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 audited consolidated financial statements for the year ended July 31, 2010 and the audited consolidated financial statements and MD&A for the year ended July 31, 2009 included in our 2009 Annual Report to Shareholders. The audited consolidated financial statements for the year ended July 31, 2010 have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and the audited consolidated financial statements for the year ended July 31, 2009 have been prepared in accordance with Canadian GAAP. 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 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., including copies of our continuous disclosure materials such as our annual information form, is available on our website at www.rekointl.com or through the SEDAR website at www.sedar.com.

In this MD&A, reference is made to gross margin, which is not a measure of financial performance under Canadian GAAP. The Company calculates gross margin as sales less cost of sales (including depreciation and amortization). The Company included information concerning this measure because it is used by management as a 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 data and where otherwise indicated.

This MD&A is current to September 23, 2010.

OVERVIEW

Reko designs and manufactures a variety of engineered products and services for original equipment manufacturers ("OEMs") and their Tier 1 suppliers. These products include plastic injection molds, fixtures, gauges, lean cell factory automation, high precision custom machining, and assemblies. Customers are typically OEMs or their Tier 1 suppliers and are predominantly in the automotive market. Divisions of Reko are generally invited to bid upon programmes comprised of a number of custom products used by the customer to produce a complete assembly or product.

For the automotive industry, the Company designs and builds plastic injection molds, hydro-forming dies, two shot molds, and compression molds. Injection molds range in size from less than one cubic foot to approximately four feet wide, ten feet long, and six feet high. They range in weight from approximately 100 pounds to 50 tons. Typically, plastic injection molds are expected to perform up to 1,000,000 production cycles with limited maintenance. Each production cycle lasts between 30 and 120 seconds. Reko has extensive experience and knowledge in mold design and material flow and the impact of pressure on segments of the mold/die. In addition, it designs and builds custom lean factory cell automation from use primarily in the automotive industry and specialty custom machines for other industries. The factory automation systems include asynchronous assembly and test systems, leak and flow test systems, robotic assembly/machines, vision work cells and various welding systems. For the transportation and oil and gas industry, the Company machines customer supplied metal castings to customer indicated specifications.

Our design and manufacturing operations are carried on in nine manufacturing plants located at two industrial sites in the suburbs of the City of Windsor in Southwestern Ontario.

INDUSTRY TRENDS AND RISKS

Historically, our success has been primarily dependent upon the levels of new model releases of cars and light trucks by North American OEMs and our ability to source moulding and automation programmes with them. OEM new model releases can be impacted by many factors, including general economic and political conditions, interest rates, energy and fuel prices, labour relation issues, regulatory requirements, infrastructure, legislative changes, environmental emissions and safety issues.

Continued support of our lenders could have a material impact on our profitability, financial condition and continued sustainability

The Company operates in a capital-intensive business, has significant financing requirements placed on it by its customers and its financial resources are less than the financial resources of our customer base. There can be no assurance that, if, as 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 at all. Additional equity financings may result in dilution to existing shareholders.

Our recent operating performances may result in our customers assessing us a high-risk supplier thereby jeopardizing our opportunities for new business, which could materially impact our profitability and financial condition

We incurred significant operating losses in fiscal 2010 as a result of the lack of commercial credit to support companies' capital equipment purchases. As more of our customers perform supplier credit risk evaluations, on a more frequent basis, their assessment of Reko could result in us being considered a high-risk supplier. Being categorized as a high-risk supplier could jeopardize our opportunities for new business awards.

A slower than anticipated economic recovery or deterioration of economic conditions could have a material adverse effect on our profitability and financial condition.

While the global economy is currently experiencing a gradual recovery, the global capital equipment market has not stabilized and improved to the same extent as the global automotive industry. As a result, considerable uncertainty remains as to the breadth and depth of a global economic and industry recovery, including the timing of a return to more normal market conditions. A slower than anticipated recovery or a deterioration of economic conditions, including a global or continent specific double dip recession, could have a material adverse effect on our profitability and financial condition.

The bankruptcy of any of our major customers, and the potential corresponding disruption of the automotive supply chain, could have a material adverse effect on our profitability and financial condition.

The short-term viability of several of our automotive customers appears to have improved as a result of restructuring actions in the past few years, as well as direct government financial intervention in the automotive industry in 2009. However, there can be no assurance that these restructuring actions will be successful in ensuring their long-term viability, nor can there be any assurance that government financial assistance will be made available at levels necessary to prevent automobile manufacturer failures in the future. The bankruptcy of any of our major customers could have a material adverse effect on our profitability and financial condition. Additionally, since automobile manufacturers rely on a highly interdependent network of suppliers, a bankruptcy could materially disrupt operations and the financial condition of one or more of our Tier 1 customers, which could have a material adverse effect on our profitability or financial condition.

Our short-term profitability could be adversely affected by the costs associated with rationalization and downsizing of some of our operations or other significant, non-recurring costs

As part of our cost reduction strategy we may further rationalize some of our operating facilities. In the course of such rationalization, we may incur further restructuring, downsizing and/or other significant non-recurring costs related to plant closings and employee severance costs. Such costs could have an adverse effect on our short-term profitability. In addition, we are working to turn around financially underperforming divisions; however, there is no guarantee that we will be successful in doing so with respect to those divisions.

Our inability to diversify our sales could have an adverse effect on our profitability and financial condition

Although we supply molds, gauges, fixtures and factory automation to all of the leading automobile manufacturers, a significant majority of our sales are to three such customers. While we have diversified our customer base somewhat in recent years and continue to attempt to further diversify, particularly to increase our business with European and Asian based automobile manufacturers, there is no assurance we will be successful. Our inability to successfully grow our sales to non-traditional customers could have an adverse effect on our profitability and financial condition

We may not be able to successfully compete against suppliers with operations in developing markets, which could have an adverse effect on our profitability and financial condition

Many of our customers have sought, and will likely continue to seek to take advantage of lower operating costs in China, India, Brazil, Indonesia, Russia and other developing markets. While we continue to expand our manufacturing sources, with a view to taking advantage of these lower cost countries, 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.

Significant long-term fluctuations in relative currency values could have an adverse effect on our profitability and financial condition

Although, our financial results are reported in Canadian dollars, a significant portion of our sales are realized in U.S. dollars. Our profitability is affected by movements in the U.S. dollar against the Canadian dollar. As a result of our hedging program, foreign currency transactions are not fully impacted by movements in exchange rates. However, our hedging program is designed to hedge our accounting risk (the risk associated with our foreign exchange balances on our balance sheet at any point in time) but does not hedge our economic risk (the risk associated with all of 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.

The continuation or intensification of pricing pressures and pressure to absorb additional costs could have an adverse effect on our profitability

We face significant pricing pressure, as well as pressure to absorb costs related to tooling design and machine design, as well as other items previously paid for directly by automobile manufacturers. These pressures are expected to continue, even as the industry begins to recover from the global recession. The continuation or intensification of these pricing pressures and pressure to absorb additional costs could have an adverse effect on our profitability and financial condition.

The consequences of the automotive industry's dependence on consumer spending and general economic conditions could materially impact our profitability and financial condition

The global automotive industry is cyclical and largely tied to general economic conditions. The recent economic downturn and current suggested economic recovery has resulted in significant reductions in consumer spending which has severely impacted our OEM and Tier 1 customers. As our customers revisit their business models and make design changes to existing models and new vehicle introductions, the market for tooling and factory automation may decline.

The financial viability of our supply base could materially impact our profitability and financial condition

The global economic conditions have weakened the financial stability of our supplier base. While our exposure to individual entities in our supply chain is largely limited to steel suppliers and mold grainers, both of which tend to be mandated by our customers, we are still exposed to multiple relatively small niche market players whose declining financial viability may present challenges for securing the necessary inputs to our build process.

The increasing pressure from our customers to launch new awards without adequate design support could materially impact our profitability and financial condition

As the automotive industry rushed to restructure its operations and deal with the frequent production slow downs that were commonplace, our OEM and Tier 1 customers substantially reduced the design support offered to new vehicle launches. Without an adequate level of support, the quality of information provided to tool builders to begin their work dropped significantly. In addition, tool builders' ability to manipulate poor quality information was limited as the appropriate resources to approve the manipulations were not available from the OEM or Tier 1. This introduced significant inefficiencies to the process and impaired the ability of the tool builder to manufacture molds at the same profitability as in the past.

The increasing pressure from our customers to absorb their traditional overhead costs, including program management and design feasibility, could materially impact our profitability and financial condition

As the automotive industry rushes to restructure its operations, services typically provided by our Tier 1 customers in the areas of program management and design feasibility have been abandoned to meet internal financial targets. As this layer of oversight and engineering disappeared from our customers, Reko is expected to fill the void. To date, Reko has been able to meet this challenge using internal resources. However as additional cuts are made at our Tier 1 customers, increased pressure to fill this void may result in the need for Reko to increase its overhead to fulfill this role.

Current outsourcing and in-sourcing trends could materially impact our profitability and financial condition

As global market conditions weakened in the last 2 years, demand for our customers' products also weakened. During periods of weakened demand, our customers traditionally revisit outsourcing decisions as a method of maintaining their employment levels. As a result of this and other factors, some of our customers decided to bring work in-house that in the recent past would have been performed by Reko. Depending upon the depth and breadth of the current economic recovery, Reko may continue to experience significant reduction in outsourced work orders.

Changes in consumer demand for specific vehicles could materially impact our profitability and financial condition

The global automotive industry is cyclical and consumer demand for automobiles is sensitive to changes in economic and political conditions, including interest rates, energy prices, employment levels and international conflicts, including acts of terrorism. Automotive production and more importantly for Reko, the frequency of automotive model changes, is affected by consumer demand and may be affected by macro economic factors. As a result of these and other factors, some of our customers are currently experiencing, and/or may experience in the future, reduced consumer demand for all or a portion of their vehicles, leading to reduced product offerings.

The consequences of shifting market shares among vehicle or automobile manufacturers could materially impact our profitability and financial condition

Although we supply tooling, secondary automation and manufacturing work cells to almost all of the leading automotive manufacturers, a significant majority of our sales are to the Detroit 3. We are attempting to further diversify our customer base, particularly to increase our business with Asian-based and European-based automotive manufacturers.

Generally speaking, the current shifting market demand in favour of automobiles produced by Asian-based and European-based companies represents a mid-term opportunity for Reko. However, in the short-term, Reko is constrained by its exposure to the products manufactured by the Detroit-3.

The consequences of a decrease in the world's energy reduction programs could materially impact our profitability and financial condition

Certain of our activities are tied to machining of energy efficient locomotive engines. An adverse change in the current worldwide economic demand for energy efficient locomotive engines could result in reduction in the demand for our machining operations.

The failure to identify and develop new technologies and to successfully apply such technologies to create new products could have a material adverse effect on our profitability and financial condition

Like our Tier 1 customers, we continue to invest in technology and innovation. 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. If there is a shift away from the use of such technologies, 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.

The failure of one or more major financial institutions could affect the amount of credit available to us or subject us to counterparty risk in connection with derivative transactions, which could significantly impact our financial condition

Since September 2008, several major financial institutions in the United States have failed or required significant government intervention in order to prevent collapse. The turmoil in the financial sector had a significant effect on the global economy, and contributed to the global recession. The failure of other major financial institutions around the globe could lead to further disruptions in capital and credit markets and could adversely affect our and our customers' ability to access needed liquidity for working capital. In addition, in the event of a failure of a financial institution in which we invest our cash reserves, that is a counter party in a derivative transaction, or a lender to us, we face the risk that our cash reserves or liquidity available to us may be significantly reduced. All of these risks could have a significant impact on our financial condition.

Our dependence upon key personnel could materially impact our profitability and financial condition

The success of Reko is dependent on the services of a number of the members of its management team. The experience and talents of these individuals is a significant factor in the Company's growth and success. The loss of one or more of these individuals without adequate replacement could have a material adverse effect on the Company's operations and business prospects. To partially mitigate this concern, the Company has sourced key man insurance on several members of the management team and continues to maintain an active succession planning process for management.

Our inability to utilize tax losses could materially impact our profitability and financial condition

We incurred tax losses in both Canada and the United States, which we may not be able to fully or partially offset against future income in those countries. In the case of the United States, we may not be able to utilize these losses at all if we cannot generate profits in the United States.

We could record impairment charges in the future, which could materially impact our profitability and financial condition

Annually, we must test our capital assets, future income taxes and any other long-lived assets for impairment whenever indicators of impairment exist. The bankruptcy of a significant customer could be an indicator of impairment. In addition, to the extent that forward-looking assumptions regarding the impact of improvement plans on current operations, outsourcing and other new business opportunities are not met, impairment charges could occur.

Our failure to successfully identify, complete, and integrate acquisitions could materially impact profitability and financial condition

While we have not completed an acquisition in a number of years, we may do so in the future. In those product areas in which we identified acquisitions as critical to our business strategy, we may not be able to identify suitable acquisition targets or successfully acquire any suitable targets, which we identify. Additionally, we may not be able to successfully integrate or achieve anticipated synergies from those acquisitions, which we do complete.

Significant changes in law, government regulations or accounting regulations could materially impact our profitability and financial condition

A significant change in the current regulatory environment in our principal markets could impact future profitability. In particular, our profitability could be adversely impacted by significant changes in the tariffs and duties imposed on our products. In addition, we could be affected by changes in tax or other laws, which impose additional costs on automobile manufacturers or consumers, or more stringent fuel economy requirements on manufacturers, of sport-utility vehicles, light trucks and other vehicles from which we derive some of our sales.

Environmental laws and regulations could materially impact our profitability and financial condition

We are subject to a wide range of environmental laws and regulations relating to air emissions, wastewater discharge, waste management and storage of hazardous substances. We are also subject to environmental laws requiring investigation and clean up of environmental contamination. Estimating environmental clean-up liabilities is complex and heavily dependent on the nature and extent of historical information and physical data relating to the contaminated sites, the complexity of contamination, the uncertainty of which remedy to apply, and the outcome of discussions with regulatory authorities relating to the contamination. In addition, these environmental laws and regulations are complex, change frequently and have tended to become more stringent and expensive over time. Therefore, we may not have been, and in the future may not be, in complete compliance with all such laws and regulations, and we may incur material costs or liabilities as a result of such laws and regulations significantly in excess of amounts we have reserved.

TSX delisting review could materially impact the level of liquidity in the trading of Reko's shares and/or materially impact the price at which Reko's shares may trade

On September 10, 2010, the TSX advised the Company that it would be conducting a continued listing review. If the Company is found by the TSX to no longer meet the minimum listing requirements of the TSX, the Company's securities may be delisted from the TSX which could have a material adverse affect on the trading price of Reko's shares, particularly if an alternative listing of the securities on the TSX Venture Exchange or on another stock exchange could not be obtained.

Potential volatility of Reko's share prices could materially impact the financial returns earned by our shareholders

The market price of the Company's common shares has been, and will likely continue to be, subject to fluctuations in response to a variety of factors, many of which are beyond the Company's control. These fluctuations may be exaggerated if the trading volume of the common shares remains low. In addition, due to the evolving nature of its business, the market price of the common shares may fall dramatically in response to a variety of factors, including quarter-to-quarter variations in operating profits, announcements of technological or competitive developments by the Company or its competitors, large short-term fluctuations in foreign exchange rates, acquisitions or entry into strategic alliances by the Company or its competitors, the industry or its customer's industry and general market and economic conditions.

Interest of the majority and minority shareholders may be in conflict with the interests of the Company

As of the date of this AIF, The Reko Family Corporation owns directly or indirectly 58.0% of the outstanding shares of the Company. As such, The Reko Family Corporation will be able to elect or remove the directors of the Company and to exercise control in certain respects over the Company's affairs.

CHANGES IN ACCOUNTING POLICY

On August 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting standards Section 3064 "Goodwill and intangible assets". The Company adopted this new recommendation effective August 1, 2009 without restatement of prior periods.

UNUSUAL ITEMS

Renegotiated financial covenant with secondary term lender

a) During the third quarter, the Company requested certain revised financial covenants with its primary lender for Reko's third and fourth quarters. The lender agreed to the revised financial covenants and a term sheet between the Company and the lender was signed on May 27, 2010.

b) During the fourth quarter, the Company requested its secondary term lender permanently waive its sole financial covenant for Reko's fiscal 2010 year. The secondary term lender agreed to the Company's request.

AVERAGE FOREIGN EXCHANGE/FINANCIAL AND OTHER INSTRUMENTS

Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and United States ("U.S.") dollars. More specifically, approximately 90% of the Company's sales and 20% of its costs are incurred in U.S. dollars. In addition, the Company maintains a significant asset on its balance sheet which represents unutilized non-capital losses available to reduce future taxable income in the U.S. and it operates a sales office in the U.S., where it maintains working capital and capital assets.

In order to minimize our exposure to the impacts of changes in the foreign exchange rate, the Company maintains a forward foreign exchange hedging programme ("Programme"). Reko's Programme is based on maintaining our net exposure to the U.S. dollar (total U.S. exposure less forward foreign exchange contracts) between positive and negative $2,000. This Programme is designed to minimize the Company's exposure to foreign exchange risks over the mid-term. As a consequence of this mid-term exposure protection, the Company is subject to short-term paper gains and losses on its net exposure to the U.S. dollar, most particularly during periods when our net exposure to the U.S. dollar is outside of our target exposure. 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 will 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 maximum amount of the Company's month-end exposure to the U.S. dollar has been:

Fiscal Period	Total U.S. exposure before hedging programme	Forward foreign exchange contracts booked	Net exposure to the U.S. dollar
Q4 – 2010	$26,050	$24,800	$ 1,250
Q3 – 2010	$23,488	$24,100	$ (612)
Q2 – 2010	$23,798	$25,600	$ (1,802)
Q1 - 2010	$29,937	$27,300	$ 2,637

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 change 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.

	For the three months ended July 31,				For the year ended July 31,			
	2010		2009		2010		2009	
	Actual	Reko effective	Actual	Reko effective	Actual	Reko effective	Actual	Reko effective
U.S. Dollar equals Canadian Dollar	1.0393	1.0655	1.1321	1.1262	1.0489	1.1032	1.1755	1.0749

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 and two years 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 fourth quarter, the Company recorded a pre-tax loss of approximately $196 related to the fair value of its U.S. dollar exposures, as compared to a pre-tax loss of $840 in the prior year's fourth quarter. For the year ended July 31, 2010, the Company recorded a pre-tax gain of $268, as compared to a pre-tax loss of $1,510 in the prior year. These foreign exchange gains or losses are reported as part of our sales.

At the end of the year, we held FFECs of $24,800 compared to $25,400 at the end of the prior year. During fiscal 2010, on average we held FFECs of $25,600, compared to $25,700 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
Q4 – 2010	$24,800	1.0538
Q1 – 2011	$18,900	1.0507
Q2 – 2011	$14,000	1.0453
Q3 - 2011	$10,500	1.0411

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 financial 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 sales.

Additional information with respect to financial instruments is provided in Note 1 and Note 15 to Reko's audited financial statements, which by this reference are hereby incorporated herein.

RESULTS OF OPERATIONS

Sales

Sales for the year ended July 31, 2010 decreased $15.1 million, or 27%, to $40.2 million compared to $55.3 million in fiscal 2009.

The decrease in sales was largely related to:

- A general freeze in the capital equipment market caused by the lack of commercial credit available in the marketplace; and,
- Decreases in the amount earned per hour by our facilities, largely caused by the increased competition for the few projects that were available.

Items offsetting the decrease in sales discussed above include:

- Increased sales volume related to our work on projects that were out-sourced to low cost countries;
- Increased sales volume on work performed in the plastic injection molded interior parts portion of the automotive industry; and,
- Changes in the fair value of foreign exchange future contracts, as described above.

Gross Margin

The gross margin for the year ended July 31, 2010 decreased $9,939 to a gross loss of $947 or 2.4% of sales, compared to $8,992, or 16.3% of sales, in the previous fiscal year.

The decrease in gross margin was largely related to:

- Inability to cover our fixed overhead costs, as a result of our reduced sales levels.

These factors were partially offset by:

- Reduced labour costs associated with our second quarter layoffs;
- Productivity and efficiency improvements implemented in the previous year; and,
- Cost savings measures implemented during the second and third quarter designed to offset the impacts of our reduction in sales volumes.

Selling and administration

Selling and administration expenses ("S,G&A") decreased by $1,111, or 15.6%, to $5,990, or 14.9% of sales for the year ended July 31, 2010, compared to $7,101, or 12.8% of sales for the same period in the prior year. During the year, we incurred various restructuring charges of $163 included in S,G&A. The decrease in S,G&A was produced by savings achieved as a result of:

- Reductions in wages and benefits as a result of our second quarter 2010 layoff and terminations and our 2009 restructuring activities;
- Reduction in our restructuring costs as compared to the prior year;
- Reductions in professional fees associated with lower SR&ED tax credit opportunities;
- Reductions in the costs of commissioned sales representatives, as a result of the reductions in our sales levels; and,
- improvements in cost containment activities associated with discretionary business expenses including office, travel and promotion.

These factors were partially offset by:

- Increased capital tax costs associated with a capital tax refund received in the prior year; and,
- Increased bank charges associated with our covenant renegotiations.

Earnings overview

On an all-inclusive basis, the net loss for the year was $7,469, or $1.16 per share, compared to a net income of $199, or $0.03 per share, in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations decreased $3,651 from proceeds from operations of $3,643 in the prior year to a use of funds of $8 in the current year.

The decrease in cash flow from operations is primarily a result of:

- Our inability to generate sufficient sales levels to cover our fixed overhead expenses.

This factor was partially offset by:

- Increase in cash collections during the year, generated from recognized sales in the prior year.

During the year, a capital lease on a machining centre came up for renewal and the Company did not refinance the capital lease in advance of its due date. Accordingly, on February 25, 2010, the Company made the required balloon payment of $675 on the capital lease through our operating line of credit.

Financial covenants

The Company met its financial covenants at the end of the fourth quarter of 2010. During the fourth quarter, the Company requested that its secondary term lender permanently waive its sole financial covenant for fiscal 2010, to which our secondary term lender agreed.

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 year ended July 31, 2010, the Company invested $889 in capital assets. The entire amount of this spending is considered maintenance capital expenditure intended to refurbish or replace assets consumed in the normal course of business.

Cash resources/working capital requirements

As at July 31, 2010, Reko had borrowed $12,989 on its revolving line of credit, net of its cash on hand at year-end, compared to $9,396 at April 30, 2010 and $9,416 at July 31, 2009. The revolver borrowings increased by approximately $3,593 in the quarter and increased approximately $3,573 for the year. We expect borrowings to display a slight mid-term decreasing trend over the next four quarters.

Reko has a $20,000 revolver available to it; however, based on our current lender defined margining capabilities, our borrowings are limited to $19,583, of which approximately $6,381 was unused and available at the end of the year. Under the terms of our credit facilities, Reko must achieve certain financial covenants including a maximum Total Debt to Tangible Net Worth, a minimum Current Ratio and a minimum Debt Service Coverage Ratio. At the present time, our primary lender has agreed to temporarily waive the minimum Debt Service Coverage Ratio. In its place, our primary lender has instituted a minimum monthly EBITDA target. As previously discussed, Reko is confident about its ability to meet these financial covenants over the next fiscal year.

Contractual obligations and off-balance sheet financing

	Payments due by period				
Contractual obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Long-term debt	$14,033	$12,346	$1,624	$63	$--
Capital lease obligations	569	335	234	--	--
Operating leases	3	2	1	--	--
Purchase obligations	--	--	--	--	--
Other long-term obligations	--	--	--	--	--
Total contractual obligations	**$14,605**	**$12,683**	**$1,859**	**$63**	**$--**

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 does not maintain any off-balance sheet financing.

Share capital

The Company had 6,420,920 common shares outstanding at July 31, 2010. During the year, no options were granted and no options were exercised.

Outstanding share data

Designation of security	**Number outstanding**	**Maximum number issuable if convertible, exercisable or exchangeable for common shares**
Common Shares	6,420,920	
Stock options issued	117,000	
Stock options exercisable	98,000	
Total (maximum) number of common shares		6,518,920

CRITICAL ACCOUNTING ESTIMATES

The Company's discussion and analysis of its results of operations and financial position is based upon the consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an ongoing basis, management evaluates these estimates. However, actual results differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements of the Company. Management has discussed the development and selection of the following critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed its disclosure relating to critical accounting estimates in this MD&A.

Allowances for doubtful accounts receivable

In order for management to establish appropriate allowances for doubtful accounts receivable, estimates are made with regard to economic conditions, potential recoverability through our accounts receivable insurer, and the probability of default by individual customers. The failure to estimate correctly could result in bad debts being either higher or lower than the determined provision as of the date of the balance sheet.

Revenue recognition and tooling and machinery contracts

Revenue from tooling and machinery contracts is recognized on the percentage of completion basis. The percentage of completion basis recognizes revenue and cost of sales on a progressive basis throughout the completion of the tooling or machinery.

Tooling and machinery contracts are generally fixed; however, price changes, change orders and program cancellation may affect the ultimate amount of revenue recorded with respect to a contract. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total contract costs are often required as work progresses under the contract. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the entire loss on the contract is made. Factors that are considered in arriving at the forecasted profit or loss on a contract include, amongst other items, cost overruns, non-reimbursable costs, change orders and potential price changes.

Impairment of long-lived assets

Management evaluates capital assets for impairment whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of, or otherwise change the use of, an existing capital asset. If the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges, is less than the reported value of the asset, asset impairment must be recognized in the financial statements. The amount of impairment to be recognized is calculated by subtracting the fair value of the asset from the reported value of the asset.

Management believes that accounting estimates related to capital assets are 'critical accounting estimates' because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions regarding their impact on current operations; and (ii) any resulting impairment loss could have a material impact on the consolidated net income and on the amount of assets reported on the Company's consolidated balance sheet.

Future income taxes and SR&ED tax credits

Future tax assets in respect of loss carry forwards and scientific research and experimental design credits relate primarily to legal entities in Canada and the United States. The Company evaluates the realization of its future tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. The facts used to assess the likelihood of realization are a forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. The Company has, and continues to use, tax planning strategies to realize future tax assets in order to avoid the potential loss of benefits.

CONTROLS AND PROCEDURES

Management is responsible for implementing, maintaining and testing the operating effectiveness of adequate systems of disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure including the possibility of human error and circumvention or overriding of the controls and procedures. Accordingly, even effective controls and procedures can only provide reasonable assurance of achieving their corporate objectives.

Our management used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of internal controls over financial reporting. We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures during fiscal 2010, and concluded that Reko's controls and procedures are operating effectively to ensure that the information required to be disclosed is accumulated and communicated to management including the Chief Executive Officer and the Chief Financial Officer. A similar evaluation was performed in fiscal 2009.

Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer concluded that Reko's disclosure controls and procedures and internal controls over financial reporting do not include any material weaknesses and that they were effective in recording, processing, summarizing and reporting information required to be disclosed within the time period specified in the Canadian Securities Administrators (CSA) rules.

QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the fourth quarter of fiscal 2010, ended July 31, 2010. 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 this Annual Report 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.

		Oct/08	Jan/09	Apr/09	July/09
Sales		$13,881	$16,480	$14,791	$10,125
Net income (loss)		437	875	240	(1,353)
Earnings (loss) per share:	Basic	0.06	0.12	0.05	(0.20)
	Diluted	0.06	0.12	0.05	(0.20)
		Oct/09	**Jan/10**	**Apr/10**	**July/10**
Sales		$9,255	$8,794	$9,329	$12,773
Net income (loss)		(1,177)	(1,867)	(2,269)	(2,156)
Earnings (loss) per share:	Basic	(0.18)	(0.29)	(0.36)	(0.33)
	Diluted	(0.18)	(0.29)	(0.36)	(0.33)

NORMAL COURSE ISSUER BID

The Company does not currently have an open Normal Course Issuer Bid.

SELECTED ANNUAL CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data has been derived from, and should be read in conjunction with the accompanying audited consolidated financial statements for the year ended July 31, 2010, which are prepared in accordance with Canadian GAAP.

	2010	2009	2008
Income statement data			
Sales	$40,151	$55,277	$55,729
Net income (loss) for the year	(7,469)	199	(3,529)
Earnings (loss) per share – basic	(1.16)	0.03	(0.49)
Earnings (loss) per share – diluted	(1.16)	0.03	(0.49)
Financial position data			
Working capital	$131	$16,941	$14,891
Working capital excluding mortgage bullet included in current liabilities	11,423	16,941	14,891
Total assets	73,401	83,500	84,434
Bank indebtedness, net of cash	12,989	9,416	12,982
Long-term debt due within one year	12,678	2,640	2,453
Long-term debt	1,925	15,181	14,821
Shareholders' equity	36,156	43,617	44,108

INTERNATIONAL FINANCIAL REPORT STANDARDS (IFRS)

For Reko's financial year ended July 31, 2012, Reko will no longer report its financial results using Canadian GAAP, as a result of changes announced by The Canadian Institute of Chartered Accountants in March 2008. Instead it will report its financial results using IFRS. This change affects all entities that are considered publicly accountable entities. Reko is considered a publicly accountable entity due to its listing on the Toronto Stock Exchange.

While not all GAAP and IFRS are different, one of the most significant changes deals with the overriding premise in GAAP that financial reporting is based on historical cost, while IFRS' overriding premise is fair value.

Due to the potential pervasiveness of the changes inherent in moving to IFRS, a significant amount of time is necessary for management to plan its implementation. Possible impacts, besides external financial reporting, include, but are not limited to: banking agreements, business processes, information systems, employee and management incentive programmes, and legal agreements.

During the past two years, management:

- Engaged internal resources to understand the new rules;
- Educated its primary accounting staff on the differences between GAAP and IFRS;
- Concentrated its efforts on those portions of IFRS that are different than GAAP;
- Identified those business processes that have the potential for amendment to properly transition to IFRS;
- Finalized its policy selections both on conversion and post conversion; and,
- Evaluated new financial statement disclosure.

As a result of this analysis, management has determined that the following financial statement line items will be impacted by the conversion to IFRS:

- Capital assets – on conversion to IFRS, Reko will need to revalue its capital assets. Reko is currently collecting information before deciding whether this revaluation will be based on fair value assessments or reconsideration of prior year amortization. At the present time, insufficient information is available to determine whether or not the revaluation of our capital assets will result in an increase or decrease in their net book value and whether or not the amount will be material;
- Current portion of deferred income taxes – under IFRS, there is no requirement nor is it allowed, to calculate and present the current portion of deferred income taxes (that portion of deferred income taxes expected to be recognized in the current year) as part of an entity's financial statements. Accordingly, Reko advises that the current portion of its deferred income taxes will be reduced to $Nil on conversion to IFRS. This reduction to $Nil, will impact the amount of the Company's current assets in future periods and any financial ratios or covenants that include the calculation of current assets;
- Deferred income taxes – on conversion to IFRS, Reko will need to revalue its capital assets. As a result of revaluing its capital assets, Reko will also revalue its deferred income taxes as it relates to its capital assets. At the present time, insufficient information is available to determine whether or not the revaluation of deferred income taxes will be material and whether deferred income taxes will increase or decrease as a result;
- Contributed surplus – on conversion to IFRS, Reko will need to revalue its contributed surplus as a result of timing differences in the recognition of stock compensation expenses. Until August 1, 2011, Reko is unable to calculate the exact amount of this adjustment. As a result of this adjustment, Reko anticipates its contributed surplus will increase however it does not expect the amount to be material;
- Retained earnings – as a result of all of the above items, Reko's opening retained earnings on conversion to IFRS will change to reflect the cumulative impact of each of the above items; and,
- Amortization expense – on conversion to IFRS, Reko will revalue its capital assets. As a result of this revaluation, Reko's expected amortization expense will increase or decrease, in similar proportion and direction with the increase or decrease in the revaluation of its capital assets. As indicated in our discussion on capital assets, insufficient information is available to determine whether amortization expenses in the future will increase or decrease or whether it is by a material amount or not upon conversion to IFRS.

Going forward, management is concentrating on the quantification of the impact of the changes to the financial statements in preparation for our conversion to IFRS on August 1, 2011.

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 included in our 2009 Annual Information Form, this 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.