

Reko International Group Inc.

Interim Condensed Consolidated Financial Statements *(unaudited)*

For the nine months ended April 30, 2021 and 2020

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, 2021 have been prepared by Management and approved by the Board of Directors on June 9, 2021. 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, 2021	July 31, 2020
ASSETS		
Current		
Cash	\$ 6,028	\$ 4,441
Accounts receivable	8,738	8,140
Short-term investments	4,500	5,000
Non-hedging financial derivatives (Note 4)	147	276
Work-in-progress	10,468	12,298
Prepaid expenses and other current assets	1,184	1,302
	31,065	31,457
Grants receivable (Note 12)	260	114
Capital assets (Note 5)	26,472	27,260
Deferred income taxes	2,651	2,464
	\$ 60,448	\$ 61,295
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 4,680	\$ 4,425
Unearned revenue on work-in-progress	266	439
Current portion of long-term debt (Note 6)	428	382
Long-term debt subject to demand provisions (Note 6)	5,421	5,955
	10,795	11,201
Long-term debt (Note 6)	3,059	3,185
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	17,464	18,210
Contributed surplus (Note 8)	1,927	1,869
Retained earnings	27,203	26,830
	46,594	46,909
	\$ 60,448	\$ 61,295

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	Total equity
Balance at July 31, 2019	\$ 18,531	\$ 1,820	\$ 26,067	\$ 46,418
Share-based payments	(262)	37	--	(225)
Net income	--	--	261	261
Balance at April 30, 2020	\$ 18,269	\$ 1,857	\$ 26,328	\$ 46,454
Balance at July 31, 2020	\$ 18,210	\$ 1,869	\$ 26,830	\$ 46,909
Common shares repurchased and cancelled	(746)	--	--	(746)
Share-based payments	--	58	--	58
Net income	--	--	373	373
Balance at April 30, 2021	\$ 17,464	\$ 1,927	\$ 27,203	\$ 46,594

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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, 2021	April 30, 2020	April 30, 2021	April 30, 2020
Sales	\$ 12,413	\$ 9,985	\$ 30,239	\$ 28,873
Costs and expenses				
Cost of sales	9,267	8,387	24,105	22,889
Depreciation	769	904	2,341	2,770
	10,036	9,291	26,446	25,659
Gross profit	2,377	694	3,793	3,214
Selling and administrative	1,134	1,244	4,176	3,708
Income (loss) before other items	1,243	(550)	(383)	(494)
Foreign exchange (gain) loss	333	(129)	775	(139)
Other income	(315)	(798)	(1,643)	(900)
Loss on sale of capital assets	--	92	48	95
Interest on long-term debt	91	95	258	283
Interest on other interest-bearing obligations	(2)	(5)	(7)	10
	107	(745)	(569)	(651)
Income before income taxes	1,136	195	186	157
Deferred income tax (recovery) provision	335	130	(187)	(104)
Net income and comprehensive income	\$ 801	\$ 65	\$ 373	\$ 261
Earnings per common share (Note 9)				
Basic	\$ 0.13	\$ 0.01	\$ 0.06	\$ 0.04
Diluted	\$ 0.13	\$ 0.01	\$ 0.06	\$ 0.04

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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, 2021	For the nine months ended April 30, 2020
OPERATING ACTIVITIES		
Net income (loss) for the period	\$ 373	\$ 261
Adjustments for:		
Depreciation	2,341	2,770
Income tax expense	(187)	(104)
Interest expense	251	293
Change in value of embedded derivative	--	18
Change in non-hedging financial derivatives	129	153
Unrealized foreign exchange gain	(283)	273
Share-based compensation	58	37
Loss on sale of capital assets	48	95
	2,730	3,796
Net change in non-cash working capital	1,432	802
Interest paid	(251)	(293)
CASH PROVIDED BY OPERATING ACTIVITIES	3,911	4,305
FINANCING ACTIVITIES		
Net cost of repurchase of capital stock	(746)	173
Repayments of long-term debt	(331)	(693)
CASH USED IN FINANCING ACTIVITIES	(1,077)	(520)
INVESTING ACTIVITIES		
Investment in capital assets	(1,601)	(1,566)
Proceeds from sale of short-term investments	500	--
Change in grant receivable	(146)	(262)
CASH USED IN INVESTING ACTIVITIES	(1,247)	(1,828)
Net change in cash	1,587	1,957
Cash, beginning of period	4,441	5,448
Cash, end of period	\$ 6,028	\$ 7,405

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1. SIGNIFICANT ACCOUNTING POLICIES

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.

COVID-19 Pandemic

On March 11, 2020, a virus known as COVID-19 was declared a pandemic by the World Health Organization. The pandemic resulted in governments worldwide enacting emergency measures to combat the spread of the virus including the implementation of travel bans, self-imposed quarantine periods and social distancing. These emergency measures caused significant disruption to businesses globally resulting in an economic slowdown that depressed world stock prices, decreased bond yields and increased the volatility in discount rates at the beginning of the year. To combat the economic slowdown, governments and central banks have since provided significant fiscal and financial assistance and markets have experienced recoveries. Governments have started to roll out mass vaccination campaigns, but it is still difficult to predict the duration and impact of the pandemic.

Statement of compliance

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on June 9, 2021.

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, 2020, 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, 2020 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.

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

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:

Subsidiary	Location	Percentage ownership	Consolidation
Concorde Precision Machining Inc.	Ontario	100%	Full
Reko Manufacturing Group Inc.	Ontario	100%	Full
Reko International Holdings Inc.	Michigan	100%	Full
Reko International Services Inc.	Michigan	100%	Full
Concorde USA LLC	Michigan	100%	Full

2. 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.

	Nine months ended April 30, 2021	
	Revenues	Capital assets
Canada	\$ 28,741	\$ 26,472
United States	1,498	--
	\$ 30,239	\$ 26,472

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

3. 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.

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

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, 2021
Financial assets at FVTPL				
Cash	\$ 6,028	\$ --	\$ --	\$ 6,028
Non-hedging financial derivatives	--	147	--	147
	\$ 6,028	\$ 147	\$ --	\$ 6,175

	Level 1	Level 2	Level 3	July 31, 2020
Financial assets at FVTPL				
Cash	\$ 4,441	\$ --	\$ --	\$ 4,441
Non-hedging financial derivative	--	276	--	276
	\$ 4,441	\$ 276	\$ --	\$ 4,717

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.

Long-term debt

The Company's long-term debt of CDN \$5,750 and USD \$2,603 (currently valued at CDN \$3,198) 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 Government of Canada security is based on the then current market value to derive the discount rate. At April 30, 2021, the fair value of the Company's long-term debt is CDN \$5,761 and USD \$2,961. At July 31, 2020, the fair value of the Company's long-term debt was CDN \$5,974 and USD \$2,717.

4. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. During the period, the Company had entered into foreign exchange forward contracts. As at April 30, 2021, the Company holds options to buy and sell USD with maturities ranging from 0-6 months and at various exercise prices. The mark to market value of those options are included below.

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REKO INTERNATIONAL GROUP INC.
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As at April 30, 2021	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value asset
Sell USD / Buy CAD forwards	0 – 6 months	\$ 4,147	1.2550	\$ 4,000	\$147

As at July 31, 2020	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value asset
Sell USD / Buy CAD forwards	0 – 6 months	\$ 4,276	1.4076	\$ 4,000	\$ 276

5. CAPITAL ASSETS

Capital assets are comprised of:

	Land	Buildings	Machinery and equipment	Leasehold improvements	Equipment under construction	Total
Cost or deemed cost						
Balance at July 31, 2019	\$ 661	\$ 14,097	\$ 53,306	\$ 811	\$ 186	\$ 69,061
Additions	--	49	37	--	1,597	1,683
Transfers	--	--	1,333	33	(1,366)	--
Disposals	--	--	(1,030)	--	--	(1,030)
Balance at July 31, 2020	\$ 661	\$ 14,146	\$ 53,646	\$ 844	\$ 417	\$ 69,714
Additions	--	89	(5)	--	1,517	1,601
Transfers	--	--	614	--	(614)	--
Disposals	--	--	(64)	--	--	(64)
Balance at April 30, 2021	\$ 661	\$ 14,235	\$ 54,191	\$ 844	\$ 1,320	\$ 71,251
Amortization and impairment losses						
Balance at July 31, 2019	\$ --	\$ 4,570	\$ 34,855	\$ 296	\$ --	\$ 39,721
Amortization for the year	--	482	3,113	73	--	3,668
Disposals	--	--	(935)	--	--	(935)
Balance at July 31, 2020	\$ --	\$ 5,052	\$ 37,033	\$ 369	\$ --	\$ 42,454
Amortization for the year	--	307	1,994	40	--	2,341
Disposals	--	--	(16)	--	--	(16)
Balance at April 30, 2021	\$ --	\$ 5,359	\$ 39,011	\$ 409	\$ --	\$ 44,779
Carrying value						
Balance at July 31, 2020	\$ 661	\$ 9,094	\$ 16,613	\$ 475	\$ 417	\$ 27,260
Balance at April 30, 2021	\$ 661	\$ 8,876	\$ 15,180	\$ 435	\$ 1,320	\$ 26,472

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UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
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6. LONG-TERM DEBT

The long-term debt is comprised of:

	January 31, 2021	July 31, 2020
Mortgage payable – 4.25% (July 31, 2020 – 4.25%), 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	\$ 3,193	\$ 3,270
Mortgage payable – 4.31% (July 31, 2020 – 4.31%), repayable \$21 monthly including interest, due in full August 2023, secured by certain land and building and general security agreement, subject to demand provisions	2,557	2,667
Mortgage payable – 3.06% plus a credit spread (July 31, 2020 – 3.06%), which may vary over the life of facility to a maximum of 275, currently at 175 for an all-in rate of 5.00%, 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	3,198	3,639
	8,948	9,576
Deduct - unamortized finance fees	40	54
- principal portion included in current liabilities	5,849	6,337
Long-term portion	\$ 3,059	\$ 3,185

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, 2021, \$468 is due within the next twelve months under normal repayment terms and an additional \$5,421 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	\$ 468
2 years	475
3 years	3,254
4 years	335
5 years	4,416
Thereafter	--
Balance of obligation	\$ 8,948

7. SHARE CAPITAL

Share capital is comprised of:

	Authorized	Issued Shares	Amount
Class A preference shares	Unlimited	Nil	\$ --

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Class B preference shares	Unlimited	Nil	--
Common shares – no par value	Unlimited	6,015,750	\$ 17,464

Share capital transactions during the period were as follows:

	April 30, 2021		July 31, 2020	
	Shares	Amount	Shares	Amount
Outstanding, beginning of year	6,242,650	\$ 18,210	6,351,620	\$ 18,531
Transactions during the period	(226,900)	(746)	(108,970)	(321)
Outstanding, end of period	6,015,750	\$ 17,464	6,242,650	\$ 18,210

During the period, the Company repurchased and cancelled 226,900 common shares under the normal course issuer bid for a net cost of \$746.

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, 2021 were exercised:

Common shares outstanding at April 30, 2021	6,015,750
Stock options	165,900
	6,181,650

8. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	April 30, 2021	July 31, 2020
Balance, beginning of period	\$ 1,869	\$ 1,820
Amounts in respect of the stock-based compensation	58	49
Balance, end of period	\$ 1,927	\$ 1,869

9. EARNINGS PER SHARE

The calculation of basic earnings per share at April 30, 2021 was based on the net profit attributable to common shareholders of \$373 and a weighted average number of common shares outstanding of 6,157,439 calculated as follows:

	April 30, 2021	April 30, 2020
Basic earnings per share:		
Net income for the three-month period	\$ 801	\$ 65
Average number of common shares outstanding during the period	6,015,750	6,296,250
Basic earnings per share	\$ 0.13	\$ 0.01
Diluted earnings per share:		
Net income for the three-month period	\$ 801	\$ 65
Average number of common shares outstanding during the period	6,015,750	6,296,250

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REKO INTERNATIONAL GROUP INC.
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'In the money' stock options outstanding during the period	165,900	76,740
	6,181,650	6,372,990
Diluted earnings per share	\$ 0.13	\$ 0.01
	April 30,	April 30,
	2021	2020
Basic earnings per share:		
Net income for the nine-month period	\$ 373	\$ 261
Average number of common shares outstanding during the period	6,157,439	6,326,488
Basic earnings per share	\$ 0.06	\$ 0.04
Diluted earnings per share:		
Net income for the nine-month period	\$ 373	\$ 261
Average number of common shares outstanding during the period	6,157,439	6,326,488
'In the money' stock options outstanding during the period	165,900	76,740
	6,323,339	6,403,228
Diluted earnings per share	\$ 0.06	\$ 0.04

10. 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, 2021, the following options were outstanding:

Number of Options	Exercise price	Expiry
90,000	\$ 3.90	2022
102,900	\$ 2.90	2024
10,000	\$ 3.50	2025
140,000	\$ 2.80	2026

The weighted average of the options is as follows:

	April 30, 2021		April 30, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the period	202,900	\$ 3.37	462,000	\$ 2.60

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Expired during the period	--	--	(253,470)	\$ 2.00
Issued during the period	140,000	\$ 2.80	10,000	\$ 3.50
Exercised during the period	--	--	(630)	\$ 2.90
Cancelled during the period	--	--	(10,000)	\$ 3.16
Outstanding at the end of the period	342,900	\$ 3.14	207,900	\$ 3.36
Exercisable at the end of the period	165,900	\$ 2.86	76,740	\$ 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, 2021	April 30, 2020
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	38.08%	41.04%
Risk free rate of return	0.4%	0.22%
Expected forfeiture rate	100.0%	100.0%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ 58	\$ --

11. 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 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, 2021	April 30, 2020
Salaries and cash bonuses	\$ 468	\$ 504
Short-term employment benefits	19	18
Post-employment benefits	6	2
	\$ 493	\$ 524

Key management personnel and director transactions

Directors of the Company control 3.9% of the voting shares of the Company. Relatives of a director own, directly or indirectly, 64.4% of the voting shares of the Company.

12. 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

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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, 2021, the Company has received \$900 in cash funding from SWODF and accrued an additional amount receivable of \$560 on total eligible expenditures of \$14,605. The current portion of \$300 is included in accounts receivable with the remainder of \$260 being disclosed as long-term grant receivable at April 30, 2021. 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 CEWS program provides a wage subsidy on eligible remuneration, subject to limits per employee, and based on demonstrated revenue declines as a result of COVID-19.

The Company reviews its eligibility under the CEWS program monthly and applies for assistance when it determines that it would be eligible. The Company recognizes the CEWS amount as other income in the financial statements. During the fiscal year, the Company received \$1,329 of funding under the CEWS program. At April 30, 2021, the Company has accrued for \$177 in assistance from the CEWS program.