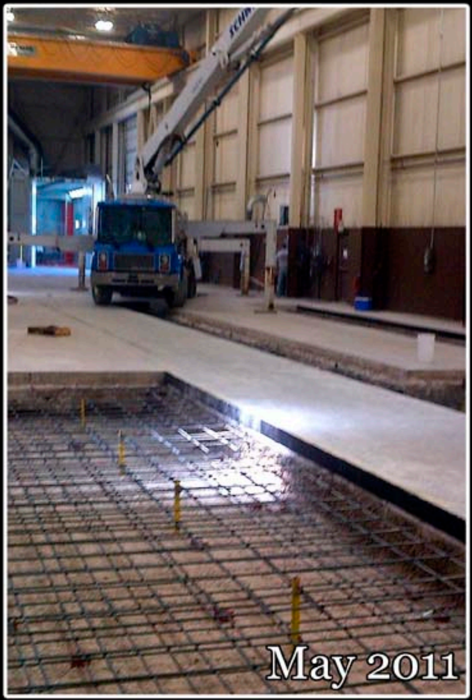
REKO INTERNATIONAL GROUP INC.

Annual Report 2011



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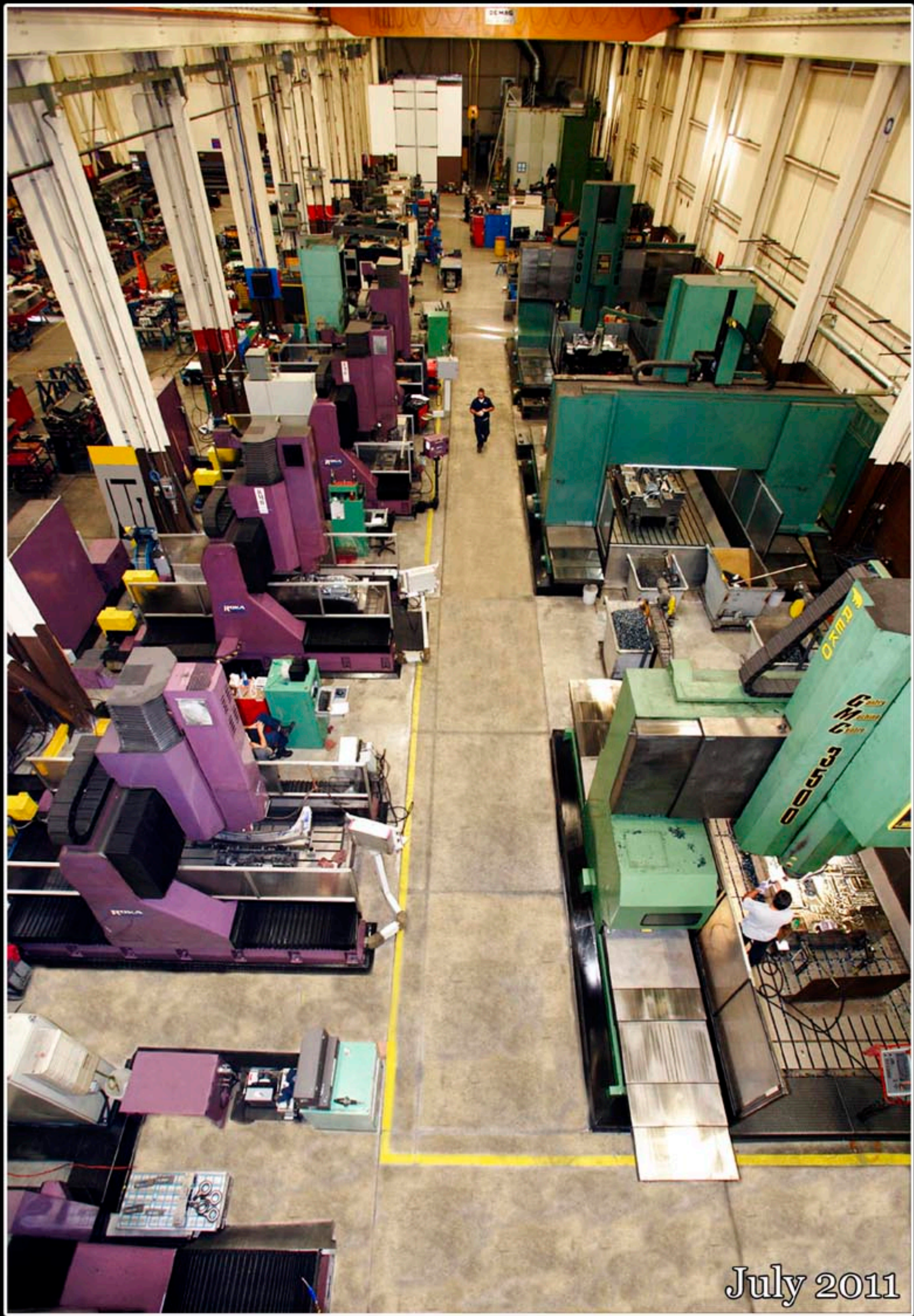

July 2011

REKO INTERNATIONAL GROUP INC. FINANCIAL HIGHLIGHTS

(in 000's, except per share data)	**2011**	**2010**	**2009**
Sales	41,078	40,151	55,171
Net (loss) profit	(9,945)	(7,469)	199
(Loss) profit per share (basic)	(1.55)	(1.16)	0.03
Shareholder's equity (per share)	4.08	5.63	6.79
Return on sales	(24.2%)	(18.6%)	0.4%
Gross margin	5.7%	(2.3%)	16.3%

Chief Executive Officer's Message

***"Change has considerable psychological impact on the human mind. To the fearful, it is threatening because it means that things may get worse. To the hopeful it is encouraging because things may get better. To the confident it is inspiring because the challenge exists to make things better." King Whitney Jr*.**

Fiscal 2011 has certainly been a year of significant change for Reko International Group Inc. The implementation of some changes has definitely revealed the fearful, the hopeful and the confident among us.

While we entered the year with cautious optimism about improving market conditions, it soon became apparent that paradigm shifts in our markets and the burden of our cost structure were wreaking havoc with our ability to return to profitability. After significant investigation and research, we devised a business transformation plan, which we called "Project Re-Tool" and presented it to our lenders in mid April. With their support, we embarked upon an aggressive transformation which would result in equipment and employees from Reko Tool & Mould being relocated to available space within our Reko Automation facility, adjacent to our Concorde Machine facility.

I am proud to say that the business transformation project went extremely well, contrary to the expectations of the fearful. We completed a successful move of equipment and people, a successful sale of excess equipment and are carrying on with the integration and cross-training of our workforce that was started in the prior fiscal years. At the same time, we are capably handling increased workloads in all areas of our business – large precision machining, automation and moulds.

During the year, we successfully renegotiated our mortgage on all of our properties and will be repaying the debt on the properties that are to be sold. Our current ratio has improved significantly due to the mortgage refinancing and our overall debt levels are decreasing as we complete the transformation project. This will obviously give us more flexibility in how we operate, and build the foundation for our planned return to profitability.

Reko Manufacturing Group Inc. is the name that we gave to our new, more agile facility, where we can produce both moulds and automation more efficiently and at a much lower cost. ***Concorde Machine Tool*** continues to operate right next door, and enjoys the benefit of nearby shared resources, and has seen a steady increase in workload. We have invested heavily in both time and money on these sites, and are confident that the changes made will solidify the business and stop the deterioration in book value that we have been experiencing.

I am thankful for the support of our employees, lenders, customers, vendors, directors, and shareholders throughout 2011. My special thanks go out to my management team who sacrificed their time and amazingly handled the stress of such a large and aggressively timed project. Their support and belief in the company is the reason that I am confident of the future.

Finally, I would like to thank those who were *always* hopeful and confident about the changes that happened this year, but also those who were initially fearful, but have transitioned to being hopeful and confident! We, at Reko, are up to the challenge!

"DIANE REKO"

Diane Reko
Chief Executive Officer

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, 2011 and the audited consolidated financial statements and MD&A for the year ended July 31, 2010 included in our 2010 Annual Report to Shareholders. The audited consolidated financial statements for the year ended July 31, 2011 have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and the audited consolidated financial statements for the year ended July 31, 2010 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 profit and adjusted net income (loss), which is not measures of financial performance under Canadian GAAP. The Company calculates gross profit as sales less cost of sales (including depreciation and amortization). The Company calculates adjusted net income (loss) as net income (loss) plus business transformation expenses (including asset impairments recognized as part of the business transformation project). The Company included information concerning these measures because they are used by management as measures of performance, and management believes it is used by certain investors and analysts as a measure of the Company's financial performance. These measures are 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 October 11, 2011.

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 custom machining of very large castings and assemblies to high precision tolerances, specialty machines and lean cell factory automation, compression molds, hydroform dies, plastic injection molds, fixtures and gauges. 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 concepts, designs and builds innovation solutions to manufacturing challenges, including specialty machines for gas tank assembly lines, work cell solutions for compression molds, repair of CNC machines, plastic secondaries, as well as compression molds, hydroform dies, two shot molds and plastic injection molds. Reko has extensive experience and knowledge in mold design and material flow and the impact of pressure on segments of the mold/die. 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 two manufacturing plants located in Lakeshore, Ontario a suburb of the City of Windsor in Southwestern Ontario.

BUSINESS TRANSFORMATION PROJECT

The Company announced on April 28, 2011, a business transformation project that will enhance its competitive position in North America and build a solid foundation for future profitability. The project will place greater emphasis on its custom machining operations, reduce fixed costs and eliminate capacity in its plastic injection mold building operations. While the project reduces the Company's emphasis on building plastic injection molds, Reko will continue to build plastic injection molds.

The project resulted in the closure of 7 manufacturing plants at two industrial sites, elimination of a portion of the Company's machining capacity, related to plastic injection molds and involves an employee head count rationalization. The Company completed all of the steps associated with implementing the business transformation project by July 31, 2011 and anticipates completing all non-strategic business asset divestitures associated with the plan by the end of its 2013 fiscal year. As a result of the project, the Company anticipates realizing $7,500 annually in improvements to its overhead cost structure, comprised of $4,000 related to fixed costs and $3,500 related to labour costs and a reduction of in its annual debt service costs to $2,300.

In order to implement the project, the Company will take $7,100 in pre-tax charges over the next two fiscal years. Previously the Company announced $7,500 in pre-tax charges. At July 31, 2011, the Company had paid $581 related to its business transformation project. In the third quarter of 2011, the Company reported a $3,400 charge related to the write-down of non-strategic business assets, which the Company recorded as an asset impairment, and a $2,215 charge related to severance associated with adopting the plan, which the Company recorded as business transformation project expenses. In the current quarter, the Company revised its severance accrual and reported a recovery of $425 related thereto. In addition, during the quarter, the Company recorded a charge of $569 related to moving costs associated with implementing the project, all of which the Company recorded as business transformation project expenses. Over the next two years, the Company expects to incur $1,600 of carrying costs associated with its real estate, while it is held for sale. Finally, the Company anticipates it will incur $200 of asset restoration costs, which it will expense as part of the disposition costs of the real estate being held for sale.

As part of the business transformation project, the Company does not anticipate a write-down of its real estate. Based on current appraised values for the real estate, the Company anticipates recording an after-tax gain of between $1,700 and $2,400 on the sale of real estate. Portions of this gain will be recorded as income as each real estate asset is sold.

The Company anticipates generating $10,600 in cash as it implements the project to be used to pay for the pre-tax charges. Of the total cash generated $2,400 relates to the sale of non-strategic business assets, which the Company expects to realize on in the first quarter of 2012. Previously the Company indicated that the sale process was expected to generate $1,300. The increase is based on actual proceeds realized subsequent to year-end. Another $4,200 relates to the sale of real estate assets, which the Company expects to realize on over the next 27 months. The final $4,000 relates to reductions in working capital associated with plastic injection mold builds, which the Company expects to realize on beginning in the first quarter of 2013.

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 financial results may result in our customers assessing us as 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 and 2011 as a result of the lack of commercial credit to support other companies' capital equipment purchases and the impacts of our business transformation project. 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 just begun to stabilize and improve. 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 such automotive companies' 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 and long-term profitability could be adversely affected by the costs associated with our business transformation project

On April 28, 2011, we announced the implementation of our business transformation project. The physical relocation portion of the project was completed on July 31, 2011. The project is expected to have a pre-tax cost of \$7.1 million offset by a \$2 million gain on sale of real estate. In addition, the project is anticipated to generate \$10.6 million of cash and result in a reduced annual debt service cost of \$2.3 million. There can be no assurances that the Company will complete the business transformation project during the timeline identified or within the budget established for the project. The can be no assurances that the Company will sell the excess real estate made available by the project within the timeframes identified, which may have a material impact on both the proceeds from the sale and the carrying costs associated with the real estate. There can be no assurances that the working capital reduction associated with the project will be achieved or that it will be achieved within the timeframe suggested.

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

As global market conditions weakened in the last 3 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.

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. 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 recovers from the global recession and profitability returns to our customers. 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 economic recovery resulted in significant reductions in consumer spending which 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, 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 is limited as the appropriate resources to approve the manipulations are 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 rushed to restructure its operations, services typically provided by our Tier 1 customers in the areas of program management and design feasibility were abandoned to meet internal financial targets. As this layer of oversight and engineering disappeared from our customers, Reko was 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.

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. In the short-term, we remain constrained to our exposure with 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.

Our 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

Turmoil in the financial sector has had a significant effect on the global economy over the last number of years. The failure of a major financial institution 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 our design engineers, control engineers, machinists and our management team. The experience and talents of these individuals is a significant factor in the Company's continued 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.

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.

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 MD&A, The Reko Family Corporation owns directly or indirectly 54.8% 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.

CONTINUING OPERATIONS AND LIQUIDITY RISKS

The Company has experienced reduced revenues and significant operating losses in both the current and the previous year caused primarily by the temporary decline in capital equipment markets occurring concurrent with the global recession and from structural changes in the automotive industry which eventually led to General Motors and Chrysler's bankruptcies. In addition, the Company is currently working with its primary lender under reduced financial covenants and in the third quarter announced a business transformation project that involves disposing of surplus assets with a net book value of $3,328. The financial losses pose challenges to the Company's continued operations and its ability to meet its obligations as they fall due. Management is actively addressing this condition, as discussed in the following paragraphs.

Operating losses

The Company needs to further reduce and eliminate its operating losses. The Company's ability to do this may be impacted by the speed of the current economic recovery, increased competitiveness and pricing pressure in the plastic injection mold industry, its ability to manage its cost structure based on changing market and economic conditions and the success of its business transformation project.

The Company is addressing its operating losses through: (i) increased sales in the capital equipment market, tied to the economic recovery; (ii) targeted entrances into new markets, such as aerospace, with greater sales opportunities and higher margins; (iii) changes in its product mix, moving away from heavily competitive low margin sales categories and into less competitive higher margin categories; and, (iv) an improved cost structure developed through the targeted restructurings completed in the last three years and its business transformation project.

Continued support of its primary lender

The Company needs to maintain the continued support of its primary lender, through the lender's willingness to accept reduced financial covenants while the Company addresses its operating losses. The primary lender's decision to continue its support may be impacted by their view of the speed, with which the Company improves its operating results and the lender's view of the markets in which the Company operates.

To address the continued support of its primary lender, the Company has built and will continue to build a proactive and open relationship with the lender, involving timely and frequent dialogue and a strategy of analyzing the Company based on rolling six month intervals as opposed to more traditional one year intervals.

Prior to April 2010, a debt service coverage ratio existed with the Company's primary lender. The debt service coverage ratio covenant was calculated as follows: EBITDA less cash taxes (for the previous 52 weeks) divided by the sum of interest expense and repayments of long-term debt (based on the upcoming 52 weeks). Effective April 2010, the Company's primary lender removed this quarterly debt service coverage covenant and replaced it with a monthly EBITDA target, established based on rolling six month analyses. As at July 31, 2011, the Company's monthly EBITDA target is established for the months of August, September and October 2011. Subsequent to year-end, the primary lender established the monthly EBITDA target for November, December and January 2012.

Renewal of the mortgage

During the last quarter of the year, the Company renewed its mortgage. The Company's renewed mortgage is amortized over 10 years, with a 2 year term and bears interest at 580 basis points above the 90 day bankers' acceptance rate.

Business transformation project

During the third quarter of the year, the Company announced a business transformation project that will substantially reduce the Company's manufacturing capacity associated with building plastic injection molds, a change in strategic direction for the Company to reduce its reliance on low margin business opportunities. The project will ultimately cost the Company $7,075, of which $5,759 has already been recognized in these consolidated financial statements. Part of the capacity reduction involves disposing of real estate, with a current net book value of $1,978 and machinery and equipment, with a current net book value of $1,350 after recognition, in the third quarter of the year, of the impairment of $3,400 on these assets.

Further information related to liquidity risks is provided in Note 19 of our audited consolidated financial statements.

While the Company believes that the necessary steps are being taken with respect to eliminating its operating losses, and that the business transformation project will be successful, the outcome of these matters cannot be predicated at this time. However, the ongoing support of Reko's primary lender is crucial to the future of the Company.

UNUSUAL ITEMS

CHANGE IN INCOME TAX VALUATION ALLOWANCES

Currently, Reko maintains three income tax loss carry-forward balances: U.S. net operating losses; Canadian non-capital losses; and, Canadian SR&ED tax credits. Each quarter, Reko reviews and considers the expected net realizable value of its loss carry-forward balances. As Reko's view of the expected net realizable value of its loss carry-forward balances change, it adjusts the valuation allowance associated with each loss carry-forward balance.

Consistent with our practices since the third quarter 2010, we did not record an income tax recovery on our non-capital losses in the current quarter. However, Reko subsequently determined that while its valuation allowance on all of its tax loss carry-forwards, both the non-capital losses and SR&ED tax credits, was appropriately stated, the allocation of the valuation allowance between the tax carry-forward accounts was inappropriate. Accordingly, Reko increased the valuation allowance associated with its SR&ED tax credits and decreased the valuation allowance associated with its Canadian non-capital losses in the amount of $1,350 for the year. Further, Reko increased the valuation allowance associated with its U.S. non-capital losses and decreased the valuation allowance associated with its Canadian non-capital losses in the amount of $1,500 for the year.

As a result of this change in allocation of valuation allowance, the increase in the valuation allowance associated with its SR&ED tax credits caused an increase in the cost of sales during the year of $1,350 and a corresponding increase in taxes recoverable of $1,350.

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 and holds a 50% membership interest in an Alabama Limited Liability Company, where it maintains an out-sourcing business and working capital.

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 – 2011	$15,658	$16,000	$ (342)
Q3 – 2011	$19,334	$23,000	$(3,666)
Q2 – 2011	$25,320	$25,000	$ 320
Q1 - 2011	$26,516	$28,400	$(1,884)

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,			
	2011		2010		2011		2010	
	Actual	Reko effective	Actual	Reko effective	Actual	Reko effective	Actual	Reko effective
U.S. Dollar equals Canadian Dollar	0.9676	1.0323	1.0393	1.0655	0.9950	1.0422	1.0489	1.1032

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 $55 related to the fair value of its U.S. dollar exposures, as compared to a pre-tax loss of $100 in the prior year's fourth quarter. For the year ended July 31, 2011 the Company recorded a pre-tax gain of $469, as compared to a pre-tax gain of $268 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 $16,000 compared to $24,800 at the end of the prior year. During fiscal 2011, on average we held FFECs of $23,500, compared to $25,600 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 – 2011	$16,000	1.0300
Q1 – 2012	$10,000	1.0328
Q2 – 2012	$4,000	1.0515
Q3 - 2012	$500	1.0454

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 losses and an increase in the value of the Canadian dollar against the U.S. dollar results in financial gains 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 17 to Reko's audited financial statements, which by this reference are hereby incorporated herein.

RECONCILIATION OF NON-GAAP MEASURES

The reconciliation of gross profit (loss) to sales in accordance with GAAP is provided in the following table:

	2011	**2010**
Sales	$ 41,078	$ 40,151
Less: Cost of sales	35,231	36,040
Amortization	3,487	5,058
	$ 2,360	$ (947)

The reconciliation of adjusted net loss to net loss in accordance with GAAP is provided in the following table:

	2011	**2010**
Net loss	$ (9,945)	$ (7,469)
Plus: Business transformation expenses	2,359	--
Asset impairment	3,400	--
	$ (4,186)	$ (7,469)

RESULTS OF OPERATIONS

Sales

Sales for the year ended July 31, 2011 increased $927, or 2.3%, to $41,078 compared to $40,151 in fiscal 2010.

The increase in sales was largely related to:

- Increases in the amount earned per hour by our facilities, largely caused by improving conditions in the general economy;
- Increases in the volume of work processed for the capital equipment market; and,
- Changes in the fair value of foreign exchange future contracts, as described above.

Items offsetting the decrease in sales discussed above include:

- Decreased sales volume related to our work on projects that were out-sourced to low cost countries; and,
- Decreased sales volume on work performed in the plastic injection molded interior parts portion of the automotive industry.

Gross profit

The gross profit for the year ended July 31, 2011 increased $3,307 to $2,360 or 5.7% of sales, compared to a gross loss of $947, or 2.4% of sales, in the previous fiscal year.

The increase in gross profit was largely related to:

- Improved ability to cover our fixed overhead costs, as a result of increased sales levels;
- Reduced labour costs associated with prior year's restructuring;
- Productivity and efficiency improvements implemented in the previous year.

These factors were partially offset by:

- The re-allocation of the valuation allowance associated with our SR&ED tax credits, discussed above.

Absent the re-allocation of valuation allowances, Reko would have reported gross profit of $3,710, or 9.0% of sales.

Selling and administration

Selling and administration expenses ("S,G&A") decreased by $121, or 2.0%, to $5,869, or 14.3% of sales for the year ended July 31, 2011, compared to $5,990, or 14.9% of sales for the same period in the prior year. The decrease in S,G&A was produced by savings achieved as a result of:

- Reductions in wages and benefits as a result of implementation of our business transformation project;

- Reductions in bad debts during the year; and,
- Reductions in the costs of commissioned sales representatives, as a result of a change in our sales mix.

These factors were partially offset by:

- Increased insurance costs, related to accounts receivable insurance, as the credit worthiness of our customers increased sufficiently to allow us to insure their balances; and,
- Increased costs of bank fees and professional fees associated with our lenders.

Adjusted net income (loss)

The adjusted net loss for the year was $4,186, or $0.65 per share, compared to a net loss of $7,469, or $1.16 per share in the prior year.

Earnings overview

The net loss for the year was $9,945, or $1.55 per share, compared to a net loss of $7,469, or $1.16 per share, in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations increased $6,041 from cash used in operations of $8 in the prior year to proceeds from operations of $6,033 in the current year.

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

- Reductions in our investment in work in progress, as a result of reduced sales levels at our facilities where we finance our work in progress; and,
- Increases in accounts payable at year-end.

This factor was partially offset by:

- Increases in the value of our non-hedging financial derivatives.

During the year, the Company renewed its mortgage payable for an additional two year term. The renewed mortgage did not generate funds nor did it utilize any funds from the Company's operating line of credit.

During the prior 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 2011. During the fourth quarter, the Company requested that its secondary term lender permanently waive its sole financial covenant for fiscal 2011, 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, 2011, the Company invested $894 in capital assets. Approximately $705 of this amount relates to our business transformation project. The remainder of this spending is considered maintenance capital expenditures intended to refurbish or replace assets consumed in the normal course of business.

Cash resources/working capital requirements

As at July 31, 2011, Reko had borrowed $9,311 on its revolving line of credit, net of its cash on hand at year-end, compared to $12,920 at April 30, 2011 and $12,989 at July 31, 2010. The revolver borrowings decreased by approximately $3,609 in the quarter and decreased approximately $3,678 for the year. We expect borrowings to display a decreasing trend over the next four quarters, initially in the first quarter related to additional asset sales related to our business transformation project and secondarily, late in the fourth quarter related to reduced investment in projects, consistent with our capacity reduction as it relates to our business transformation project.

Reko has a $20,000 revolver available to it; however, based on our current lender defined margining capabilities, our borrowings are limited to $14,085, of which approximately $4,774 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	$12,084	$1,637	$10,447	$--	--
Capital lease obligations	254	254	--	--	--
Operating leases	--	--	--	--	--
Purchase obligations	--	--	--	--	--
Other long-term obligations	--	--	--	--	--
Total contractual obligations	**$12,338**	**$1,891**	**$10,447**	**$--**	**--**

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, 2011. 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	74,000	
Stock options exercisable	74,000	
Total (maximum) number of common shares		6,494,720

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 2011, 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 2010.

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 2011, ended July 31, 2011. 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/09	Jan/10	Apr/10	July/10
Sales	$9,255	$8,794	$9,329	$12,773
Net loss	(1,177)	(1,867)	(2,269)	(2,156)
Loss per share: Basic	(0.18)	(0.29)	(0.36)	(0.33)
Diluted	(0.18)	(0.29)	(0.36)	(0.33)
	Oct/10	**Jan/11**	**Apr/11**	**July/11**
Sales	$9,841	$8,518	$11,257	$11,462
Net loss	(1,287)	(1,256)	(6,659)	(743)
Loss per share: Basic	(0.20)	(0.20)	(1.04)	(0.11)
Diluted	(0.20)	(0.20)	(1.04)	(0.11)

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, 2011, which are prepared in accordance with Canadian GAAP.

	2011	2010	2009
Income statement data			
Sales	$41,078	$40,151	$55,277
Net (loss) income for the year	(9,945)	(7,469)	199
(Loss) earnings per share – basic	(1.55)	(1.16)	0.03
(Loss) earnings per share – diluted	(1.55)	(1.16)	0.03
Financial position data			
Working capital	6,749	$131	$16,941
Working capital excluding mortgage bullet included in current liabilities	6,749	11,423	16,941
Total assets	57,630	73,401	83,500
Bank indebtedness, net of cash	9,311	12,989	9,416
Long-term debt due within one year	1,891	12,678	2,640
Long-term debt	10,447	1,925	15,181
Shareholders’ equity	26,216	36,156	43,617

INTERNATIONAL FINANCIAL REPORTING 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 TSX Venture Exchange.

While not all GAAP and IFRS are different, one of the most significant changes deal 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 was necessary for management to plan its implementation. Possible impacts, besides external financial reporting, included, 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.

IFRS Accounting Changes

The Company has identified the areas noted below as those most relevant to the Company or expected to have the most significant impact on the financial statements. These impacts have not been subject to audit at this time. Differences between IFRS and Canadian GAAP, in addition to those referred to below, may still be identified based on further detailed analysis by the Company and other changes in IFRS prior to the Company's first completed year under IFRS in 2012. As a result, accounting policy choices may change prior to our 2012 year-end financial statements.

IFRS 1 First-time adoption of IFRS ("IFRS 1")

Upon transition, the Company is required to apply each IFRS on a retrospective basis. However, IFRS 1 has certain mandatory exceptions, as well as limited optional exemptions in specific areas for certain standards that do not require retrospective application of IFRS. The most relevant to the Company are as follows:

Mandatory exceptions

Estimates – Hindsight cannot be used to create or revise estimates. As a result, past estimates previously made by the Company under Canadian GAAP will not be revised for application of IFRS except where necessary to reflect any differences in accounting standards.

Optional exemptions

Business combinations – The Company may elect to apply IFRS 3 *Business Combinations* ("IFRS 3") prospectively from August 1, 2010 or to restate all past business combinations from a certain point forward in accordance with IFRS 3. The Company has elected to apply IFRS 3 prospectively from August 1, 2010 and, as a result, not restate any business combinations that occurred prior to August 1, 2010.

Capital assets – IFRS 1 contains optional exemptions from the retrospective restatement of cost accounted for in accordance with IFRS. The "fair value or revaluation as deemed cost" option exemption (also referred to as the "deemed cost exemption") permits the carrying value of an item of capital assets to be measured at the date of transition based on a deemed value. If elected, then the deemed cost exemption may be based on any of the following: fair value, a previous GAAP revaluation based on cost, a depreciated cost measure broadly comparable to IFRS or an event driven valuation. The Company has elected to use an event driven valuation as its deemed cost to measure its real estate and depreciated cost as its deemed cost to measure its machinery and equipment, leasehold improvements and equipment under capital lease at the date of transition and to continue to use the cost model for measurement under IFRS thereafter.

Share-based payments – IFRS 2 *Share-based Payments* ("IFRS 2") encourages its application to equity instruments that were granted on or before November 7, 2002 but IFRS 1 permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company has elected to apply the exemption provided under IFRS 1 and will apply IFRS 2 to all equity instruments after November 7, 2002 that had not vested at August 1, 2010.

Borrowing costs – IAS 23 *Borrowing Costs* ("IAS 23") requires that borrowing costs that relate to assets that take a substantial period of time to get ready for use be capitalized. A first-time adopter is permitted to apply the transitional requirements to IAS 23. To the extent that the adoption of IAS 23 upon transition is a change in accounting policy, which it is for the Company, these transitional requirements provide a first-time adopter relief from applying the standard retrospectively. Instead, IAS 23 is applied to qualifying assets for which the commencement date for capitalization is on or after the later of January 1, 2009 and the date of transition or any earlier date chosen by the first-time adopter. The Company has elected to apply the requirements of IAS 23 prospectively from August 1, 2010 but does not expect the change to have significant impact on the financial results of the Company.

IAS 12 Income taxes ("IAS 12")

Accounting policy under IFRS

The Company provides for income taxes using the liability method of tax allocation. Deferred tax is recognized on temporary differences between the carrying amount of assets or liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled based on tax rates enacted or substantively enacted at the end of the reporting period. Foreign exchange gains or losses on deferred tax assets or liabilities are recognized in unrealized foreign exchange loss (gain) on foreign tax losses.

Current accounting policy under Canadian GAAP

The Company provides for income taxes using the liability method of tax allocation, consistent with IFRS. The Company establishes a valuation allowance against future income tax assets, if based on available information, it is not more likely than not that some or all of the future income tax assets will be realized. Foreign exchange gains or losses on deferred tax assets or liabilities are recognized in unrealized foreign exchange loss (gain) on foreign tax losses.

Opening retained earnings adjustment

The Company is currently in the process of quantifying the impact to opening retained earnings on transition.

Impact to 2011 under IFRS

The Company is currently in the process of quantifying the impact to the 2011 financial statements under IFRS.

IAS 16 Capital assets ("IAS 16")

Accounting policy under IFRS

The Company will use the cost model such that capital assets are recorded at cost, net of accumulated amortization and accumulated impairment losses, if any. Where part of an item of capital assets is considered a component, it is amortized separately if it has a cost that is significant to the item as a whole and a significantly different useful life. Assets are amortized when available for use. Major inspection or overhaul costs are recognized in the carrying amount of capital assets if the recognition criteria are satisfied. All maintenance and repair costs, other than major inspection or overhaul costs are expensed to earnings as incurred.

Current accounting policy under Canadian GAAP

Capital assets are recorded at historical cost, net of accumulated amortization and accumulated impairment losses, if any. Assets are amortized when put in use. All maintenance and repair costs are expensed as incurred.

IFRS 1 election

IFRS 1 provides a choice between measuring capital assets at its fair value at the transition date or using a previous GAAP revaluation as deemed cost instead of applying IAS 16 retrospectively. The Company will elect to use fair value as deemed cost of its land and buildings and will apply IAS 16 retrospectively for the remainder of its capital assets.

Opening retained earnings adjustment

The Company reviewed its capital assets to determine which capital assets required componentization and to be amortized over separate useful lives as well as whether there are any idle assets currently not being amortized. The Company estimates that it will have an increase to opening retained earnings and capital assets of approximately $6,376 related to fair value adjustments on transition for land and building. The Company estimates that it will have a decrease to opening retained earnings and capital assets of approximately $4,411 related to applying IAS 16 retrospectively on transition for the remainder of its capital assets.

Impact to 2011 under IFRS

The Company estimates a decrease to amortization expense and an increase to capital assets and retained earnings of approximately $594, primarily related to applying IAS 16 retrospectively on transition. The Company estimates that the impairment charge taken in the third quarter of 2011, of $3,400, will increase to approximately $4,681 as a result of the transition.

IAS 23 Borrowing costs

Accounting policy under IFRS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Current accounting policy under Canadian GAAP

There is no requirement under Canadian GAAP to capitalize interest attributable to the acquisition, construction or production of assets.

IFRS 1 election

The Company will elect to apply the requirements of IAS 23 prospectively from August 1, 2010.

Opening retained earnings adjustment

There will be no impact on opening retained earnings.

Impact to 2011 under IFRS

The Company expects that there will be no impact to 2011 financial statements under IFRS.

IAS 37 Provisions ("IAS 37")

Accounting policy under IFRS

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Probable in this context means more likely than not.

Current accounting policy under Canadian GAAP

Canadian GAAP does not have a similar concept of provisions as defined under IFRS but does have equivalent concepts of contingent liabilities, contingent assets, restructuring accruals and asset retirement obligations. Under Canadian GAAP, the criterion for the recognition of a contingent liability in the financial statements is when the expected is "likely", which is a higher threshold than "probable" under IFRS. Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

Opening retained earnings adjustment

The Company does not expect to record any additional provisions on the transition to IFRS.

Impact to 2011 under IFRS

The Company does not expect there to be an impact to 2011 financial statements under IFRS.

IFRS 2 Share-based payment

Accounting policy under IFRS

The fair value of the Company's stock options will be determined using a valuation model which incorporates the time value of money, expected time to maturity and expected rate of forfeiture. The fair value of the stock options will be determined using the Black-Scholes option pricing model. The fair value of stock options, determined at the grant date, will be expensed over the vesting period, based on the Company's estimate of stock options that will eventually vest. The Company's stock options vest in installments, each tranche will be considered a separate award with the compensation cost amortized accordingly.

Current accounting policy under Canadian GAAP

The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock options. The fair value is amortized over the vesting period as an expense in the statement of earnings (loss) and as an increase to contributed surplus. Forfeitures are not reflected as part of the fair value calculation nor do they impact the amortization of the grant date fair value.

IFRS 1 election

The Company will utilize the election and will apply IFRS 2 to all equity instruments issued after November 7, 2002 that had not existed at August 1, 2010.

Opening retained earnings adjustment

The Company estimates the impact on opening retained earnings to be insignificant.

Impact to 2011 under IFRS

The Company estimates the impact on 2011 financial statements related to IFRS 2 to be insignificant.

Other areas of conversion to IFRS

Based on conversion analysis to date, the Company does not expect the conversion to have a significant impact on information systems and internal controls over financial reporting for the Company and its subsidiaries.

The International Accounting Standards Board ("IASB") currently has activities underway which may change IFRS and such changes may impact the Company. The Company will assess any such changes as they are announced by the IASB.

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.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Reko International Group Inc., reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with Canadian generally accepted accounting principles. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the shareholders' auditors, PricewaterhouseCoopers LLP, and their report is presented herein.

"DIANE REKO"

Diane Reko, B.Comm
Chief Executive Officer
October 11, 2011

"CARL MERTON"

Carl A. Merton, CA, CBV
Chief Financial Officer
October 11, 2011

Independent Auditor's Report

To the Shareholders of
Reko International Group Inc.

We have audited the accompanying consolidated financial statements of Reko International Group Inc., which comprise the consolidated balance sheets as at July 31, 2011 and July 31, 2010 and the consolidated statements of loss, comprehensive loss and retained earnings and the consolidated statement of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Reko International Group Inc. as at July 31, 2011 and July 31, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"PRICEWATERHOUSE COOPERS LLP"

Chartered Accountants, Licensed Public Accountants
London, Ontario
October 11, 2011

REKO INTERNATIONAL GROUP INC.
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND RETAINED EARNINGS

Years ended July 31,
(in $000's, except for loss per common share)

		2011		2010
Sales	**$**	**41,078**	$	40,151
Costs and Expenses				
Cost of sales		**35,231**		36,040
Selling and administrative		**5,869**		5,990
Amortization		**3,487**		5,058
		44,587		47,088
Loss before the following		**(3,509)**		(6,937)
Gain on sale of capital assets		**(226)**		(24)
Unrealized foreign exchange loss on foreign tax losses		**240**		119
Interest on long-term debt		**864**		1,026
Interest on other interest bearing obligations, net		**763**		449
		1,641		1,570
Loss before income taxes and other items		**(5,150)**		(8,507)
Asset impairment		**3,400**		--
Business transformation project expenses (Note 19)		**2,359**		--
		5,759		--
Loss before income taxes		**(10,909)**		(8,507)
Income taxes recovered (Note 7)				
Future		**(964)**		(1,038)
		(964)		(1,038)
Net loss and comprehensive loss	**$**	**(9,945)**	$	(7,469)
Retained earnings, beginning of year	**$**	**15,634**	$	23,103
Net loss		**(9,945)**		(7,469)
Retained earnings, end of year		**5,689**		15,634
Loss per common share (Note 15)				
Basic	**$**	**(1.55)**	$	(1.16)
Diluted	**$**	**(1.55)**	$	(1.16)

REKO INTERNATIONAL GROUP INC.
CONSOLIDATED BALANCE SHEETS

As at July 31,
(in $000's)

	2011	2010
ASSETS (Notes 10 and 12)		
Current		
Cash and cash equivalents	**$ 1,589**	$ 1,303
Accounts receivable (Note 3)	**10,686**	10,657
Other receivables	**526**	367
Non-hedging financial derivatives (Note 4)	**1,172**	591
Income taxes receivable	**22**	22
Work-in-progress (Note 5)	**12,086**	19,826
Prepaid expenses and deposits	**346**	536
Assets held for sale (Note 6)	**1,289**	--
	27,716	33,302
Capital assets (Note 9)	**24,965**	32,825
Future income taxes (Note 7)	**1,491**	2,814
SR & ED tax credits (Note 8)	**3,458**	4,460
	$ 57,630	$ 73,401
LIABILITIES		
Current		
Bank indebtedness (Note 10)	**$ 10,900**	$ 14,292
Accounts payable and accrued liabilities (Note 11)	**8,176**	6,201
Current portion of long-term debt (Note 12)	**1,891**	12,678
	20,967	33,171
Long-term debt (Note 12)	**10,447**	1,925
Future income taxes (Note 7)	**--**	2,149
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	**18,772**	18,772
Contributed surplus (Note 14)	**1,755**	1,750
Retained earnings	**5,689**	15,634
	26,216	36,156
	$ 57,630	$ 73,401

Contingencies (Note 24)

On behalf of the Board:

"DIANE REKO" "ANDREW SZONYI"

Director Director

REKO INTERNATIONAL GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended July 31,
(in $000's)

	2011	2010
OPERATING ACTIVITIES		
Net loss	**$ (9,945)**	$ (7,469)
Adjustments for:		
Amortization	**3,487**	5,058
Asset impairment	**3,400**	--
Business transformation expenses	**1,778**	--
Unrealized foreign exchange loss on foreign tax losses	**240**	119
Future income taxes	**(1,066)**	(1,038)
SR & ED tax credits	**1,002**	151
Gain on sale of capital assets	**(226)**	(24)
Stock option expense (Note 14)	**5**	8
	(1,325)	(3,195)
Net change in non-cash working capital (Note 21)	**7,358**	3,187
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**6,033**	(8)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) proceeds on bank indebtedness	**(3,392)**	1,792
Net payments on long-term debt	**(2,265)**	(3,218)
CASH USED IN FINANCING ACTIVITIES	**(5,657)**	(1,426)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in capital assets	**(894)**	(889)
Proceeds on sale of capital assets	**804**	542
CASH USED IN INVESTING ACTIVITIES	**(90)**	(347)
Net change in cash and cash equivalents	**286**	(1,781)
Cash and cash equivalents, beginning of year	**1,303**	3,084
Cash and cash equivalents, end of year	**1,589**	$ 1,303

Refer to Note 21 for supplemental cash flow information.

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate in Canada and the State of Michigan in the United States.

During the year, Reko Global Services, LLC, of which Reko maintains a 50% membership interest, was organized in Alabama and began operations.

The Company's revenue is primarily generated from the sales of manufacturing molds, automation and large custom machining primarily for the automotive sector.

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Principles of consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, Reko Tool & Mould (1987) Inc., Reko Manufacturing Group Inc., Reko International Sales, Inc. and Reko International Holdings, Inc. and its 50% membership interest in Reko Global Services, LLC ("RGS"). All material inter-company accounts and transactions with wholly-owned subsidiaries have been eliminated on consolidation.

During the year, the Company began reporting financial results from its 50% membership interest in RGS, using proportional consolidation.

During the prior year, the Company dissolved, wound up the affairs, liquidated and terminated the remaining interests in Novi Laser Inc. and ABC Plastics, Inc. (f/k/a Superior Plastics, Inc.). These actions were completed without a material financial impact to these consolidated financial statements.

Use of significant accounting estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Significant estimates used in the preparation of these financial statements include the allowance for doubtful accounts, percentage of completion of work-in-progress, net realizable value of inventory, inventory reserves, inventory overhead allocation, useful lives of capital assets, impairment of capital assets, fair value of financial instruments, valuation of stock options, realizable value of Scientific, Research & Experimental Development ("SR&ED") tax credits and valuation of future income taxes.

Revenue recognition

The Company deals primarily in contracts with a period of completion over several months. Revenue is recognized based on the percentage of completion method, provided the contract has progressed to the point where total costs can be reasonably estimated. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately. The Company considers all jobs, which have completed all aspects of engineering and design (approximately 15% to 25% complete), to have progressed to the point where total costs could be reasonably estimated.

Foreign currency translation

The Company translates monetary assets and liabilities denominated in foreign currencies at the exchange rate as at the balance sheet date. Revenues and expenses are translated at rates prevailing on the date of the transaction. Gain of $709 (2010: $268) arising on translation is included in the statements of loss.

The financial statements of U.S. subsidiaries (including RGS), which are considered integrated foreign operations, are translated such that monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year except for amortization, which is translated at historical rates. Translation gains or losses are included in income.

The Company hedges its exposure to foreign currency fluctuations by purchasing forward exchange contracts and options (see Note 17).

Interest in joint ventures

The Company's interests in joint ventures are accounted for using the proportional consolidation method. Under this method, the Company's proportionate share of joint venture revenues, expenses, assets and liabilities are included in the consolidated financial statements.

Financial instruments

The Company utilizes derivative instruments in the management of its foreign currency exposure by hedging its foreign exchange exposure on anticipated net cash inflows in U.S. dollars through the use of U.S. dollar denominated debt, forward contracts.

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

Classification

Cash and cash equivalents	Held for trading
Non-hedging financial derivatives	Held for trading
Accounts receivable	Loans and receivables
Other receivables	Loans and receivables
Bank indebtedness	Held for trading
Accounts payable and accrued liabilities	Other financial liabilities
Current portion of long-term debt	Other financial liabilities
Long-term debt	Other financial liabilities

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in sales. Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. The Company has not designated any non-derivative financial assets as held to maturity.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to income. Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost. Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method. The Company has not designated any non-derivative financial assets as available for sale.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other financial liabilities

Other financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than bank indebtedness and derivative instruments.

Transaction costs

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense, which includes transaction costs or fees, premiums or discounts, earned or incurred for financial instruments.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with maturities less than 90 days.

Work-in-progress

Work-in-progress includes unbilled contract revenue and inventory. Costs incurred on contracts where the criteria for revenue recognition have not been met are shown as inventory. Domestic and outsourced tooling inventory is valued at the lower of cost and net realizable value. Cost includes the cost of materials, direct labour applied to the product and the applicable share of manufacturing overhead less any amounts billed to the customer. The results reported under the percentage of completion method are based on management's estimates. Actual results could differ from these estimates.

Capital assets and amortization

Capital assets are stated at cost. Amortization of capital assets is calculated on the straight-line basis over the estimated economic lives of the assets at the following rates:

Buildings	4%
Machinery and equipment	5 – 20%
Computer hardware	33%
Computer software	50%
Leasehold improvement	10%
Equipment under capital lease	5 – 10%

SR & ED tax credits

SR & ED costs are expensed as incurred. SR & ED tax credits are recorded when there is reasonable assurance of receiving them. SR & ED tax credits are recorded as part of cost of sales.

During the year, management determined that, based on the past history of successful claims, it was appropriate to accrue $348 (2010: $304) of the current year's estimated SR & ED tax credits since reasonable assurance exists for recovering them.

Impairment of long-lived assets and basis of valuation

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value and is included in amortization of capital assets.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted and substantively enacted income tax rates for the years in which differences are expected to reverse. A valuation allowance is recognized to the extent management determines the Company's ability to realize on its future income tax asset, on a more likely than not basis, cannot be met. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

Stock based compensation

The Company estimates the fair value of stock options at the grant date using the Black-Scholes option-pricing model. This model requires the input of a number of assumptions, including expected dividend yields, expected stock volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on market conditions generally outside the Company's control. If other assumptions are used, stock-based compensation expense could be significantly impacted. As stock options are exercised, the proceeds received on exercise, in addition to the portion of the contributed surplus balance related to those stock options, is credited to share capital and contributed surplus is reduced accordingly.

Earnings per share

Basic earnings per share are calculated on net income using the weighted average number of common shares outstanding during the year.

Diluted earnings per share are calculated on the weighted average number of common shares that would have been outstanding during the year had all "in the money" stock options outstanding been exercised and converted into common shares using the treasury method.

Government assistance

The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions that the Company operates. Grants and tax credits relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are generally recorded as a reduction of the related expense at the time the eligible expenses are incurred.

Consideration given to customers

Cash consideration given by the Company to a customer, such as cash discounts and rebates, are presumed to be a reduction of the selling prices of the Company's products or services and are, therefore, accounted for as a reduction of revenue when recognized in the statement of income.

Future accounting changes

The Canadian Institute of Chartered Accountants ("CICA") has announced the following accounting changes scheduled to become effective for the Company between August 1, 2010 and August 1, 2012:

International financial reporting standards ("IFRS")

In March 2008, the CICA confirmed its intent to replace GAAP with IFRS. As a publicly accountable enterprise, the Company must convert to IFRS no later than its first quarter of fiscal 2012.

2. CONTINUING OPERATIONS AND LIQUIDITY RISK

The Company has experienced low revenues and significant operating losses in both the current and the previous year caused primarily by the temporary decline in capital equipment markets occurring concurrent with the global recession and from structural changes in the automotive industry which eventually led to General Motors and Chrysler's bankruptcies. In addition, the Company is currently working with its primary lender under reduced financial covenants and in the third quarter announced a business transformation project that involves disposing of surplus assets with a net book value of $3,328. The financial losses pose challenges to the Company's continued operations and its ability to meet its obligations as they fall due. Management is actively addressing this condition, as discussed in the following paragraphs.

Operating losses

The Company needs to further reduce and eliminate its operating losses. The Company's ability to do this may be impacted by the speed of the current economic recovery, increased competitiveness and pricing pressure in the plastic injection mold industry, its ability to manage its cost structure based on changing market and economic conditions and the success of its business transformation project.

The Company is addressing its operating losses through: (i) increased sales in the capital equipment market, tied to the economic recovery; (ii) targeted entrances into new markets, such as aerospace, with greater sales opportunities and higher margins; (iii) changes in its product mix, moving away from heavily competitive low margin sales categories and into less competitive higher margin categories; and, (iv) an improved cost structure developed through the targeted restructurings completed in the last three years and its business transformation project.

Continued support of its primary lender

The Company needs to maintain the continued support of its primary lender, through the lender's willingness to accept reduced financial covenants while the Company addresses its operating losses. The primary lender's decision to continue its support may be impacted by their view of the speed, with which the Company improves its operating results and the lender's view of the markets in which the Company operates.

To address the continued support of its primary lender, the Company has built and will continue to build a proactive and open relationship with the lender, involving timely and frequent dialogue and a strategy of analyzing the Company based on rolling six month intervals as opposed to more traditional one year intervals.

Prior to April 2010, a debt service coverage ratio existed with the Company's primary lender. The debt service coverage ratio covenant was calculated as follows: EBITDA less cash taxes (for the previous 52 weeks) divided by the sum of interest expense and repayments of long-term debt (based on the upcoming 52 weeks). Effective April 2010, the Company's primary lender removed this quarterly debt service coverage covenant and replaced it with a monthly EBITDA target, established based on rolling six month analyses. As at July 31, 2011, the Company's monthly EBITDA target is established for the months of August, September and October 2011. Subsequent to year-end, the primary lender established the monthly EBITDA target for November and December 2011 and January 2012.

Renewal of the mortgage

During the last quarter of the year, the Company renewed its mortgage. The Company's renewed mortgage is amortized over 10 years, with a 2 year term and bears interest at 580 basis points above the 90 day bankers' acceptance rate.

Business transformation project

During the third quarter of the year, the Company announced a business transformation project that will substantially reduce the Company's manufacturing capacity associated with building plastic injection molds, a change in strategic direction for the Company to reduce its reliance on low margin business opportunities. The project will ultimately cost the Company $7,500, of which $5,759 has already been recognized in these consolidated financial statements recorded as $3,400 as asset impairments and $2,359 as business transformation project expenses. Part of the capacity reduction involves disposing of real estate, with a current net book value of $1,978 and machinery and equipment, with a current net book value of $1,350 after recognition, in the third quarter of the year, of the impairment of $3,400 on these assets.

Further information related to liquidity risks is provided in Note 17 to these consolidated financial statements.

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

While the Company believes that the necessary steps are being taken with respect to eliminating its operating losses, and that the business transformation project will be successful, the outcome of these matters cannot be predicated at this time. However, the ongoing support of Reko's primary lender is crucial to the future of the Company.

3. ACCOUNTS RECEIVABLE

During the year, the Company recorded the following transactions with respect to its allowance for doubtful accounts:

	2011	2010
Opening allowance for doubtful accounts	**$ 679**	$ 885
Less: write-off of allowance and receivables	**(75)**	(368)
Plus: bad debt expense	**87**	193
Less: effect of foreign exchange on U.S. denominated balances	**(44)**	(31)
	$ 647	$ 679

4. NON-HEDGING FINANCIAL DERIVATIVES

Non-hedging financial derivatives is comprised of:

	2011	2010
Fair value of forward exchange contracts	**$ 1,172**	$ 591

Based on the average spot market value of U.S. dollars for the year ended July 31, 2011 and the forward exchange contracts outstanding during the year, the Company generated foreign exchange gains of $709 (2010: $268), recognized in sales.

5. WORK-IN-PROGRESS

Work-in-progress is comprised of:

	2011	2010
Unbilled contract revenue	**$ 11,154**	$19,336
Inventory	**932**	490
	$ 12,086	$19,826

Unbilled contract revenue represents the costs incurred under long-term manufacturing contracts in excess of amounts billed and paid by the customer or billed and included in accounts receivable.

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

6. ASSETS HELD FOR SALE

Subsequent to year-end, the Company sold capital assets for net proceeds of $3,475. $1,022 of the proceeds were used to reduce the Company's mortgage and $2,453 of the proceeds were used to reduce the Company's bank indebtedness. At July 31, 2011, the assets subsequently sold were included in assets held for sale within current assets and were held at the lower of carrying value and fair value less costs to sell.

7. INCOME TAXES

	2011	2010
The provision for income taxes reflects an effective tax rate which differs from the combined Federal and Provincial rate for the following reasons:		
Combined Federal and Provincial rate	**29.4%**	31.8%
Manufacturing and processing deduction	**(1.9%)**	(2.0%)
Increase in valuation allowance	**(13.4%)**	(18.2%)
Decrease in substantively enacted tax rates on future tax assets and liabilities	**(2.5%)**	(0.7%)
Permanent and other differences	**(2.8%)**	1.3%
Effective rate	**8.8%**	12.2%

The tax effects of temporary differences that give rise to significant portions of long-term future income tax assets and liabilities are as follows:

Long-term future tax asset (liability)	**2011**	**2010**
United States:		
Non-capital loss carry-forwards	**$ 3,252**	$ 3,730
Valuation allowance	**(2,424)**	(916)
	828	2,814
Canada:		
Non-capital loss carry-forwards	**1,165**	--
Undeducted SR & ED expenditures	**1,963**	1,715
Unbilled contract revenue	**715**	1,056
Valuation allowance	**(1,601)**	(1,568)
	2,242	1,203
Capital assets	**(670)**	(2,177)
Tax impact of SR & ED tax credits	**(964)**	(1,274)
Other	**55**	98
	(1,579)	(3,352)
	$ 663	$(2,149)
Presented on the balance sheet as follows:		
Future income tax asset	**$ 1,491**	$ 2,814
Future income tax liability	**--**	2,149

The ultimate realization of the future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences become deductible.

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

The valuation allowance for Canadian future income taxes as at July 31, 2011 is $1,601 (2010: $1,568). The valuation allowance for U.S. future income taxes as at July 31, 2011 is $2,424 (2010: $916). In assessing the realizability of future tax assets, management considers whether it is more likely or not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which these temporary differences and loss carry forwards are deductible. Management considers the scheduled reversal of future tax liabilities, the character of future income tax assets and available tax planning strategies in making this assessment.

At July 31, 2011, the Company had net operating losses of $10,027 (2010: $10,971) in the United States, which expire between 2022 and 2029 and non-capital losses of $4,795 (2010: $Nil) in Canada, which expire in 2031. These losses have been recognized in these consolidated financial statements, net of a valuation allowance.

8. SR & ED TAX CREDITS

The tax effect of SR & ED tax credits is:

	2011	2010
SR & ED tax credits	**$ 5,278**	$ 4,877
Valuation allowance	**(1,820)**	(417)
	$ 3,458	$ 4,460

The valuation allowance for SR & ED tax credits as at July 31, 2011 is $1,820 (2010: $417). In assessing the realizability of SR & ED tax credits, management considers whether there is reasonable assurance that some portion or all of the SR & ED tax credits will be realized. The ultimate realization of SR & ED tax credits is dependent upon the generation of future taxable income. Management considers the scheduled reversal of future tax liabilities, the character of future tax assets and available tax planning strategies in making this assessment.

9. CAPITAL ASSETS

Capital assets are comprised of:

		2011	
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	**$ 945**	**$ --**	**$ 945**
Buildings	**15,369**	**8,055**	**7,314**
Machinery and equipment	**62,357**	**47,797**	**14,560**
Leasehold improvements	**467**	**49**	**418**
Equipment under capital lease	**3,105**	**1,398**	**1,707**
Equipment under construction	**21**	**--**	**21**
	$ 82,264	**$ 57,299**	**$ 24,965**

		2010	
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	$ 1,287	$ --	$ 1,287
Buildings	16,280	8,098	8,182
Machinery and equipment	74,903	53,893	21,010
Leasehold improvements	80	51	29
Equipment under capital lease	3,434	1,512	1,922
Equipment under construction	395	--	395
	$ 96,379	$ 63,554	$ 32,825

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

During the year, the Company recorded an impairment charge of $3,000 related to machinery and equipment used in the production of its plastic injection mold building and a $400 impairment charge of its machinery and equipment used in its custom machining operations. The assets were determined to be impaired as a result of the Company's decision to implement its business transformation project and dispose of certain of its capital assets. The impairment charge was determined by comparing the carrying value of the capital assets to their fair values, as determined by a third party independent appraiser.

Subsequent to year-end, the Company sold capital assets for net proceeds of $3,475. The proceeds were used to reduce the Company's bank indebtedness and mortgage payable. At July 31, 2011, the assets subsequently sold were included in assets held for sale within current assets.

10. BANK INDEBTEDNESS

The bank indebtedness is payable over various maturities, not exceeding 90 days, with interest at various amounts ranging from LIBOR plus a premium to bank prime plus a premium, as follows:

	2011	2010
Canadian dollar bankers' acceptances – bearing interest at rates ranging from Nil% (2010: 4.74% to 4.79%), due in less than 30 days	**$ --**	$ 2,000
Canadian dollar bankers' acceptances – bearing interest at rates ranging from Nil% (2010: 4.87% to 4.89%) due in less than 60 days	**--**	3,300
Canadian dollar bankers' acceptances – bearing interest at 5.30% (2010: 4.90%) due in less than 90 days	**2,300**	2,000
U. S. dollar LIBORs – bearing interest at 4.32% (2010: 4.39% to 4.50%), due in less than 30 days	**4,000**	6,992
U. S. dollar LIBORs – bearing interest at rates ranging from 4.30% to 4.31%, due in less than 60 days	**4,600**	--
	$ 10,900	$ 14,292

The bank indebtedness is secured by a general assignment of book debts and work-in-progress together with a second collateral mortgage of $85,000 on all land and buildings. At July 31, 2011, the Company had available operating lines of credit totaling $20,000 (2010: $20,000).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of:

	2011	2010
Accounts payable	**$ 4,385**	$ 3,708
Severance payable (Note 19)	**1,778**	--
Accrued liabilities	**2,013**	2,493
	$ 8,176	$ 6,201

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

12. LONG-TERM DEBT

The long-term debt is comprised of:

	2011	2010
Mortgage payable – 580 basis points above the 90 day bankers' acceptance rate (7.01%), repayable $125 monthly including interest, due in full July 2013, secured by land and buildings and a second position on a general assignment of book debts and work-in-progress	**$ 10,397**	$ --
Mortgage payable – 6.26% repayable $111 monthly including interest, due in full July 2011, secured by land and buildings and a second position on a general assignment of book debts and work-in-progress	**--**	10,030
Mortgage payable – 6.52% repayable $15 monthly including interest, due in full July 2011, secured by land and buildings and a second position on a general assignment of book debts and work-in-progress	**--**	1,409
Loan payable – 5.90% repayable $14 monthly including interest due in full April 2012 secured by equipment	**124**	282
Loan payable – 7.25% repayable $63 monthly plus interest due in full July 2013, secured by equipment and a third position on a general assignment of book debts and work-in-progress	**1,563**	2,312
Obligations under capital leases payable $30 monthly including interest, bearing interest at 6.05% expiring in March 2012	**254**	570
	12,338	14,603
Deduct - principal portion included in current liabilities	**1,891**	12,678
Long-term portion	**$ 10,447**	$ 1,925

Obligations under capital leases are secured by the specific leased assets and certain of the obligations maintain a second or third position on a general assignment of book debts and work-in-progress.

Total bank credit facilities and minimum lease payments are as follows:

Year	Bank Credit Facilities	Capital Leases	Total
2012	$ 1,637	$ 259	$ 1,896
2013	10,384	--	10,384
2014	63	--	63
2015	--	--	--
2016	--	--	--
	$ 12,084	$ 259	$ 12,343
Amount representing interest	--	(5)	(5)
Balance of obligation	$ 12,084	$ 254	$ 12,338

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

13. 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	Unlimited	6,420,920	$ 18,772

Share capital transactions during the year were as follows:

	2011		2010	
	Shares	**Amount**	Shares	Amount
Outstanding, beginning of year	**6,420,920**	**$ 18,772**	6,420,920	$ 18,772
Transactions during the year	**--**	**--**	--	--
Outstanding, end of year	**6,420,920**	**$ 18,772**	6,420,920	$ 18,772

The following table presents the maximum number of shares that would be outstanding if all the dilutive "in the money" instruments outstanding, as at July 31, 2011 were exercised:

Common shares outstanding at July 31, 2011	6,420,920
Stock options (Note 16)	--
	6,420,920

14. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2011	2010
Balance, beginning of year	**$ 1,750**	$ 1,742
Amounts charged to contributed surplus in respect of stock based compensation	**5**	8
Balance, end of year	**$ 1,755**	$ 1,750

15. LOSS PER SHARE

Loss per share is computed as follows:

	2011	2010
Basic loss per share:		
Net loss	**$ (9,945)**	$ (7,469)
Average number of common shares outstanding during the year	**6,420,920**	6,420,920
Basic loss per share	**$ (1.55)**	$ (1.16)

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

	2011	2010
Diluted loss per share:		
Net loss	**$ (9,945)**	$ (7,469)
Average number of common shares outstanding during the year	**6,420,920**	6,420,920
Weighted 'In the money' stock options outstanding during the year	**--**	--
	6,420,920	6,420,920
Diluted loss per share	**$ (1.55)**	$ (1.16)

Diluted earnings per share exclude 74,000 (2010: 117,000) common shares issuable under the Company's stock option plan because these options were not 'in the money'.

16. 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 with equal cumulative vesting over that period and 20% being exercisable immediately upon issue. Options given to outside directors vest immediately and can be exercised immediately. Effective September 24, 2002, amendments to the plan include a vesting progression of 30% in the year of grant, 30% in the second year, and 40% in the third year with the term still being 5 years.

As at July 31, 2011, the following options and warrants were outstanding:

Number of Options	Exercise Price	Expiry
3,000	$3.27	2012
30,000	$1.50	2014
41,000	$1.16	2014

The weighted average exercise price of the options is as follows:

	2011		2010	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding at the beginning of the year	**117,000**	**$ 1.85**	121,000	$ 1.83
Granted during the year	**--**	**--**	--	--
Expired during the year	**(25,000)**	**2.66**	--	--
Exercised during the year	**--**	**--**	--	--
Cancelled during the year	**(18,000)**	**2.59**	(4,000)	1.33
Outstanding at the end of the year	**74,000**	**$ 1.38**	117,000	$ 1.85
Exercisable at the end of the year	**74,000**	**$ 1.38**	98,000	$ 1.96

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

The significant assumptions used during the year to estimate the fair values of options is as follows:

	2011	2010
Expected life	**5 years**	5 years
Expected dividends	**$ Nil**	$ Nil
Expected volatility	**46.16%**	40.25%
Risk free rate of return	**2.56%**	3.43%
Total compensation cost recognized in income for stock-based employee compensation awards	**$ 5**	$ 8

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of financial assets and liabilities

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held for trading; held to maturity investments; loans and receivables; available-for-sale financial assets; and, other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Held for trading financial assets	**2011**	2010
Cash and cash equivalents	**$ 1,589**	$ 1,303
Non-hedging financial derivatives	**1,172**	591
	$ 2,761	$ 1,894
Held for trading financial liabilities		
Bank indebtedness	**$ 10,900**	$ 14,292
	$ 10,900	$ 14,292
Loans and receivables		
Accounts receivable	**$ 10,686**	$ 10,657
Other receivables	**526**	367
	$ 11,212	$ 11,024
Other financial liabilities		
Accounts payable and accrued liabilities	**$ 8,176**	$ 6,201
Current portion of long-term debt	**1,891**	12,678
Long-term debt	**10,447**	1,925
	$ 20,514	$ 20,804

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. The fair values of the Company's financial instruments are not materially different from their carrying value, with the exception of $1,941 of the Company's long-term debt (2010: $14,603). Based on current interest rates for debt with similar terms and maturities, the fair value of the long-term debt is estimated to be $1,933 (2010: $14,962).

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange and interest rate), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance from quarter to quarter. The Company uses derivative financial instruments to achieve this objective. The Company does not purchase any derivative financial instruments for speculative purposes.

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

Foreign exchange risk

The Company operates in Canada and its functional and reporting currency is Canadian dollars, however a significant portion of its sales are denominated in U.S. dollars. Foreign exchange risk arises because the amount of the receivable or payable for transactions denominated in a foreign currency may vary due to changes in exchange rates ("transaction exposures") and because certain long-term contractual arrangements denominated in a foreign currency may vary due to changes in exchange rates ("translation exposures").

The Company's balance sheet includes U.S. dollar denominated cash and cash equivalents, accounts receivable, work-in-progress, capital assets, future income taxes, bank indebtedness and accounts payable and accrued liabilities. The Company is required to revalue these U.S. dollar denominated items to their current Canadian dollar value at each period end, with the exception of capital assets which is revalued at historical rates.

The objective of the Company's foreign exchange risk management activities is to minimize translation exposures and the resulting volatility of the Company's earnings. The Company manages this risk by entering into foreign exchange option contracts.

Based on the Company's foreign currency exposures, as at July 31, 2011, a change in the U.S. dollar/Canadian dollar foreign exchange rate to reflect a 100 basis point strengthening of the U.S. dollar for the month of July would, assuming all other variables remain constant, have increased net income by $3, (2010: $13) with an equal but opposite effect for an assumed 100 basis point weakening of the U.S. dollar. We caution that this sensitivity is based on an assumed net U.S. dollar denominated asset or liability balance at a point in time. The net U.S. dollar denominated asset or liability position changes on a daily basis, sometimes materially.

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. At July 31, 2011, the Company had entered into foreign exchange contracts to sell an aggregate amount of $16,000 (USD). These contracts hedge the Company's expected exposure to U.S. dollar denominated net assets and mature at the latest on May 15, 2012, at an average exchange rate of $1.0300 Canadian.

As at July 31, 2011	**Maturity**	**Notional value**	**Average rate**	**Notional USD equivalent**	**Carrying & fair value asset**
Sell USD / buy CAD	**0 – 6 months**	**$ 12,812**	**$ 1.0228**	**$ 12,000**	**$ 812**
Sell USD / buy CAD	**7 – 12 months**	**4,360**	**1.0515**	**4,000**	**360**
		$ 17,172	**$ 1.0300**	**$ 16,000**	**$ 1,172**

As at July 31, 2010	**Maturity**	**Notional value**	**Average rate**	**Notional USD equivalent**	**Carrying & fair value asset (liability)**
Sell USD / buy CAD	0 – 6 months	$ 11,216	$ 1.0640	$ 10,800	$ 416
Sell USD / buy CAD	7 – 12 months	7,199	1.0590	7,000	198
Sell USD/ buy CAD	13 – 18 months	6,976	1.0340	7,000	(23)
		$ 25,391	$ 1.0538	$ 24,800	$ 591

Interest rate risk

The Company's interest rate risk primarily arises from its floating rate debt, in particular its bank indebtedness and its mortgage payable. At July 31, 2011, $21,514 (2010: $14,292) of the Company's total debt portfolio is subject to movements in floating interest rates.

Based on the value of interest-bearing financial instruments subject to movements in floating interest rates, as at July 31, 2011, an assumed 0.5 percentage point increase in the interest rate on all variable interest rate debt on the first day of the year would, assuming all other variables remain constant, have decreased net income by $108, (2010: $71) with an equal but opposite effect for an assumed 0.5 percentage point decrease.

The objective of the Company's interest rate risk management activities is to minimize the volatility of the Company's earnings. Since the Company's exposure to floating interest rates is limited to its bank indebtedness and mortgage payable, the Company's ability to effectively manage the volatility of interest rates is limited to locking portions of the Company's bank indebtedness into fixed rates for relatively short periods of time, usually 30 or 90 days.

Credit risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, derivative financial instruments as well as credit exposure to clients, including outstanding accounts receivable and unbilled contract revenue. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, taking into consideration their financial position, past experience and other factors. Management also monitors the utilization of credit limits regularly. In cases where credit quality of a client does not meet the Company's requirements sales opportunities may be terminated, progress payments may be required or continuing security interests in our products may be required.

In the normal course of business, the Company is exposed to credit risk from its customers, the majority of whom are in the automotive industry. While these accounts receivable are subject to normal industry credit risks, the ultimate source of funds to pay our accounts receivable balances may come from the Detroit 3 original equipment manufacturers. The Company may be able to mitigate a portion of this credit risk through the use of accounts receivable insurance, when and if available for individual customers.

For the year ended July 31, 2011, sales to the Company's three largest customers represented 29.2% (2010: 43.4%) of its total sales. These same customers represent approximately 43.5% (2010: 43.4%) of its accounts receivable, as at July 31, 2011.

Liquidity risk

Liquidity risk arises through an excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from credit facilities. As at July 31, 2011, the Company has undrawn lines of credit available to it of approximately $10,689 (2010: $6,798); however, under its current margining provisions with its lender, the maximum it can draw on its available undrawn lines of credit is limited to $4,774 (2010: $6,381).

The Company met all of its financial covenants during the fourth quarter of 2011. The Company's current financial forecasts suggest that it will earn sufficient levels of EBITDA to meet its minimum monthly EBITDA covenant for the first and second quarters of 2012, the only periods for which the covenant is already set. Despite the Company's current forecasts suggesting the Company will achieve these financial covenants, the Company is exposed to a number of risks that could prevent it from achieving its primary lender defined monthly minimum EBITDA covenant.

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

18. MANAGEMENT OF CAPITAL

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy, while at the same time taking a conservative approach to financial leverage and management of financial risk. The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash and cash equivalents. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion. The Company currently funds these requirements out of its internally generated cash flows and when internally generated cash flow is insufficient, its revolving bank credit facility.

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to shareholders' equity, which it aims to maintain at less than 1.0:1. As at July 31, 2011, these capital management criteria can be illustrated as follows:

	2011	2010
Net debt		
Bank indebtedness	**$ 10,900**	$ 14,292
Current portion of long-term debt	**1,891**	12,678
Long-term debt	**10,447**	1,925
Less: cash and cash equivalents	**(1,589)**	(1,303)
Net debt	**$ 21,649**	$ 27,592
Shareholders' equity	**$ 26,216**	$ 36,156
Ratio	**0.83**	0.76

As part of existing debt agreements, the Company monitors and communicates, as required by the terms of credit agreements, on a monthly, quarterly or annual basis, depending on the covenant and the lender, by management to ensure compliance with the agreements. The annual covenant is a debt service coverage ratio – calculated as EBITDA less cash taxes (for the previous 52 weeks) divided by interest coverage plus repayments of long-term debt (based on the upcoming 52 weeks). The quarterly covenants are: i) debt to equity ratio – calculated as total debt, excluding future income taxes divided by shareholders' equity minus minority interest, if any; and (ii) current ratio – calculated as current assets divided by current liabilities. The monthly covenant is a minimum EBITDA target. For fiscal 2011 only, the Company's sole annual covenant was permanently waived.

The Company was in compliance with these covenants at the end of the year.

19. BUSINESS TRANSFORMATION PROJECT

The Company announced on April 28, 2011, a business transformation project that will enhance its competitive position in North America and build a solid foundation for future profitability. The project will place greater emphasis on its custom machining operations, reduce fixed costs and eliminate capacity in its plastic mold building operations. While the project reduces the Company's emphasis on building plastic injection molds, Reko will continue to build plastic injection molds.

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

The project will result in the closure of 7 manufacturing plants at two industrial sites, elimination of a portion of the Company's machining capacity related to plastic injection molds and involve an employee head count rationalization. The Company completed all of the steps associated with implementing the business transformation project by July 31, 2011 and anticipates completing all non-strategic business asset divestitures associated with the plan by the end of its 2013 fiscal year.

During the year, the Company recorded a severance charge of $1,790 related to its business transformation project. The Company included this amount in its income statement as business transformation project expenses and on its balance sheet as accounts payable and accrued liabilities.

The following is a summary of the amounts accrued and paid related to restructuring costs:

	2011	2010
Opening balance	**$ --**	$ --
Severance costs charged to expenses	**2,215**	--
Reduction in management estimate	**(425)**	--
Cash payments	**(12)**	--
	$ 1,778	$ --

20. REKO GLOBAL SERVICES, LLC

During the year, the Company began reporting financial results of its 50% membership interest in RGS, using proportional consolidation. At July 31, 2011, the following balances relate to the Company's share of the entity reporting under proportional consolidation.

	2011	2010
Current assets	**$ 278**	--
Current liabilities	**218**	--
Revenue	**389**	--
Expenses	**330**	--
Net income	**60**	--
Cash flow from operating activities	**257**	--

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital (exclusive of the current portion of future income taxes) is comprised of:

	2011	2010
Accounts receivable	**$ (29)**	$ 7,302
Other receivables	**(159)**	(163)
Non-hedging financial derivatives	**(581)**	931
Work-in-progress	**7,740**	(4,974)
Income taxes	**--**	2
Prepaid expenses and deposits	**190**	36
Accounts payable and accrued liabilities	**197**	53
	$ 7,358	$ 3,187

Interest paid

Interest paid during the year was $1,652 (2010: $1,418).

Income taxes

Income taxes paid during the year were $Nil (2010: $Nil).

22. SEGMENTED INFORMATION

Geographic information

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

	2011	
	Revenues	**Capital assets**
Canada	**$ 37,078**	**$ 25,252**
United States	**4,000**	**13**
	$ 41,078	**$ 25,265**

	2010	
	Revenues	**Capital assets**
Canada	$ 40,151	$ 32,805
United States	--	20
	$ 40,151	$ 32,825

23. RELATED PARTY TRANSACTIONS

During the current year, the Company did not engage in any material related party transactions. At year-end, there were no amounts outstanding with respect to related party transactions (2010 - $Nil).

24. CONTINGENCIES

The Company, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Accruals are made in instances where it is possible that liabilities can be reasonably estimated. The Company has no reason to believe that the ultimate outcome of these matters would have significant impact on its financial position, cash flows or results of operations.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the current year's presentation.

REKO INTERNATIONAL GROUP INC.
SUMMARY OF (LOSS) INCOME

July 31, 2011 and 2010
(in $000's, except for share amounts)

	2011	2010	2009	2008	2007	2006	2005
Sales	**41,078**	$40,151	$55,277	$55,729	$49,377	$67,459	$61,626
Cost and expenses							
Cost of sales	**35,231**	36,040	41,670	46,517	38,404	50,479	47,787
Selling and administrative	**5,869**	5,990	7,101	7,226	7,463	7,647	8,650
Depreciation and amortization	**3,487**	5,058	4,615	5,511	4,165	4,183	4,407
	44,587	47,088	53,386	59,254	50,032	62,309	60,844
(Loss) income before the following	**(3,509)**	(6,937)	1,891	(3,525)	(655)	5,150	782
(Gain) loss on sale of capital assets	**(226)**	(24)	116	15	(54)	(146)	--
Unrealized foreign exchange (gain) loss on tax loss carryforwards	**240**	119	(3)	--	--	--	--
Interest on long-term debt	**864**	1,026	1,000	1,102	1,056	880	1,207
Interest on other interest bearing instruments, net	**763**	449	488	506	774	797	523
	1,641	1,570	1,601	1,623	1,776	1,531	1,730
Asset impairment	**3,400**	--	--	--	--	--	--
Business transformation expenses	**2,359**	--	--	--	--	--	--
	5,759	--	--	--	--	--	--
(Loss) income before income taxes	**(10,909)**	(8,507)	290	(5,148)	(2,431)	3,619	(948)
Income taxes (recovered)							
Current	**--**	--	8	30	(100)	2,392	1,774
Future	**(964)**	(1,038)	83	(1,649)	(779)	(2,004)	(1,853)
	(964)	(1,038)	91	(1,619)	(879)	388	(79)
(Loss) income before other equity adjustments	**(9,945)**	(7,469)	199	(3,529)	(1,552)	3,231	(869)
Net loss from discontinued operations	**--**	--	--	--	(2,072)	(2,303)	(3,645)
Net (loss) income for the year	**$ (9,945)**	$ (7,469)	$ 199	$ (3,529)	$ (3,624)	$ 928	$ (4,514)
Basic (loss) income per common share	**$ (1.55)**	$ (1.16)	$ 0.03	$ (0.49)	$ (0.51)	$ 0.12	$ (0.59)

STATISTICAL DATA
COSTS AND EXPENSES AS
A PERCENT OF SALES
BASED ON CONTINUING OPERATIONS

	2011	2010	2009	2008	2007	2006	2005
Costs and expenses							
Cost of sales	**85.8%**	90.0%	75.4%	83.5%	76.6%	74.8%	77.5%
Selling and administration	**14.3%**	14.9%	12.8%	13.0%	15.1%	11.3%	14.0%
Depreciation and amortization	**8.5%**	12.6%	8.3%	9.8%	8.4%	6.2%	7.2%
	108.6%	117.5%	96.5%	106.3%	100.1%	92.3%	98.7%
Gross margin contribution before selling and administration expenses	**6.7%**	(2.3%)	16.3%	6.6%	13.8%	19.0%	15.3%
Return on sales	**(24.2%)**	(18.6%)	0.4%	(6.3%)	(3.1%)	4.8%	(1.4%)
Effective tax rate	**8.8%**	12.2%	(31.4%)	(31.4%)	(36.2%)	10.7%	(8.3%)

DIRECTORS AND OFFICERS

Diane Reko
Chief Executive Officer, Secretary Treasurer and a Director and an Officer

Gregory Henwood
President and Chief Operating Officer and an Officer

Carl A. Merton
Chief Financial Officer and an Officer

Jeffrey M. Slopen
Director and a member of the Compensation Committee (Partner – Miller, Canfield, Paddock and Stone, LLP, Windsor, Ontario)

John R. Halula Sr.
Director and a member of the Audit Committee (Corporate Director, Worthington Custom Plastics)

Stephen E. Myers
Director and Chair of the Compensation Committee (Executive-in-Residence at the College of Business Administration at the University of Akron, Akron, Ohio)

Dr. Andrew J. Szonyi
Director and Chair of the Audit Committee (President, Andrew J. Szonyi & Associates, Toronto, Ontario)

John Sartz
Director and a member of the Audit Committee (President, Viking Capital Corp., Toronto, Ontario)

Victor Neufeld
Lead Director and a member of the Compensation Committee
(President and Chief Executive Officer,
Jamieson Laboratories Ltd., Windsor, Ontario)

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ANNUAL MEETING
The Annual Meeting of the Shareholders will be held at the Holiday Inn Select, 1855 Huron Church Rd., Windsor, Ontario on December 8, 2011 at 3:00 p.m.

LISTING
The Common Shares of the Company are listed on the TSX Venture Exchange (symbol: REK)

Notes:

Notes:

Notes:

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