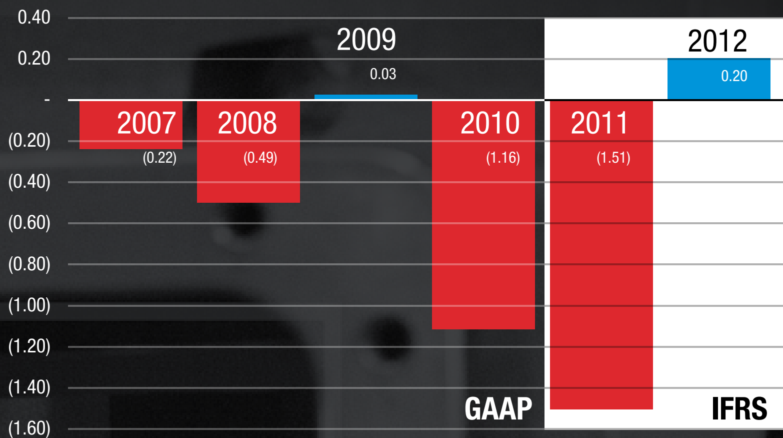
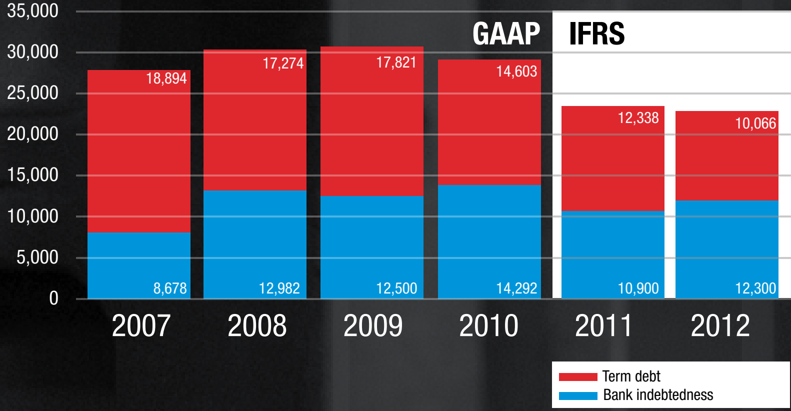
REKO
INTERNATIONAL GROUP INC.

2012 ANNUAL REPORT





FLEXIBLE

We all know someone like this. Maybe it's even you. It's the person that has a life changing "close call." Perhaps it's due to a non-fatal heart attack, a diagnosis of a chronic illness, or a serious car accident. It changes the way that one looks at everything and it changes the way that one makes decisions. For those who learn from the life-changing event and make the required changes, life still has its challenges, but it gets better. For those who don't; the prognosis is grim.

At Reko International Group Inc. we have survived our "close call" and have chosen to make the required changes. Our results for fiscal 2012 show the initial impact of having made those changes. We still have to stay the course and stay disciplined in our decisions and evaluation of business situations, but our recovery is well underway, thanks to a great team of people who believed that we could do it and worked hard to make it happen.

As we started the fiscal year, we had recently relocated our headquarters and our mold manufacturing operations to our automation manufacturing facility in Lakeshore. We had seven buildings for sale in Oldcastle. Today, I am happy to say that there is only one left for sale! The sale proceeds have been used to repay mortgage debt, and as a result, our total debt today is the lowest that it has been since fiscal 1994, the year that Reko became a publicly listed company. We had originally predicted that it would take two years to sell the seven buildings, so we are also ahead of schedule in reducing our debt.

Some of our customers were initially concerned that Reko would be unable to continue to meet their volume requirements after selling so much equipment and so many buildings. That is no longer a concern. We have been able to increase our total sales during 2012 even after significantly reducing our assets, resulting in the best asset turnover ratio for Reko since we went public.

The sales generated by these assets are also more profitable, since our net income was the best that it has been in eight fiscal years. We were pleased to report earnings per share of $0.20 for fiscal 2012, a level not achieved since 2003. While our goals for 2013 are higher than this, we are pleased with this initial progress after our business transformation project was announced last year. Our sales and marketing efforts have been focused on our strongest offerings and the impact of these efforts is evident in our financial results. As always, we continue to examine both the markets and our competitiveness so that our success evolves with changing conditions.

At the end of April, we announced the purchase of a new TOS horizontal boring mill to be installed in our Concorde Machine facility. The investment, at just over $1,000,000 is exciting, and will allow us to better serve existing customers as well as to expand our customer base. The machine is running smoothly and its capacity is effectively sold out for the coming year.

Today, we know that we provide great value to our customers in the high precision machining of large castings and weldments; in the design and manufacture of custom robotic cells - particularly those used in fuel tank finishing and assembly; and in the design and manufacture of soft trim, low compression tooling for acoustics and carpet as well as hard trim two shot tooling and tooling packages sourced in low cost countries. With a stronger balance sheet, we have more flexibility in adjusting to required strategic changes that may result from forces beyond our control. In the meantime, we continue to focus on our strengths, so that Reko can continue to gain market share with happy customers and return to continuous profitability.

There is no doubt that the success that we have achieved in fiscal 2012 would not have been possible without the support of our employees, lenders, customers, vendors, directors and shareholders. Recovering from a "close call" is never an easy process and to each of you that have contributed time, money and sacrifice to this process, I offer my heartfelt thanks. Reko is a stronger company today, thanks to you!

"Diane Reko"
CHIEF EXECUTIVE OFFICER

Diane Reko
CHIEF EXECUTIVE OFFICER

Carl A. Merton, CA, FCBV
CHIEF FINANCIAL OFFICER

Gennaro Pignanelli
ENGINEERING MANAGER

Ernie Stajduhar
TECHNOLOGY MANAGER

Dave Romanello
SALES MANAGER

Joe Sirianni
HUMAN RESOURCES MANAGER

Peter Gobel
GENERAL MANAGER,
CONCORDE MACHINE TOOL

Rick Stone
GENERAL MANAGER,
REKO MANUFACTURING

INNOVATIVE

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, 2012 and the audited consolidated financial statements and MD&A for the year ended July 31, 2011 included in our 2011 Annual Report to Shareholders. The audited consolidated financial statements for the year ended July 31, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This is the first year-end the Company has reported under IFRS. The audited consolidated financial statements for the year ending July 31, 2012 contains comparative years including August 1, 2010, and July 31, 2011, all of which were originally prepared under Canadian generally accepted accounting principles ("GAAP"). The audited consolidated financial statements contain reconciliations for all comparative periods originally prepared under GAAP from GAAP based presentation to IFRS based presentation in Note 24 – Transition to IFRS. When we use the terms "we," "us," "our," "Reko," or "Company," we are referring to Reko International Group Inc. and its subsidiaries.

This MD&A 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 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 earned revenue, gross profit and adjusted net income (loss), which are not measures of financial performance under IFRS. The Company calculates earned revenue as sales less materials, sub-contracting and inventory adjustments. 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) less gain on sale of capital assets subject to 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 9, 2012.

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 innovative 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 and weldments 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.

CHANGE IN ACCOUNTING POLICY APPLIED RETROSPECTIVELY

During the fourth quarter of 2012, Reko elected to change its optional exemption under IFRS 1 *Implementation of IFRS* for the valuation of certain of its capital assets upon implementation of IFRS. Reko applied the results of the change retrospectively to its financial statements back to August 1, 2010, the day it implemented IFRS.

More specifically, Reko had previously elected as its optional exemption to use the fair value of real estate it owned at: (i) 5390 Brendan Lane; (ii) 5385 Brendan Lane; (iii) 2510 Binder Crescent; (iv) 2516 Binder Crescent; and, (v) 469 Silver Creek Industrial Drive as its deemed cost upon implementation of IFRS. Those assets are now recorded using IFRS applied retrospectively upon implementation of IFRS.

As a result of this change, the net book value of Reko's capital assets decreased $4,285 upon implementation of IFRS, deferred tax liabilities decreased $1,084 upon implementation of IFRS and retained earnings decreased $3,201 upon implementation of IFRS.

Similarly, as of April 30, 2012, the last financial period in which Reko reported results prior to the change in accounting policy, the net book value of Reko's capital assets decreased $3,176, deferred tax assets increased $804 and retained earnings decreased $2,373. In addition, Reko's amortization expense for the first three quarters decreased $84 and income tax expense decreased $21.

BUSINESS TRANSFORMATION PROJECT

On April 28, 2011, the Company announced a business transformation project that enhanced its competitive position in North America and built a solid foundation for future profitability. The project placed greater emphasis on its custom machining operations, reduced fixed costs and eliminated capacity in its plastic injection mold building operations.

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 a reduction of employees. 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, absent carrying costs associated with real estate to be sold, the Company realized $9,000 in improvements to its overhead cost structure in its plastic injection mold building operation, comprised of $4,600 related to fixed costs and $4,400 related to labour costs.

As of July 31, 2012, the Company had sold 4 of the 7 closed manufacturing plants and subsequent to year-end sold 2 of the remaining closed manufacturing plants. The last remaining unsold property is located at 2516 Binder Crescent. The Company anticipates selling the remaining property by the end of its 2013 fiscal year. Over the next 12 months, the Company anticipates incurring another $114 of carrying costs associated with this real estate.

The 4 sold properties have generated net proceeds of $1,383, all of which has been used to reduce the Company's mortgage payable balance.

After completion of the sale of all non-strategic business asset divestitures, the Company anticipates a reduction in its annual debt service costs to $2,500. The Company previously announced this amount to be $2,300 however since the original announcement, the Company purchased a new machine and the related financing increases that figure to $2,500.

In order to complete the business transformation project, the Company will ultimately record $6,215 in pre-tax charges by the end of fiscal 2013, of which $6,065 has already been recognized in its financial statements. The Company originally reported under Canadian GAAP that the cost of implementing the project would be $7,500 and revised that figure to $8,341 under IFRS, as a result of increased asset impairment charges in the third quarter of 2011. The decrease in the current quarter to $6,215 is partially related to (i) decreased asset impairment costs associated with the current quarter's change in accounting policy and (ii) the sale of certain real estate properties as much as one year earlier than originally anticipated, offset by additional costs associated with the remaining real estate property that was originally anticipated to be sold by the end of fiscal 2012.

Upon completion of the sale of all of the real estate properties sold as part of the business transformation project, the Company anticipates recording a pre-tax gain of between $400 and $1,000. Under Canadian GAAP reporting, the Company anticipated a pre-tax gain of $2,000. Under its original transition to IFRS, the Company revised this figure to neither a pre-tax gain nor a pre-tax loss.

The Company anticipates having generated $11,200 in cash at the completion of the project to be used to pay down its mortgage debt and for the pre-tax charges. Of the total cash generated $2,400 relates to the sale of non-strategic business assets, which the Company realized by the end of its first quarter of 2012. Another $4,800 relates to the sale of real estate assets, of which the Company has realized $1,383 and the remainder is expected to be realized over the next 12 months. The final $4,000 relates to reductions in working capital associated with plastic injection molds, which the Company expects to begin realizing in the first quarter of 2013. The Company originally anticipated generating $9,500 in cash as it implemented the project. The increase in the anticipated proceeds is a result of: (i) increased proceeds from the sale of non-strategic business assets of $1,200; and, (ii) increased proceeds from the sale of real estate assets of $500.

INDUSTRY TRENDS AND RISKS

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 secure molding and automation programmes from 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 previous 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, 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.

Our ability to turn around financially underperforming divisions could have a material adverse effect on our profitability and financial condition.

Although we are working to turn around financially underperforming operating divisions, there is no guarantee that we will be successful in doing so in the short-term. The continued underperformance of one or more operating divisions could have a material adverse effect on our financial condition and profitability.

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

While a number of world regions appear to have recovered from the 2008-2009 global recession, uncertainty remains about the strength of the recovery in some regions, such as North America, while other regions such as Europe are currently experiencing an economic downturn. The continuation of economic uncertainty or deterioration of the global economy for an extended period of time could have a material adverse effect on our profitability and financial condition.

Europe's sovereign debt crisis could have a material adverse effect on our profitability and financial condition.

Europe is currently experiencing a "sovereign debt crisis" as a result of widespread concern about the ability of several European governments to repay their debt. Despite efforts made to date, additional actions may be required to stabilize several Eurozone economies and considerable uncertainty remains with respect to the ultimate outcome of these actions. Conditions in Europe have resulted in increased volatility in global capital markets, as well as lower consumer confidence, which could continue for the foreseeable future. In these circumstances, many of the risks faced by the automotive industry and our business could intensify, which could have a material adverse effect on our financial condition or profitability.

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.

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

As global market conditions weakened 4 years prior, 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 replace outsourcing that in the recent past would have been performed by Reko with insourcing. Depending upon the depth and breadth of the current economic recovery, Reko may experience reductions 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 the Detroit 3. 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.

The consequences of a decrease in demand after locomotive engine emission standards are changed could materially impact our profitability and financial condition.

Certain of our activities are tied to machining of locomotive engines that meet Tier III emission standards in North America. Market expectations are that demand will continue at an artificial level up to the date of implementation of Tier IV emission standards in North America. Thereafter demand is expected to fall. Depending on the sourcing decisions made by our customers on implementation of the Tier IV emission standards and the impacts on demand thereafter our profitability and financial condition could be materially impacted.

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.

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 or 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.

Our manufacturing facilities are subject to risks which could materially impact our profitability and financial condition.

Our manufacturing facilities are subject to risks associated with natural disasters, including fires and floods. The occurrence of any of these natural disasters could cause the total or partial destruction of a manufacturing facility, thus preventing us from supplying products to our customers and disrupting production at their facilities for an indeterminate period of time. The inability to promptly resume the supply of products following a natural disaster at a manufacturing facility could have a material adverse effect on our operations, profitability and financial condition.

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 62.7% 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

In prior years, the Company experienced reduced revenues and significant operating losses caused primarily by the temporary decline in capital equipment markets occurring concurrent with a global recession. The financial losses posed challenges to the Company's continued operations and its ability to meet its obligations as they fell due. In addition, the Company continues to work with its primary lender under reduced financial covenants. Management is addressing and has actively addressed this condition, as discussed in the following paragraphs.

Operating losses
The Company needed to reduce and eliminate its operating losses. Through the recovery of the capital equipment market and the implementation of the Company's business transformation project, the Company addressed both reduced revenues and more appropriately matched its cost structure to its current level of revenues.

Continued support of its primary lender
While the Company's profitability and debt services costs have changed sufficiently for the Company to have met its previous debt service coverage ratio at the end of year, the Company continues to operate under a monthly EBITDA target covenant with its primary lender. Despite the Company's ability to meet its previous debt service coverage ratio, the Company needs to maintain the continued support of its primary lender, through the lender's willingness to work with the Company, when and if, issues arise with its financial covenants.

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.

As at July 31, 2012, the Company was in compliance with all of its financial covenants in effect on that date.

UNUSUAL ITEMS

ADOPTION OF IFRS

For Reko's financial year ended July 31, 2012, Reko is no longer reporting its financial results using Canadian GAAP, as a result of changes announced by The Canadian Institute of Chartered Accountants in March 2008. Instead it is reporting 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.

As part of the transition to IFRS for the year ended July 31, 2012, the Company restated its IFRS opening balance sheet, as at August 1, 2010, and its 2011 fiscal year results to reflect IFRS. The Company previously reported the impacts of all of the changes associated with implementing IFRS in its First Quarter 2012 Management's Discussion and Analysis.

RECOVERY OF DEFERRED TAX ASSET

Under IFRS, Reko maintains deferred income tax asset accounts by jurisdiction. Each reporting period Reko assesses the probable net recovery of its Canadian non-capital losses and its U.S. net operating losses. As a result of the assessment on July 31, 2012, Reko determined that it was probable that its expected recovery of its U.S. net operating losses would be $Nil. Accordingly, Reko reduced its U.S. deferred tax asset balance by $900. This resulted in Reko recording a $900 income tax expense in the Company's fourth quarter. Also, as a result of the assessment on July 31, 2012, Reko determined that it was probable that its expected recovery of its Canadian non-capital losses had increased by $1,300. This resulted in Reko recording a $1,300 income tax recovery in the Company's fourth quarter.

As a result of the two changes, Reko is reporting a net income tax recovery of $400 as at July 31, 2012.

FOREIGN EXCHANGE AND OTHER FINANCIAL 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 80% of the Company's sales and 20% of its costs are incurred in U.S. dollars. In addition, the Company maintains certain working capital in the U.S. 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 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 - 2012	$ 13,590	$ 13,500	$ 90
Q3 - 2012	$ 15,352	$ 14,200	$ 1,152
Q2 - 2012	$ 13,519	$ 13,200	$ 319
Q1 - 2012	$ 13,413	$ 14,200	$ (787)

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 previously, 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,			
	2012		2011		2012		2011	
	ACTUAL	REKO EFFECTIVE	ACTUAL	REKO EFFECTIVE	ACTUAL	REKO EFFECTIVE	ACTUAL	REKO EFFECTIVE
U.S. Dollar equals Canadian Dollar	1.0169	1.0093	0.9676	1.0323	1.0080	1.0177	0.9950	1.0422

The Company's FFECs represent agreements with an intermediary to trade a specific amount of U.S. dollars for Canadian dollars at a specific rate on a specific date. Currently, the date is between one (1) and seven (7) months after the date on which the FFEC is booked. The specific rate entered into is not necessarily indicative of what either the intermediary or Reko believes the foreign exchange rate will be on the date the settlement of the trade occurs, rather it is a rate set by the intermediary which Reko can either accept or reject.

At the end of the year, we held FFECs of $13,500 compared to $16,000 at the end of the prior year. During fiscal 2012, on average, we held FFECs of $13,900, compared to $23,500 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 - 2012	$ 13,500	1.0119
Q1 - 2013	$ 8,000	1.0134
Q2 - 2013	$ 2,000	1.0340

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

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

Additional information with respect to financial instruments is provided in Note 1, Note 4 and Note 6 to Reko's audited consolidated financial statements, which by this reference are hereby incorporated herein.

RECONCILIATION OF NON-IFRS MEASURES

The reconciliation of gross profit to sales in accordance with IFRS is provided in the following table:

	2012	2011
Sales	$ 42,091	$ 39,863
Less: Cost of sales	32,890	34,141
Amortization	2,010	2,755
	$ 7,191	$ 2,967

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

	2012	2011
Sales	$ 42,091	$ 39,863
Less: Material	14,191	10,117
Subcontracting	1,697	4,970
Inventory adjustments	439	(793)
	$ 25,764	$ 25,569

The reconciliation of adjusted net income (loss) to net income (loss) in accordance with IFRS is provided in the following table:

	2012	2011
Net income (loss)	$ 1,267	$ (9,666)
Plus: Business transformation expenses	248	2,359
Asset impairment	--	3,795
Less: Gain on sale of capital assets subject to business transformation project	687	226
	$ 828	$ (3,738)

RESULTS OF OPERATIONS

Sales

Sales for the year ended July 31, 2012 increased $2,228, or 5.6%, to $42,091 compared to $39,863 in the prior year.

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 and the capital equipment market;

— Increased material and subcontracting as a component of the projects we accepted; and,

— Increases in the volume of work processed for the capital equipment market.

Items offsetting the decrease in sales discussed previously include:

— Decreased sales volume on work performed in the plastic injection molded interior parts portion of the automotive industry.

Earned revenue

The earned revenue for the year ended July 31, 2012, increased $195 to $25,764, compared to $25,569 in the prior year.

The increase in earned revenue was largely related to:

— Increases in the amount earned per hour by our facilities, largely caused by improving conditions in the general economy and the capital equipment market; and,

— Increases in the volume of work processed for the capital equipment market.

Items offsetting the increase in earned revenue included:

— Decreased volume of 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, 2012 increased $4,224 to $7,191 or 17.1% of sales, compared to $2,967, or 7.5% of sales, in the previous fiscal year.

The increase in gross profit was largely related to:

— Increased sales level during the year;

— Reduction in fixed overhead costs as a result of implementing our business transformation project;

— Reduction in wages and benefits as a result of implementing our business transformation project; and,

— Productivity and efficiency improvements implemented as part of our business transformation project.

Selling and administration

Selling and administration expenses ("S,G&A") decreased by $360, or 6.1%, to $5,509, or 13.1% of sales for the year ended July 31, 2012, compared to $5,869, or 14.7% of sales 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 the implementation of our business transformation project; 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 professional fees associated with our lenders and the prior year's refinancing of our mortgage payable.

Adjusted net income

The adjusted net income for the year ended July 31, 2012 was $828, or $0.13 per share, compared to adjusted net loss of $3,738, or $0.58 per share in the prior year.

Earnings overview

The net income for the year ended July 31, 2012 was $1,267, or $0.20 per share, compared to a net loss of $9,666, or $1.51 per share, in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations decreased from cash provided by operations of $6,071 in the prior year to cash used in operations of $740 in the current year.

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

— Increases in our investment in accounts receivable and work in progress, net of accounts payable, as we rebounded from significant lows in the prior year; and,

— Severance payments made during the year.

During the prior year, the Company renewed its mortgage payable for an additional two year term. As a result, the mortgage, which at the end of 2010 had been classified as a current liability become a long-term liability. The renewed mortgage did not generate funds nor did it utilize any funds from the Company's operating line of credit.

Conversely, as at July 31, 2012 the mortgage, with maturity less than 12 months away became a current liability.

Financial covenants

The Company met its financial covenants as at the end of fiscal 2012.

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, 2012, the Company invested $1,981 in capital assets. $307 of this total relates to our business transformation project, $1,100 relates to growth CAPEX spending and $574 relates to maintenance CAPEX spending.

Cash resources/working capital requirements

As at July 31, 2012, Reko had borrowed $11,087 on its revolving line of credit, net of its cash on hand, compared to $9,311 at July 31, 2011 and $13,653 at April 30, 2012. The revolver borrowings decreased by $2,566 in the quarter and increased approximately $1,776 for the year. We expect borrowings to display a slight decreasing trend over the next two quarters.

Reko has a $20,000 revolver available to it; however, based on our current lender defined margining capabilities, our borrowings are limited to $15,650, of which approximately $4,563 was unused and available at the end of the quarter. 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	$ 10,066	$ 9,359	$ 386	$ 321	--
Capital lease obligations	--	--	--	--	--
Operating leases	35	30	5	--	--
Total contractual obligations	**$ 10,101**	**$ 9,389**	**$ 391**	**$ 321**	**--**

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, 2012. 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	46,000	
Stock options exercisable	46,000	
Total (maximum) number of common shares		**6,466,920**

CRITICAL ACCOUNTING ESTIMATES

The Company's discussion and analysis of its results of operations and financial position is based upon the consolidated financial statements, which have been prepared in accordance with IFRS. 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, an allowance 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 and considers reversal of impairment at each reporting date. 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 discounted future cash flows expected to result from the asset, without interest charges, is less than the carrying 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 recoverable amount of the asset from the carrying value of the asset. The recoverable amount is defined as the higher of: its fair value less its costs to sell; and, its value-in-use.

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

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 likelihood of realization. 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.

Provisions

Management estimates the costs associated with provisions based on management's expectations of amounts payable and the likelihood of the payment occurring.

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 2012, 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 will be performed throughout fiscal 2013.

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 2012, ended July 31, 2012. The information has been derived from the Company's unaudited condensed 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/10	JAN/11	APR/11	JULY/11
Sales	$ 9,685	$ 8,255	$ 10,890	$ 11,033
Net loss	(1,127)	(1,107)	(6,806)	(626)
Loss per share: Basic	(0.18)	(0.17)	(1.06)	(0.10)
Diluted	(0.18)	(0.17)	(1.06)	(0.10)

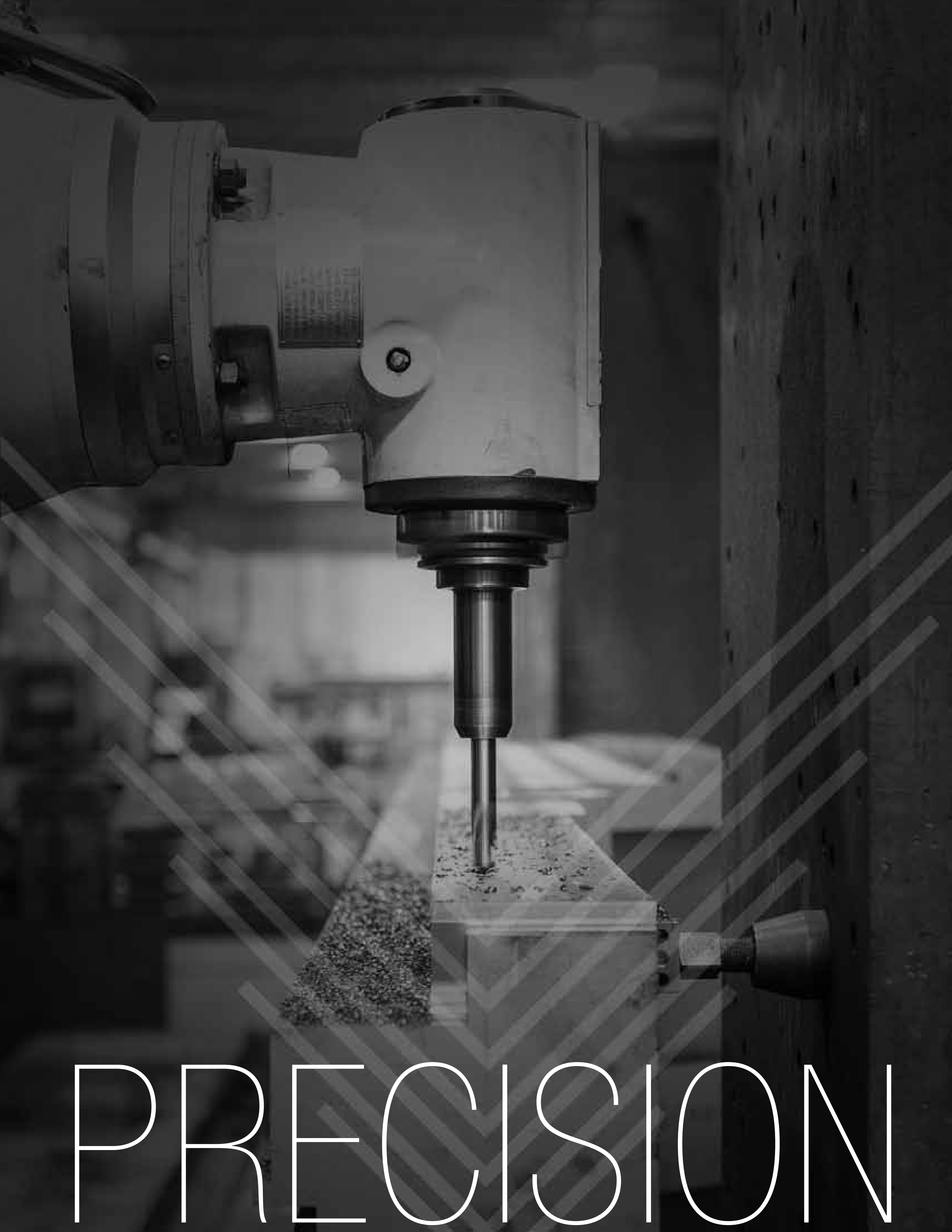
	OCT/11	JAN/12	APR/12	JULY/12
Sales	$10,510	$11,108	$11,388	$ 9,085
Net income	160	160	214	733
Earnings per share: Basic	0.02	0.02	0.03	0.13
Diluted	0.02	0.02	0.03	0.13

The Company's 2012 fourth quarter sales includes a reclassification of sales from previous quarters in the amount of $1,800. The reclassification resulted in a reduction of sales and an equivalent reduction in cost of sales. The reclassification did not impact the Company's earned revenue, gross profit, net income or earnings per share.

NORMAL COURSE ISSUER BID

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

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.


PRECISION

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 International Financial Reporting Standards. 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," B.Comm
CHIEF EXECUTIVE OFFICER

"Carl A. Merton," CA, FCBV
CHIEF FINANCIAL OFFICER

October 9, 2012

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. and its subsidiaries, which comprise the consolidated balance sheets as at July 31, 2012, July 31, 2011 and August 1, 2010 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended July 31, 2012 and July 31, 2011, 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 International Financial Reporting Standards, 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 audits 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. and its subsidiaries as at July 31, 2012, July 31, 2011 and August 1, 2010 and its financial performance and its cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

"*PricewaterhouseCoopers LLP*"
Chartered Accountants, Licensed Public Accountants
Windsor, Ontario
October 9, 2012

As at July 31
(in 000's, except for per share amounts)

	2012	2011 (NOTE 24)	AUGUST 1, 2010 (NOTE 24)
ASSETS (Notes 10 and 11)			
Current			
Cash	$ 1,213	$ 1,589	$ 1,303
Accounts receivable	11,609	10,686	10,657
Other receivables	694	526	367
Non-hedging financial derivatives (Note 6)	89	1,172	591
Income taxes receivable	18	22	22
Work-in-progress (Note 7)	12,277	12,537	20,009
Prepaid expenses and deposits	297	346	536
Assets held for sale (Notes 8 and 9)	2,469	2,135	--
	28,666	29,013	33,485
Capital assets (Note 8)	19,336	22,174	30,505
Deferred income taxes (Note 5)	5,779	6,048	5,938
	$ 53,781	$ 57,235	$ 69,928
LIABILITIES			
Current			
Bank indebtedness (Note 10)	$ 12,300	$ 10,900	$ 14,292
Accounts payable and accrued liabilities	4,694	6,398	6,201
Provisions payable (Note 18)	250	1,778	--
Unearned revenue on work-in-progress (Note 7)	349	451	183
Current portion of long-term debt (Note 11)	9,241	1,891	12,678
	26,834	21,418	33,354
Long-term debt (Note 11)	825	10,447	1,925
Deferred income taxes (Note 5)	90	608	226
SHAREHOLDERS' EQUITY			
Share capital (Note 12)	18,772	18,772	18,772
Contributed surplus (Note 13)	1,758	1,755	1,750
Retained earnings	5,502	4,235	13,901
	26,032	24,762	34,423
	$ 53,781	$ 57,235	$ 69,928

Contingencies (Note 22)

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

ON BEHALF OF THE BOARD

"Diane Reko"
DIRECTOR

"Andrew J. Szonyi"
DIRECTOR

As at July 31
(in 000's, except for per share amounts)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
Balance at August 1, 2010	$ 18,772	$ 1,750	$ 13,901	$ --	$ 34,423
Share-based payments	--	5	--	--	5
Net loss	--	--	(9,666)	--	(9,666)
Balance at July 31, 2011	$ 18,772	$ 1,755	$ 4,235	$ --	$ 24,762
Balance at August 1, 2011	$ 18,772	$ 1,755	$ 4,235	$ --	$ 24,762
Share-based payments	--	3	--	--	3
Net income	--	--	1,267	--	1,267
Balance at July 31, 2012	$ 18,772	$ 1,758	$ 5,502	$ --	$ 26,032

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

Years ended July 31
(in 000's, except for per share amounts)

	2012	2011 (NOTE 24)
Sales	$ 42,091	$ 39,863
Costs and expenses		
Cost of sales	32,890	34,141
Selling and administrative (Note 19)	5,509	5,869
Amortization	2,010	2,755
	40,409	42,765
Income (loss) before the following items	1,682	(2,902)
Foreign exchange loss (gain)	109	(470)
Other income	(390)	(505)
Business transformation expenses	248	2,359
Asset impairment	--	3,795
Gain on sale of capital assets	(742)	(226)
Interest on long-term debt	774	864
Interest on other interest-bearing obligations	631	763
	630	6,580
Income (loss) before income taxes	1,052	(9,482)
Deferred income tax (recovery) provision (Note 5)	(215)	184
Net income (loss) and comprehensive income (loss)	$ 1,267	$ (9,666)
Earnings (loss) per common share (Note 14)		
Basic	$ 0.20	$ (1.51)
Diluted	$ 0.20	$ (1.51)

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

Years ended July 31
(in 000's, except for per share amounts)

	2012	2011 (NOTE 24)
OPERATING ACTIVITIES		
Net income (loss) for the year	$ 1,267	$ (9,666)
Adjustments for:		
Amortization	2,010	2,755
Asset impairment	--	3,795
Unrealized foreign exchange (gain) loss	(34)	240
Deferred income taxes	(215)	32
Gain on sale of capital assets	(742)	(226)
Stock compensation	3	5
	2,289	(3,065)
Net change in non-cash working capital (Note 20)	(3,029)	9,136
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(740)	6,071
FINANCING ACTIVITIES		
Net proceeds from bank indebtedness	1,400	(3,392)
Payments on long-term debt	(2,272)	(2,265)
CASH USED IN FINANCING ACTIVITIES	(872)	(5,657)
INVESTING ACTIVITIES		
Investment in capital assets	(1,981)	(894)
Proceeds on sale of capital assets	3,217	766
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,236	(128)
Net change in cash	(376)	286
Cash, beginning of year	1,589	1,303
Cash, end of year	$ 1,213	$ 1,589

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

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

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

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

The consolidated financial statements were approved by the Board of Directors on October 9, 2012.

Adoption of International Financial Reporting Standards ("IFRS")

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In these financial statements, the term "Canadian GAAP" and "previous GAAP" refers to Canadian GAAP before adoption of IFRS.

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS including IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. Subject to certain transition elections disclosed in Note 24, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at August 1, 2010 (the "transition date") and throughout all periods presented, as if these policies had always been in effect. Note 24 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended July 31, 2011. Amounts previously reported for 2011 have been restated to give effect to these changes.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of July 31, 2012, the date the Board of Directors approved the statements.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries Reko Tool & Mould (1987) Inc., Reko Manufacturing Group Inc., Reko International Sales, Inc. and Reko International Holdings, Inc.

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement. The consolidated financial statements include the Company's proportionate share of the joint venture

entities' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases. The consolidated financial statements include the accounts of the Company's 50% membership interest in Reko Global Services, LLC.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity.

Foreign currency translation

The reporting currency of the reporting entity is Canadian dollars. Transactions in foreign currencies are translated at the foreign exchange rate in effect at the date of the transaction. The Company translates monetary assets and liabilities denominated in foreign currencies at the exchange rate as at the balance sheet date. Foreign exchange differences arising on translation are recognized in profit or loss. Revenues and expenses are translated at rates prevailing on the date of the transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates at the dates the fair value was determined. For the year ended July 31, 2012, the Company reported a foreign exchange loss of $109.

The financial statements of U.S. subsidiaries, whose functional currency has been determined to be Canadian dollars, are translated such that monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the year. Translation gains or losses are included in income.

Financial instruments

The Company utilizes financial instruments in the management of its foreign currency exposure by economically hedging its foreign exchange exposure on anticipated net cash inflows in U.S. dollars through the use of U.S. dollar denominated debt and forward foreign exchange contracts. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial assets and financial liabilities are initially recognized at fair value. Subsequent to initial recognition, financial instruments are stated at fair value and their remeasurement 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. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

CLASSIFICATION	
Cash	Loans and receivables
Non-hedging financial derivatives	Fair value through profit or loss ("FVTPL")
Accounts receivable	Loans and receivables
Other receivables	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Severance payable	Other financial liabilities
Long-term debt	Other financial liabilities

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FVTPL

Financial assets designated as FVTPL are financial assets typically held for trading or that are designated as FVTPL. 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 non-operating items. Financial liabilities designated as FVTPL 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 profit or loss. These are accounted for in the same manner as FVTPL 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 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 earnings. Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method. The Company does not have any non-derivative financial assets classified 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 derivative instruments.

TRANSACTION COSTS

Transaction costs related to FVTPL financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other financial 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.

Use of significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments 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. These estimates are made on the assumption the Company will continue as a going concern and are based on information available at the time of preparation. Estimates may be revised where the circumstances on which they are based change or where new information becomes available.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

The Company has applied judgment in its use of the going concern assumption, identifying cash generating units, identifying indicators for impairment of long-lived assets and deferred taxes and assessing the Company's functional currency. In the absence of standards or interpretations applicable to a specific transaction, management uses its judgment to define and apply accounting policies that provide relevant and reliable information in the context of the preparation of the financial statements.

Estimates are used when estimating the useful lives of long-lived assets for the purposes of quantifying amortization, when accounting for or measuring such items as allowance for uncollectible accounts, allowances for provisions on loss contracts, realizable value of tax losses and other tax credits, assessing the percent complete of work-in progress, certain fair value measures including those related to share-based payments and financial instruments, and when testing long-lived assets for impairment. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 Company considers all jobs, which have completed all aspects of engineering and design to have progressed to the point where total costs can be reasonably estimated. Historically, this occurs somewhere between 15% and 25%, depending on the complexity of the job. 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.

Operating lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Cash

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

Accounts receivable

Accounts receivable are stated at their cost less impairment losses (see impairment loss accounting policy).

Work-in-progress

Work-in-progress includes unbilled contract revenue and inventory. Tooling inventory is valued at the lower of cost and net realizable value, less any amounts billed to the customer. Cost includes the cost of materials, direct labour applied to the product and specifically identified manufacturing overhead. 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

OWNED ASSETS

Capital assets are stated at cost less accumulated amortization and impairment losses (see impairment loss accounting policy). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognized for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain capital assets that had been revalued to fair value on August 1, 2010, the date of transition to IFRSs, are measured on the basis of deemed cost, being their fair value at the transition date.

When parts of capital assets have different useful lives, those components are accounted for as separate items of capital assets.

LEASED ASSETS

Leases for which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. The capital assets acquired by way of a finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated amortization and impairment losses (see impairment loss accounting policy).

SUBSEQUENT COSTS

The Company recognizes in the carrying amount of a capital asset the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in profit or loss as an expense as incurred.

AMORTIZATION

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of each capital asset. Land is not amortized. The estimated useful lives are as follows:

• Buildings	25 years
• Building roofs	15 years
• Heating, ventilation and cooling	10 years
• Machinery and equipment	5 – 20 years
• Controls	10 years
• Tooling	5 years
• Leasehold improvements	10 years
• Equipment under capital lease	10 – 20 years

The residual value and estimated useful life is reassessed annually.

Trade and other payables

Trade and other payables are stated at amortized cost.

Unearned revenue on work-in-progress

In situations where the customer is billed more than the Company has recognized revenue on an individual project on the reporting date, the invoiced amount in excess of the revenue recognized is recorded as unearned revenue on work-in-progress.

Income taxes

Income tax on the profit or loss from the periods presented comprises current and deferred income tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in comprehensive income, in which case it is recognized in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date that are expected to apply when the deferred tax is realized/settled.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

Comprehensive income

Other comprehensive income, when it occurs, is presented below net income on the Consolidated Statements of Income and Comprehensive Income. Comprehensive income is composed of net income and other comprehensive income.

Accumulated other comprehensive income is a separate component of shareholders' equity which includes the accumulated balances of all components of other comprehensive income which are recognized in comprehensive income but excluded from net income.

Earnings (loss) per share

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

Diluted earnings per share is 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.

Impairment losses

The carrying amounts of the Company's long-lived non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

Reversals of impairment losses

An impairment loss, for other than a held-to-maturity security, receivable carried at amortized cost, investment in an equity instrument classified as available-for-sale and in respect of goodwill, is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

Defined contribution employee benefit plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss as incurred.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the

obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Restructuring provisions

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for in advance.

Onerous contract provisions

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Stock based compensation

The share option programme allows certain Company employees to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The Company measures the fair value of stock options at the grant date and spreads the expense over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured 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.

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.

New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The IASB has issued IFRS 9 *Financial instruments*. This standard is the first step in the process to replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. An investment in a debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is recognized at fair value through profit or loss. IFRS 9 was also updated to include guidance on financial liabilities and derecognition of financial instruments. This guidance is similar to the guidance method included in IAS 39 relating to financial liabilities and derecognition of financial instruments. The standard is not yet effective until periods beginning on or after January 1, 2015 but is available for early adoption. The Company has not yet determined the impact that IFRS 9 will have on its consolidated financial position.

The IASB has published a package of five new and revised standards that address the scope of the reporting entity. The new standards in the package are IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint arrangements* and

IFRS 12 *Disclosure of interests in other entities*. The revised standards are IAS 28 *Investments in associates and joint ventures* and IAS 27 *Separate financial statements.* The requirements contained in the package of five standards are effective for annual reporting periods beginning on or after January 1, 2013, with early adoption permitted so long as the entire package is early adopted together. The five standards are described below. The Company has not yet determined the impact of these new and revised standards on its consolidated financial statements.

IFRS 10 introduces a single control model that assesses whether to consolidate investees where an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 introduces a concept of classification of a joint arrangement, being either a joint operation or a joint venture, depending on whether parties to the arrangement have rights to and obligations for underlying assets and liabilities. The accounting policy choice of joint ventures being accounted for using proportionate consolidation has been eliminated and must now be equity accounted investments.

IFRS 12 combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IAS 28 has been amended in line with changes to accounting for joint arrangements in IFRS 11. The amended standard prescribes the accounting for investments in associates and provides guidance on the application of the equity method when accounting for investments in associates and joint ventures.

IAS 27 has been amended to provide guidance on the accounting and disclosure requirements for investments in subsidiaries, associates and joint ventures when an entity prepares separate financial statements. The amended standard requires an entity preparing separate financial statements to account for investments at cost or in accordance with IFRS 9.

The IASB has issued IFRS 13 *Fair value measurement*. The standard establishes a single source of guidance for fair value measurements under IFRS. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. IFRS 13 does not include requirements on when fair value measurement is required; but it prescribes how fair value is to be measured if another standard requires it. The standard is not effective until periods beginning on or after January 1, 2013 but is available for early adoption. The Company has not yet determined the impact that IFRS 13 will have on its consolidated financial position.

The IASB has amended IAS 1 *Presentation of financial statements*. The standard has been amended primarily around the presentation of items within other comprehensive income. Certain items of other comprehensive income that may be reclassified to earnings in the future are to be presented separately from those items that would never be reclassified in the future. The amended standard is not effective until periods beginning on or after July 1, 2012 but is available for early adoption. The Company has not yet determined the impact that the amended IAS 1 will have on its consolidated financial position.

The IASB has amended IAS 19 *Employee benefits*. The standard has been amended with key changes including that all actuarial gains and losses be immediately recognized to other comprehensive income, the excepted return of plan assets recognized to earnings is now based on the rate used to discount the defined benefit obligation, and additional disclosures for defined benefit plans. Other amendments include revised definitions of short-term versus long-term employee benefits and potential changes to the timing of recognition of termination benefits. The amended standard is not effective until periods beginning on or after January 1, 2013 but is available for early adoption. The Company has not yet determined the impact that amended IAS 19 will have on its consolidated financial statements.

2. GEOGRAPHIC INFORMATION

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

				2012
		REVENUES		CAPITAL ASSETS
Canada	$	38,071	$	21,805
United States		4,020		--
	$	42,091	$	21,805

				2011
		REVENUES		CAPITAL ASSETS
Canada	$	35,863	$	24,296
United States		4,000		13
	$	39,863	$	24,309

3. CONTINUING OPERATIONS AND LIQUIDITY RISK

In prior years, the Company experienced reduced revenues and significant operating losses caused primarily by the temporary decline in capital equipment markets occurring concurrent with a global recession. The financial losses posed challenges to the Company's continued operations and its ability to meet its obligations as they fell due. In addition, the Company continues to work with its primary lender under reduced financial covenants. Management is addressing and has actively addressed this condition, as discussed in the following paragraphs.

Operating losses

The Company needed to reduce and eliminate its operating losses. Through the recovery of the capital equipment market and the implementation of the Company's business transformation project, the Company addressed both reduced revenues and more appropriately matched its cost structure to its current level of revenues.

Continued support of its primary lender

While the Company's profitability and debt services costs have changed sufficiently for the Company to have met its suspended debt service coverage ratio (see Note 4) at the end of year, the Company continues to operate under a monthly EBITDA target covenant with its primary lender. Despite the Company's ability to meet its suspended debt service coverage ratio, the Company needs to maintain the continued support of its primary lender, through the lender's willingness to work with the Company, when and if, issues arise with its financial covenants.

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.

Refinance of mortgage payable

The Company's mortgage payable is due on July 1, 2013 (see Note 11). The Company needs to renew or refinance the mortgage payable accordingly. The Company has begun discussions with its existing and potential lenders.

As at July 30, 2012, the Company was in compliance with all of its financial covenants in effect on that date.

4. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated authority of risk management to the Audit Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and foreign exchange contracts.

ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which the customers operate, has less of an influence on credit risk. Approximately 65% of the Company's revenue is attributable to the Detroit 3 original equipment manufacturers and 70% of the Company's revenue is attributable to the automotive industry. Annually, between 80% and 90% of the Company's revenue is derived from customers who pay in United States dollars.

The Audit Committee has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Open amount limits are established for each customer; actual open amounts are reported monthly to the Audit Committee and reviewed by the Audit Committee on a quarterly basis. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Goods are sold subject to available financial liens, so that in the event of non-payment the Company may have a secured claim. The Company does not require collateral in respect of accounts receivables and other receivables. In addition, the Company maintains, to the extent available, industry standard accounts receivable insurance programs to reduce its exposure to credit risk.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of accounts receivable and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable, non-hedging financial instruments and unbilled contract revenue.

Cash and cash equivalents and non-hedging financial instruments are subject to counterparty credit risk. The Company mitigates this credit risk by dealing with counterparties who are major financial institutions that the Company anticipates will be able to satisfy its obligations with the Company.

For the year ended, July 31, 2012, sales to the Company's three largest customers represented 9.7%, 9.1% and 8.3%, respectively, of our total sales. These same customers represent approximately 5.4%, 8.7% and 9.7% of our total accounts receivable, respectively as at July 31, 2012.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 150 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of that ability, the Company maintains a $20,000 line of credit facility that is secured against the Company's accounts receivable and work-in-process. Interest is payable on the drawn portion of the line-of-credit at the rate of LIBOR or Banker's Acceptance rates plus 400 basis points. As at July 31, 2012, the Company has undrawn lines of credit available to it of approximately $8,700; however, under its current margining provisions with its lender, the maximum it can draw on its available lines of credit is limited to $4,563.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit Committee.

CURRENCY RISK

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the parent Company, the Canadian dollar. The Company's goal is to maintain foreign currency future contracts that are within $2,000 of its total accounting foreign currency exposure. The Company uses forward foreign exchange contracts to mitigate its currency risk, with a maturity of less than one year from the reporting date.

At July 31, 2012, the Company had outstanding foreign exchange contracts, representing commitments to buy and sell foreign currencies. U. S. dollars contracts represent the significant commitments as follows:

	U.S. DOLLAR AMOUNT	WEIGHTED AVERAGE RATE
Sell U.S. dollars for delivery in 2012 under forward exchange contracts	$ 9,500	1.0080
Sell U.S. dollars for delivery in 2013 under forward exchange contracts	4,000	1.0340
	$ 13,500	1.0119

Based on the Company's foreign currency exposures, as at July 31, 2012, a change in the U.S. dollar/Canadian dollar foreign exchange rate to reflect a 100 basis point strengthening of the U.S. dollar would have increased net income by $1. We caution that this sensitivity is based on an assumed net U.S. dollar denominated asset or liability balance at a point in time. Our net U.S. dollar denominated asset or liability position changes on a daily basis, sometimes materially.

INTEREST RATE RISK

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities. The Company uses LIBORs, bankers' acceptances and its line-of-credit to reduce the exposure to interest rate changes.

The Company's interest rate risk primarily arises from its floating rate debt, in particular its bank indebtedness and mortgage payable. At July 31, 2012, $19,616 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, 2012, an assumed 0.5 percentage point increase in interest rates on the first day of the year would have decreased net income by $98, with an equal but opposite effect for an assumed 0.5 percentage point decrease.

OTHER MARKET PRICE RISK

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

Capital management

The Board's policy 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. 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 1:1. The capital management criteria can be illustrated as follows:

	2012	2011	2010
NET DEBT			
Bank indebtedness	$ 12,300	$ 10,900	$ 14,292
Current portion of long-term debt	9,241	1,891	12,678
Long-term debt	825	10,447	1,925
Less: cash	(1,213)	(1,589)	(1,303)
NET DEBT	$ 21,153	$ 21,649	$ 27,592
SHAREHOLDERS' EQUITY	$ 26,032	$ 24,762	$ 34,423
RATIO	0.81	0.87	0.80

From time to time, the Company purchases its own shares on the market; the timing of these purchases depends on market prices.

There were no changes in the Company's approach to capital management during the year.

As part of the Company's existing debt agreements, three financial covenants are monitored and communicated, as required by the terms of credit agreements, on a monthly, quarterly or annual basis, 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 expense plus repayments of long-term debt (based on upcoming 52 weeks). The quarterly covenants are: i) debt to equity ratio – calculated as total debt, excluding deferred income taxes divided by shareholders' equity minus minority interest, if any; ii) current ratio – calculated as current assets divided current liabilities and (iii) debt service coverage ratio – calculated as EBITDA less cash taxes (for previous 52 weeks) divided by interest expense plus repayments of long-term debt (based on upcoming 52 weeks). The quarterly debt service coverage ratio covenant is currently being waived by the Company's lender. The monthly covenant is an EBITDA based target.

The Company was in compliance with these at July 31,2012.

Fair Value

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

The methods and assumptions used to estimate the fair value of financial instruments are described below:

ACCOUNTS RECEIVABLE, BANK INDEBTEDNESS, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Categories of method of fair valuing non-hedging financial derivatives

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

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	LEVEL 1	LEVEL 2	LEVEL 3	2012
FINANCIAL ASSETS AT FVTPL				
Cash	$ 1,213	$ --	$ --	$ 1, 213
Non-hedging financial derivatives	--	89	--	89
	$ 1,213	$ 89	$ --	$ 1,302

	LEVEL 1	LEVEL 2	LEVEL 3	2011
FINANCIAL ASSETS AT FVTPL				
Cash	$ 1,589	$ --	$ --	$ 1,589
Non-hedging financial derivatives	--	1,172	--	1,172
	$ 1,589	$ 1,172	$ --	$ 2,761

	LEVEL 1	LEVEL 2	LEVEL 3	2010
FINANCIAL ASSETS AT FVTPL				
Cash	$ 1,303	$ --	$ --	$ 1,303
Non-hedging financial derivatives	--	591	--	591
	$ 1,303	$ 591	$ --	$ 1,894

LONG-TERM DEBT

The Company's long-term debt of $1,750 is subject to fixed interest rates. Based on current interest rates for debt with similar terms and maturities, the fair value of the long-term debt is estimated to be $1,824.

5. INCOME TAXES

Significant components of the Company's deferred income taxes are as follows:

	2012	2011	2010
UNITED STATES			
Non-capital loss carry-forwards	$ --	$ 828	$ 2,814
	$ --	$ 828	$ 2,814
CANADA			
DEFERRED TAX ASSET			
SR & ED tax credits	$ 2,816	$ 3,458	$ 4,460
Undeducted SR&ED tax expenditures	1,963	1,145	745
Non-capital losses	473	680	--
Unbilled contract revenue	--	417	458
Capital assets	1,273	--	--
Other	291	54	98
DEFERRED TAX ASSET	$ 6,816	5,754	$ 5,761
Tax impact of SR & ED tax credits	$ (704)	$ (964)	$ (1,274)
Unbilled contract revenue	(133)	--	--
Capital assets	(261)	(178)	(1,589)
Other	(29)	--	--
DEFERRED TAX LIABILITY	$ (1,127)	$ (1,142)	$ (2,863)
NET DEFERRED TAX ASSET	$ 5,689	$ 4,612	$ 2,898

Presented on the balance sheet as follows, based on net tax position of individual legal entities:

	2012	2011	2010
Deferred tax asset – United States	$ --	$ 828	$ 2,814
Deferred tax asset - Canada	5,779	5,220	3,124
DEFERRED TAX ASSET	$ 5,779	$ 6,048	$ 5,938
DEFERRED TAX LIABILITY	$ 90	$ 608	$ 226

In assessing the realizability of future tax assets, management considers whether it is more likely than 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.

The provision for income taxes reflects an effective tax rate which differs from the combined Federal and Provincial rate for the following reasons:

	2012	2011
Combined Federal and Provincial rate	27.1%	29.4%
Manufacturing and processing deduction	(1.5%)	(1.9%)
Decrease in net realizable value	(33.1%)	(26.9%)
Decrease in substantively enacted tax rates on deferred income taxes	--	(2.9%)
Permanent and other differences	(12.9%)	0.4%
Effective rate	(20.4%)	(1.9%)

The details of taxable losses by jurisdiction are as follows:

	2012	2011	2010
Canada, which expire in 2032	3,391	4,795	--
United States, which expire between 2022 and 2032	10,180	10,027	10,971

6. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at July 31, 2012, the Company had entered into foreign exchange contracts to sell an aggregate amount of $13,500 (USD). These contracts mitigate the Company's expected exposure to U.S. dollar denominated net assets and mature at the latest at February 14, 2013, at an average exchange rate of 1.0119 Canadian. The mark-to-market value on these financial instruments as at July 31, 2012 was an unrealized gain of $89, which has been recorded in net income (loss) for the year.

As at July 31, 2012	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE ASSET (LIABILITY)
SELL USD / BUY CAD	0 – 6 MONTHS	$ 11,536	$ 1.0080	$ 11,500	$ 36
SELL USD / BUY CAD	7 – 12 MONTHS	2,053	1.0340	2,000	53
		$ 13,589	$ 1.0119	$ 13,500	$ 89

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 August 1, 2010	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE ASSET
Sell USD / Buy CAD	0 – 6 MONTHS	$ 11,217	$ 1.0659	$ 10,800	$ 417
Sell USD / Buy CAD	7 – 12 MONTHS	14,175	1.0468	14,000	175
		$ 25,391	$ 1.0547	$ 24,800	$ 591

7. WORK-IN-PROGRESS

Work-in-progress is comprised of:	2012	2011	2010
Work-in-progress incurred plus recognized profits less provision for future losses	$ 29,352	$ 31,282	$ 33,420
Less: progress billings	(17,424)	(19,196)	(13,594)
	$ 11,928	$ 12,086	$ 19,826

	2012	2011	2010
Recognized and included in the financial statements as:			
Work-in-progress	$ 12,277	$ 12,537	$ 20,009
Unearned revenue on work-in-progress	(349)	(451)	(183)
	$ 11,928	$ 12,086	$ 19,826

8. CAPITAL ASSETS

Capital assets are comprised of:

	LAND	BUILDINGS	MACHINERY & EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CAPITAL LEASE	EQUIPMENT UNDER CONSTRUCTION	TOTAL
COST OR DEEMED COST							
Balance at August 1, 2010	$ 1,373	$ 15,339	$ 64,688	$ 31	$ 3,290	$ 400	$ 85,121
Additions	--	--	455	414	--	26	895
Disposals	(284)	--	(13,438)	--	--	--	(13,722)
BALANCE AT JULY 31, 2011	**$ 1,089**	**$ 15,339**	**$ 51,705**	**$ 445**	**$ 3,290**	**$ 426**	**$ 72,294**
ADDITIONS	**14**	**13**	**537**	**22**	**5**	**1,674**	**2,265**
TRANSFERS	**--**	**--**	**3,295**	**--**	**(3,295)**	**--**	**--**
DISPOSALS	**(205)**	**(2,018)**	**(20,636)**	**--**	**--**	**(599)**	**(23,458)**
BALANCE AT JULY 31, 2012	**$ 898**	**$ 13,334**	**$ 34,901**	**$ 467**	**$ --**	**$ 1,501**	**$ 51,101**

	LAND	BUILDINGS	MACHINERY & EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CAPITAL LEASE	EQUIPMENT UNDER CONSTRUCTION	TOTAL
AMORTIZATION AND IMPAIRMENT LOSSES							
Balance at August 1, 2010	$ --	$ 4,984	$ 49,003	$ 1	$ 628	$ --	$ 54,616
Amortization for the year	--	434	2,247	4	70	--	2,755
Impairment loss	--	178	3,217	--	--	400	3,795
Disposals	--	--	(13,181)	--	--	--	(13,181)
BALANCE AT JULY 31, 2011	**$ --**	**$ 5,596**	**$ 41,286**	**$ 5**	**$ 698**	**$ 400**	**$ 47,985**
AMORTIZATION FOR THE YEAR	**--**	**536**	**1,435**	**21**	**18**	**--**	**2,010**
TRANSFERS	**--**	**--**	**716**	**--**	**(716)**	**--**	**--**
DISPOSALS	**(--)**	**(816)**	**(19,483)**	**--**	**--**	**(400)**	**(20,699)**
BALANCE AT JULY 31, 2012	**$ --**	**$ 5,316**	**$ 23,954**	**$ 26**	**$ --**	**$ --**	**$ 29,296**

	LAND	BUILDINGS	MACHINERY & EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CAPITAL LEASE	EQUIPMENT UNDER CONSTRUCTION	TOTAL
CARRYING VALUE							
Balance at August 1, 2010	$ 1,373	$ 10,355	$ 15,687	$ 30	$ 2,660	$ 400	$ 30,505
Balance at July 31, 2011	$ 1,089	$ 9,743	$ 10,419	$ 440	$ 2,592	$ 26	$ 24,309
BALANCE AT JULY 31, 2012	**$ 898**	**$ 8,018**	**$ 10,947**	**$ 441**	**$ --**	**$ 1,501**	**$ 21,805**

9. ASSETS HELD FOR SALE

During the year, the Company sold capital assets for net proceeds of $2,939 that were listed as assets held for sale at the end of the previous year. $1,013 of the net proceeds was used to reduce the Company's mortgage and $1,926 of the proceeds was used to reduce the Company's bank indebtedness.

Subsequent to year-end, the Company sold land and building for net proceeds of $2,811. All of the proceeds were used to reduce the Company's mortgage payable. At July 31, 2012, 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.

10. BANK INDEBTEDNESS

The bank indebtedness is payable over various maturities, not exceeding 90 days, with interest at various amounts ranging from LIBOR plus 400 basis points to bank prime plus 300 basis points, as follows:

	2012	2011	2010
Canadian dollar bankers' acceptances – bearing interest at 5.27%, due in less than 30 days	$ 3,300	$ --	$ 2,000
Canadian dollar bankers' acceptances – bearing interest at 5.25%, due in less than 90 days	--	2,300	5,300
U.S. dollar LIBORs – bearing interest at 4.32% (2011 - 4.35%), due in less than 30 days	9,000	4,000	6,992
U.S. dollar LIBORs – bearing interest at 4.37%, due in less than 60 days	--	4,600	--
	$ 12,300	$ 10,900	$ 14,292

The bank indebtedness is secured by a general assignment of book debts and work-in-process together with a second collateral mortgage of $85,000 on all land and buildings. At July 31, 2012, the Company had available operating lines of credit totalling $20,000.

11. LONG-TERM DEBT

The long-term debt is comprised of:

	2012	2011	2010
Mortgage payable – 580 basis points above the 90 day Bankers' Acceptance rate, 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	$ 8,316	$ 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 – 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	750	1,563	2,312
Loan payable – 6.50% repayable $20 monthly including interest due in full August 2017 secured by equipment	1,000	--	--
Loan payable – 5.90% repayable $14 monthly including interest due in full April 2012 secured by equipment	--	124	282
Obligations under capital leases payable $30 monthly including interest, bearing interest at 6.05% expiring in March 2012	--	254	570
	10,066	12,338	14,603
Deduct - principal portion included in current liabilities	9,241	1,891	12,678
Long-term portion	$ 825	$ 10,447	$ 1,925

Obligations under capital leases were secured by the specific leased assets, certain of the obligations maintain a second 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
2013	$ 9,241	$ --	$ 9,241
2014	187	--	187
2015	199	--	199
2016	213	--	213
2017	226	--	226
	10,066	--	10,066
Amount representing interest	--	--	--
Balance of obligation	$ 10,066	$ --	$ 10,066

12. SHARE CAPITAL

Share capital is comprised of:

	AUTHORIZED	ISSUED SHARES		AMOUNT
Class A preference shares	Unlimited	Nil		--
Class B preference shares	Unlimited	Nil		--
Common shares – no par value	Unlimited	6,420,920	$	18,772

	SHARES		AMOUNT
Outstanding, August 1, 2010	**6,420,920**	$	18,772
Transactions during the year	**--**		--
Outstanding, July 31, 2011	**6,420,920**		18,772
Transactions during the year	**--**		--
Outstanding, July 31, 2012	**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, 2012 were exercised:

Common shares outstanding at July 31, 2012	6,420,920
Stock options (Note 15)	27,000
	6,447,920

13. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

		2012		2011		2010
Balance, beginning of year	**$**	**1,755**	$	1,750	$	1,742
Amounts charged to contributed surplus in respect of the stock based compensation		**3**		5		8
Balance, end of year	**$**	**1,758**	$	1,755	$	1,750

14. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2012 was based on the net income attributable to common shareholders of $1,267 and a weighted average number of common shares outstanding of 6,420,920 calculated as follows:

		2012		2011
BASIC EARNINGS (LOSS) PER SHARE:				
Net income (loss)	**$**	**1,267**	$	(9,666)
Average number of common shares outstanding during the year		**6,420,920**		6,420,920
Basic earnings (loss) per share	**$**	**0.20**	$	(1.51)

	2012	2011
DILUTED EARNINGS (LOSS) PER SHARE:		
Net earnings (loss) available to common shareholders	$ 1,267	$ (9,666)
Average number of common shares outstanding during the year	6,420,920	6,420,920
'In the money' stock options outstanding during the year	27,000	--
	6,447,920	6,420,920
Diluted earnings (loss) per share	$ 0.20	$ (1.51)

Diluted earnings (loss) per share excludes 21,000 common shares issuable under the Company's Stock Option Plan because these options were not 'in-the-money' and the effect would be anti-dilutive.

15. 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 a vesting progression of 30% in the year of grant, 30% in the second year, and 40% in the third year. Options given to outside directors vest immediately and can be exercised immediately.

As at July 31, 2012, the following options and warrants were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY
19,000	$ 1.50	2014
27,000	$ 1.16	2014

The weighted average of the options is as follows:

	2012		2011	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the beginning of the year	74,000	$ 1.38	117,000	$ 1.85
Expired during the year	(3,000)	3.27	(25,000)	2.66
Cancelled during the year	(25,000)	1.30	(18,000)	2.59
Outstanding at the end of the year	46,000	$ 1.30	74,000	$ 1.38
Exercisable at the end of the year	46,000	$ 1.30	74,000	$ 1.38

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

		2012		2011
Expected life		5 years		5 years
Expected dividends	$	Nil	$	Nil
Expected volatility – based on a 60 month historical average		57.34%		46.16 %
Risk free rate of return		0.97%		2.56 %
Total compensation cost recognized in income for stock-based employee compensation awards	$	3	$	5

16. OPERATING LEASES – LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

		2012		2011
Less than one year	$	30	$	30
Between one and five years		5		36
More than five years		--		--
	$	35	$	66

The Company leases a sales office under an operating lease until September 30, 2013. During the year ended July 31, 2012, $30 was expensed with respect to operating leases.

17. BUSINESS TRANSFORMATION PROJECT

On April 28, 2011, the Company announced a business transformation project that enhanced its competitive position in North America and built a solid foundation for future profitability. The project placed greater emphasis on its custom machining operations, reduced fixed costs and eliminated capacity in its plastic mold building operations.

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 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.

In 2011, when the project was announced, the Company recorded a severance charge of $2,215, based on estimated payouts to employees caused by headcount reductions, and later reduced that estimate by $425. In 2012, an additional severance charge of $50 was recorded, and the estimate was further reduced by $270. Decreases in estimates were the result of payments to fewer employees than originally anticipated. In addition to the severance costs, during the year, the Company incurred $468 (2011 - $569) in costs associated with the business transformation project, including real estate carrying costs and moving costs, and the resulting amount recorded as business transformation expenses was $248 (2011 - $2,359).

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

		2012		2011
Opening balance	$	1,778	$	--
Severance costs charged to expenses in current year		50		2,215
Reduction in management estimate		(270)		(425)
Cash payments		(1,508)		(12)
	$	50	$	1,778

18. PROVISIONS

The following is a summary of the amounts accrued as provisions:

		2012		2011		2010
Severance payable	$	50	$	1,778	$	--
Other short-term provisions		200		--		--
	$	250	$	1,778	$	--

19. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

In addition to their salaries, the Company also provides non-cash benefits to its executive officers and contributes to a post-employment defined contribution benefit plan on their behalf. In accordance with the terms of the plan, executive officers living in Canada are entitled to a receive a $1 contribution to the pension plan annually, once they have completed 5 years of service to the Company. Executive officers living in the United States are entitled to a receive a contribution equal to 3% of annual salary to a defined contribution pension plan once they have completed 1 year of service. During the year, the Company expensed contributions of less than $3 to the defined contribution plan in Canada and less than $2 to the defined contribution plan in the United States. The previous contribution plans are identical to the contribution plans provided to all employees of the Company, dependent only on where the employee lives.

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

Key management personnel compensation comprised:

		2012		2011
Salaries and cash bonuses	$	685	$	861
Short-term employment benefits		29		39
Post-employment benefits		5		10
Termination benefits		119		--
	$	838	$	910

Key management personnel and director transactions

Directors of the Company control 3.6% of the voting shares of the Company. A relative of a director owns, directly or indirectly 51.8% of the voting shares of the Company.

In the prior year, two directors held positions in other entities that resulted in them having significant influence over the financial or operating policies of these related entities, however only one director holds a position in another entity that results in them having control or significant influence over the financial or operating polices of this related entity in the current year. Both of these entities transacted with the Company in the reporting years. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

			TRANSACTION VALUE YEAR ENDED		BALANCE OUTSTANDING AS AT	
DIRECTOR	TRANSACTION	NOTE	2012	2011	2012	2011
Jeff Slopen	Legal fees	i	$ --	$ 14	$ --	$ 22
Diane Reko	Promotion	ii	$ 26	$ 28	$ --	$ --

i) The Company uses the legal services of Miller Canfield Paddock Stone LLP in relation to legal advice associated with the renewal and documentation of its revolving line-of-credit, mortgage and term loans. Mr. Slopen, a director of the Company in fiscal 2011, is a partner in Miller Canfield Paddock Stone LLP, which has been a service provider to the Company since 1976. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

ii) The Company engaged the photography and design services of St. John Photography in relation to the preparation of its annual report and for various ancillary photography and video documentation services in 2011. Ms. Reko is a director of St. John Photography and St. John Photography has been a service provider to the Company since 1980. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

20. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital (exclusive of assets held for sale) is comprised of:

	2012	2011
Accounts receivable	$ (923)	$ (29)
Other receivables	(168)	(159)
Non-hedging financial derivatives	1,083	(581)
Income taxes receivable	4	--
Work-in-progress	260	7,472
Prepaid expenses and deposits	49	190
Accounts payable and accrued liabilities	(1,704)	197
Provision payable	(1,528)	1,778
Unearned revenue on work-in-progress	(102)	268
	$ (3,029)	$ 9,136

Interest paid

Interest paid during the year was $1,453 (2011 - $1,652).

Income taxes

Income taxes paid during the year was $8 (2011 - $Nil).

21. REKO GLOBAL SERVICES, LLC

During the prior year, the Company began reporting financial results of its 50% membership interest in RGS, using proportional consolidation. At July 31, 2012, the following balances relate to the Company's share of the entity reporting under proportional consolidation.

	2012	2011
Current assets	$ 512	$ 278
Current liabilities	146	218
Revenues	1,744	389
Expenses	1,438	330
Net income	306	60
Cash flow from operating activities	589	257

22. CONTINGENCIES

The Company, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies.

Provisions are made in instances where it is probable that a net outflow of cash will occur. 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.

23. SUBSEQUENT EVENT

Subsequent to year-end, the Company sold two real estate properties, which at year-end were included in assets held for sale. Net proceeds were $2,811, all of which was used to reduce the Company's mortgage payable.

24. TRANSITION TO IFRS

As stated in note 1, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in note 1 have been applied in preparing the consolidated financial statements for the year ended July 31, 2012, the comparative information for the year ended July 31, 2011 and the preparation of an opening IFRS balance sheet at August 1, 2010 (the Company's transition date).

In preparing its opening IFRS balance sheet, comparative information and financial statements for the year ended July 31, 2012; the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. In addition, the Company has availed itself of the exemption in IFRS 1 *Implementation of International Financial Reporting Standards* related to business combinations.

During the year, the Company changed its application of using fair value as deemed cost for certain land and buildings, and instead chose to account for those assets at deemed cost. As a consequence, the increase in deemed cost based on fair value, as previously reported in the Company's first interim financial statements under IFRS as at August 1, 2010, was reduced from $6,376 to $2,091, a change of $4,295. This resulted in a corresponding decrease in the associated deferred income tax liability of $1,084, and a net decrease in retained earnings of $3,201.

The impact at July 31, 2011 of this change was a decrease in reported capital assets of $3,223, a decrease in the associated deferred tax liability of $815, and a decrease in retained earnings of $2,408. For the year ended July 31, 2011, the impact of the change was a decrease in amortization of $138, a decrease in asset impairment of $886, an increase in deferred income tax expense of $231 and a decrease in net loss and comprehensive loss of $793.

An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

		PREVIOUS GAAP	EFFECT OF TRANSITION	IFRS	PREVIOUS GAAP	EFFECT OF TRANSITION	IFRS
		IFRS OPENING BALANCE SHEET AUGUST 1, 2010			PRIOR YEAR BALANCE SHEET JULY 31, 2011		
ASSETS							
Current							
Cash		$ 1,303		$ 1,303	$ 1,589		$ 1,589
Accounts receivable		10,657		10,657	10,686		10,686
Other receivables		367		367	526		526
Non-hedging financial derivatives		591		591	1,172		1,172
Taxes receivable		22		22	22		22
Work-in-progress	a	19,826	183	20,009	12,086	451	12,537
Prepaids		536		536	346		346
Assets held for sale	b	--		--	1,289	846	2,135
		33,302	183	33,485	27,716	1,297	29,013
Capital assets	b	32,825	(2,320)	30,505	24,965	(2,791)	22,174
Deferred income taxes	b, c, d	2,814	3,214	5,938	1,491	4,557	6,048
SR & ED tax credits	c	4,460	(4,460)	--	3,458	(3,458)	--
		$ 73,401	(3,473)	$ 69,928	$ 57,630	(395)	$ 57,235

		PREVIOUS GAAP	EFFECT OF TRANSITION	IFRS	PREVIOUS GAAP	EFFECT OF TRANSITION	IFRS
		IFRS OPENING BALANCE SHEET AUGUST 1, 2010			PRIOR YEAR BALANCE SHEET JULY 31, 2011		
LIABILITIES							
Current							
Bank indebtedness		$ 14,292		$ 14,292	$ 10,900		$ 10,900
Accounts payable and accrued liabilities	e	6,201		6,201	8,176	(1,778)	6,398
Severance payable	e	--		--	--	1,778	1,778
Unearned revenue on work-in-progress	a	--	183	183	--	451	451
Current portion of long-term debt		12,678		12,678	1,891		1,891
		33,171	183	33,354	20,967	451	21,418
Long-term debt		1,925		1,925	10,447		10,447
Deferred income taxes	b,d	2,149	1,923	226	--	608	608
SHAREHOLDERS' EQUITY							
Share capital		18,772		18,772	18,772		18,772
Contributed surplus		1,750		1,750	1,755		1,755
Retained earnings	f	15,634	(1,733)	13,901	5,689	(1,454)	4,235
		36,156	(1,733)	34,423	26,216	(1,454)	24,762
		$ 73,401	(3,473)	$ 69,928	$ 57,630	(395)	$ 57,235

a) IAS 1 Presentation of Financial Statements requires payments received from customers in excess of work completed on construction contracts be disclosed as a liability.

Effect at August 1, 2010

The effect of the change in financial statement presentation for Unearned revenue on work-in-progress is an increase in Work-in-progress of $183 and an increase in Unearned revenue on work-in-progress of $183.

Effect at July 31, 2011

The effect of the change in financial statement presentation for Unearned revenue on work-in-progress is an increase in Work-in-progress of $451 and an increase in Unearned revenue on work-in-progress of $451.

b) Certain land and buildings were measured at fair value at the date of transition to IFRSs and the remaining Capital assets were measured based on applying IAS 16 – *Capital Assets* retrospectively. Whereas under previous GAAP, land and buildings were measured based on historical cost.

Effect at August 1, 2010

The effect of measuring certain land and buildings at fair value results in an increase to Capital assets of $2,091. The effect of measuring all of the other Capital assets based on applying IAS 16 – *Capital Assets* is a

decrease in Capital assets of $4,411, as a result of applying componentization to the Company's capital assets. The net effect on Capital assets at August 1, 2010 is a decrease of $2,320 and a decrease in the deferred tax liability of $587.

Effect at July 31, 2011
The net effect on Capital assets at July 31, 2011, is an increase of $846 to Assets held for sale and an decrease of $2,791 for Capital assets and an increase in the Deferred income tax asset of $491.

c) Under previous GAAP, SR & ED tax credits were treated as investment tax credits and required separate balance sheet disclosure. Under IFRS, SR & ED tax credits are treated as part of deferred income taxes and do not require separate balance sheet disclosure.

Effect at August 1, 2010
The effect of the change in financial statement presentation for SR &ED tax credits is an increase in Deferred income tax asset of $4,460 and a decrease in SR & ED tax credits of $4,460.

Effect at July 31, 2011
The effect of the change in financial statement presentation for SR &ED tax credits is an increase in Deferred income tax asset of $3,458 and a decrease in SR & ED tax credits of $3,458.

d) Under previous GAAP, Deferred tax balances were classified on a net basis by jurisdiction. Under IFRS, Deferred tax balances are classified on a gross basis by legal entity.

Effect at August 1, 2010
The impact is an increase in Deferred tax asset and an increase in Deferred tax liability of $1,336.

Effect at July 31, 2011
The impact is a decrease in Deferred tax asset and an increase in Deferred tax liability of $608.

e) Under previous GAAP, amounts accrued for Severance payable could be classified as part of Accounts payable & accrued liabilities. Under IFRS, Provision payable requires separate balance sheet disclosure.

Effect at July 31, 2012
The effect of the transition to IFRS is a decrease to Accounts payable & accrued liabilities of $1,778 and an increase in Provision payable of $1,778.

f) As a result of the transition to IFRS, application of the IFRS transition rules results in a net increase or decrease to a corporation's Retained earnings.

Effect at August 1, 2010
As at August 1, 2010, the net impact on the Company's Retained earnings was $1,733.

Effect at July 31, 2011
As at July 31, 2011, the net impact on the Company's Retained earnings was $1,454.

RECONCILIATION OF INCOME FOR THE YEAR ENDED JULY 31, 2011

		PREVIOUS GAAP	EFFECT OF TRANSITION	IFRS
		FOR THE YEAR ENDED JULY 31, 2011		
Sales	a	$ 41,078	(1,215)	$ 39,863
Costs and expenses				
Cost of sales	b	35,231	(1,090)	34,141
Selling and administrative		5,869		5,869
Amortization	c	3,487	(732)	2,755
		44,587	(1,822)	42,765
Loss before the following items		(3,509)	607	(2,902)
Gain on sale of capital assets		(226)		(226)
Unrealized foreign exchange loss (gain)	a	240	(710)	(470)
Other income	a	--	(505)	(505)
Asset impairment	d	3,400	395	3,795
Business transformation expenses		2,359		2,359
Interest on long-term debt		864		864
Interest on other debt bearing obligations, net		763		763
		7,400	(820)	6,580
Loss before income taxes		(10,909)	1,427	(9,482)
Deferred income taxes (recovery) expense	b, e	(964)	1,148	184
Net loss and comprehensive loss		$ (9,945)	279	$ (9,666)
Retained earnings, beginning of year	f	$ 15,634	(1,733)	$ 13,901
Net loss		(9,945)	279	(9,666)
Retained earnings, end of year		$ 5,689	(1,454)	$ 4,235
Basic loss per share	g	$ (1.55)	0.04	$ (1.51)
Diluted loss per share	g	$ (1.55)	0.04	$ (1.51)

a) IAS 1 *Presentation of Financial Statements* requires a more discrete disclosure of sales than under previous GAAP, specifically as it relates to offsetting. As a result of the transition to IFRS, Sales decreased by $1,215 and Unrealized foreign exchange gain on operations increased by $710 and Other income increased by $505.

b) Under previous GAAP, SR & ED tax credits were treated as investment tax credits and changes in the valuation allowance associated with them were recorded as part of cost of sales. Under IFRS, changes in the valuation allowance of SR & ED tax credits are treated as part of deferred income taxes. Accordingly, Cost of sales decreased by $1,090 and Deferred income taxes recovery decreased by $1,090.

c) As a result of applying IAS 16 – *Capital Assets* retrospectively, Amortization decreased by $732 during fiscal 2011.

d) As a result of measuring certain real estate at fair value on the date of transition, Asset impairment increased by $395 during fiscal 2011.

e) As a result of applying IAS 16 – *Capital Assets* retrospectively, Deferred income taxes recovery decreased by $58, during fiscal 2011.

f) As a result of applying IAS 16 – *Capital Assets* retrospectively and the corresponding change in Deferred income taxes, opening Retained earnings at August 1, 2010 decreased by $1,733.

g) As a result of applying IAS 16 – *Capital Assets* retrospectively, Basic loss per share and Diluted loss per share both increased by $0.04.

As a result of the implementation of IFRS, there were no significant changes to the statement of cash flows for the year ended July 31, 2011, from that previously presented under previous GAAP.

SUMMARY OF INCOME (LOSS)

	2012	2011	2010	2009	2008	2007	2006
Sales	42,091	39,863	$40,151	$55,277	$55,729	$49,377	$67,459
Cost and expenses							
Cost of sales	32,890	34,141	36,040	41,670	46,517	38,404	50,479
Selling and administrative	5,509	5,869	5,990	7,101	7,226	7,463	7,647
Depreciation and amortization	2,010	2,755	5,058	4,615	5,511	4,165	4,183
	40,409	42,765	47,088	53,386	59,254	50,032	62,309
(Loss) income before the following	1,682	(2,902)	(6,937)	1,891	(3,525)	(655)	5,150
(Gain) loss on sale of capital assets	(742)	(226)	(24)	116	15	(54)	(146)
Income – other	(390)	--	--	--	--	--	--
Unrealized foreign exchange (gain) loss	109	(975)	119	(3)	--	--	--
Asset impairment	--	3,795	--	--	--	--	--
Business transformation expenses	248	2,359	--	--	--	--	--
Interest on long-term debt	774	864	1,026	1,000	1,102	1,056	880
Interest on other interest bearing instruments, net	631	763	449	488	506	774	797
	630	6,580	1,570	1,601	1,623	1,776	1,531
Income (Loss) before income taxes	1,052	(9,482)	(8,507)	290	(5,148)	(2,431)	3,619
Income taxes (recovered)							
Current	--	--	--	8	30	(100)	2,392
Deferred	(215)	184	(1,038)	83	(1,649)	(779)	(2,004)
	(215)	184	(1,038)	91	(1,619)	(879)	388
Income (loss) before other equity adjustments	1,267	(9,666)	(7,469)	199	(3,529)	(1,552)	3,231
Net loss from discontinued operations	--	--	--	--	--	(2,072)	(2,303)
Net income (loss) for the year	1,267	$ (9,666)	$ (7,469)	$ 199	$ (3,529)	$ (3,624)	$ 928
Basic income (loss) per common share	0.20	$ (1.51)	$ (1.16)	$ 0.03	$ (0.49)	$ (0.51)	$ 0.12

Note: 2011 to 2012 figures are based on IFRS and 2006 to 2010 are based on Canadian GAAP.

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

	2012	2011	2010	2009	2008	2007	2006
Costs and expenses							
Cost of sales	78.1%	85.7%	90.0%	75.4%	83.5%	76.6%	74.8%
Selling and administration	13.1%	14.7%	14.9%	12.8%	13.0%	15.1%	11.3%
Depreciation and amortization	4.8%	6.9%	12.6%	8.3%	9.8%	8.4%	6.2%
	96.0%	107.3%	117.5%	96.5%	106.3%	100.1%	92.3%
Gross margin contribution before selling and administration expenses	17.1%	7.4%	(2.3%)	16.3%	6.6%	13.8%	19.0%
Return on sales	3.0%	(24.2%)	(18.6%)	0.4%	(6.3%)	(3.1%)	4.8%
Effective tax rate	(20.0%)	1.9%	12.2%	(31.4%)	(31.4%)	(36.2%)	10.7%

DIRECTORS AND OFFICERS

Diane Reko
Chair of the Board of Directors, Chief Executive Officer, and a Director and an Officer

Carl A. Merton, CA, FCBV
Chief Financial Officer and an Officer

Dr. Andrew J. Szonyi, PH.D., P.ENG., MBA, GPLLM
Lead Independent Director and Chair of the Audit and Compensation Committees (President, Andrew J. Szonyi & Associates, Toronto, Ontario)

John Sartz
Director and a member of the Audit and Compensation Committees (President, Viking Capital Corporation, Toronto, Ontario)

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

INVESTOR RELATIONS CONTACT

Carl A. Merton, CA, FCBV
Chief Financial Officer

469 Silver Creek Industrial Drive
Lakeshore, Ontario N8N 4W2

TEL: (519) 727-3287
FAX: (519) 727-4315

irelations@rekointl.com

ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the Torino Restaurant & Banquet Hall, 12049 Tecumseh Road, Tecumseh, ON N8N 1M1 on December 6, 2012 at 3:00 p.m.

LISTING

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

CORPORATE DIRECTORY

CORPORATE OFFICE
469 Silver Creek Industrial Drive
Lakeshore, Ontario N8N 4W2

TEL: (519) 727-3287
FAX: (519) 727-6681

www.rekointl.com

AUDITORS

PRICEWATERHOUSECOOPERS LLP
Windsor, Ontario

BANKERS

BANK OF MONTREAL
Windsor, Ontario

COMERICA BANK
Detroit, Michigan

COUNSEL

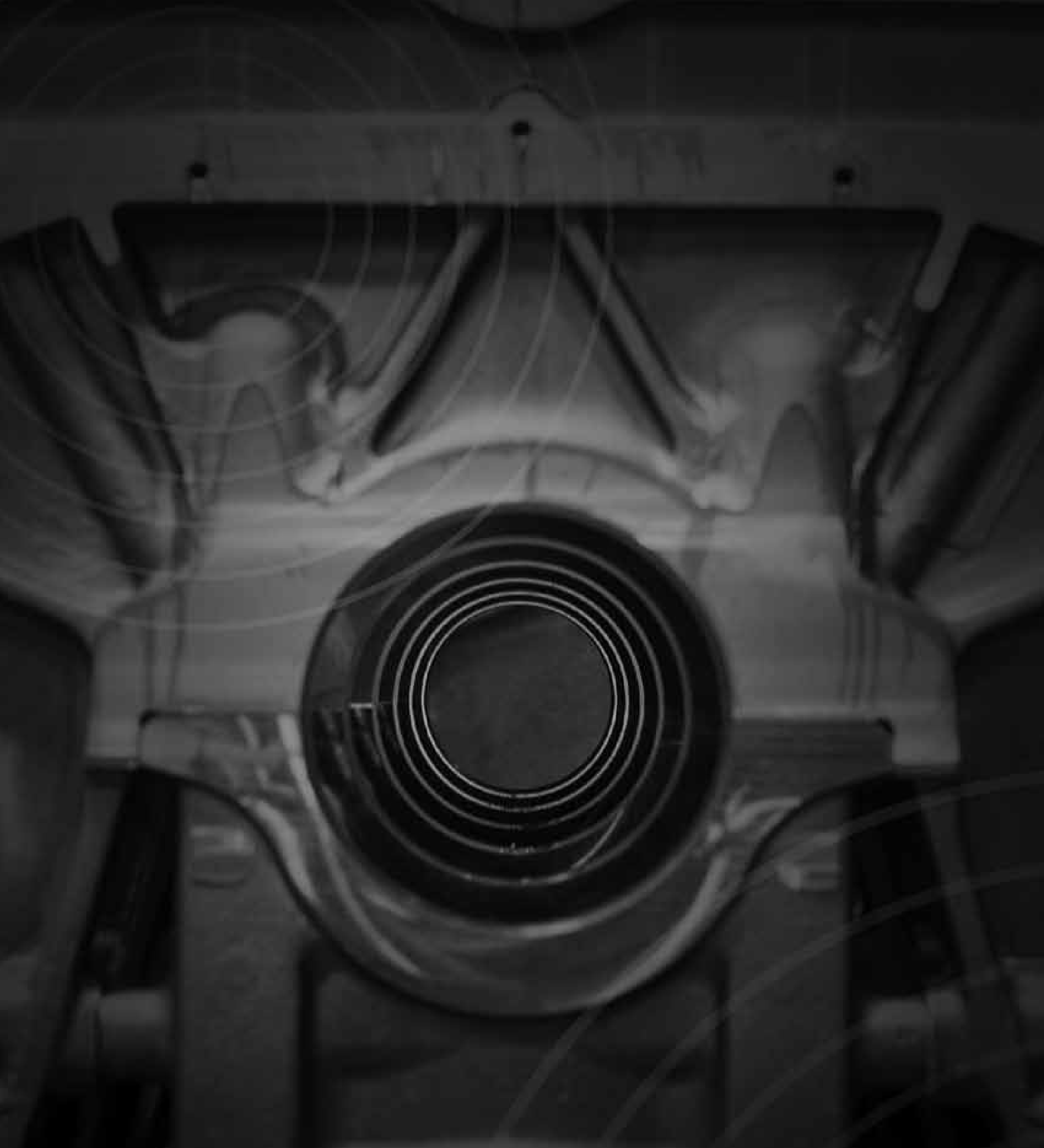
MILLER, CANFIELD, PADDOCK AND STONE LLP
Windsor, Ontario

TRANSFER AGENT

CIBC MELLON TRUST COMPANY
c/o Canadian Stock Transfer Company Inc.
P.O. Box 700 Station B
Montreal, Quebec H3B 3K3

TEL: (416) 682-3860
TOLL FREE: 1-800-387-0825

inquiries@canstockta.ca
www.canstockta.com



EXPERTISE