

## **Reko International Group Inc.**

### **Interim Condensed Consolidated Financial Statements** *(unaudited)*

*For the nine months ended April 30, 2020 and 2019*

#### **Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements**

The accompanying unaudited condensed interim consolidated financial statements of Reko International Group Inc. for the three months and nine months ended April 30, 2020 have been prepared by Management and approved by the Board of Directors on June 4, 2020. The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**REKO INTERNATIONAL GROUP INC.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in 000's, except for per share amounts)

	April 30, 2020	July 31, 2019
<b>ASSETS</b>		
Current		
Cash	\$ 7,405	\$ 5,448
Accounts receivable	12,704	12,522
Non-hedging financial derivatives (Note 5)	--	25
Work-in-progress	9,804	8,605
Prepaid expenses and other current assets	1,871	1,286
Embedded derivative (Note 7)	6	24
	<b>31,790</b>	27,910
Grants receivable (Note 14)	64	237
Capital assets (Note 6)	28,041	29,340
Deferred income taxes	3,007	2,864
	<b>\$ 62,901</b>	<b>\$ 60,351</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	5,901	3,417
Unearned revenue on work-in-progress	619	255
Non-hedging financial derivatives (Note 5)	128	--
Current portion of unearned revenue	5	47
Current portion of long-term debt (Note 8)	417	741
Long-term debt subject to demand provisions (Note 8)	6,234	6,244
	<b>13,304</b>	10,704
Long-term debt (Note 8)	3,143	3,229
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	18,269	18,531
Contributed surplus	1,857	1,820
Retained earnings	26,328	26,067
	<b>46,454</b>	46,418
	<b>\$ 62,901</b>	<b>\$ 60,351</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

**REKO INTERNATIONAL GROUP INC.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(in 000's, except for per share amounts)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at July 31, 2018	\$ 18,824	\$ 1,865	\$ 24,492	\$ --	\$ 45,181
Share-based payments	(61)	(9)	--	--	(70)
Net income	--	--	1,052	--	1,052
Balance at April 30, 2019	\$ 18,763	\$ 1,856	\$ 25,544	\$ --	\$ 46,163
<b>Balance at July 31, 2019</b>	<b>\$ 18,531</b>	<b>\$ 1,820</b>	<b>\$ 26,067</b>	<b>\$ --</b>	<b>\$ 46,418</b>
Share-based payments	(262)	37	--	--	(225)
Net income	--	--	261	--	261
<b>Balance at April 30, 2020</b>	<b>\$ 18,269</b>	<b>\$ 1,857</b>	<b>\$ 26,328</b>	<b>\$ --</b>	<b>\$ 46,454</b>

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements*

**REKO INTERNATIONAL GROUP INC.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(in 000's, except for per share amounts)

	For the three months ended		For the nine months ended	
	April 30, 2020	April 30, 2019	April 30, 2020	April 30, 2019
Sales	\$ 9,985	\$ 14,277	\$ 28,873	\$ 37,330
Costs and expenses				
Cost of sales	8,387	10,646	22,889	28,494
Depreciation	904	948	2,770	2,783
	9,291	11,594	25,659	31,277
Gross profit	694	2,683	3,214	6,053
Selling and administrative	1,244	1,384	3,708	4,087
Income before other items	(550)	1,299	(494)	1,966
Foreign exchange (gain) loss	(129)	424	(139)	317
Other income	(798)	(38)	(900)	(90)
(Gain) loss on sale of capital assets	92	--	95	(2)
Interest on long-term debt	95	105	283	314
Interest on other interest-bearing obligations	(5)	9	10	54
	(745)	500	(651)	593
Income before income taxes	195	799	157	1,373
Deferred income tax (recovery) provision	130	189	(104)	321
Net income and comprehensive income	\$ 65	\$ 610	\$ 261	\$ 1,052
Earnings per common share (Note 11)				
Basic	\$ 0.01	\$ 0.10	\$ 0.04	\$ 0.17
Diluted	\$ 0.01	\$ 0.09	\$ 0.04	\$ 0.16

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**REKO INTERNATIONAL GROUP INC.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in 000's, except for per share amounts)

	For the nine months ended April 30, 2020	For the nine months ended April 30, 2019
<b>OPERATING ACTIVITIES</b>		
Net income for the period	\$ 261	\$ 1,052
Adjustments for:		
Depreciation	2,770	2,783
Income tax expense	(104)	321
Interest expense	293	368
Change in value of embedded derivative	18	18
Change in non-hedging financial derivatives	153	--
Unrealized foreign exchange loss	273	29
Share-based compensation	37	(9)
Loss (gain) on sale of capital assets	95	(2)
	<b>3,796</b>	4,560
Net change in non-cash working capital	802	(1,810)
Interest paid	(293)	(371)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>4,305</b>	2,379
<b>FINANCING ACTIVITIES</b>		
Proceeds from bank indebtedness	--	(4,815)
Proceeds from issuance of capital stock	173	(61)
Change in grant receivable	(262)	199
Payments on long-term debt	(693)	(842)
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(782)</b>	(5,519)
<b>INVESTING ACTIVITIES</b>		
Investment in capital assets.	(1,566)	(1,671)
Proceeds from sale of capital assets	--	2
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,566)</b>	(1,669)
Net change in cash	1,957	(4,809)
Cash, beginning of period	5,448	6,565
Cash, end of period	\$ 7,405	\$ 1,756

**REKO INTERNATIONAL GROUP INC.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in 000's, except for per share amounts)

**1. SIGNIFICANT ACCOUNTING POLICIES**

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*Nature of operations*

Reko International Group Inc. (the "Company" or "Reko") is a diversified, technology-driven manufacturing organization located in Southwestern Ontario with areas of expertise including robotic factory automation solutions, precision machining of large, critical parts, and plastic injection and low compression acoustic tooling. The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate or exist in the Province of Ontario in Canada and the State of Michigan in the United States.

Reko is listed on the TSX Venture Exchange under the symbol REKO. The Company's shares are traded in Canadian dollars. The registered head office is located at 469 Silver Creek Industrial Drive, Lakeshore, Ontario, Canada.

All amounts are in thousands and in Canadian dollars, unless otherwise noted.

*Statement of compliance*

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on June 4, 2020.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended July 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies adopted are consistent with the accounting policies and methods as those used in the Company's audited consolidated annual financial statements for the year ended July 31, 2019 except as noted below.

*Basis of measurement*

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value.

*Basis of consolidation*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The Company's subsidiaries are as follows:

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Subsidiary	Location	Percentage ownership	Consolidation
Concorde Precision Machining Inc.	Ontario	100%	Full
Reko Manufacturing Group Inc.	Ontario	100%	Full

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Reko International Holdings, Inc.	Michigan	100%	Full
Reko International Services, Inc.	Michigan	100%	Full
Concorde USA LLC	Michigan	100%	Full

*Leases*

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in the relevant index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

**2. CHANGES IN ACCOUNTING POLICIES**

**IFRS 16 Leases**

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2019, the IASB issued IFRS 16, Leases, to supersede IAS 17, Leases. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets).

The Company has adopted IFRS 16 with an effective date of August 1, 2019 using the modified retrospective approach. This adoption has resulted in an increase to capital assets of \$39.

The main changes to lease accounting as a result of IFRS 16 includes:

- The definition of a lease has changed under the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- Under IFRS 16, the lessee recognizes a right-of-use asset and a lease liability upon lease commencement for leases with a lease term of greater than one year. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Subsequent measurement is determined based on the nature of the underlying asset. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the implied lease rate. If the implied lease rate cannot be determined, the lessee uses its incremental borrowing rate. Previously, the Company classified leases as operating

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or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company.

- IFRS 16 provides detailed guidance on determining the lease term when the company has an option to extend the lease.
- The new standard includes extensive disclosure requirements that differ from previous requirements.

On transition to IFRS 16, for leases previously classified as finance leases under IAS 17, the Company elected to apply the practical expedient whereby the Company is not required to reassess whether a contract is, or contains, a lease at the date of initial application. As such, the Company applied IFRS 16 only to contracts that were previously identified as leases.

The Company also adopted the recognition exemptions permitted for short-term leases and leases for which the underlying asset has a low value, as well as the following practical expedients permitted on initial adoption, under the standard:

- Applying a single discount rate to a portfolio of leases with similar characteristics;
- Using the Company's previous assessment of impairment under IAS 37 "Provisions, Contingent Liabilities and contingent Assets" for onerous contracts instead of re-assessing the right-of-use asset for impairment on August 1, 2019;
- Accounting for leases with a remaining term of less than 12 months as at August 1, 2019 as short-term leases;
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

**3. GEOGRAPHIC INFORMATION**

The following information reflects the geographic breakdown of revenues and capital assets based on the physical location of the Company's operations. The Company does not track revenues based on ship to locations.

	<b>Nine months ended April 30, 2020</b>	
	<b>Revenues</b>	<b>Capital assets</b>
Canada	\$ 28,865	\$ 28,041
United States	8	--
	<b>\$ 28,873</b>	<b>\$ 28,041</b>

  

	<b>Nine months ended April 30, 2019</b>	
	<b>Revenues</b>	<b>Capital assets</b>
Canada	\$ 37,210	\$ 30,147
United States	120	--
	<b>\$ 37,330</b>	<b>\$ 30,147</b>

**4. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, accounts receivable, non-hedging financial derivatives, embedded derivative, bank indebtedness, accounts payable and accrued liabilities and long-term debt.

*Fair Value*

The Company has determined the estimated fair value of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

**Accounts receivable, bank indebtedness, accounts payable and accrued liabilities**

Due to the short period of maturity of the instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.



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**Fair value hierarchy**

The following table provides an analysis of cash, non-hedging financial derivatives, embedded derivatives and long-term debt that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	April 30 30, 2020
<b>Financial assets at FVTPL</b>				
Cash	\$ 7,405	\$ --	\$ --	\$ 7,405
Embedded derivative	--	6	--	6
	\$ 7,405	\$ 6	\$ --	\$ 7,411

	Level 1	Level 2	Level 3	July 31, 2019
<b>Financial assets at FVTPL</b>				
Cash	\$ 5,448	\$ --	\$ --	\$ 5,448
Non-hedging financial derivative	--	25	--	25
Embedded derivative	--	24	--	24
	\$ 5,448	\$ 49	\$ --	\$ 5,497

**Non-hedging financial derivatives**

The Company's non-hedging financial derivatives are the Company's future forward exchange contracts and are subject to fluctuations in foreign exchange rates between the Canadian and US dollar. The Company's non-hedging financial derivatives are valued based on discounting the future cash outflows associated with the contract based on the closing foreign exchange rate between the Canadian and US dollar.

**Embedded derivative**

The Company's embedded derivative relates to a provision in a long-term supply agreement with a customer. The provision provides that at the end of each six-month period in the five-year contract, the average foreign exchange rate between US dollars and Canadian dollars, during that period, shall be at least \$1.09. In the event the average foreign exchange rate is less than \$1.09, the customer equalizes the Company based on an average foreign exchange rate of \$1.09. The Company's embedded derivative is valued based on valuation models for Asian puts and the closing foreign exchange rate between the Canadian and US dollar.

**Long-term debt**

The Company's long-term debt of CDN \$5,975 and USD \$2,753 (currently valued at CDN \$3,879) is subject to fixed interest rates. The Company's long-term debt is valued based on discounting the future cash outflows associated with the long-term debt. The discount rate is based on the incremental premium above market rates for Government of Canada securities of similar duration. In each period thereafter, the incremental premium is held constant while the

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Government of Canada security is based on the then current market value to derive the discount rate. At April 30, 2020, the fair value of the Company's long-term debt is CDN \$5,105 and USD \$2,261. At April 30, 2019, Company's long-term debt was CDN \$6,233 and USD \$2,903.

**5. NON-HEDGING FINANCIAL DERIVATIVES**

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at April 30, 2020, the Company had entered into foreign exchange contracts to sell an aggregate amount of \$9,000 (USD). These contracts mitigate the Company's expected exposure to U.S. dollar denominated net assets and mature at, the latest, September 10, 2020, at an average exchange rate of \$1.3779 Canadian. The mark-to-market value on these financial instruments as at April 30, 2020 was an unrealized loss of \$128, which has been recorded in net income for the period.

As at April 30, 2020	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value (liability) asset
Sell USD / Buy CAD	0 – 6 months	\$ 8,872	1.3779	\$ 9,000	\$ (128)

  

As at July 31, 2019	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value (liability) asset
Sell USD / Buy CAD	0 – 6 months	\$ 7,025	1.3220	\$ 7,000	\$ 25

**6. CAPITAL ASSETS**

Capital assets are comprised of:

	Land	Buildings	Machinery and equipment	Leasehold improvements	Equipment under construction	Total
<b>Cost or deemed cost</b>						
Balance at July 31, 2018	\$ 661	\$ 13,650	\$ 50,193	\$ 587	\$ 2,211	\$ 67,302
Additions	--	134	--	--	1,688	1,822
Transfers	--	313	3,176	224	(3,713)	--
Disposals	--	--	(63)	--	--	(63)
<b>Balance at July 31, 2019</b>	<b>\$ 661</b>	<b>\$ 14,097</b>	<b>\$ 53,306</b>	<b>\$ 811</b>	<b>\$ 186</b>	<b>\$ 69,061</b>
<b>Additions</b>	<b>--</b>	<b>49</b>	<b>37</b>	<b>--</b>	<b>1,480</b>	<b>1,566</b>
<b>Transfers</b>	<b>--</b>	<b>--</b>	<b>1,274</b>	<b>33</b>	<b>(1,307)</b>	<b>--</b>
<b>Disposals</b>	<b>--</b>	<b>--</b>	<b>(1,017)</b>	<b>--</b>	<b>--</b>	<b>(1,017)</b>
<b>Balance at April 30, 2020</b>	<b>\$ 661</b>	<b>\$ 14,146</b>	<b>\$ 53,600</b>	<b>\$ 844</b>	<b>\$ 359</b>	<b>\$ 69,610</b>
<b>Amortization and impairment losses</b>						
Balance at July 31, 2018	\$ --	\$ 4,100	\$ 31,693	\$ 250	\$ --	\$ 36,043
Amortization for the year	--	470	3,214	46	--	3,730
Disposals	--	--	(52)	--	--	(52)
<b>Balance at July 31, 2019</b>	<b>\$ --</b>	<b>\$ 4,570</b>	<b>\$ 34,855</b>	<b>\$ 296</b>	<b>\$ --</b>	<b>\$ 39,721</b>
<b>Amortization for the year</b>	<b>--</b>	<b>354</b>	<b>2,360</b>	<b>56</b>	<b>--</b>	<b>2,770</b>
<b>Disposals</b>	<b>--</b>	<b>--</b>	<b>(922)</b>	<b>--</b>	<b>--</b>	<b>(922)</b>

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(in 000's, except for per share amounts)

<b>Balance at April 30, 2020</b>	<b>\$ --</b>	<b>\$ 4,924</b>	<b>\$ 36,293</b>	<b>\$ 352</b>	<b>\$ --</b>	<b>\$ 41,569</b>
<b>Carrying value</b>						
Balance at July 31, 2019	\$ 661	\$ 9,527	\$ 18,451	\$ 515	\$ 186	\$ 29,340
<b>Balance at April 30, 2020</b>	<b>\$ 661</b>	<b>\$ 9,221</b>	<b>\$ 17,307</b>	<b>\$ 492</b>	<b>\$ 359</b>	<b>\$ 28,041</b>
<b>Net book value of right of use assets as at August 1, 2019</b>	<b>--</b>	<b>--</b>	<b>\$39</b>	<b>--</b>	<b>--</b>	<b>\$39</b>
<b>Net book value of right of use assets as at April 30, 2020</b>	<b>--</b>	<b>--</b>	<b>\$33</b>	<b>--</b>	<b>--</b>	<b>\$33</b>

**7. EMBEDDED DERIVATIVE**

During the first quarter of 2015, the Company entered into a long-term supply agreement with one of its customers. One of the terms of that agreement included an embedded derivative, establishing a foreign exchange rate floor of \$1.09 on sales by the Company to the customer. This floor is measured every six months during the term of the agreement and is based on the average foreign exchange rate during the period under measurement.

The embedded derivative is comprised of:

	<b>April 30, 2020</b>	<b>July 31, 2019</b>
Embedded derivative, beginning of year	\$ 24	\$ 48
Fair value change, during the period	(18)	(24)
<b>Embedded derivative, end of period</b>	<b>\$ 6</b>	<b>\$ 24</b>

**8. LONG-TERM DEBT**

The long-term debt is comprised of:

	<b>April 30, 2020</b>	<b>July 31, 2019</b>
Mortgage payable – 3.97%, repayable \$21 monthly including interest, due in full April 2023, secured by certain land and building and an assignment of rents on the subject property	\$ 3,270	\$ 3,352
Mortgage payable – 4.42%, repayable \$21 monthly including interest, due in full August 2023, secured by certain land and building and general security agreement, subject to demand provisions	2,704	2,815
Mortgage payable – 3.06% plus a credit spread, which may vary over the life of facility to a maximum of 275, currently at 175 for an all-in rate of 4.81%, repayable USD \$14 monthly plus interest, due in full August 2025, secured by certain land, buildings and a general security agreement, subject to demand provisions	3,879	3,778
Loan payable – US dollar LIBOR (USD \$800) plus applicable margin from 175 to 250 basis points, USD \$45 monthly plus interest, due in full in March 2020, secured by general assignment of book debts and work-in-progress, together with a collateral mortgage, subject to demand provisions	--	342
	<b>9,853</b>	<b>10,287</b>
Deduct - unamortized finance fees	59	73

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- principal portion included in current liabilities	<b>6,651</b>	6,985
Long-term portion	<b>\$ 3,143</b>	\$ 3,229

Notwithstanding the fact that certain facilities listed above are subject to demand provisions and are classified as current liabilities as a result, the Company expects to repay the principal over the entire scheduled term of the loans and these payments are outlined below. At April 30, 2020, \$476 is due within the next twelve months under normal repayment terms and an additional \$6,234 is not expected to be due in the next year but is subject to demand provisions.

Total bank credit facilities are as follows:

Year	Bank Credit Facilities
Next 12 months	\$ 476
2 years	505
3 years	500
4 years	3,235
5 years	2,316
Thereafter	2,821
Balance of obligation	<b>\$ 9,853</b>

**9. SHARE CAPITAL**

Share capital is comprised of:

	Authorized	Issued Shares	Amount
Class A preference shares	Unlimited	Nil	\$ --
Class B preference shares	Unlimited	Nil	--
Common shares – no par value	Unlimited	6,263,250	\$ 18,269

Share capital transactions during the period were as follows:

	April 30, 2020		July 31, 2019	
	Shares	Amount	Shares	Amount
Outstanding, beginning of year	<b>6,351,620</b>	<b>\$ 18,531</b>	6,439,920	\$ 18,824
Transactions during the period	<b>(88,370)</b>	<b>(262)</b>	(88,300)	(293)
Outstanding, end of period	<b>6,263,250</b>	<b>\$ 18,269</b>	6,351,620	\$ 18,531

The following table presents the maximum number of shares that would be outstanding if all the dilutive “in the money” instruments outstanding, as at April 30, 2020 were exercised:

Common shares outstanding at April 30, 2020	6,263,250
Stock options	76,740
	<b>6,339,990</b>

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**10. CONTRIBUTED SURPLUS**

Contributed surplus is comprised of:

	April 30, 2020	July 31, 2019
Balance, beginning of period	\$ 1,820	\$ 1,865
Amounts in respect of exercised stock options	37	(69)
Amounts in respect of the stock-based compensation	--	24
Balance, end of period	\$ 1,857	\$ 1,820

**11. EARNINGS PER SHARE**

The calculation of basic earnings per share at April 30, 2020 was based on the net income attributable to common shareholders of \$261 and a weighted average number of common shares outstanding of 6,326,488 calculated as follows:

	April 30, 2020	April 30, 2019
<b>Basic earnings per share:</b>		
Net income for the three-month period	\$ 65	\$ 610
Average number of common shares outstanding during the period	6,296,250	6,430,584
Basic earnings per share	\$ 0.01	\$ 0.10
<b>Diluted earnings per share:</b>		
Net earnings available to common shareholders	\$ 65	\$ 610
Average number of common shares outstanding during the period	6,296,250	6,430,584
'In the money' stock options outstanding during the period	76,740	309,000
	6,372,990	6,739,584
Diluted earnings per share	\$ 0.01	\$ 0.09
<b>Basic earnings per share:</b>		
Net income for the nine-month period	\$ 261	\$ 1,052
Average number of common shares outstanding during the period	6,326,488	6,443,674
Basic earnings per share	\$ 0.04	\$ 0.17
<b>Diluted earnings per share:</b>		
Net earnings available to common shareholders	\$ 261	\$ 1,052
Average number of common shares outstanding during the period	6,326,488	6,443,674
'In the money' stock options outstanding during the period	76,740	309,000
	6,403,228	6,752,674
Diluted earnings per share	\$ 0.04	\$ 0.16

**REKO INTERNATIONAL GROUP INC.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in 000's, except for per share amounts)

**12. STOCK-BASED COMPENSATION**

The Company has established a stock option plan for directors, officers, and key employees. The terms of the plan state that the aggregate number of shares, which may be issued and sold, will not exceed 10% of the issued and outstanding common shares of the Company on a non-diluted basis. The issue price of the shares shall be determined at the time of grant based on the closing market price of the shares on the specified date of issue. Options shall be granted for a period of five years. At the directors' discretion, the vesting progression is 30% in the year of grant, 30% in the second year after grant and 40% in the third year after the grant. Options given to outside directors vest immediately and can be exercised immediately.

As at April 30, 2020, the following options were outstanding:

Number of Options	Exercise price	Expiry
90,000	\$ 3.90	2022
107,900	\$ 2.90	2024
10,000	\$ 3.50	2025

The weighted average of the options is as follows:

	April 30, 2020		April 30, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the period	462,000	\$ 2.60	401,000	\$ 2.46
Expired during the period	(253,470)	\$ 2.00	--	--
Issued during the period	10,000	\$ 3.50	120,000	\$ 2.90
Exercised during the period	(630)	\$ 2.90	(30,000)	\$ 1.15
Cancelled during the period	(10,000)	\$ 3.16	--	--
Outstanding at the end of the period	207,900	\$ 3.36	491,000	\$ 2.66
Exercisable at the end of the period	76,740	\$ 2.90	57,000	\$ 2.90

The description of the method and significant assumptions used during the year to estimate the fair values of options, including the weighted average information, is as follows:

	April 30, 2020	April 30, 2019
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	41.04%	45.07%
Risk free rate of return	0.22%	0.50%
Expected forfeiture rate	100.0%	96.0%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ --	\$ 48

**13. RELATED PARTY TRANSACTIONS**

*Transactions with key management personnel*

In addition to their salaries, the Company also provides non-cash benefits to its executive officers and contributes to a post-employment defined contribution benefit plan on their behalf. In accordance with the terms of the plan, executive officers are entitled to receive a \$1 contribution to the Company's Group RRSP annually, once they have completed 5 years of

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service to the Company (or as otherwise, negotiated). During the period, the Company expensed contributions of less than \$1 to the defined contribution plan in Canada. The above contribution plans are identical to the contribution plans provided to all Canadian employees of the Company of key management personnel.

Executive officers are also eligible, as are all employees, to participate in the Company's share option programme.

Key management personnel compensation comprised:

	April 30, 2020	April 30, 2019
Salaries and cash bonuses	\$ 504	\$ 507
Short-term employment benefits	18	21
Post-employment benefits	2	4
	<b>\$ 524</b>	<b>\$ 532</b>

*Key management personnel and director transactions*

Directors of the Company control 3.78% of the voting shares of the Company. Relatives of a director own, directly or indirectly, 61.85% of the voting shares of the Company.

**14. GOVERNMENT GRANT**

*Southwestern Ontario Development Fund*

Effective August 1, 2017, the Company entered into a contract with the Ontario Ministry of Economic Growth and Development to receive funding of \$300 per year for five successive years under the Southwestern Ontario Development Fund (SWODF). The contract provides a non-repayable grant in the amount of 10% of approved capital expenditures incurred in connection with the expansion of the Company's manufacturing capabilities during the period from May 1, 2017 through July 31, 2021 and is contingent upon the Company meeting agreed upon job creation targets.

The funding relates primarily to capital acquisitions and as a result, related assets are recorded net of the applicable grant amount - with the net amount being amortized over the useful life of each individual asset.

As of April 30, 2020, the Company has received \$900 in cash funding from SWODF and accrued an additional amount receivable of \$364 on total eligible expenditures of \$12,637. The current portion of \$300 is included in accounts receivable with the remainder of \$64 being disclosed as long-term grant receivable at April 30, 2020. Grant amounts will be paid in accordance with the funding contract over the period of the agreement as long as job creation targets and certain reporting and other obligations are fulfilled on an annual basis.

*Canada Emergency Wage Subsidy*

In March 2020, the Government of Canada announced the introduction of the Canada Emergency Wage Subsidy (CEWS) to support employers that are hardest hit by the pandemic and protect the jobs Canadians depend on.

The subsidy generally covers 75% of an employee's wages (to a maximum) for employers of all sizes and across all sectors who have suffered a drop in gross revenues of at least 15% in March, and 30% in April and May. The Company determined that it would be eligible for the CEWS amount and has applied for such assistance from the Government of Canada. At April 30, 2020, the Company has accrued for \$780 in assistance from the CEWS program.

The Company will continue to review all programs offered by the Government and ensure that it applies for all appropriate support.

**15. IMPACT OF COVID-19**

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This outbreak, which has spread globally, has adversely affected workforces, economies, and financial markets globally. While the recent events are potentially leading to an economic downturn, governments and central banks have implemented significant monetary and fiscal interventions designed to stabilize the economic conditions.

**REKO INTERNATIONAL GROUP INC.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(in 000's, except for per share amounts)

COVID-19 has resulted in wide-spread and extended shutdowns of businesses throughout the world. Such disruptions might include temporary closures of third-party supplier facilities, restrictions on the export or shipment of product, or unavailability of key components sourced from affected manufacturers or suppliers. The outbreak may also impact customer demand, either temporarily or permanently.

The global reach of the disease could adversely impact the Company by causing operating, manufacturing supply chain, and project development delays and disruptions, labour shortages, travel and shipping disruption and shutdowns. While we have had success recently in mitigating the impacts of the COVID-19 outbreak on our operations, we may experience a decrease in our revenue and margins.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*The following is management's discussion and analysis of operations and financial position ("MD&A") and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the period ended April 30, 2020 and the audited consolidated financial statements and MD&A for the year ended July 31, 2019 included in our 2019 Annual Report to Shareholders. The unaudited interim condensed consolidated financial statements for the period ended April 30, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). When we use the terms "we", "us", "our", "Reko", or "Company", we are referring to Reko International Group Inc. and its subsidiaries.*

*This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. We use words such as "anticipate", "plan", "may", "will", "should", "expect", "believe", "estimate" and similar expressions to identify forward-looking information and statements. Such forward-looking information and statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be relevant and appropriate in the circumstances. Readers are cautioned not to place undue reliance on forward-looking information and statements, as there can be no assurance that the assumptions, plans, intentions or expectations upon which such statements are based will occur. Forward-looking information and statements are subject to known and unknown risks, uncertainties, assumptions and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed, implied or anticipated by such information and statements. These risks are described in the Company's MD&A and, from time to time, in other reports and filings made by the Company with securities regulators.*

*While the Company believes that the expectations expressed by such forward-looking information and statements are reasonable, there can be no assurance that such expectations and assumptions will prove to 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 disclaims any obligations to update publicly or otherwise revise any such factors of any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.*

*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 Reko International Group Inc. is available on our website at [www.rekointl.com](http://www.rekointl.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).*

*In this MD&A, reference is made to earned revenue, which is not a measure of financial performance under IFRS. The Company calculates earned revenue as sales less materials, sub-contracting and inventory adjustments. The Company included information concerning this measure because it is used by management as measure of performance, and management believes it is used by certain investors and analysts as a measure of the Company's financial performance. This measure is not necessarily comparable to similarly titled measures used by other companies.*

*All amounts in this MD&A are expressed in 000's of Canadian dollars, except per share amounts and where otherwise indicated.*

*This MD&A is current to June 4, 2020.*

### **OVERVIEW**

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Reko International Group Inc. is a diversified, technology-driven manufacturing organization. Our touchstone philosophy is "Strengthening Communities by Advancing Manufacturing" which epitomizes our commitment to using our distinctive blend of technology and skills to improve the lives of our team members, our customers, our shareholders, as well as our local and global communities.

Reko designs and manufactures a variety of engineered products and services for original equipment manufacturers ("OEMs") and their Tier suppliers. These products include design and construction of unique specialty machines and lean cell factory automation solutions and robotics; high precision, custom machining of very large critical components and assemblies; and plastic injection and low compression acoustic molds. While many of our customers are in the automotive market, the Company has diversified beyond automotive into a number of sectors.

For the transportation and oil and gas industries, the Company machines customer supplied metal castings to customer indicated specifications. For the automotive industry, the Company conceptualizes, designs and builds innovative solutions to manufacturing challenges, including specialty machines for gas tank assembly lines; unique material handling applications; work cell solutions as well as compression molds and plastic injection molds. Across our target industries, Reko is known for outstanding quality and customer focus and for an unwavering commitment to exceeding customer expectations and deliverables while striving for constant improvement across all our chosen metrics.

**REKO INTERNATIONAL GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our design and manufacturing operations are carried on in three manufacturing plants located on adjacent parcels of land in Lakeshore, Ontario – a suburb of the City of Windsor in Southwestern Ontario. This includes a new state of the art automation facility which was opened in April 2018.

**RECONCILIATION OF NON-IFRS MEASURES**

The reconciliation of earned revenue to sales is provided in the following table:

	Three months ended		Nine months ended	
	April 30, 2020	April 30, 2019	April 30, 2020	April 30, 2019
Sales	\$ 9,985	\$ 14,277	\$ 28,873	\$ 37,330
Less: Materials	3,760	3,953	8,152	10,697
Sub-contracting	763	1,047	1,648	2,333
Inventory adjustments	(1,447)	174	(1,461)	89
	\$ 6,909	\$ 9,103	\$ 20,534	\$ 24,211

**RESULTS OF OPERATIONS**

*Sales*

Sales for the three months ended April 30, 2020 decreased \$4,292, or 30.0%, to \$9,985, compared to \$14,277 in the same period in the prior year. Sales for the nine months ended April 30, 2020 decreased \$8,457, or 23.0%, to \$28,873, compared to \$37,330 in the same period in the prior year.

The decrease is primarily driven by continued lower volumes in certain sectors, as well as continued challenges with breaking into diversified markets. Certain divisions also experienced a delayed timing of kick off and completion for certain jobs, which impacted results in both quarters. The decrease was partially offset by an increase in foreign exchange rates for U.S. dollar sales.

*Earned revenue*

Earned revenue is not a standard IFRS measurement. The Company's explanation of how it measures earned revenue is located in the previous section. Earned revenue effectively measures that portion of our total revenue available to the Company to pay its workers, pay for its fixed and operating costs and earn a profit. The Company believes that earned revenue is a more effective measurement of how the Company is performing.

For the three months ended April 30, 2020, earned revenue decreased by 24.0%, to \$6,909 compared to \$9,103 in the same period in the prior year. For the nine months ended April 30, 2020, earned revenue decreased by 15.0%, to \$20,534 compared to \$24,211 in the same period in the prior year. The decrease in earned revenue is due to the overall decrease in revenue.

*Gross profit*

The gross profit for the nine months ended April 30, 2020 decreased \$1,989, or 74.1%, to \$694, compared to \$2,683 in the same period in the prior year. Gross profit for the nine months ended April 30, 2020 decreased \$2,839, or 47.0%, to \$3,214, compared to \$6,053 in the same period in the prior year. The decreased overall sales had an impact on gross profit.

As a percentage of sales at 7.0%, gross profit has experienced a decrease during the third quarter. This is mainly due to some additional manpower required on some specialized work to meet customer requirements. Overall, for the nine months of the current fiscal, gross profit as a percentage of sales of 11.0%, compared to 16.0% for the same period last fiscal, experienced a decline. While the first and second quarters remained relatively consistent, the third quarter's challenges had an unfavourable impact.

*Selling and administration*

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Selling and administration expenses ("S&A") decreased by \$140 to \$1,244 for the three months ended April 30, 2020, compared to \$1,384 for the same period in the prior year. S&A for the nine months ended April 30, 2020 decreased by \$379 to \$3,708 compared to \$4,087 for the same period last fiscal. The Company continues to monitor spend and has implemented several cost reduction initiatives during the current fiscal year.

*Earnings overview*

The net income for the three months ended April 30, 2020 was \$65, or \$0.01 per share, compared to a net income of \$610, or \$0.10 per share, in the same period of the prior year. For the nine months ended April 30, 2020, net income was \$261, or \$0.04 per share, compared to \$1,052, or \$0.17 per share, in the same period last year.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash flow provided by operations for the period was \$4,305 as compared to \$2,332 in the same period of the previous year. The increase in cash flow provided by operations is primarily a result of an increase in the net change in non-cash working capital.

*Financial covenants*

The Company continues to meet its financial covenants, including the third quarter of 2020.

The Company believes it has sufficient operating room with respect to its financial covenants for the next fiscal year and does not anticipate being in breach of any of its financial covenants during this period.

*Capital assets and investment spending*

For the nine months ended April 30, 2020, the Company invested \$1,566 in capital assets.

*Cash resources/working capital requirements*

As at April 30, 2020, Reko had cash on hand of \$7,405, compared to \$5,448 at July 31, 2019, and compared to \$1,756 at April 30, 2019.

At April 30, 2020 the Company did not have any outstanding bank indebtedness.

Reko has a \$20,000 revolver available. At April 30, 2020 the Company's available operating lines of credit of \$17,961 was fully available based on lender defined margining capabilities.

*Contractual obligations and off-balance sheet financing*

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt	\$ 3,271	\$ 127	\$ 270	\$ 2,874	--
Long-term debt subject to demand provisions	\$6,582*	\$ 349*	\$ 735*	\$ 2,677*	\$ 2,821*
Lease liabilities	33	6	19	8	
<b>Total contractual obligations</b>	<b>\$ 9,886</b>	<b>\$ 482</b>	<b>\$ 1,024</b>	<b>\$ 5,559</b>	<b>\$ 2,821</b>

Except as disclosed elsewhere in this MD&A, there have been no material changes with respect to the contractual obligations of the Company during the year.

**REKO INTERNATIONAL GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Amounts denoted by an asterisk (\*) are subject to demand provisions in that the lender is contractually entitled to require payment of the outstanding balance "on demand". The Company is in receipt of correspondence from the lender indicating that there is no expectation that the balances will be called within the next twelve months and it is anticipated that principal and interest payments on these facilities will be made as scheduled throughout the term of the loans. These scheduled payments are reflected in the table above.

Reko does not maintain any off-balance sheet financing.

*Share capital*

The Company had 6,263,250 common shares outstanding at April 30, 2020.

*Outstanding share data*

<b>Designation of security</b>	<b>Number outstanding</b>	<b>Maximum number issuable if convertible, exercisable or exchangeable for common shares</b>
Common Shares	6,263,250	
Stock options issued	207,900	
Stock options exercisable	76,740	
<b>Total (maximum) number of common shares</b>		<b>6,471,150</b>

**INDUSTRY TRENDS AND RISKS**

While the Company has increased the level of diversification across industries, sales volumes still have a significant dependence upon the levels of new model releases for vehicles by OEMs and on the construction, expansion or retooling of production facilities and our ability to secure tooling and automation programs as a result of these activities through their Tier suppliers. New model releases and production expansion/retooling in the automotive sector can be impacted by many factors, including general economic and political conditions, interest rates, energy and fuel prices, labour relations' issues, regulatory requirements, infrastructure, legislative changes, environmental emissions, safety considerations and changing technologies. The Company's sales levels are also impacted by demand levels in the transportation and oil and gas sectors. Demand in these areas can be affected by many factors, including general economic and political conditions, interest rates, energy and fuel prices, regulatory requirements, transportation infrastructure and safety issues.

The economic, industry and risk factors discussed in our Annual Report, each in respect of the year ended July 31, 2019, remain substantially unchanged in respect of the nine months ended April 30, 2020, however, the most significant of these are repeated below, with the most notable and significant impact related to the COVID-19 global pandemic.

*Current outsourcing and in-sourcing trends*

During periods of weakened demand, our customers traditionally revisit outsourcing decisions as a method of maintaining their employment levels. Then, during periods of strong demand, they return to previous levels of outsourcing. As a result of this and other factors, our demand levels will swing with general economic activity related to the industries we serve. Depending on how the current economic climate impacts particular customers, Reko may experience reductions in outsourced work orders.

*A shift away from technologies in which the Company is investing*

Like our OEM and Tier 1 and 2 customers, we continue to invest in technologies and innovations, which the Company believes are critical to long-term growth. Our ability to anticipate changes in technology and to successfully develop and introduce new and enhanced products on a timely basis using such technologies will be a significant factor in our ability to remain competitive. Current technological shifts in the industry would include the application of the Internet of Things, integration of additive

**REKO INTERNATIONAL GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

manufacturing capabilities into our processes and the transition to electric and autonomous vehicles. If there is a movement away from the use of specific technologies that the Company is focused on developing or someone applies these technologies more quickly or effectively, our costs may not be fully recovered. In addition, if other technologies in which our investment is not as great, or our expertise is not as fully developed emerge as the industry-leading technologies, we may be placed at a competitive disadvantage, which could have a material adverse effect on our profitability and financial condition. Management continually monitors the emergence of new technologies and updates our investments in these emerging technologies accordingly.

*Diversification of our sales*

Although we supply factory automation, molds, gauges, and fixtures to all the leading automobile manufacturers, a good portion of our sales are still to the Detroit 3. In addition, although we supply machined locomotive crankcases to each of the leading locomotive manufacturers, a significant majority of our sales in this sector are to one locomotive OEM. While we have diversified our customer base in recent years, and continue to attempt to further diversify, we may experience varying degrees of success. Inability to successfully grow our sales to non-traditional customers could have an adverse effect on our profitability and financial condition.

*Challenges successfully competing against suppliers with operations in developing markets*

Many of our customers have sought, and will likely continue to seek, to take advantage of lower operating costs in Mexico, China, India, Southeast Asia, and other developing markets. We continue to investigate opportunities to expand our manufacturing sources, with a view to taking advantage of these lower cost countries. However, we cannot guarantee that we will be able to fully realize such opportunities. The inability to quickly adjust our manufacturing sources to take advantage of opportunities in these markets could harm our ability to compete with our suppliers operating in or from such markets, which could have an adverse effect on our profitability and financial condition.

*Continued support of our lenders*

The Company operates in a capital-intensive business, has significant financing requirements placed on it by its customers, and our financial resources are, in many cases, less than the financial resources of our customer base. There can be no assurance that if and when the Company seeks additional equity or debt financing, it will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms (or to obtain these resources at all). However, the Company maintains a strong relationship with a number of key lenders and keeps them apprised of, not only financial results, but also future plans and challenges. In the event that debt financing was not available at some future date, additional equity financings may result in dilution to existing shareholders.

*Significant long-term fluctuations in relative currency values*

Although, our financial results are reported in Canadian dollars, significant portions of our sales are realized in U.S. dollars. Movements in the U.S. dollar against the Canadian dollar affect our profitability. As a result of the purchase of appropriate amounts of forward exchange contracts, foreign currency transactions are not fully impacted by movements in exchange rates. Due to this program, our accounting risk (i.e. the risk associated with our foreign exchange balances on our balance sheet at any point in time) is reduced. This program does not necessarily reduce our economic risk (i.e. the risk associated with all our foreign exchange balances and potential balances regardless of whether those balances and potential balances are on our balance sheet at any one particular time). Despite these measures, significant long-term fluctuations in relative currency values could have an adverse effect on our profitability and financial condition and any sustained change could adversely impact our competitiveness.

*COVID-19 Pandemic*

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This outbreak, which has spread globally, has adversely affected workforces, economies, and financial markets globally. While the recent events are potentially leading to an economic downturn, governments and central banks have implemented significant monetary and fiscal interventions designed to stabilize the economic conditions.

COVID-19 has resulted in wide-spread and extended shutdowns of businesses throughout the world. Such disruptions might include temporary closures of third-party supplier facilities, restrictions on the export or shipment of product, or unavailability

**REKO INTERNATIONAL GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

of key components sourced from effected manufacturers or suppliers. The outbreak may also impact customer demand, either temporarily or permanently.

The global reach of the disease could adversely impact the Company by causing operating, manufacturing supply chain, and project development delays and disruptions, labour shortages, travel and shipping disruption and shutdowns. While we have had success recently in mitigating the impacts of the COVID-19 outbreak on our operations, we may experience a decrease in our revenue and margins.

The extent to which these events may impact the Company's business activities will depend on future developments, and in particular, the duration of the outbreak, travel restrictions, business disruptions and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. While the duration of the pandemic is uncertain, the Company cannot determine the ultimate financial impacts at this time. Expenses or delays relating to such events outside of the Company's control, which could have a material adverse impact on the business, operating results and financial condition.

On March 23, 2020, the Government of Ontario announced that certain manufacturers and their suppliers were deemed essential businesses due to their importance to the Ontario economy. As Reko has maintained full operations during this unprecedented time, the Company implemented several measures aimed at protecting the health and safety of our employees, and customers, and limiting the exposure and preventing the spread of the virus.

The Company will continue to evaluate all developments and make any necessary modifications and enhancements to our COVID-19 response. We continuously monitor the updates provided by public health authorities and by all levels of government, and will modify our response as new information is provided. Our efforts with respect to this pandemic are ongoing and include our top executive and operational management team continually monitoring changes in best practices and regulations, and their impact on the safety of our employees, our operations and our customers and suppliers. While it is unclear how long the economic recovery from COVID-19 will take, we are committed as a Company to make every effort to succeed.

In March 2020, the Government of Canada announced the introduction of the Canada Emergency Wage Subsidy (CEWS) to support employers that are hardest hit by the pandemic and protect the jobs Canadians depend on. The subsidy generally covers 75% of an employee's wages (to a maximum amount) for employers of all sizes and across all sectors who have suffered a drop in gross revenues of at least 15% in March, and 30% in April and May. The Company has determined that it would be eligible for the CEWS amount and has applied for such assistance from the Government of Canada. The Company will continue to review all programs offered by the Government and ensure that it applied for all appropriate support.

**FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS**

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Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and United States ("U.S.") dollars. More specifically, approximately 85% of the Company's sales and 20% of its costs are incurred in U.S. dollars. In addition, the Company maintains certain working capital balances in U.S. funds.

To minimize our exposure to the impacts of changes in the foreign exchange rate, the Company maintains a forward foreign exchange contract purchasing programme ("FFEC Programme"). Reko's Programme is based on maintaining our approximate net exposure to the U.S. dollar (total U.S. exposure less forward foreign exchange contracts) between positive and negative \$5,000. This Programme is designed to minimize the Company's exposure to foreign exchange risks over the mid-term. During periods of rapid fluctuation in the foreign exchange rate between the Canadian dollar and the U.S. dollar, regardless of our net exposure to the U.S. dollar, the Company can generate significant gains or losses, which may materially impact financial results. These significant gains or losses are entirely related to mark-to-market accounting rules and represent the product of our net exposure to the U.S. dollar and the change during any given month of the value of the U.S. dollar in relation to the Canadian dollar.

During each of the last four quarters, the Company's quarter-end exposure to the U.S. dollar has been:

<b>Fiscal Period</b>	<b>Total U.S. exposure before hedging programme</b>	<b>Forward foreign exchange contracts booked</b>	<b>Net exposure to the U.S. dollar</b>
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**REKO INTERNATIONAL GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Q3 - 2020	\$ 7,436	\$ 9,000	\$ (1,564)
Q2 - 2020	\$ 7,772	\$ 1,000	\$ 6,772
Q1 - 2020	\$ 9,300	\$ 4,000	\$ 5,300
Q4 - 2019	\$ 11,639	\$ 7,000	\$ 4,639

As a result of the Company's purchase of forward foreign exchange contracts ("FFECs"), the Company is subject to changes in foreign exchange rates that may not be consistent with changes in the current quoted foreign exchange rates. More specifically, the Company's foreign exchange risk is split such that its net exposure to the U.S. dollar, as detailed above, is subject to changes in market foreign exchange rates on a monthly basis and the remainder of its U.S. dollar exposure is subject to foreign exchange risks based on the specific foreign exchange rate contained in its FFECs. The table below presents a comparison between actual foreign exchange rates and Reko's effective rate on its booked FFECs.

The table below presents a comparison between actual foreign exchange rates and Reko's effective rate on its booked FFECs.

	For the three months ended April 30, 2020				For the nine months ended April 30, 2020			
	2020		2019		2020		2019	
	Actual	Reko effective rate	Actual	Reko effective rate	Actual	Reko effective rate	Actual	Reko effective rate
U.S. Dollar equals Canadian Dollar	1.3691	1.3567	1.3304	1.3221	1.3362	1.3313	1.3209	1.3108

The Company's FFECs represent agreements with an intermediary to trade a specific amount of U.S. dollars for Canadian dollars at a specific rate on a specific date. Currently, the date is between one (1) and six (6) months after the date on which the FFEC is booked. The specific rate entered into is not necessarily indicative of what either the intermediary or Reko believes the foreign exchange rate will be on the date the settlement of the trade occurs, rather it is a rate set by the intermediary which Reko can either accept or reject.

During the second quarter, the Company recorded a pre-tax gain of approximately \$129 related to the fair value of its U.S. dollar exposures. At the end of the quarter, we held FFECs of \$9,000 compared to \$10,000 at the end of the quarter in the prior year. During fiscal 2020, on average, we held FFECs of \$5,222, compared to \$10,889 during the prior year.

The following table outlines the level of FFECs presently maintained and the average effective rate of these contracts:

Fiscal Period	Contract value booked (000's)	Effective average rate
Q3 - 2020	\$ 9,000	1.3779

The Company notes that at current levels of FFECs and U.S. dollar denominated assets and liabilities, an increase in the value of the U.S. dollar against the Canadian dollar results in the Company recording gains and an increase in the value of the Canadian dollar against the U.S. dollar results in recording losses for the Company.

Foreign currency transactions are recorded at rates in effect at the time of the transaction. Forward exchange contracts are recorded at month-end at their fair value, with unrealized holding gains and losses recorded in foreign exchange gain (loss).

**REKO INTERNATIONAL GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**QUARTERLY RESULTS**

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the third quarter of fiscal 2020, ended April 30, 2020. The information has been derived from the Company's unaudited consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained elsewhere in the Annual Report for the year ended July 31, 2019, and include all adjustments necessary for a fair presentation of the information presented. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	<b>July/18</b>	<b>Oct/18</b>	<b>Jan/19</b>	<b>Apr/19</b>
Sales	\$ 10,206	\$ 11,438	\$ 11,615	\$ 14,277
Net income	713	170	272	609
Earnings per share: Basic	0.11	0.03	0.04	0.10
Diluted	0.10	0.03	0.04	0.09
	<b>July/19</b>	<b>Oct/19</b>	<b>Jan/20</b>	<b>Apr/20</b>
Sales	\$ 10,659	\$ 9,350	\$ 9,538	\$ 9,985
Net income	526	140	57	65
Earnings per share: Basic	0.08	0.02	0.01	0.01
Diluted	0.07	0.02	0.01	0.01

**NORMAL COURSE ISSUER BID**

On December 27, 2019, the Company announced the extension of the normal course issuer bid. Under the plan, the Company may purchase on the TSX Venture Exchange up to a total of 316,933 of its common shares during the twelve-month period which commenced December 31, 2019. The 316,933 common shares represent approximately 5% of the total common shares outstanding. The price that the Company will pay for any such shares will be the market price at the time of acquisition and all shares acquired under the bid will be cancelled by the Company.

During the quarter ended April 30, 2020, Reko purchased and subsequently cancelled 49,500 shares under the provision of the normal course issuer bid. The total amount of shares purchased and cancelled during the current fiscal year are 89,000.