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Management's Discussion and Analysis
Prepared as of January 29, 2025

	Three Months ended December 31 (unaudited)	
(in $ thousands except earnings per share amounts)		
	2024	2023
Sales	**$143,568**	$156,710
Net income	**$4,245**	$5,642
Basic and diluted earnings per share	**$0.11**	$0.15
Weighted average Basic Common shares outstanding (000's)	**38,534**	38,868

The following management's interim discussion and analysis of operations and financial position are prepared as at January 29, 2025 and should be read in conjunction with the condensed interim consolidated financial statements as at and for the three months ended December 31, 2024 and 2023 and the consolidated financial statements and Management's Discussion and Analysis ("MD&A") in the Company's 2024 Annual Report.

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.sedarplus.ca.

Use of Non-IFRS Measures

In this MD&A, reference may be made to EBITDA, EBITDA Margin, Pretax Profit, Net Debt, Free Cash Flow and Maintenance Fixed Asset Additions which are not defined measures of financial performance under International Financial Reporting Standards ("IFRS"). A reconciliation to these non-GAAP measures is provided within this MD&A. Exco calculates EBITDA as earnings before interest, taxes, depreciation and amortization and EBITDA Margin as EBITDA divided by sales. Exco calculates Pretax Profit as segmented earnings before other income/expense, interest and taxes. Net Debt represents the Company's consolidated net indebtedness position offsetting cash from bank indebtedness, current and long-term debt. It is calculated as Long-term debt plus Current portion of Long-term debt plus Bank indebtedness less Cash and cash equivalents. Free Cash Flow is calculated as cash provided by operating activities less interest paid and Maintenance Fixed Asset Additions. Maintenance Fixed Asset Additions represent management's estimate of the investment in fixed assets that is required for the Company to continue operating at current capacity levels. Given the Company's elevated capital spending on fixed assets for growth initiatives (including additional Greenfield locations, energy efficient heat treatment equipment and increased capacity) in recent years, the Company previously modified its calculation of Free Cash Flow to include Maintenance Fixed Asset Additions and not total fixed asset purchases. This change is meant to enable investors to better gauge the amount of generated cash flow that is available for these investments as well as acquisitions and/or returns to shareholders in the form of dividends or share buyback programs. EBITDA, EBITDA Margin, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated sales for the first quarter ended December 31, 2024 were $143.6 million compared to $156.7 million in the same quarter last year – a decrease of $13.1 million or 8%. Foreign exchange rate movements increased sales $4.4 million in the quarter primarily due to the strengthening US dollar compared to the Canadian dollar.

The impact of global automotive production volume reductions coupled with OEM shut-downs in December in North America and Europe were the key drivers for the lower sales. Despite these challenges, the Company continued to support its various strategic growth initiatives. These initiatives have required significant investment in both capex and operating costs over the last few years and remain ongoing. Our recent and current key projects are summarized as follows:

- Castool Morocco Greenfield Facility – Opened in November 2021 and positions Castool to better penetrate the European die cast and extrusion tooling markets for consumable and capital items. The plant is anticipated to demonstrate steady growth in both top and bottom-line performance as operations mature;
- Castool Mexico Greenfield Facility – Opening ceremonies for this facility occurred in October 2023 and operations commenced concurrently. This facility has increased manufacturing capacity and positions Castool to better penetrate markets in Latin America and the Southern United States. Depreciation expenses and start-up cash costs increased in F2024, but financial results are expected to quickly improve in F2025 and beyond;
- Castool Heat Treatment Operations – Fully operational and handling all of Castool Uxbridge and Large Mould Newmarket heat treatment requirements. Initiatives to sell surplus capacity to third parties continue.
- Large Mould Group Capital Additions – All equipment to support Giga-sized moulds installed and operational. Additional investments to support continued growth in our leading additive manufacturing (3D printing) are being pursued;
- Halex operations – New equipment continues to be installed at the various locations while work continues to further integrate Halex into the broader Extrusion Group and realize synergies from the sharing of best practices;
- Extrusion Group Heat Treatment – Installation of new vacuum heat treatment equipment in Mexico, Texas and Markham are all fully operational. New, similar equipment has been ordered for our Michigan location for installation in F2025;
- Automotive Solutions Group – New equipment continues to be installed within the previously expanded footprint to support a growing book of business.

The Automotive Solutions segment reported sales of $72.1 million in the first quarter – a decrease of $10.9 million, or 13% from the same quarter last year. Foreign exchange rate changes increased sales by $2.4 million. The sales decrease was driven by lower automotive production volumes in North America and Europe, customer driven delays in certain program launches, unfavorable vehicle mix, extended OEM customer plant shutdowns during the month of December and de-stocking of certain accessory products in the inventory channel. Industry growth may be tempered near term by softening global economic conditions and the potential impact of US tariffs. Countering these challenges, central banks have lowered interest rates and are expected to further decline over the next 12 months, vehicle sales have remained resilient, dealer inventory levels declined due to strong sales and production cuts in the last quarter, vehicle fleets continue to age, and OEM incentives are rising. Exco's sales volumes will benefit from recent and future program launches that are expected to provide ongoing growth in our content per vehicle. Quoting activity also remains encouraging and we believe there is ample opportunity to achieve our targeted growth objectives.

The Casting and Extrusion segment reported sales of $71.4 million in the quarter – a decrease of $2.2 million, or 3% from the same period last year. Foreign exchange rate changes increased sales by $2.0 million. Demand for our extrusion tooling declined marginally in the quarter as the continued impact of higher interest rates and recessionary conditions in certain end markets such as building and construction and recreational vehicles caused an overall reduction in demand from extruders. Demand for certain capital equipment sold by Castool within the extrusion markets (such as containers and die ovens) was relatively stable as extruders focus on various efficiency and sustainability initiatives. Exco's management remains focused on standardizing manufacturing processes, enhancing engineering depth and centralizing critical support functions across its various plants. As well, management is focused on developing the benefits of its new locations in Morocco and Mexico which provide the opportunity to expand market share in Europe and Latin America through better proximity to local customers. These initiatives have reduced lead times, enhanced product quality, expanded product breadth and increased capacity, contributing to market share gains. In the die-cast market, which primarily serves the automotive industry, demand was softer for new moulds, associated consumable tooling (shot sleeves, rods, rings, tips, etc.) and rebuild work as industry vehicle production declined and new electric vehicles and more efficient internal combustion engine/transmission platforms move ahead slowly as industry participants assess the impact of potential regulatory issues resulting from the US political landscape. Demand for Exco's additive (3D printed) tooling continues its strong contribution as customers focus on greater efficiency with the size and complexity of die-cast tooling continuing to increase, helped by the rising adoption of giga-presses. Sales in the quarter were partially supported by price increases, which were implemented to protect margins from higher input costs. Quoting activity remains very encouraging and our backlog for die cast moulds remains healthy, though is off recent highs.

Consolidated net income for the first quarter was $4.2 million or basic and diluted earnings of $0.11 per share compared to $5.6 million or $0.15 per share in the same quarter last year. The consolidated effective income tax rate for the current quarter was 35.8% compared to 23.6% for the prior year period. The change in income tax rate in the quarter was impacted by geographic distribution, foreign tax rate differentials and losses that cannot be tax affected for accounting purposes.

The Automotive Solutions segment reported pretax profit of $4.8 million in the quarter – a decrease of $3.4 million, or 41% over the same quarter last year. The negative variance in the first quarter was due to lower sales, adverse product and vehicle mix shifts, and rising labour costs in all jurisdictions. Labour costs in Mexico have been particularly challenging in recent years and are seeing added pressure given the significant rise in wages. In North America, OEMs appeared to be managing inventory levels down with production stoppages and extended December shutdowns despite strong consumer sales levels. Whereas in Europe, production volumes declined to reflect lower sales activities as well as to clear out inventory levels in response to pending environmental mandates. Apart from these specific impacts, management is cautiously optimistic that its overall cost structure should improve margins as production volumes are expected to rebound to match vehicle sales figures in the future. Pricing discipline remains a focus and action is being taken where possible - especially on new programs that are priced to reflect management's expectations for higher future costs.

The Casting and Extrusion segment reported $3.7 million of pretax profit in the quarter – an increase of $0.2 million or 4% from the same quarter last year. The pretax profit improvement is due to program pricing improvements, favorable product mix and efficiency initiatives across the segment (including the ongoing use of lean manufacturing and automation to improve productivity through standardization and waste elimination), as well as foreign exchange rate gains from balance sheet impacts. In addition, volumes at Castool's heat treatment operation continue to increase providing savings and improved production quality while efficiency initiatives at Halex are progressing. Offsetting these cost improvements were losses at Castool's greenfield operations and an increase in segment depreciation ($0.1 million for the quarter) associated with recent capital expenditures. In addition, volumes were uneven through the quarter, with levels of activity in December being lower than normal as customers extended plant shutdowns through the holiday period in response to weaker market conditions. 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 expenses were $0.4 million in the quarter compared to $2.2 million in the prior year quarter due primarily to foreign exchange gains relating to the strengthening US dollar on balance sheet accounts. Consolidated EBITDA for the first quarter totaled $16.7 million compared to $18.1 million in the same quarter last year. EBITDA as a percentage of sales increased to 11.6% in the current quarter compared to 11.5% the prior year. The EBITDA margin in the Casting and Extrusion segment was 14.6% compared to 13.8% last year while the EBITDA margin in the Automotive Solutions segment was 9.3% compared to 12.1% last year.

Financial Resources, Liquidity and Capital Resources

Operating cash flow before net change in non-cash working capital totaled $14.4 million in the first quarter compared to $16.5 million in the same period last year. The $2.1 million reduction was driven by a $1.4 million decrease in net income and a $0.7 million decrease in interest expense. Non-cash working capital consumed $4.0 million of cash in the quarter compared to $3.6 million in the same quarter last year. The non-cash working capital changes were driven by lower accounts payable and accruals partially offset by lower accounts receivable from improved collections and lower quarterly sales. Consequently, net cash provided by operating activities amounted to $10.4 million in the current quarter compared to $12.9 million in the same quarter last year.

Cash used in financing activities in the current quarter was $15.0 million compared to cash used in financing of $0.9 million in the same quarter last year. The primary driver of this variance is the decrease in bank and long-term debt of $9.3 million compared to an increase of $5.8 million in the prior year quarter. An additional impact to financing activities was a decrease in interest paid of $0.7 million. Payments made with respect to the Normal Course Issuer Bid and dividends were consistent with the prior year quarter.

Cash used in investing activities was $7.7 million in the current quarter compared to $11.9 million in the prior year. The change in capital expenditures primarily reflects the timing of equipment deliveries. Growth capital expenditures were $2.5 million and maintenance capital expenditures were $5.2 million. Management's capital spending forecast is $40.0 million for the fiscal year compared to actual capital expenditures of $33.7 million in fiscal 2024.

The Company's financial position and liquidity remains strong. Exco's net debt position (totaling long-term debt and bank indebtedness net of cash) totaled $76.5 million as at December 31, 2024 compared to $73.4 million at September 30, 2024. The Company generated Free Cash Flow of $3.8 million and paid dividends of $4.0 million. First quarter growth capital expenditures of $2.5 million decreased from $4.2 million in the prior year quarter. Exco's principal sources of liquidity include Free Cash Flow, cash of $19.2 million and $55.8 million of availability under its $151 million committed credit facility which matures March 2027. 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 December 31, 2024.

Exco owns 20 of its 21 manufacturing facilities and essentially all of its production equipment. The Company leases sales and support centers in Rochester Hills Michigan, a warehouse in Brownsville Texas, and operating facilities in Weissenberg Germany and Brescia Italy. The following table summarizes all short-term and long-term commitments Exco has entered.

	December 31, 2024			
	Total	< 1 year	1-3 years	4-5 years
Bank Indebtedness	$ 673	$ 673	$ -	$ -
Trade accounts payable	40,215	40,215	-	-
Long term debt	95,000	-	95,000	-
Lease commitments	9,156	985	1,905	6,266
Purchase commitments	41,098	41,098		
Capital expenditures	13,536	13,536		
	$ 199,678	$ 96,507	$ 96,905	$ 6,266

Quarterly results

The following table sets out financial information for each of the eight quarters through to the first quarter ended December 31, 2024:

($ thousands except per share amounts)	December 31, 2024	September 30, 2024	June 30, 2024	March 31,2024
Sales	$143,568	$155,447	$161,809	$163,825
Net income	$4,245	$7,734	$8,176	$8,066
Earnings per share				
Basic	$0.11	$0.20	$0.21	$0.21
Diluted	$0.11	$0.20	$0.21	$0.21

($ thousands except per share amounts)	December 31, 2023	September 30, 2023	June 30, 2023	March 31,2023
Sales	$156,710	$160,152	$164,551	$155,507
Net income	$5,642	$9,210	$6,263	$6,228
Earnings per share				
Basic	$0.15	$0.24	$0.16	$0.16
Diluted	$0.15	$0.24	$0.16	$0.16

Exco typically experiences softer sales and profits in the first fiscal quarter ending December 31, which coincides with our customers' plant shutdown during the Christmas season. Exco also experiences a slowdown in the fourth fiscal quarter as customers typically schedule summer plant shutdowns and European customers typically curtail releases during the month of August to accommodate vacations.

Non-IFRS Measures

The following table provides a reconciliation for the periods from net income to EBITDA, EBITDA margin, and a reconciliation of cash provided by operating activities to free cash flow.

	Three Months ended December 31	
	2024	2023
Net income	**$4,245**	$5,642
Provision for income tax	**2,372**	1,744
Income before income tax	**6,617**	7,386
Depreciation	**7,562**	7,319
Amortization	**1,077**	1,186
Net interest expense	**1,455**	2,170
EBITDA	**16,711**	18,061
Sales	**$143,568**	$156,710
EBITDA margin	**11.6%**	11.5%
Cash provided by operating activities	**$10,393**	$12,861
Interest	**(1,455)**	(2,170)
Maintenance fixed asset additions	**(5,161)**	(7,744)
Free Cash Flow	**$3,777**	$2,947

Quarterly Segment EBITDA Margin	Casting and Extrusion Three months ended December 31		Automotive Solutions Three months ended December 31	
	2024	2023	**2024**	2023
Pretax profit	**3,740**	3,602	**4,762**	8,124
Depreciation	**6,358**	6,243	**1,204**	1,055
Amortization	**357**	341	**720**	845
EBITDA	**10,455**	10,186	**6,686**	10,024
Sales	**71,443**	73,670	**72,125**	83,040
EBITDA Margin	**14.6%**	13.8%	**9.3%**	12.1%

Accounting Changes and Effective Dates

There were no accounting policy changes effective October 1, 2024 that have a material impact to the Company's reporting.

Controls and Procedures

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at December 31, 2024 that they are responsible for establishing and maintaining disclosure controls and procedure and internal control over financial reporting.

No changes were made in the Corporation's internal control over financial reporting during the Corporation's most recent interim period, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Outstanding Share Capital

As at December 31, 2024 Exco had 38,531,912 common shares issued and outstanding and stock options outstanding to purchase up to 961,500 common shares at exercise prices ranging from $7.97 to $9.87.

Outlook

By the end of fiscal 2026, Exco is targeting to produce approximately $750 million annual revenue, $120 million annual EBITDA and annual EPS of roughly $1.50. Exco has made significant progress towards achieving these targets since they were announced in Fiscal 2021 and continues to believe its targets remain obtainable. These targets are expected to be achieved through returns on greenfield and strategic initiatives, the launch of new programs, general market growth, and also market share gains consistent with the Company's operating history.

Despite current macro-economic challenges, including slightly increasing levels of unemployment, relatively high interest rates, persistent inflation, and policy shifts which may occur related to the US election, the overall outlook is favorable across Exco's segments into the medium term. Consumer demand for automotive vehicles remains stable in most markets. And while dealer inventory levels have required production adjustments in recent quarters, average transaction prices for both new and used vehicles remain firm, incentives are increasing and the average age of the broader fleet has continued to increase. This bodes well for strong levels of future vehicle production and the sales opportunity of Exco's various automotive components and accessories. In addition, OEM's are increasingly looking to the sale of higher margin accessory products as a means to enhance their own levels of profitability. Exco's Automotive Solutions segment derives a significant amount of activity from such products and is a leader in the prototyping, development and marketing of the same. Moreover, the movement towards an electrified and hybrid fleet for both passenger and commercial vehicles is enticing new market entrants into the automotive market while causing traditional OEM incumbents to further differentiate their product offerings, all of which is driving above average opportunities for Exco.

With respect to Exco's Casting and Extrusion segment, the intensifying global focus on environmental sustainability has created significant growth drivers that are expected to persist through at least the next decade. Automotive OEMs are utilizing light-weight metals such as aluminum to reduce vehicle weight and reduce carbon dioxide emissions. This trend is evident regardless of powertrain design - whether internal combustion engines, electric vehicles or hybrids. As well, a renewed focus on the efficiency of OEMs in their own manufacturing process is creating higher demand for advanced tooling that can enhance their profitability and sustainability goals. Certain OEM manufacturers have begun utilizing much larger die cast machines (giga-presses) to cast entire vehicle sub-frames using aluminum-based alloy rather than stamping, welding, and assembling separate pieces of ferrous metal. Exco is in discussions with several traditional OEMs and their tier providers who appear likely to follow this trend. While the growth of EV's in North America and Europe has been delayed from prior expectations, contributing to a slower adoption of giga-presses, Exco nonetheless continues to expect these trends will occur and has positioned its operations to capitalize accordingly. Beyond the automotive industry, Exco's extrusion tooling supports diverse industrial end markets which are also seeing increased demand for aluminum driven by environmental trends, including energy efficient buildings, solar panels, etc.

On the cost side, inflationary pressures have intensified post COVID while prompt availability of various input materials, components and labour has become more challenging. The intensity of these dynamics have generally moderated in recent quarters with the exception of labour costs in Mexico, which continue to see significant increases. We are offsetting these dynamics through various efficiency initiatives and taking pricing action where possible although there is typically several quarters of lag before the counter measures yield results.

The Russian invasion of Ukraine and the Middle East conflict have added additional uncertainty to the global economy. And while Exco has essentially no direct exposure to these countries, Ukraine does feed into the European automotive market and Europe has traditionally depended on Russia for its energy needs. Similarly, the conflict in the Middle East creates the potential for a renewed rise in the price of oil and other commodities as well as logistics costs and could weigh on consumer sentiment.

Forward looking information

This Management Discussion and Analysis contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. We use words such as "anticipate", "may", "will", "should", "expect", "believe", "estimate", "5-year target" and similar expressions to identify forward-looking information and statements especially with respect to growth, outlook and financial performance 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, liquidity, operating efficiencies, improvements in, expansion of and/or guidance or outlook as to future revenue, sales, production sales, margin, earnings, earnings per share, including the outlook for the year ending fiscal 2026, are forward-looking statements and the impact on Exco's business operations, future plans, activities, objectives, operations, strategy, business outlook and financial performance and condition of the Corporation. 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. These forward-looking statements are based on our plans, intentions or expectations which are based on, among other things, the global economic recovery from any future outbreak of epidemic, pandemic, or contagious diseases that may emerge in the human population, which may have a material effect on how we and our customers operate our businesses and the duration and extent to which this will impact our future operating results, the impacts of international conflicts on the global financial, energy and automotive markets, including increased supply chain risks, assumptions about the number of automobiles produced in North America and Europe, the potential for overseas automotive OEMs to make inroads in North America and Europe, including the implementation of tariffs that Governments may use to protect local economic interests, production mix between passenger cars and trucks, the number of extrusion dies required in North America, South America, and Europe, 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 in response to rising climate risks, raw material prices, supply disruptions, economic conditions, inflation, currency fluctuations, trade restrictions, energy rationing in Europe and elsewhere, our ability to integrate acquisitions, our ability to continue increasing market share, or launch of new programs and the rate at which our current greenfield operations in Mexico and Morocco achieve sustained profitability, recoverability of capital assets, goodwill and intangibles (based on numerous assumptions inherently uncertain), and cyber security and its impact on Exco's operations. Readers are cautioned not to place undue reliance on forward-looking statements throughout this document and are also cautioned that the foregoing list of important factors is not exhaustive. 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. For a more extensive discussion of Exco's risks and uncertainties see the 'Risks and Uncertainties' section in our latest Annual Report, Annual Information Form ("AIF") and other reports and securities filings made by the Company. This information is available at www.sedarplus.ca *or* www.excocorp.com