of transfer of control are recorded as a contract liability and recognized as revenue once control has transferred. Bad debts are written off during the period in which they are identified. Trade accounts payable and customer advance payments are initially recognized at the transaction value and subsequently carried at amortized cost.

The Company uses derivative financial instruments, such as forward foreign currency exchange contracts in the form of put and call option contracts ("Collars"), to hedge cash outflows anticipated to be made in Mexican peso denominated payments against foreign currency fluctuations between US dollars and Mexican pesos. In addition, in the current year the Company used a forward foreign exchange contract in the form of a collar to hedge against the purchase of capital equipment denominated in USD, using cash denominated in CAD dollars. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately to profit or loss.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Forward foreign exchange contracts have been entered into with JP Morgan Chase with a long-term debt rating of A+ as determined by Standard & Poor's. The Company does not anticipate non-performance by JP Morgan Chase.

The Company's financial assets and liabilities recorded at fair value in the consolidated statements of financial position are each categorized into one of three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level I is determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level III valuations are based primarily on inputs that are not based on observable market data.

Transaction costs are expensed as incurred for financial instruments classified or designated as a derivative or held for trading. Transaction costs for financial assets classified as available for sale are netted against the value of the instruments at the acquisition date. Transaction costs related to other financial liabilities are added to the value of the instrument at the acquisition date and recorded in income using the effective interest rate method.

Provisions
As required under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statements of financial position dates, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Leases
As required under IAS 17, *Leases*, assets held under finance leases are recognized as assets of the Company at the lower of the fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding amount is recognized as a finance lease liability. The finance lease liability is reduced by lease payments less finance charges, which are expensed as part of interest expense in the consolidated statements of income and comprehensive income. Under operating leases, payments are recognized as an expense over the term of the relevant leases.

Employee future benefits

(i) *Leave pay*
Employee entitlements to annual leave are recognized as they are earned by the employees. A provision, stated at current cost, is made for the estimated liability at year-end.

(ii) *Termination benefits*
The Company is subject to Mexican statutory laws and regulations governing Mexican employee termination benefits. Employee future benefits include statutorily mandated accrued benefits payable to employees in the event of termination in certain circumstances. Termination benefits are recognized as an expense and an associated liability at the discounted value of the expected future payments.

Critical judgments and use of estimates
The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant accounts that require estimates as the basis for determining the stated amounts include accounting for unbilled revenue, inventories, property, plant and equipment, contingent liabilities, income taxes, fair value of financial instruments and stock option valuation.

Several divisions engage in the construction of custom-order large die-cast moulds. Such activities fall into the scope of IFRS 15, Revenue from Contracts with Customers (supersedes IAS 11 Construction Contracts), where revenue is recognized using the percentage of completion method. Under this method, at every reporting date, management is required to estimate the expected outcome on all outstanding contracts as well as measurement of their progress achieved towards their completion. The estimation requires management to make certain assumptions and judgments. These assumptions and judgments are continuously reviewed and updated. If different assumptions are used, it is possible that different amounts would be recognized in the consolidated financial statements.

Net realizable value of inventories is dependent upon the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses based on prior experience and assessment of current market conditions.

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined with the exercise of judgment. The assessment of any impairment of property, plant and equipment and intangible assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

The estimated useful lives of property, plant and equipment and intangible assets are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment and intangible assets requires judgment and is based on currently available information. Property, plant and equipment and intangible assets are also reviewed for potential impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy, can result in actual useful lives differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment and intangible assets or future cash flows constitute a change in accounting estimates and are applied prospectively.

Income taxes are determined based on estimates of the Company's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

Impairment of non-financial assets exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of the fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the CGUs, including a sensitivity analysis, are disclosed and further explained in note 6.

Accounting standards adopted in fiscal year 2019

Certain amendments to standards that were adopted on October 1, 2018 are noted below:

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

Effective October 1, 2018 the Company adopted IFRS 15, in accordance with the modified retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the presentation and disclosure in the consolidated financial statements.

Revenue Recognition
The Company recognizes sales primarily from two categories of goods: production contracts (including finished production parts and assemblies, short-term die cast tooling contracts, extrusion and other tooling), and long-term large die cast mould contracts.

Production contracts
Revenue for production contracts is recognized at the point in time control of the goods is transferred to the customer. Control of finished production parts, assemblies and tooling transfers when the goods are shipped from the Company's manufacturing facilities to the customer.

A receivable is recognized when control of goods transfers to the customer, as indicated above, and consideration is unconditional. Payment terms are generally based on the customers' payment schedules, which typically range from 30 to 90 days from the invoice date.

Long-term large die cast mould contracts
The Company recognizes revenue from long-term large die cast mould contracts over time using the percentage-of-completion input method, which recognizes revenue as performance of the contract progresses. Contracts that do not meet the criteria for over time recognition are recognized at a point in time. Revenue recognized over time is determined based on the proportion of accumulated expenditures to date as compared to total anticipated expenditures as this depicts the progress towards completion of the service. Revenue is recognized over time for contracts that the Company creates an asset without an alternative use and has the contractual right to payment for performance completed to date. The estimation of revenue and costs-to-complete is complex, subject to variables and requires significant judgement. The contract value may include fixed amounts, variable amounts or both. The Corporation estimates variable consideration at the most likely amount to which the Corporation expects to be entitled. The estimated variable amount is included in the transaction price to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The estimation of variable consideration is largely based on assessment of the Company's historical, current and forecasted information that is reasonably available.

A receivable is recognized when control of goods transfers to the customer, as indicated above, and consideration is unconditional. Payment terms are generally based on the customers' payment schedules, which typically range from 30 to 90 days from the invoice date.

For contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings, a gross amount due from customers for contract work is recognized as unbilled revenue – an asset in the consolidated statements of financial position. For all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses), a gross amount due to customers for contract work is recognized as customer advance payments – a liability in the consolidated statements of financial position.

The Company has elected to apply the practical expedient provided under IFRS 15 for unsatisfied performance obligation of a contract that has an original expected duration of one year or less or for which revenue is recognized based on the right to invoice.

IFRS 9, *Financial Instruments* ("IFRS 9")

The Company has adopted IFRS 9 using the modified retrospective approach effective October 1, 2018. The adoption of IFRS 9 did not have a material impact on the consolidated financial statements. In accordance with the transitional provisions in the standard, comparative figures have not been restated.

Financial instruments
(i) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification under IFRS 9 as described below:

Amortized cost:
The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables. The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Fair value through profit or loss ("FVTPL"):
Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative assets and derivative liabilities that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets and liabilities on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statement of operations. Transaction costs incurred are expensed in the consolidated statement of operations.

Loans and borrowings
The Company initially recognized the carrying amount of such liabilities on the consolidated balance sheet at fair value net of directly attributable transaction costs. After initial recognition, they are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

(ii) Impairment of financial assets:
IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The Company's ECL model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward-looking information and did not result in a significant change as compared to the Company's pre-IFRS 9 approach. The Company's allowance is determined by historical experiences, and considers factors including, the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers.

(iii) Hedge Accounting:
The Company has applied hedge accounting prospectively. At the date of initial application of IFRS 9, all of the Company's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Company has continued to designate the change in fair value of the entire forward contract in the Company's cash flow hedge relationship in other comprehensive income (loss) to the extent the hedge continues to be highly effective. The related other comprehensive income (loss) amounts are allocated to the consolidated statements of income in the same period in which the hedged item affects earnings. The adoption of the new hedge accounting requirements resulted in no transitional adjustment to how the Company has applied hedge accounting under IFRS 9.

Accounting standards issued but not yet applied
The following standards are not effective for the year ended September 30, 2019 but will be in subsequent years as follows:

IFRS 16, *Leases* ("IFRS 16")
In January 2016, the IASB issued IFRS 16 in which lessees will have a single accounting model for all leases, with certain exemptions and lessor accounting is substantially unchanged. The guidance will require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, which will be October 1, 2019 for the Company using a modified retrospective approach with the option to elect certain practical expedients. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements and dos not expect it to result in a material change. Application of IFRS 16 will result in an increase in liabilities and assets from the recognition of right to use assets and lease liabilities, as well as a decrease in cost of sales and selling, general and administrative expenses and an increase in interest expense and depreciation.

3. SHAREHOLDERS' EQUITY

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. None of these shares have par value.

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Issued
The Company has not issued any non-voting preference shares or special shares. Changes to the issued common shares are shown in the following table:

	Common Shares	
	Number of Shares	Stated Value
Issued and outstanding as at October 1, 2017	42,499,391	$51,707
Issued for cash under Stock Option Plan	37,690	259
Transfer of contributed surplus on stock options exercised	-	111
Purchased and cancelled pursuant to normal course issuer bid	(696,400)	(847)
Issued and outstanding as at September 30, 2018	41,840,681	51,230
Issued for cash under Stock Option Plan	103,000	729
Contributed surplus on stock options exercised	-	312
Purchased and cancelled pursuant to normal course issuer bid	(1,416,018)	(1,733)
Issued and outstanding as at September 30, 2019	**40,527,663**	**$50,538**

Accumulated other comprehensive income
Included in accumulated other comprehensive income in shareholders' equity are gains and losses arising from the translation of the Company's foreign subsidiaries, net gains and losses on derivatives designated as cash flow hedges and reclassification to income of net gains and losses on cash flow hedges as summarized in the following table:

	2019	2018
Opening balance	**$10,895**	$4,232
Net unrealized gain (loss) on derivatives designated as cash flow hedges (1)	**(779)**	805
Unrealized gain (loss) on currency translation adjustments	**(636)**	5,858
Total other comprehensive income (loss) for the year	**(1,415)**	6,663
Closing balance	**$9,480**	$10,895

(1) Net of deferred taxes of $278 (2018 – $288).

Cash dividends
During the year, the Company paid four quarterly cash dividends totaling $14,597 (2018 – $14,136). The dividend rate per quarter increased starting in the second quarter of the year from $0.085 to $0.09 per common share.

Stock Option Plan
The Company has a Stock Option Plan under which common shares may be acquired by employees and officers of the Company. The following table shows the changes to the number of stock options outstanding during the year:

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	2019		2018	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**880,150**	**$11.29**	754,340	$11.32
Granted	**165,000**	**$9.87**	165,000	$10.15
Exercised	**(103,000)**	**$7.09**	(37,690)	$6.87
Expired	**(156,750)**	**$11.55**	(1,500)	$14.58
Balance, end of year	**785,400**	**$11.49**	880,150	$11.29

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2019:

	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**
$8.86 - $10.00	180,000	3.64 years	$9.64	40,000	$8.86
$10.01 - $11.00	315,000	3.10 years	$10.33	98,000	$10.39
$11.01 - $14.58	290,400	1.27 years	$13.88	226,800	$13.87
$8.86 - $14.58	**785,400**	**2.55 years**	**$11.49**	**364,800**	**$12.39**

The number of common shares available for future issuance of options as at September 30, 2019 is 1,289,938 (2018 – 1,298,188). The number of options outstanding together with those available for future issuance totals 2,075,338 (2018 – 2,178,338) or 5.1% (2018 – 5.2%) of the issued and outstanding common shares. The options are granted for a term of 5 to 10 years, and the options vest at 20% at each anniversary date from the date of grant.

Stock-based compensation

Stock-based compensation resulting from applying the Black-Scholes option pricing model to the Company's Stock Option Plan was $270 for the year ended September 30, 2019 (2018 – $504). All stock-based compensation has been recorded in selling, general and administrative expenses. The weighted average assumptions used to measure the fair value of stock options and the weighted average fair value of options granted during the years ended September 30, 2019 and 2018 are as follows:

	2019	2018
Risk-free interest rates	**2.29%**	1.64%
Expected dividend yield	**3.579%**	3.125%
Expected volatility	**29.85%**	29.70%
Expected time until exercise	**5.50 years**	5.50 years
Weighted average fair value of the options granted	**$2.01**	$2.08

DSU Plan

The Company has a DSU plan under which members of the Company's Board of Directors who are not management receive a portion of their annual retainers and fees in the form of DSUs, which are classified as other accrued liabilities. The DSUs vest on the date they are granted and are settled in cash upon termination of Board service. This is a cash-settled compensation arrangement.

During the year ended September 30, 2019, the Company granted 16,155 DSUs (2018 – 14,596 DSUs) and redeemed

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60,312 DSUs (2018 – no DSUs). During the year ended September 30, 2019 the Company recorded stock-based compensation expense of $35 (2018 – $96 income) related to awards under the DSU plan with a corresponding adjustment to other accrued liabilities. As at September 30, 2019, 61,056 DSUs were outstanding with a carrying value of $450 recorded in other accrued liabilities.

Contributed surplus
Contributed surplus consists of accumulated stock option expense less the carrying amount of the options that have been exercised and reclassified to share capital. The following is a continuity schedule of contributed surplus:

	2019	2018
Balance, beginning of year	**$4,391**	$3,998
Stock option expense	**270**	504
Exercise of stock options	**(312)**	(111)
Balance, end of year	**$4,349**	$4,391

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 February 18, 2019. The Company's Board of Directors authorized the purchase of up to 2,100,000 common shares representing approximately 5.3% of the Company's outstanding common shares. During the year, 1,416,018 common shares were repurchased (2018 – 696,400) for a total cost of $12,301 (2018 – $6,655). The cost to repurchase the common shares in the year exceeded their stated value by $10,568 (2018 – $5,808) which was charged against retained earnings.

4. BANK INDEBTEDNESS AND LONG-TERM DEBT

The operating lines are available in US dollars, Canadian dollars, and Euros at variable rates ranging from prime minus 0.5% to prime plus 0.5%. The Company's JP Morgan credit facilities are collateralized by a general security agreement over its North American assets.

		Utilizations		**Unused and**
	Facilities	**Current**	**Long-term**	**Available**
JP Morgan, credit facility (Canada, USA)	**$50,000**	$-	$17,000	$33,000
JP Morgan, operating line (Europe)	**2,238**	578	-	1,660
	$52,238	**$578**	**$17,000**	**$34,660**

	2019	2018
Prime rate in Canada	**3.95%**	3.70%
Prime rate in USA	**5.00%**	5.25%
Prime rate in Eurozone	**0.00%**	0.00%

On February 28, 2018, the Company closed an amendment to renew the $50,000 Committed Revolving Credit Facility with JP Morgan Chase Bank N.A., of which $17,000 was utilized as at September 30, 2019 (2018 - $24,421). The facility has a three-year term and there are no specific repayment terms prior to maturity. The facility is collateralized by a general security agreement covering all assets of the Company's Canadian and US subsidiaries with the exception of real property.

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, CDOR or LIBOR base rates plus a relevant margin depending on the level of the Company's net leverage ratio. Pursuant to the terms of the credit agreement, the Company is required to maintain compliance with a net worth covenant. The Company was in compliance with these covenants as at September 30, 2019.

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Additionally, the Company maintains a credit facility with JP Morgan Chase Bank N.A. London Branch related to any needs for Euro currency. The facility totals $2,238 (EUR 1.55 million) and bears interest based on LIBOR. The Company had utilized $578 as at September 30, 2019 (2018 – $601).

Further, in the USA, the Company also has a long-term promissory note payable over five years and collateralized by a specific parcel of land purchased as a factory location. The note bears interest at 6%. The interest and principal are forgivable over a five-year period, subject to the Company meeting certain performance criteria for the specific factory location. The note matures and expires in February 2021. As at September 30, 2019 there are no unfulfilled conditions or contingencies attached to this loan.

The components of long-term debt are as follows:

	September 30, 2019	September 30, 2018
Bank debt	**$17,000**	$18,000
Term notes	**-**	4,017
Promissory note	**186**	272
Subtotal	**17,186**	22,289
Less: current portion	**(93)**	(4,108)
Long-term debt, long-term portion	**$17,093**	$18,181

5. PROPERTY, PLANT AND EQUIPMENT

	Machinery and Equipment	**Tools**	**Buildings**	**Land**	**Assets under Construction**	**Total**
Cost						
Balance as at September 30, 2017	$192,820	$21,112	$67,564	$10,077	$3,655	$295,228
Additions	3,180	1,159	3,656	2,284	12,641	22,920
Reclassification	10,321	835	2,555	-	(13,711)	-
Less: disposals	(3,958)	(470)	(3,043)	(361)	-	(7,832)
Foreign exchange movement	1,618	287	557	12	46	2,520
Balance as at September 30, 2018	203,981	22,923	71,289	12,012	2,631	312,836
Additions	3,182	1,569	456	-	22,194	27,401
Reclassification	13,244	1,432	3,562	-	(18,238)	-
Less: disposals	(10,118)	(1,028)	-	-	-	(11,146)
Less: deconsolidation of ALC (note 18)	(6,962)	(601)	-	-	-	(7,563)
Foreign exchange movement	601	112	(44)	(34)	(35)	600
Balance as at September 30, 2019	**$203,928**	**$24,407**	**$75,263**	**$11,978**	**$6,552**	**$322,128**

$(000)'s except per share amounts

	Machinery and Equipment	Tools	Buildings	Land	Assets under Construction	Total
Accumulated depreciation and impairment losses						
Balance as at September 30, 2017	$134,550	$16,187	$32,696	$-	$-	$183,433
Depreciation for the year	11,008	1,860	2,866	-	-	15,734
Less: disposals	(2,719)	(421)	(2,507)	-	-	(5,647)
Reclassification	(21)	21	-	-	-	-
Foreign exchange movement	1,128	246	393	-	-	1,767
Balance as at September 30, 2018	143,946	17,893	33,448	-	-	195,287
Depreciation for the year	10,598	1,768	3,032	-	-	15,398
Less: disposals	(9,931)	(991)	-	-	-	(10,922)
Less: deconsolidation of ALC (note 18)	(4,269)	(473)	-			(4,742)
Foreign exchange movement	223	97	-	-	-	320
Balance as at September 30, 2019	**$140,567**	**$18,294**	**$36,480**	**$-**	**$-**	**$195,341**

Carrying amounts						
As at September 30, 2018	$60,035	$5,030	$37,841	$12,012	$2,631	$117,549
As at September 30, 2019	**$63,361**	**$6,113**	**$38,783**	**$11,978**	**$6,552**	**$126,787**

As at September 30, 2019, the Company had deposits for machinery and equipment and buildings under construction totalling $6,552 (2018 – $2,631). These assets are not being depreciated because they are under construction and not in use.

6. INTANGIBLE ASSETS AND GOODWILL

	Computer Software and Other	Acquisition Intangibles**	Assets under Construction (Software)	Total Intangible Assets	Goodwill
Cost					
Balance as at September 30, 2017	$20,614	$44,713	$427	$65,754	$61,820
Additions	384	-	208	592	-
Less: disposals	(165)	-	-	(165)	-
Reclassifications	538	-	(538)	-	-
Foreign exchange movement	89	1,553	2	1,644	1,023
Balance as at September 30, 2018	21,460	46,266	99	67,825	62,843
Additions	447	-	120	567	-
Less: disposals	(392)	-	-	(392)	-
Less: deconsolidation of ALC (note 18)	(321)	-		(321)	-
Reclassification	113	-	(113)	-	-
Foreign exchange movement	19	958	-	977	(9)
Balance as at September 30, 2019	**$21,326**	**$47,224**	**$106**	**$68,656**	**$62,834**

$(000)'s except per share amounts

	Computer Software and Other	Acquisition Intangibles**	Assets under Construction (Software)	Total Intangible Assets	Goodwill
Accumulated amortization and impairment losses					
Balance as at September 30, 2017	$18,829	$7,076	$-	$25,905	$-
Amortization for the year	1,062	4,118	-	5,180	-
Less: disposals	(165)	-	-	(165)	
Foreign exchange movement	71	195	-	266	-
Balance as at September 30, 2018	19,797	11,389	-	31,186	-
Amortization for the year	825	3,237	-	4,062	-
Less: disposals	(392)	-	-	(392)	-
Less: deconsolidation of ALC (note 18)	(273)	-	-	(273)	
Foreign exchange movement	17	165	-	182	-
Balance as at September 30, 2019	**$19,974**	**$14,791**	**$-**	**$34,765**	**$-**
Carrying amounts					
As at September 30, 2018	$1,663	$34,877	$99	$36,639	$62,843
As at September 30, 2019	**$1,352**	**$32,433**	**$106**	**$33,891**	**$62,834**

+**Acquisition intangibles are comprised of customer relationships and trade names resulting from business acquisitions and the purchase price allocation thereof.

Impairment testing of goodwill
The Company performed the annual impairment test of goodwill allocated to the Automotive Solutions segment as at September 30, 2019. The recoverable amount has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flow beyond the three-year period was extrapolated using a 2% growth rate, which represents the expected growth in the global economy. The discount rate applied to future cash flows was 7.1%. As a result of the analysis, management determined there was no impairment.

Key assumptions to value-in-use calculations
The calculation of the value-in-use for the Automotive Solutions segment is most sensitive to the following assumptions:

- Discount rates
- Growth rate to extrapolate cash flows beyond the budget period
- Revenue and margin growth rates during budget period

The discount rate used represents the current market assessment of the risks specific to each business segment, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate is derived from the CGU's weighted average cost of capital, taking into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's shareholders. The cost of debt is based on the interest-bearing borrowing the Company is obliged to service. Segment-specific risk is incorporated by applying different debt to equity ratios.

Sensitivity to changes in assumptions
Management believes that within reason, there can be possible changes to any of the above key assumptions and recoverable amounts would still exceed carrying values.

$(000)'s except per share amounts

7. PROVISIONS

The following table outlines the provisions at the dates of the consolidated statements of financial position and changes to the provisions during the reporting periods.

	September 30, 2019	September 30, 2018
Severance	**$2,474**	$1,115
Warranties	**198**	152
	$2,672	$1,267

The fair value of the above provisions is management's best estimate based on information available. The ultimate amounts of the payments approximate the provision amounts and the timing of payments is expected to be within the next twelve months. There is no reimbursement expected for any of these provisions.

The movement in the provision accounts is as follows:

	Severance	Warranties	Total
Closing balance, as at September 30, 2017	$1,188	$151	$1,339
Additions	378	-	378
Utilized	(353)	-	(353)
Reversals	(117)	-	(117)
Foreign exchange differences	19	1	20
Closing balance, as at September 30, 2018	$1,115	$152	$1,267
Additions	2,442	78	2,520
Utilized	(972)	(33)	(1,005)
Reversals	(100)		(100)
Foreign exchange differences	(11)	1	(10)
Closing balance, as at September 30, 2019	**$2,474**	**$198**	**$2,672**

8. TOOL CONSTRUCTION CONTRACTS

Contract revenue recognized under the percentage of completion method during the year amounted to $45,116 (2018 – $53,968). The Company has recognized contract assets and liabilities in its consolidated statement of financial position as Unbilled revenue of $18,719 and Customer advance payments of $1,010.

For contracts in progress, the following table summarizes the aggregate amount of costs incurred, profits recognized, progress billings to customers for the related contracts and retentions being held to date.

	September 30, 2019	September 30, 2018
Contracts in progress:		
Aggregate amount of costs incurred to date	**$15,410**	$20,680
Add: profits recognized to date	**4,046**	4,392
Gross unbilled revenue	**19,456**	25,072
Less: progress billings	**(737)**	(634)
Net unbilled revenue	**$18,719**	$24,438
Due from customers	**$18,719**	$24,438

$(000)'s except per share amounts

9. FINANCIAL INSTRUMENTS

The Company classifies its financial instruments as follows:

Cash and cash equivalents	Financial assets – held for trading measured at fair value
Accounts receivable*	Financial assets – measured at amortized cost
Trade accounts payable	Financial liabilities – measured at amortized cost
Bank indebtedness	Financial liabilities – measured at amortized cost
Customer advance payments	Financial liabilities – financial liabilities measured at amortized cost
Accrued liabilities	Financial liabilities – financial liabilities measured at amortized cost
Derivative instruments	Financial liabilities – held for trading measured at fair value
Long-term debt	Financial liabilities – measured at amortized cost

**Recorded net of allowance for doubtful accounts.*

Foreign exchange contracts
The Company entered into a series of Collars extending through to September 1, 2022 and designated them as cash flow hedges against Mexican payroll and other local Mexican costs. The total amount of these Collars is 624.0 million Mexican pesos (2018 – 408.0 million Mexican pesos). The selling price ranges from 19.52 to 22.646 Mexican pesos to each US dollar. In addition, there is a series of collars extending through December 14, 2020 to convert $3.14 million CAD to USD. These Collars have been designated as a cash flow hedge against capital equipment purchase in USD.

Management estimates that a cumulative loss of $278 (2018 – gain of $779) would be realized if these Collars were terminated on September 30, 2019. Net of deferred taxes of $71, the cumulative loss of $207 is recorded in other comprehensive income. During the year, the estimated fair value loss of $779, net of deferred taxes of $278 (2018 – gain of $805 net of deferred taxes of $288) has been included in other comprehensive income, and the cumulative loss of $278 is recorded in the consolidated statements of financial position under the caption derivative instruments.

Risks and uncertainties
The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of the risks and how they are managed:

a) Credit risk
Credit risk is the risk of an unexpected loss if a customer or third party fails to meet its contractual obligations. The Company's primary credit risk is its outstanding trade accounts receivable. The carrying amount of its outstanding trade accounts receivable represents the Company's estimate of its maximum credit exposure. The Company regularly monitors its credit risk exposure and takes steps such as credit approval procedures, establishing credit limits, utilizing credit assessments and monitoring practices to mitigate the likelihood of these exposures from resulting in an actual loss. The carrying amount of the trade accounts receivable disclosed in the consolidated statements of financial position is net of allowance for doubtful accounts, estimated by the Company's management, based on prior experience and assessment of current financial conditions of customers as well as the general economic environment. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of income and comprehensive income. As at September 30, 2019, the accounts receivable balance (net of allowance for doubtful accounts) is $93,552 (2018 – $102,520) and the Company's five largest trade debtors accounted for 35.7% of the total accounts receivable balance (2018 – 44.4%). As at September 30, 2019, no accounts receivable are insured against default (2018 – nil).

$(000)'s except per share amounts

The following table presents a breakdown of the Company's accounts receivable balances:

	September 30, 2019	September 30, 2018
Trade accounts receivable	**$91,426**	$101,687
Employee receivable	**232**	275
Sales tax receivable	**2,254**	2,549
Other	**480**	411
Less: allowance for doubtful accounts	**(840)**	(2,402)
Total accounts receivable, net	**$93,552**	$102,520

The aging of trade accounts receivable balances is as follows:

	September 30, 2019	September 30, 2018
Not past due	**$79,685**	$85,255
Past due 1-30 days	**8,617**	11,137
Past due 31-60 days	**1,545**	2,189
Past due 61-90 days	**851**	1,573
Past due over 90 days	**728**	1,533
Less: allowance for doubtful accounts	**(840)**	(2,402)
Total trade accounts receivable, net	**$90,586**	$99,285

The movement in the allowance for doubtful accounts is as follows:

	September 30, 2019	September 30, 2018
Opening balance	**$2,402**	$644
Additions	**326**	1,889
Utilized	**(1,949)**	(70)
Reversal	**-**	(61)
Exchange differences	**61**	-
Closing balance	**$840**	$2,402

b) Liquidity risk
Liquidity risk refers to the possibility that the Company may not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by minimizing its financial leverage and arranging credit facilities in order to ensure sufficient funds are available to meet its financial obligations. This is achieved by continuously monitoring cash flows from its operating, investing and financing activities. The Company does not carry excess credit facilities due to the stand-by costs charged by its lenders. As at September 30, 2019, the Company has a net cash balance of $8,724 (2018 – net debt of $2,710) and unused credit facilities of $34,660 (2018 – $30,825).

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following tables summarize the Company's significant commitments on an undiscounted basis and corresponding maturities:

$(000)'s except per share amounts

		September 30, 2019		
	Total	**< 1 Year**	**1-3 Years**	**Over 3 Years**
Bank indebtedness	**$578**	**$578**	**$-**	**$-**
Trade accounts payable	**44,183**	**44,183**	**-**	**-**
Long-term debt	**17,186**	**93**	**17,093**	**-**
Operating leases	**772**	**280**	**436**	**56**
Purchase commitments	**29,426**	**29,426**		
Capital expenditures	**7,931**	**7,931**	**-**	**-**
	$100,076	**$82,491**	**$17,529**	**$56**

		September 30, 2018		
	Total	< 1 Year	1-3 Years	Over 3 Years
Bank indebtedness	$11,764	$11,764	$-	$-
Trade accounts payable	46,966	46,966	-	-
Long-term debt	22,289	4,108	18,181	-
Operating leases	2,936	1,181	1,605	150
Purchase commitments	39,782	39,782		
Capital expenditures	2,079	2,079	-	-
	$125,816	$105,880	$19,786	$150

c) Foreign exchange risk

The Company operates in Canada with subsidiaries located in the United States, Mexico, Colombia, Brazil, Thailand, and Morocco. It is exposed to foreign exchange transaction and translation risk through its operating activities. Unfavourable changes in the exchange rates may affect the operating results and shareholders' equity of the Company. In order to mitigate the foreign currency exposure, the Company reduces part of its foreign exchange risk by sourcing a significant portion of its manufacturing inputs in the currency that its sales are denominated in. In addition to the above natural hedge, the Company also uses Collars to hedge cash outflows for the Mexican payroll and other local Mexican costs. These Collars are designated as cash flow hedges. The resulting gain or loss on the valuation of these financial instruments is recognized in the consolidated statements of income and comprehensive income. The Company does not mitigate the translation risk exposure of its foreign operations due to the fact that these investments are considered to be long-term in nature.

With all other variables held constant, the following tables outline the Company's annual foreign exchange exposure at one percent fluctuation between various currencies compared with the average annual exchange rate.

	1% Fluctuation USD vs. CAD	1% Fluctuation EUR vs. CAD	1% Fluctuation MXP vs. CAD
Income before income taxes	+/- 1,056	+/- 241	-
Other comprehensive income	+/- 3,666	+/- 376	+/- 169

	1% Fluctuation COP vs. CAD	1% Fluctuation BRL vs. CAD
Income before income taxes	+/- 12	+/- 10
Other comprehensive income	+/- 78	+/- 56

$(000)'s except per share amounts

d) Interest rate risk
The Company's exposure to interest rate risk relates to its net cash position, variable rate credit facilities and variable rate long-term debt. The Company mitigates its interest rate risk exposure by reducing or eliminating its overall debt position. Net income or loss is sensitive to the impact of a change in interest rates on the average balance of interest-bearing financial liabilities during the year. As at September 30, 2018, the Company has a net cash position of $8,724 (2018 – $2,710 net debt) (see note 11).

e) Fair value
Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Presented below is a comparison of the fair value of each financial instrument to its carrying value.

Due to their short-term nature, the fair value of cash, accounts receivable, trade accounts payable and customer advance payments is assumed to approximate their carrying value.

The fair values of derivative instruments that are not traded in an active market, such as over-the-counter foreign exchange options and Collars, are determined using quoted forward exchange rates as at the consolidated statements of financial position dates and are Level 2 instruments.

The estimated fair value of long-term debt approximates its carrying value as the instruments' terms and interest rate are market based.

During the year ended September 30, 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

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

	September 30, 2019		September 30, 2018	
	Carrying Amount of Asset (Liability)	**Fair Value of Asset (Liability)**	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Cash and cash equivalents	**$26,488**	**$26,488**	$31,343	$31,343
Accounts receivable	**93,552**	**93,552**	102,520	102,520
Trade accounts payable	**(44,183)**	**(44,183)**	(46,966)	(46,966)
Bank indebtedness	**(578)**	**(578)**	(11,764)	(11,764)
Customer advance payments	**(1,010)**	**(1,010)**	(2,865)	(2,865)
Accrued liabilities	**(20,684)**	**(20,684)**	(24,332)	(24,332)
Derivative instruments	**(278)**	**(278)**	779	779
Long-term debt	**($17,186)**	**($17,186)**	($22,289)	($22,289)

10. INVENTORIES

	September 30, 2019	September 30, 2018
Raw materials	**$33,458**	$44,516
Work in process	**9,751**	8,690
Finished goods	**13,486**	14,382
Production supplies	**4,418**	3,985
Less: obsolescence provision	**(3,263)**	(7,802)
	$57,850	$63,771

$(000)'s except per share amounts

The movement in the obsolescence provision accounts is as follows:

	September 30, 2019	September 30, 2018
Opening balance	**$7,802**	$3,578
Additions	**3,820**	5,864
Utilized	**(8,535)**	(1,472)
Reversals	**-**	(301)
Exchange differences	**176**	133
Closing balance	**$3,263**	$7,802

During the year, inventories of $245,464 (2018 – $298,989) were expensed, of which $3,820 was from the write-downs of inventories (2018 – $5,864), with no reversal of write-downs (2018 – $301).

11. CAPITAL MANAGEMENT

The Company defines capital as net debt and shareholders' equity. As at September 30, 2019, total managed capital amounted to $329,481 (2018 – $332,873), consisting of nil net debt (2018 – $2,710) and shareholders' equity of $329,481 (2018 – $330,163).

The Company's objectives when managing capital are to:

- utilize short-term funding sources to manage its working capital requirements and fund capital expenditures required to execute its operating and strategic plans; and
- maintain low overall debt levels relative to shareholders' equity with a strong bias for short-term debt in order to minimize the cost of capital and allow maximum flexibility to respond to current and future industry, market and economic risks and opportunities.

The following ratios are used by the Company to monitor its capital:

	September 30, 2019	September 30, 2018
Net debt to equity ratio	**0.00:1**	**0.01:1**
Net debt to Adjusted EBITDA ratio	**0.00:1**	**0.04:1**

The following table details the net debt calculation used in the net debt to equity ratio as at the years ended as indicated:

	September 30, 2019	September 30, 2018
Bank indebtedness and long-term debt	**$17,764**	**$34,053**
Less: cash and cash equivalents	**(26,488)**	**(31,343)**
Net debt	**nil**	**$2,710**

The net debt to Adjusted EBITDA ratio is calculated by dividing the net debt by Adjusted EBITDA, and the Company calculates Adjusted EBITDA as earnings before other income/(expense), interest, taxes, depreciation and amortization.

Based on the current funds available and the expected cash flows from operations, management believes that the Company has sufficient funds to meet its liquidity requirements.

The Company is not subject to any capital requirement imposed by regulators; however, the Company must adhere to a net worth covenant related to the terms of its bank credit facility. As at September 30, 2019, the Company was in compliance with the required financial covenants.

$(000)'s except per share amounts

12. OTHER INFORMATION

A. SEGMENTED INFORMATION

Business segments
The Company operates in two business segments: Casting and Extrusion and Automotive Solutions. The accounting policies followed in the operating segments are consistent with those outlined in note 2 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.

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 net income before interest, other income (expense) and income tax expense.

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

				2019
	Casting and Extrusion	**Automotive Solutions**	**Corporate**	**Total**
Sales	**$214,214**	**$311,658**	**$-**	**$525,872**
Intercompany sales	**(9,922)**	**(8,602)**	**-**	**(18,524)**
Net sales	**204,292**	**303,056**	**-**	**507,348**
Depreciation	**12,511**	**2,813**	**74**	**15,398**
Amortization	**682**	**3,378**	**2**	**4,062**
Segment pre-tax income (loss) before interest and other	**17,989**	**31,867**	**(6,681)**	**43,175**
Other expense (note 18)	**-**	**(6,409)**	**-**	**(6,409)**
Net interest expense				**(790)**
Income before income taxes				**35,976**
Property, plant and equipment additions	**23,475**	**3,818**	**108**	**27,401**
Property, plant and equipment, net	**101,649**	**23,738**	**1,400**	**126,787**
Intangible asset additions	**473**	**94**	**-**	**567**
Intangible assets, net	**1,153**	**32,738**	**-**	**33,891**
Goodwill	**-**	**62,834**	**-**	**62,834**
Total assets	**215,549**	**214,734**	**(4,239)**	**426,044**
Total liabilities	**31,434**	**43,440**	**21,689**	**96,563**

$(000)'s except per share amounts

				2018
	Casting and Extrusion	Automotive Solutions	Corporate	Total
Sales	$207,322	$381,750	$-	$589,072
Intercompany sales	(7,402)	(6,116)	-	(13,518)
Net sales	199,920	375,634	-	575,554
Depreciation	12,338	3,354	42	15,734
Amortization	874	4,304	2	5,180
Segment pre-tax income (loss) before interest and other	18,236	44,351	(6,947)	55,640
Net interest expense				(1,022)
Income before income taxes				54,618
Property, plant and equipment additions	15,237	7,547	136	22,920
Property, plant and equipment, net	90,565	25,610	1,374	117,549
Intangible asset additions	454	138	-	592
Intangible assets, net	1,362	35,274	3	36,639
Goodwill	-	62,843	-	62,843
Total assets	205,206	237,928	4,750	447,884
Total liabilities	30,822	47,863	39,036	117,721

Geographic and customer information

Sales	**2019**	2018
Canada	**$21,752**	$20,734
United States	**304,622**	301,569
Europe	**100,138**	175,086
Mexico	**58,249**	54,639
South America	**9,594**	9,239
Asia	**8,257**	9,625
Other	**4,736**	4,662
	$507,348	$575,554

In 2019 the total billings to the Company's largest 2 customers accounted for 6.5% and 6.1% (2018 – 15.5% and 4.6%) of total sales. The accounts receivable pertaining to these customers were $8,578 and $4,478 at year-end (2018 – $11,554 and $4,487). The allocation of sales to the geographic categories is based upon the customer location where the product is shipped. In 2019, the Company's largest 2 customers were from the Casting and Extrusion segment and the Automotive Solutions segment (2018 - the Company's largest 2 customers were from the Automotive Solutions segment and the Casting and Extrusion segment).

$(000)'s except per share amounts

Property, plant and equipment, net	**September 30, 2019**	September 30, 2018
Canada	**$44,344**	$39,898
United States	**32,396**	33,339
Mexico	**24,317**	14,716
South America	**8,611**	9,152
Thailand	**7,013**	7,449
Europe	**-**	2,899
Morocco	**10,106**	9,817
	$126,787	$117,270

Property, plant and equipment are attributed to the country in which they are located.

Intangible assets, net	**September 30, 2019**	September 30, 2018
Canada	**$973**	$1,172
United States	**32,633**	35,186
Mexico	**48**	28
South America	**97**	77
Thailand	**3**	6
Europe	**-**	54
Morocco	**137**	116
	$33,891	$36,639

B. EMPLOYEE FUTURE BENEFITS

The Company accrues employee future benefits for its Mexican and Thailand employees. In Mexico these benefits consist of a one-time payment equivalent to 12 days of wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to vesting of their seniority premium benefit. Under Mexican labour laws, the Company also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months' wages upon involuntary termination without just cause. In Thailand the severance benefit varies from 1 to 10 months dependent on length of service.

The liability associated with the seniority and termination benefits is calculated as the present value of expected future payments and amounted to $2,110 as at September 30, 2019 (2018 – $932) and is recorded under the caption other accrued liabilities on the consolidated statements of financial position. In determining the expected future payments, assumptions regarding employee turnover rates, inflation, minimum wage increases and expected salary levels are required and are subject to review and change.

$(000)'s except per share amounts

C. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of key management personnel during the years ended September 30, 2019 and 2018 were as follows:

	September 30, 2019	September 30, 2018
Salaries and cash incentives (i)	**$3,644**	$4,307
Directors' fees	**492**	375
Share-based awards (ii)	**133**	135
	$4,269	$4,817

i) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended September 30, 2019 and 2018.
ii) Share-based payments are director share units granted to directors and the fair value of stock options granted to key management personnel.

13. INCOME PER COMMON SHARE

Income per common share is calculated using net income and the monthly weighted average number of common shares outstanding of 41,245,026 (2018 – 42,264,189). Any potential common shares for which the effect is anti-dilutive have not been reflected in the calculation of diluted income per share. There was a dilution effect of 8,100 shares from the outstanding stock options on diluted weighted average number of common shares outstanding for 2019 (2018 – 31,503).

14. INCOME TAXES

The consolidated effective income tax rate for 2019 was 26.0% (2018 – 22.6%) per the following tables. The effective tax rate is adversely impacted by the non-deductibility of Other Expense related to the de-consolidation of ALC in the amount of $6,409 (note 18). Excluding ALC, the effective income tax rate for the current year would have been 22.0%. In the comparative year, the effective income tax rate was favourably impacted by the remeasurement of US deferred income tax liabilities, offset by the transition taxes accrued related to foreign earnings of certain of the Mexican subsidiaries which have not been repatriated to the United States.

	2019	
Income before income taxes	**$35,976**	**100.0%**
Income tax expense at Canadian statutory rates	**9,943**	**27.6%**
Manufacturing and processing deduction	**(260)**	**(0.7%)**
Foreign rate differential	**861**	**(2.4%)**
Non-taxable income net of non-deductible expenses	**(1,620)**	**(4.5%)**
Losses not tax effected	**536**	**1.5%**
Other	**(116)**	**(0.3%)**
Reported income tax expense	**$9,344**	**26.0%**

$(000)'s except per share amounts

	2018	
Income before income taxes	$54,618	100.0%
Income tax expense at Canadian statutory rates	14,990	27.4%
Manufacturing and processing deduction	(294)	(0.5%)
Foreign rate differential	(1,428)	(2.6%)
Non-taxable income net of non-deductible expenses	(1,902)	(3.5%)
Losses not tax effected	481	0.9%
Other	501	0.9%
Reported income tax expense	$12,348	22.6%

The major components of income tax expense are as follows:

	2019	2018
Current income tax expense		
Based on taxable income for the year	**$7,598**	$11,438
Deferred income tax expense (recovery)		
Origination, reversal of temporary differences and losses not recognized	**1,746**	910
Reported income tax expense	**$9,344**	$12,348

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

	2019	2018
Deferred tax assets		
Tax benefit of loss carry forward	**$692**	$960
Items not currently deductible for income tax purposes	**482**	287
	1,174	1,247
Deferred tax liabilities		
Tax depreciation in excess of book depreciation	**(5,913)**	(3,977)
Unrealized revenue and foreign exchange	**(645)**	(577)
Investment in subsidiaries	**(3,414)**	(3,685)
	(9,972)	(8,238)
Net deferred income tax liabilities	**($8,798)**	($6,991)

$(000)'s except per share amounts

15. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2019	2018
Accounts receivable	**$848**	($6,648)
Unbilled revenue	**5,719**	(3,973)
Inventories	**(223)**	(2,807)
Prepaid expenses and deposits	**339**	(1,030)
Trade accounts payable	**3,300**	(2,540)
Accrued payroll liabilities	**(1,105)**	1,580
Other accrued liabilities	**695**	(583)
Provisions	**1,005**	(72)
Customer advance payments	**(1,855)**	(369)
Income taxes recoverable	**977**	592
	$9,700	($15,850)

16. 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.

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. As at September 30, 2019 no repayments were due. The Company has been indemnified by the Customer in this regard and expects recourse against it to be extinguished in the normal course of business upon the Customer's receipt of payment from the OEM. The Advance Payments paid to the Company under this Program for the year ended September 30, 2019 amounted to $5,048 (2018 – $6,220) and related liabilities and receivables were not recorded on the Company's consolidated statements of financial position. Repayments made in the current year amounted to $6,360. (2018 – nil). As at September 30, 2019 the balance outstanding under the Program was $8,754.

There are no material contingent liabilities as at September 30, 2019 (2018 – nil).

17. INTEREST EXPENSE

The following table outlines the interest expense (income) incurred during the year:

	September 30, 2019	September 30, 2018
Interest expense on bank indebtedness and long-term debt	**$835**	**$1,043**
Interest income on deposits	**(45)**	**(21)**
Net interest expense	**$790**	**$1,022**

18. DECONSOLIDATION OF ALC AND OTHER EXPENSE

On January 17, 2019, the Company's indirect wholly owned subsidiary ALC Bulgaria EOOD ("ALC") voluntarily filed a liquidation petition in Bulgaria. As a result the Company lost control of and de-consolidated it from the Company's financial statements.

The Company had recorded a $6.1 million provision during the three months ended December 31, 2018 in respect to ALC, the result of which was that the net assets of ALC were $nil.

During the three months ended March 31, 2019, the Company recorded Other Expense of $333 which included net expenses of $356 related to the realization of deferred foreign exchange losses included in Other Comprehensive Income associated with ALC and as well as entities in South Africa and Germany, the net impact of losses incurred between December 31, 2018 and the date of deconsolidation (these resulting in a gain on deconsolidation) and the net impact of the elimination of intercompany amounts with ALC. In total Current assets of $13,536 and PPE of $2,800 offset by Current Liabilities of $9,901 were derecognized upon deconsolidation.

CORPORATE INFORMATION

Board of Directors

Edward H. Kernaghan, MSc
Executive Vice President
Kernaghan & Partners Ltd.

Darren M. Kirk, MBA, CFA
President and CEO of the Company

Robert B. Magee, PEng
Chairman
Woodbridge Group

Colleen M. McMorrow, FCPA, FCA,ICD.D
Corporate Director

Paul E. Riganelli, MA, MBA, LLB
Executive Vice President of the Company

Brian A. Robbins, PEng
Executive Chairman of the Company

Anne Marie Turnbull
President, AMT Associates Ltd.

Corporate Officers

Brian A. Robbins, PEng
Executive Chairman

Darren M. Kirk, MBA, CFA
President and CEO

Matthew Posno, CPA, CA, MBA
Chief Financial Officer & VP Finance
Secretary

Paul E. Riganelli, MA, MBA, LLB
Executive Vice President

Transfer Agent and Registrar

TSX Trust Company
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Toronto, Ontario M5H 4H1
Phone: 416.361.0930
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Auditors

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Stock Listing

Toronto Stock Exchange (XTC)

Corporate Office

Exco Technologies Limited
130 Spy Court, 2nd Floor
Markham, Ontario L3R 5H6
Phone: 905.477.3065
www.excocorp.com

F2019 Annual General Meeting of Shareholders

Corporate office,
Exco Technologies Ltd.,
130 Spy Court, 2nd Floor,
Markham, Ontario L3R 5H6
Wednesday, January 29, 2020
at 4:30 pm.

EXCO® Technologies Limited

www.excocorp.com

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