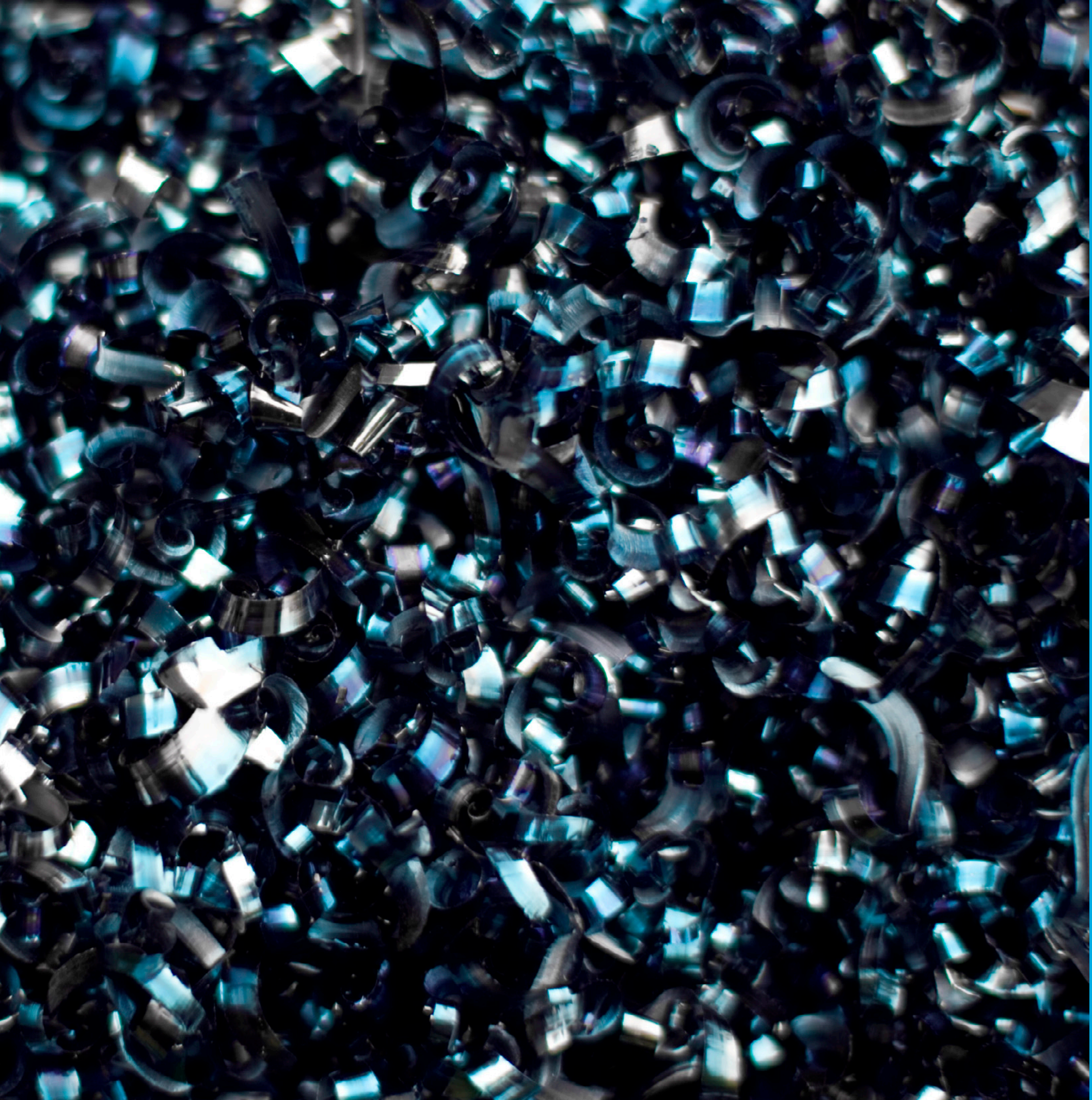
# 2013 annual report

REKO
INTERNATIONAL GROUP INC.


respect &
reputation
REKO



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## Have you ever stopped to flip through an appointment calendar from the previous year?

While I'm sure you can think of at least one really exciting thing that happened in your life last year, do you realize how many of the "average" or "less than exciting" things also happened during that year, before you actually *read* the content of that calendar?

It is those "average" or "less than exciting" events though, that usually define your future results.

This is certainly true for Reko International Group Inc. for fiscal 2013.

We didn't start or complete a major business transformation project.

It was just the everyday commitment and effort from each member of the Reko team that really defined 2013 for Reko- *the kind of effort that makes me very proud of the people that I work with each day.*

We were able to increase our net income before tax by 44% over 2012, even with a reduction in sales.

We were able to significantly improve our current ratio, both by establishing a new mortgage and by improving our cash management.

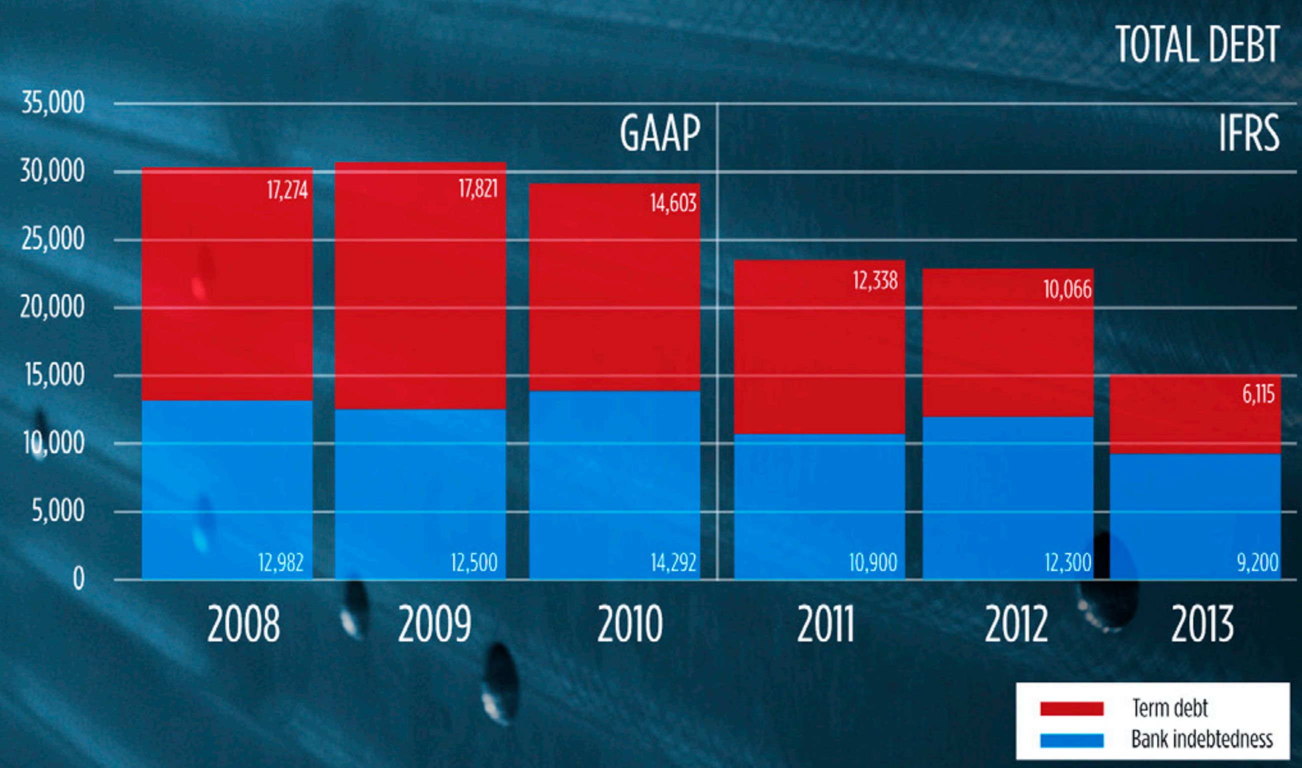
We were able to improve our debt to equity ratio from 1.0 at the end of 2012 to .64 at the end of 2013.

The people at Reko determine who we are as a company, as well as what we can achieve together.

I saw demonstrations of "who we are" in those everyday actions.

There was a demonstration of the importance of respect and reputation by the people who worked overtime on a holiday or missed a company event like the Christmas party or family picnic to make sure that our customers were up and running as planned. They understand that respect for our customers' needs and Reko's reputation for reliability are critical for our continued success.

I saw excellence through process and innovation when team members sought out new equipment, software applications, tooling, and strategies so that we could either get the job done more quickly or with better accuracy




for our customers. As a result we are anxiously awaiting the arrival of our new machine to enhance our metal cutting on the tooling side of the business, and have made our first acquisition of equipment for additive manufacturing too.

It seems like a fundamental requirement of any business to keep commitments, but I have to say, that my own personal experience over the past several months has indicated that this might be a dying value in society. At Reko, we do not believe that a customer should really have to micromanage a vendor just to ensure that the job gets done accurately and on time. Thankfully, I have seen this value alive in members of the Reko team as they demonstrate the value of commitment. We, like our competitors, have struggled to find skilled people to help us meet our workload and thus our delivery dates to our customers. Fortunately, we have had members of the team willing to do whatever it takes to ensure that our customer commitments are fulfilled. We often get messages of thanks for the commitment of our people from our customers.

There have also been great examples of the team members who drive both the efficiency and profitability of the company. They have devised smarter ways to do things, found more economical pricing on purchased items, offered a customer a unique project idea, or discovered an opportunity to remove waste from our process.

These types of everyday actions and effort are the reasons for our good results in 2013. Having a team that lives up to these values is the reason for my optimism for the years beyond 2013. Of course the team's success is enhanced by the support of our customers, lenders, vendors, directors and shareholders, and I am grateful to have this support.

There is an African proverb that says "If you want to go quickly, go alone; if you want to go far, go together." I believe that the team at Reko International Group Inc. has a wonderful opportunity to go really far, if we continue to go together. We don't need to embark upon business-changing projects every year; we just need to continue doing the right things every day.

Diane Reko

Diane Reko, B.COMM
CHIEF EXECUTIVE OFFICER

Helping our customers produce or assemble parts reliably at their lowest total cost.

*Concorde Precision Machining*
*Reko Global Services*
*Reko Manufacturing*

**Diane Reko**
CHIEF EXECUTIVE OFFICER

**Dave Romanello**
GENERAL MANAGER, TOOLING

**Gennaro Pignanelli**
ENGINEERING MANAGER

**Ernie Stajduhar**
TECHNOLOGY MANAGER

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

**Rick Stone**
GENERAL MANAGER, AUTOMATION

**Peter Gobel**
GENERAL MANAGER, CONCORDE PRECISION MACHINING

**Joe Sirianni**
HUMAN RESOURCES MANAGER


excels through
process & innovation
REKO
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*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, 2013 and the audited consolidated financial statements and MD&A for the year ended July 31, 2012 included in our 2012 Annual Report to Shareholders. The audited consolidated financial statements for the year ended July 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). When we use the terms "we", "us", "our", "Reko", or "Company", we are referring to Reko International Group Inc. and its subsidiaries.*

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

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

*This MD&A is current to October 3, 2013.*

Perfection is not attainable, but if we chase perfection we can catch excellence.

VINCE LOMBARDI

*we have the competitive advantage*

## 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.

## INDUSTRY TRENDS AND RISKS

Our sales levels have been primarily dependent upon the levels of new model releases of cars and light trucks by North American OEMs and our ability to secure moulding 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.

The following additional risk factors, as well as the other information contained in this MD&A, for the year ended July 31, 2013 or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements related to the Company.

### OPERATIONAL RISK

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

As global market conditions weakened 5 years ago, 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.

*A shift away from technologies in which the Company is investing could have a material adverse effect on our profitability and financial condition*

Like our Tier 1 customers, we continue to invest in technologies and innovations, which the Company believes are critical to its long-term growth. Our ability to anticipate changes in technology and to successfully develop and introduce new and enhanced products on a timely basis using such technologies will be a significant factor in our ability to remain competitive. 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.

*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-based and Asian-based automobile manufacturers, there is no assurance we will be successful. 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, Mexico 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.

*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. 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*

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.

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

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

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

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

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

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

*Our 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 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.

## FINANCIAL AND CAPITAL MANAGEMENT RISK

*Continued uncertain 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 and Asia, 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 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 continues its recovery. 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 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.

***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.

***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 United States ("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 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.

*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 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.

*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 and Shirley Reko own directly or indirectly 54.8% of the outstanding shares of the Company. As such, The Reko Family Corporation will be able to elect or remove the directors of the Company and to exercise control in certain respects over the Company's affairs.

### REGULATORY RISK

*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.

## UNUSUAL ITEMS

### REFINANCE OF MORTGAGE PAYABLE

During the year, the Company refinanced its mortgage payable. The previous mortgage of $5,093, repayable in monthly installments of $125, was paid in full on January 11, 2013. The refinanced mortgage payable of $5,600, repayable in monthly installments of $62, is for a five (5) year term with a ten (10) year amortization. The Company provided first charges on all of its land and buildings, a continuing first charge on equipment already secured against equipment loans and a second charge on its book debts and work-in-progress. The Company agreed to a minimum Debt Service Charge covenant as part of the transaction. As a result of the transaction, the Company's annual debt service costs decreased by $732. The difference between the funds advanced and the funds repaid, net of transaction expenses, of $471 were used to reduce the Company's bank indebtedness.

### SALE OF REDUNDANT CAPITAL ASSETS

During the year, the Company disposed of 2 redundant real estate properties with a net book value of $2,469. Net proceeds of $2,811 were received, resulting in a gain on sale of capital assets of $342. All of the net proceeds were used to reduce the Company's mortgage payable.

### 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, 2013, Reko determined that it was probable that its expected recovery of its Canadian non-capital losses had increased by $400. This resulted in Reko recording a $400 income tax recovery in the Company's fourth quarter.

## FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS

Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and 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 – 2013 | $ 14,239 | $ 15,000 | $ (761) |
| Q3 – 2013 | $ 14,874 | $ 13,000 | $ 1,874 |
| Q2 – 2013 | $ 12,990 | $ 12,000 | $ 990 |
| Q1 - 2013 | $ 10,971 | $ 12,000 | $ (1,029) |

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

| | FOR THE THREE MONTHS ENDED JULY 31, | | | | FOR THE YEAR ENDED JULY 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| | ACTUAL | REKO EFFECTIVE RATE | ACTUAL | REKO EFFECTIVE RATE | ACTUAL | REKO EFFECTIVE RATE | ACTUAL | REKO EFFECTIVE RATE |
| U.S. DOLLAR EQUALS CANADIAN DOLLAR | 1.0288 | 1.0172 | 1.0169 | 1.0093 | 1.0062 | 1.0072 | 1.0080 | 1.0177 |

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

At the end of the year, we held FFECs of $15,000 compared to $13,500 at the end of the prior year. During fiscal 2013, on average, we held FFECs of $13,000, compared to $13,900 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 – 2013 | $ 15,000 | 1.0248 |
| Q1 – 2014 | $ 7,000 | 1.0310 |

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (IN 000'S, EXCEPT FOR PER SHARE AMOUNTS)

Additional information with respect to financial instruments is provided in Note 1, Note 3 and Note 5 to Reko's audited consolidated financial statements, which by this reference are hereby incorporated herein.

## RECONCILIATION OF NON-IFRS MEASURES

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

| | 2013 | 2012 |
|---|---|---|
| SALES | $ 40,674 | $ 42,091 |
| LESS: MATERIAL | 7,850 | 14,191 |
| SUBCONTRACTING | 7,566 | 1,697 |
| INVENTORY ADJUSTMENTS | 244 | 439 |
| | $ 25,014 | $ 25,764 |

## RESULTS OF OPERATIONS

*Sales*

Sales for the year ended July 31, 2013 decreased $1,417, or 3.4%, to $40,674 compared to $42,091 in the prior year.

The decrease in sales was largely related to:

— Decreases in demand in the third and fourth quarter for goods in the capital equipment market;

— Decreases in the amount earned per hour by our facilities, caused by the reduction in demand; and,

— Decreases in demand in the fourth quarter for goods in the automotive industry.

*Earned revenue*

The earned revenue for the year ended July 31, 2013, decreased $750 to $25,014, compared to $25,764 in the prior year.

The decrease in earned revenue was largely related to:

— Reductions in demand and amounts earned per hour at our facilities

Items offsetting the decrease in earned revenue included:

— Decreased material and sub-contracting required during the year due to shorter periods of peak demand; and,

— Changes to the process of designing, machining and assembling automotive tooling.

*Gross profit*

The gross profit for the year ended July 31, 2013 decreased $725 to $6,466 or 15.9% of sales, compared to $7,191, or 17.1% of sales, in the previous fiscal year.

The decrease in gross profit was largely related to:

— Reduced levels of earned revenue during the year; and,

— Reduced recovery of fixed overhead costs applied to internally constructed capital assets as compared to the prior year.

*Selling and administration*

Selling and administration expenses ("S,G&A") decreased by $1,202, or 21.8%, to $4,307, or 10.6% of sales for the year ended July 31, 2013, compared to $5,509, or 13.1% of sales in the prior year.

The decrease in S,G&A was produced by savings achieved as a result of:

— Reductions in professional fees paid to our financial advisor;

— Recovery of previously established allowances for doubtful accounts;

— Drainage issues in the prior year that affected the accuracy of the machines at our custom machining facility, which required quarterly adjustments to maintain our accuracy levels;

— Continued reductions in wages and benefits as a result of the implementation of our business transformation project;

— Reductions in commissions, consistent with our decrease in sales during the year; and,

— Reductions related to travel and promotion, office and capital taxes.

*Earnings overview*

The net income for the year ended July 31, 2013 was $1,673, or $0.26 per share, compared to a net income of $1,267, or $0.20 per share, in the prior year.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations increased from cash provided by operations of $740 in the prior year to $6,896 in the current year.

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

— Increased collections from our customers;

— Decreased investment in operational projects, consistent with the slow-down in new order kick-offs in all of our industries in the last six months of our fiscal year; and,

— Improved profitability, including reduced interest expenses associated with our real property mortgage.

During the year, the Company refinanced its mortgage payable. The refinanced mortgage was in the amount of $5,600, is repayable in monthly installments of $62. The refinanced mortgage is for a five (5) year term and is amortized over ten (10) years. The Company provided first charges on all of its land and buildings, a continuing first charge on equipment already secured against equipment loans and a second charge on its book debts and work-in-progress. The Company agreed to a minimum Debt Service Charge covenant as part of the transaction. As a result of the transaction, the Company's annual debt service costs decreased by $732.

MANAGEMENT'S DISCUSSION AND ANALYSIS (IN 000'S, EXCEPT FOR PER SHARE AMOUNTS)

*Financial covenants*

The Company met its financial covenants at all times during the year.

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, 2013, the Company invested $1,546 in capital assets. The total capital asset investment is comprised of $200 related to growth CAPEX and $1,346 related to maintenance CAPEX spending.

*Cash resources/working capital requirements*

As at July 31, 2013, Reko had borrowed $6,866 on its revolving line of credit, net of its cash on hand, compared to $11,087 at July 31, 2012 and $13,638 at April 30, 2013. The revolver borrowings decreased by $6,772 in the quarter and decreased approximately $4,221 for the year. As a result of the lack of kick-offs and sales over the prior two quarters, we collected significantly more cash from customers than we expended on new projects. This cash infusion resulted in the substantial decrease in borrowings at year-end. Over the next six months, we anticipate this trend will reverse and we will be investing more on new projects than we will be collecting from customers. Accordingly, we expect borrowings to display an increasing trend over this period.

Reko has a $20,000 revolver available to it; however, based on our current lender defined margining capabilities, our borrowings are limited to $12,731, of which approximately $5,865 was unused and available at the end of the year. Under the terms of our credit facilities, Reko must achieve certain financial covenants including a maximum Total Debt to Tangible Net Worth, a minimum Current Ratio and a minimum Debt Service Coverage Ratio. 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*

| CONTRACTUAL OBLIGATIONS | PAYMENTS DUE BY PERIOD | | | | |
|---|---|---|---|---|---|
| | TOTAL | LESS THAN 1 YEAR | 1 – 3 YEARS | 4 – 5 YEARS | AFTER 5 YEARS |
| LONG-TERM DEBT | 6,217 | 622 | 1,364 | 4,231 | -- |
| OPERATING LEASES | 52 | 10 | 21 | 21 | -- |
| **TOTAL CONTRACTUAL OBLIGATIONS** | **6,269** | **632** | **1,385** | **4,252** | **- -** |

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, 2013. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (IN 000'S, EXCEPT FOR PER SHARE AMOUNTS)

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 2013, 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 2014.

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 2013, ended July 31, 2013. 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/11 | JAN/12 | APR/12 | JULY/12 |
|---|---|---|---|---|
| Sales | $ 10,510 | $ 11,108 | $ 11,388 | $ 9,085 |
| Net loss | 160 | 160 | 214 | 733 |
| Loss per share: Basic | 0.03 | 0.03 | 0.03 | 0.11 |
| Diluted | 0.03 | 0.03 | 0.03 | 0.11 |
| | **OCT/12** | **JAN/13** | **APR/13** | **JULY/13** |
| Sales | $ 10,737 | $ 10,504 | $ 10,871 | $ 8,562 |
| Net income | 751 | 212 | 212 | 498 |
| Earnings per share: Basic | 0.12 | 0.03 | 0.03 | 0.08 |
| Diluted | 0.12 | 0.03 | 0.03 | 0.08 |

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.*


keeps
commitments
REKO

Commitment unlocks the doors of imagination, allows vision, and gives us the "right stuff" to turn our dreams into reality.

JAMES WOMACK

*reliability at the lowest total cost*

# MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS



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

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with 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, CPA, CA, FCBV
CHIEF FINANCIAL OFFICER

*October 3, 2013*

# 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, 2013 and July 31, 2012 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Reko International Group Inc. and its subsidiaries as at July 31, 2013 and July 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

CHARTERED PROFESSIONAL ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS

*Windsor, Ontario*
*October 3, 2013*





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

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** (Notes 9 and 10) | | |
| Current | | |
| Cash | **$ 2,334** | $ 1,213 |
| Accounts receivable | **8,879** | 11,609 |
| Non-hedging financial derivatives (Note 5) | **--** | 89 |
| Work-in-progress (Note 6) | **11,294** | 12,277 |
| Prepaid expenses and other current assets | **527** | 1,009 |
| Assets held for sale (Notes 7 and 8) | **437** | 2,469 |
| | **23,471** | 28,666 |
| Capital assets (Note 7) | **18,509** | 19,336 |
| Deferred income taxes (Note 4) | **5,861** | 5,779 |
| | **$ 47,841** | $ 53,781 |
| **LIABILITIES** | | |
| Current | | |
| Bank indebtedness (Note 9) | **$ 9,200** | $ 12,300 |
| Accounts payable and accrued liabilities | **4,397** | 4,694 |
| Provisions payable (Note 17) | **190** | 250 |
| Non-hedging financial derivatives (Note 5) | **29** | -- |
| Unearned revenue on work-in-progress (Note 6) | **198** | 349 |
| Current portion of long-term debt (Note 10) | **521** | 9,241 |
| | **14,535** | 26,834 |
| Long-term debt (Note 10) | **5,594** | 825 |
| Deferred income taxes (Note 4) | **7** | 90 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 11) | **18,772** | 18,772 |
| Contributed surplus (Note 12) | **1,758** | 1,758 |
| Retained earnings | **7,175** | 5,502 |
| | **27,705** | 26,032 |
| | **$ 47,841** | $ 53,781 |

*Contingencies (Note 21)*

*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 July 31, 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 |
| **Balance at July 31, 2012** | **$ 18,772** | **$ 1,758** | **$ 5,502** | **$ --** | **$ 26,032** |
| **Share-based payments** | **--** | **--** | **--** | **--** | **--** |
| **Net income** | **--** | **--** | **1,673** | **--** | **1,673** |
| **Balance at July 31, 2013** | **$ 18,772** | **$ 1,758** | **$ 7,175** | **$ --** | **$ 27,705** |





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

| | 2013 | 2012 |
|---|---|---|
| Sales | **$ 40,674** | $ 42,091 |
| Costs and expenses | | |
| Cost of sales | **32,422** | 32,890 |
| Amortization | **1,786** | 2,010 |
| | **34,208** | 34,900 |
| Gross profit | **6,466** | 7,191 |
| Selling and administrative (Note 16) | **4,307** | 5,509 |
| Income before the following items | **2,159** | 1,682 |
| Foreign exchange (gain) loss | **(81)** | 109 |
| Other income | **(297)** | (390) |
| Business transformation expenses | **130** | 248 |
| Gain on sale of capital assets | **(203)** | (742) |
| Interest on long-term debt | **456** | 774 |
| Interest on other interest-bearing obligations | **630** | 631 |
| | **635** | 630 |
| Income before income taxes | **1,524** | 1,052 |
| Deferred income tax recovery (Note 4) | **(149)** | (215) |
| Net income and comprehensive income | **$ 1,673** | $ 1,267 |
| Earnings per common share (Note 13) | | |
| Basic | **$ 0.26** | $ 0.20 |
| Diluted | **$ 0.26** | $ 0.20 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

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

| | 2013 | 2012 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income for the year | **$ 1,673** | $ 1,267 |
| Adjustments for: | | |
| Amortization | **1,786** | 2,010 |
| Income tax expense | **(149)** | (215) |
| Interest expense | **1,086** | 1,405 |
| Unrealized foreign exchange gain | **--** | (26) |
| Gain on sale of capital assets | **(203)** | (742) |
| Stock compensation | **--** | 3 |
| | **4,193** | 3,702 |
| Net change in non-cash working capital (Note 19) | **3,819** | (2,981) |
| Interest paid | **(1,100)** | (1,453) |
| Income tax paid | **(16)** | (8) |
| **CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES** | **6,896** | (740) |
| **FINANCING ACTIVITIES** | | |
| Net proceeds from bank indebtedness | **(3,100)** | 1,400 |
| Proceeds from long-term debt | **5,600** | -- |
| Payments on long-term debt | **(9,551)** | (2,272) |
| **CASH USED IN FINANCING ACTIVITIES** | **(7,051)** | (872) |
| **INVESTING ACTIVITIES** | | |
| Investment in capital assets | **(1,546)** | (1,981) |
| Proceeds on sale of capital assets | **2,822** | 3,217 |
| **CASH PROVIDED BY INVESTING ACTIVITIES** | **1,276** | 1,236 |
| Net change in cash | **1,121** | (376) |
| Cash, beginning of year | **1,213** | 1,589 |
| Cash, end of year | **$ 2,334** | $ 1,213 |





## 1. SIGNIFICANT ACCOUNTING POLICIES

*Nature of operations*

The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate or exist in the Province of Ontario in Canada, the State of Michigan and the State of Alabama in the United States. The registered head office is located at 469 Silver Creek Industrial Drive, Lakeshore, Ontario, Canada.

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

*Statement of compliance*

The policies applied in these consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors on October 3, 2013.

*Basis of measurement*

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

*Basis of consolidation*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity 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.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

The Company's subsidiaries are as follows:

| SUBSIDIARY | LOCATION | PERCENTAGE OWNERSHIP | CONSOLIDATION |
|---|---|---|---|
| Concorde Precision Machining Inc. | Ontario | 100% | Full |
| Reko Manufacturing Group Inc. | Ontario | 100% | Full |
| Reko International Holdings Inc. | Michigan | 100% | Full |
| Reko International Sales Inc. | Michigan | 100% | Full |
| Reko Global Services, LLC | Alabama | 50% | Proportionate |

*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, 2013, the Company reported a foreign exchange gain of $81 (2012 – 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 | Fair value through profit or loss ("FVTPL") |
| Non-hedging financial derivatives | Fair value through profit or loss |
| Accounts receivable | Loans and receivables |
| Bank indebtedness | Other financial liabilities |
| Accounts payable and accrued liabilities | 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.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of the financial asset are transferred.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

*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 includes cash on hand and balances with maturities less than 90 days.

*Accounts receivable*

Accounts receivable are stated at their cost less allowance for doubtful accounts. The allowance for doubtful accounts is determined by taking into consideration the age of receivables, the Company's prior experience with the customer including their ability to pay and/or an assessment of the current economic conditions. Accounts receivable and allowance for doubtful accounts are written off when the balance is no longer considered to be collectible.

### *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 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, 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 following new standards became effective during the current fiscal year. The adoption of these new standards did not impact the Company's net earnings or financial position.

#### IAS 1 FINANCIAL STATEMENT PRESENTATION (AMENDMENT)

Effective for interim and annual financial statements relating to fiscal years beginning on or after July 1, 2012 the IASB issued amendments regarding presentation of other comprehensive earnings on the statement of other comprehensive earnings based on whether the item is recycled to earnings in the future. The Company implemented this standard without a significant impact to its financial statements.

#### IAS 12 INCOME TAXES

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2012, the IASB issued amendments regarding deferred taxes arising from non-depreciable assets measured using the revaluation model in IAS 16 Property Plant and Equipment and from investment property that is measured using the fair value model in IAS 40 Investment Property. The Company implemented this standard without a significant impact to its financial statements.

#### NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

#### IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB issued further disclosures required that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. The Company does not anticipate a significant impact to the financial statements related to these amendments.

#### IFRS 9 FINANCIAL INSTRUMENTS AND IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

IFRS 9 was a previously issued new standard to partially replace IAS 39 Financial Instruments: Recognition and Measurement. Originally it was to be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, but the IASB has changed the mandatory effective date and included additional disclosures about its initial adoption. The mandatory effective date of IFRS 9 has been changed to annual periods beginning on or after January 1, 2015. Disclosures that illustrate the effect of adopting IFRS 9 have been added to IFRS 7. The amendments to IFRS 7 have been incorporated into Appendix C of IFRS 9. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management is currently assessing the impact that this amendment will have on the financial statements of the Company. However, they do not expect to implement the amendments until all chapters of the IAS 39 replacement have been published and they can comprehensively assess the impact of all changes.

#### IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2014, the IASB amended this standard in regards to offsetting financial assets and financial liabilities to clarify the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. The Company does not anticipate a significant impact to the financial statements related to these amendments.

#### IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS, IFRS 11 JOINT ARRANGEMENTS AND IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB issued amendments to clarify the transition guidance for IFRS 10 and to provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12. The amendments will limit the requirement to provide adjusted comparative information to only the preceding comparative period. The Company does not anticipate a significant impact to the financial statements related to these amendments.

#### IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013 the IASB issued a new standard to replace IAS 27 Consolidation and separate financial statements and SIC 12 Consolidation – special purpose entities. This new standard revises the definition of control to focus on the need for power and variable returns. The Company does not anticipate a significant impact to the financial statements related to this new standard.

#### IFRS 11 JOINT ARRANGEMENTS

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013 the IASB issued a new standard to replace the IAS 31 Interests in joint ventures. This new standard reduces the joint arrangements definition to joint operations and joint ventures and restricts joint venture recognition to equity accounting method and joint operations recognition to the proportionate consolidation method. The Company's joint venture is currently accounted for using the proportionate consolidation method. The Company has determined that this operation meets the definition of a joint operation under the new standard and accordingly will continue using the proportionate consolidation method of accounting for it.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

#### IFRS 12 DISCLOSURES OF INTERESTS IN OTHER ENTITIES

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013 the IASB issued a new standard to replace the requirements in IAS 28 Investments in associates. This new standard provides guidance on the required disclosures to assist users in evaluating the nature, risk and financial impact of subsidiaries, associates, joint arrangements and unconsolidated structure entities. The Company does not anticipate a financial impact to the financial statements related to this new standard.

#### IFRS 13 FAIR VALUE MEASUREMENTS

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013 the IASB issued a new standard to define fair value, provide a framework for measuring fair value and disclosure requirements for fair value. IFRS 13 will be applied in most cases when another IFRS requires fair value measurement. The Company is currently assessing the impact that this new standard will have on the financial statements of the Company.

#### IAS 19 EMPLOYEE BENEFITS

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013 the IASB issued amendments regarding recognition and measurement of defined benefit pension plans, definition and recognition of termination benefits and disclosure requirements. The Company does not maintain a defined benefit pension plan and accordingly, implementation of this standard will not have a significant impact on the financial statements of the Company.

*The following standards have been amended to reflect Annual Improvements 2009-2011 Cycle, issued by the IASB in May 2012:*

#### IFRS 1 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB issued amendments to allow for the repeat application of IFRS 1. The Company does not anticipate the application of this standard and its amendments.

#### IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB amended this standard to clarify the requirements for providing comparative information in the financial statements. The Company does not anticipate a significant impact to the financial statements related to this amendment.

#### IAS 16 PROPERTY, PLANT AND EQUIPMENT

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB amended this standard to clarify classification requirements for servicing equipment. The Company does not anticipate a significant impact to the financial statements related to this amendment.

#### IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB amended this standard to clarify the income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction. The Company does not anticipate a significant impact to the financial statements related to this amendment.

#### IAS 34 INTERIM FINANCIAL REPORTING

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB amended this standard to clarify the requirements on segment information for total assets and liabilities for each reporting segment. The standard was also amended to require disclosures about fair value of financial instruments. The Company does not anticipate a significant impact to the financial statements related to this amendment.

## 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.

| | | 2013 |
|---|---|---|
| | REVENUES | CAPITAL ASSETS |
| **Canada** | **$ 33,584** | **$ 18,946** |
| **United States** | **7,090** | **--** |
| | **$ 40,674** | **$ 18,946** |

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

## 3. 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

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 U.S. 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 application for accounts receivable insurance, 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. 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. 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 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, 2013, sales to the Company's three largest customers represented 12.7%, 12.7% and 10.5%, respectively, of our total sales. These same customers represent approximately 20.3%, 6.4% and 4.0% of our total accounts receivable, respectively as at July 31, 2013.

*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 300 basis points. As at July 31, 2013, the Company has undrawn lines of credit available to it of approximately $12,740; however, under its current margining provisions with its lender, the maximum it can draw on its available lines of credit is limited to $5,874.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

*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, all with a maturity of less than one year from the reporting date.

At July 31, 2013, 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 2014 under forward exchange contracts | $ 15,000 | 1.0248 |

Based on the Company's foreign currency exposures, as at July 31, 2013, 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 decreased net income by $7. 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. At July 31, 2013, $9,200 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, 2013, an assumed 0.5 percentage point increase in interest rates on the first day of the year would have decreased net income by $46, 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. As at July 31, 2013 and July 31, 2012, the above capital management criteria can be illustrated as follows:

| | 2013 | 2012 |
|---|---|---|
| **Net debt** | | |
| Bank indebtedness | **$ 9,200** | $ 12,300 |
| Current portion of long-term debt | **521** | 9,241 |
| Long-term debt | **5,594** | 825 |
| Less: cash | **(2,334)** | (1,213) |
| **Net debt** | **$ 12,981** | $ 21,153 |
| **Shareholders' equity** | **$ 27,705** | $ 26,032 |
| **Ratio** | **0.47** | 0.81 |

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 quarterly basis, by management, to ensure compliance with the agreements. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

(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 Company was in compliance with these covenants at all times during the year.

*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 cash and non-hedging financial derivatives*

The following table provides an analysis of cash and 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 | 2013 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| **Cash** | **$ 2,334** | **$ --** | **$ --** | **$ 2,334** |
| **Non-hedging financial derivatives** | **--** | **(29)** | **--** | **(29)** |
| | **$ 2,334** | **$ (29)** | **$ --** | **$ 2,305** |

| | 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 |

### LONG-TERM DEBT

The Company's long-term debt of $6,217 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 $5,998.

## 4. INCOME TAXES

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

| | 2013 | 2012 |
|---|---|---|
| **Deferred tax asset** | | |
| SR & ED tax credits | **$ 2,363** | $ 2,816 |
| Undeducted SR&ED tax expenditures | **1,963** | 1,963 |
| Non-capital losses | **511** | 473 |
| Capital assets | **1,858** | 1,273 |
| Other | **140** | 291 |
| **Deferred tax asset** | **$ 6,835** | $ 6,816 |
| | | |
| **Deferred tax liability** | | |
| Tax impact of SR & ED tax credits | **$ 670** | $ 704 |
| Unbilled contract revenue | **311** | 133 |
| Capital assets | **--** | 261 |
| Other | **--** | 29 |
| **Deferred tax liability** | **$ 981** | $ 1,127 |
| **Net deferred tax asset** | **$ 5,854** | $ 5,689 |

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

| | | |
|---|---|---|
| **Deferred tax asset** | **$ 5,861** | $ 5,779 |
| **Deferred tax liability** | **$ 7** | $ 90 |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

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

| | 2013 | 2012 |
|---|---|---|
| Combined Federal and Provincial rate | **26.5%** | 27.1% |
| Manufacturing and processing deduction | **(1.5%)** | (1.5%) |
| Decrease in net realizable value | **(35.1%)** | (33.1%) |
| Permanent and other differences | **0.3%** | (12.9%) |
| Effective rate | **(9.8%)** | (20.4%) |

The details of taxable losses by jurisdiction are as follows:

| | 2013 | 2012 |
|---|---|---|
| Canada, which expire in 2032 | **2,044** | 3,391 |
| United States, which expire between 2022 and 2032 | **10,745** | 10,180 |

## 5. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at July 31, 2013, the Company had entered into foreign exchange contracts to sell an aggregate amount of $15,000 (USD). These contracts mitigate the Company's expected exposure to U.S. dollar denominated net assets and mature at the latest at January 15, 2014, at an average exchange rate of $1.0248 Canadian. The mark-to-market value on these financial instruments as at July 31, 2013 was an unrealized loss of $29, which has been recorded in net income for the year.

| AS AT JULY 31, 2013 | MATURITY | NOTIONAL VALUE | AVERAGE RATE | NOTIONAL USD EQUIVALENT | CARRYING & FAIR VALUE LIABILITY |
|---|---|---|---|---|---|
| Sell USD / Buy CAD | 0 – 6 months | $ 14,971 | $ 1.0248 | $ 15,000 | $ (29) |

| AS AT JULY 31, 2012 | MATURITY | NOTIONAL VALUE | AVERAGE RATE | NOTIONAL USD EQUIVALENT | CARRYING & FAIR VALUE ASSET |
|---|---|---|---|---|---|
| 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 |

## 6. WORK-IN-PROGRESS

| WORK-IN-PROGRESS IS COMPRISED OF: | 2013 | 2012 |
|---|---|---|
| Work-in-progress incurred plus profits less provision for future losses | $ 30,178 | $ 29,352 |
| Less: progress billings | (19,082) | (17,424) |
| | $ 11,096 | $ 11,928 |

| | 2013 | 2012 |
|---|---|---|
| Recognized and included in the financial statements as: Work-in-progress | **$ 11,294** | $ 12,277 |
| Unearned revenue on work-in-progress | **(198)** | (349) |
| | **$ 11,096** | $ 11,928 |

## 7. CAPITAL ASSETS

Capital assets are comprised of:

| | LAND | BUILDINGS | MACHINERY AND EQUIPMENT | LEASEHOLD IMPROVEMENTS | EQUIPMENT UNDER CAPITAL LEASE | EQUIPMENT UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | | |
| Balance at July 31, 2011 | $ 1,089 | $ 15,339 | $ 53,823 | $ 445 | $ 3,290 | $ 426 | $ 74,412 |
| 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** | **$ 37,019** | **$ 467** | **$ --** | **$ 1,501** | **$ 53,219** |
| **Additions** | **--** | **190** | **356** | **9** | **--** | **991** | **1,546** |
| **Transfers** | **8** | **--** | **1,585** | **--** | **--** | **(1,593)** | **--** |
| **Disposals** | **(203)** | **(4,970)** | **(230)** | **--** | **--** | **(135)** | **(5,538)** |
| **Balance at July 31, 2013** | **$ 703** | **$ 8,554** | **$ 38,730** | **$ 476** | **$ --** | **$ 764** | **$ 49,227** |

| | LAND | BUILDINGS | MACHINERY AND EQUIPMENT | LEASEHOLD IMPROVEMENTS | EQUIPMENT UNDER CAPITAL LEASE | EQUIPMENT UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|---|---|
| **Amortization and impairment losses** | | | | | | | |
| Balance at July 31, 2011 | $ -- | $ 5,596 | $ 43,404 | $ 5 | $ 698 | $ 400 | $ 50,103 |
| Amortization for the year | -- | 536 | 1,435 | 21 | 18 | -- | 2,010 |
| Transfer | -- | -- | 716 | -- | (716) | -- | -- |
| Disposals | -- | (816) | (19,483) | -- | -- | (400) | (20,699) |
| **Balance at July 31, 2012** | **$ --** | **$ 5,316** | **$ 26,072** | **$ 26** | **$ --** | **$ --** | **$ 31,414** |
| **Amortization for the year** | **--** | **290** | **1,468** | **28** | **--** | **--** | **1,786** |
| **Transfers** | **--** | **--** | **--** | **--** | **--** | **--** | **--** |
| **Disposals** | **--** | **(2,700)** | **(219)** | **--** | **--** | **--** | **(2,919)** |
| **Balance at July 31, 2013** | **$ --** | **$ 2,906** | **$ 27,321** | **$ 54** | **$ --** | **$ --** | **$ 30,281** |
| **Carrying value** | | | | | | | |
| Balance at July 31, 2012 | $ 898 | $ 8,018 | $ 10,947 | $ 441 | $ -- | $ 1,501 | $ 21,805 |
| **Balance at July 31, 2013** | **$ 703** | **$ 5,648** | **$ 11,409** | **$ 422** | **$ --** | **$ 764** | **$ 18,946** |

## 8. ASSETS HELD FOR SALE

During the year, the Company sold capital assets for net proceeds of $2,811 that were listed as Assets held for sale at the end of the previous year. The net proceeds were used to reduce the Company's mortgage.

Subsequent to year-end, the Company sold land and buildings for net proceeds of $611, which assets were included in assets held for sale within current assets and held at their carrying value. All of the proceeds were used to reduce the Company's bank indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

## 9. BANK INDEBTEDNESS

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

| | 2013 | 2012 |
|---|---|---|
| Canadian dollar bankers' acceptances – bearing interest at 5.31%, due in less than 30 days | **$ 2,000** | $ 3,300 |
| U.S. dollar LIBORs – bearing interest at 4.33% (2012 - 4.32%), due in less than 30 days | **2,000** | 9,000 |
| U.S. dollar LIBORs – bearing interest at 4.33%, due in less than 90 days | **5,000** | -- |
| Foreign exchange on U.S. dollar LIBORs | **200** | -- |
| | **$ 9,200** | $ 12,300 |

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, 2013, the Company's available operating lines of credit of $20,000 were limited to $12,731, due to lender defined margining capabilities.

## 10. LONG-TERM DEBT

The long-term debt is comprised of:

| | 2013 | 2012 |
|---|---|---|
| Mortgage payable – 6%, repayable $62 monthly including interest, due in full January 2018, secured by land, buildings and certain machinery, and a second position on a general assignment of book debts and work-in progress | **$ 5,392** | $ -- |
| 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 | **--** | 8,426 |
| 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 |
| Loan payable – 6.50% repayable $20 monthly including interest due in full August 2017 secured by equipment | **825** | 1,000 |
| | **6,217** | 10,176 |
| Deduct – unamortized finance fees | **102** | 110 |
| principal portion included in current liabilities | **521** | 9,241 |
| Long-term portion | **$ 5,594** | $ 825 |

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

| YEAR | BANK CREDIT FACILITIES | CAPITAL LEASES | TOTAL |
|---|---|---|---|
| Next 12 months | $ 622 | $ -- | $ 622 |
| 2 years | 661 | -- | 661 |
| 3 years | 703 | -- | 703 |
| 4 years | 746 | -- | 746 |
| 5 years | 3,485 | -- | 3,485 |
| Balance of obligation | $ 6,217 | $ -- | $ 6,217 |

## 11. 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, July 31, 2011 | 6,420,920 | $ 18,772 |
| Transactions during the year | -- | -- |
| Outstanding, July 31, 2012 | 6,420,920 | 18,772 |
| Transactions during the year | **--** | **--** |
| Outstanding, July 31, 2013 | **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, 2013 were exercised:

| | |
|---|---|
| Common shares outstanding at July 31, 2013 | 6,420,920 |
| Stock options (Note 14) | -- |
| | 6,420,920 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

## 12. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of year | $ 1,758 | $ 1,755 |
| Amounts charged to contributed surplus in respect of the stock based compensation | -- | 3 |
| Balance, end of year | $ 1,758 | $ 1,758 |

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2013 was based on the net income attributable to common shareholders of $1,673 (2012: $1,267) and a weighted average number of common shares outstanding of 6,420,920 calculated as follows:

| | 2013 | 2012 |
|---|---|---|
| Basic earnings per share: | | |
| Net income | $ 1,673 | $ 1,267 |
| Average number of common shares outstanding during the year | 6,420,920 | 6,420,920 |
| Basic earnings per share | $ 0.26 | $ 0.20 |
| Diluted earnings per share: | | |
| Net earnings available to common shareholders | $ 1,673 | $ 1,267 |
| 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 |
| | 6,420,920 | 6,447,920 |
| Diluted earnings per share | $ 0.26 | $ 0.20 |

Diluted earnings per share exclude 46,000 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.

## 14. 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, 2013, 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:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding at the beginning of the year | 46,000 | $ 1.30 | 74,000 | $ 1.38 |
| Expired during the year | -- | -- | (3,000) | 3.27 |
| Cancelled during the year | -- | -- | (25,000) | 1.30 |
| Outstanding at the end of the year | 46,000 | $ 1.30 | 46,000 | $ 1.30 |
| Exercisable at the end of the year | 46,000 | $ 1.30 | 46,000 | $ 1.30 |

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:

| | 2013 | 2012 |
|---|---|---|
| Expected life | 5 years | 5 years |
| Expected dividends | $ Nil | $ Nil |
| Expected volatility – based on a 60-month historical average | 59.18% | 57.34% |
| Risk free rate of return | 0.98% | 0.97% |
| Total compensation cost recognized in income for stock-based employee compensation awards | $ Nil | $ 3 |

## 15. OPERATING LEASES – LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

| | 2013 | 2012 |
|---|---|---|
| Less than one year | $ 10 | $ 30 |
| Between one and five years | 42 | 5 |
| More than five years | -- | -- |
| | $ 52 | $ 35 |

During the year ended July 31, 2013, $10 was expensed with respect to operating leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

## 16. BUSINESS TRANSFORMATION PROJECT

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

| | 2013 | 2012 |
|---|---|---|
| Opening balance | $ 50 | $ 1,778 |
| Severance costs charged to expenses in current year | -- | 50 |
| Reduction in management estimate | -- | (270) |
| Cash payments | (50) | (1,508) |
| | $ -- | $ 50 |

## 17. PROVISIONS

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

| | 2013 | 2012 |
|---|---|---|
| Severance payable | $ -- | $ 50 |
| Other short-term provisions | 190 | 200 |
| | $ 190 | $ 250 |

## 18. 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. During the year, the Company expensed contributions of $4 to the defined contribution plan in Canada. The above contribution plans are identical to the contribution plans provided to all employees of the Company.

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

Key management personnel compensation comprised:

| | 2013 | 2012 |
|---|---|---|
| Salaries and cash bonuses | $ 624 | $ 685 |
| Short-term employment benefits | 30 | 29 |
| Post-employment benefits | 4 | 5 |
| Termination benefits | -- | 119 |
| | $ 658 | $ 838 |

*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 54.8% of the voting shares of the Company.

## 19. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | 2013 | 2012 |
|---|---|---|
| Accounts receivable | $ 2,730 | $ (923) |
| Non-hedging financial derivatives | 118 | 1,083 |
| Work-in-progress | 983 | 260 |
| Prepaid expenses and other current assets | 482 | (115) |
| Accounts payable and accrued liabilities | (283) | (1,656) |
| Provisions | (60) | (1,528) |
| Unearned revenue on work-in-progress | (151) | (102) |
| | $ 3,819 | $ (2,981) |

## 20. REKO GLOBAL SERVICES, LLC

At July 31, 2013, the following balances relate to the Company's share of the entity reporting under proportionate consolidation.

| | 2013 | 2012 |
|---|---|---|
| Current assets | $ 700 | $ 512 |
| Current liabilities | 187 | 146 |
| Revenues | 2,680 | 1,744 |
| Expenses | 2,327 | 1,438 |
| Net income | 353 | 306 |
| Cash flow from operating activities | (347) | 589 |

## 21. CONTINGENCIES & COMMITMENTS

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.

The Company has issued a purchase order to a supplier for $1,200 for the purchase of capital equipment. The Company has paid $120 towards the purchase price as a deposit. The Company anticipates taking possession of the equipment in the second quarter of fiscal 2014.

## 22. SUBSEQUENT EVENT

Subsequent to year-end, the Company secured financing associated with its purchase of capital equipment in the second quarter of 2014. The Company secured an equipment term loan of $1,100, denominated in U.S. dollars ($1,132 Cdn) for a 3 to 5 year period, bearing interest at the lenders' U.S. term base rate plus 275 basis points. The period of the loan and the final interest rate will be determined at funding for the loan contemporaneously with taking possession of the capital equipment. The loan is secured by a first charge on the capital equipment acquired.

Subsequent to year-end, the Company sold land and buildings for net proceeds of $611. The net proceeds were used to reduce the Company's bank indebtedness.

# operates efficiently & profitably

REKO

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Sales | **$ 40,674** | 42,091 | 39,863 | $ 40,151 | $ 55,277 | $ 55,729 |
| Cost and expenses | | | | | | |
| Cost of sales | **32,422** | 32,890 | 34,141 | 36,040 | 41,670 | 46,517 |
| Depreciation and amortization | **1,786** | 2,010 | 2,755 | 5,058 | 4,615 | 5,511 |
| | **34,208** | 34,900 | 36,896 | 41,098 | 46,285 | 52,028 |
| Gross profit | **6,466** | 7,191 | 2,967 | (947) | 8,992 | 3,701 |
| Selling and administrative | **4,307** | 5,509 | 5,869 | 5,990 | 7,101 | 7,226 |
| (Loss) income before the following | **2,159** | 1,682 | (2,902) | (6,937) | 1,891 | (3,525) |
| (Gain) loss on sale of capital assets | **(203)** | (742) | (226) | (24) | 116 | 15 |
| Income – other | **(297)** | (390) | -- | -- | -- | -- |
| Unrealized foreign exchange (gain) loss | **(81)** | 109 | (975) | 119 | (3) | -- |
| Asset impairment | **--** | -- | 3,795 | -- | -- | -- |
| Business transformation expenses | **130** | 248 | 2,359 | -- | -- | -- |
| Interest on long-term debt | **456** | 774 | 864 | 1,026 | 1,000 | 1,102 |
| Interest expense, net | **630** | 631 | 763 | 449 | 488 | 506 |
| | **635** | 630 | 6,580 | 1,570 | 1,601 | 1,623 |
| Income (Loss) before income taxes | **1,524** | 1,052 | (9,482) | (8,507) | 290 | (5,148) |
| Income taxes (recovered) | | | | | | |
| Current | **--** | -- | -- | -- | 8 | 30 |
| Deferred | **(149)** | (215) | 184 | (1,038) | 83 | (1,649) |
| | **(149)** | (215) | 184 | (1,038) | 91 | (1,619) |
| Net income (loss) for the year | **1,673** | 1,267 | $ (9,666) | $ (7,469) | $ 199 | $ (3,529) |
| Basic income (loss) per common share | **$ 0.26** | 0.20 | $ (1.51) | $ (1.16) | $ 0.03 | $ (0.49) |

Note: 2011 to 2013 figures are based on IFRS and 2008 to 2010 are based on Canadian Generally Applied Accounting Principles.





| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Costs and expenses | | | | | | |
| Cost of sales | **79.7%** | 78.1% | 85.7% | 90.0% | 75.4% | 83.5% |
| Depreciation and amortization | **4.4%** | 4.8% | 6.9% | 12.6% | 8.3% | 9.8% |
| Selling and administration | **10.6%** | 13.1% | 14.7% | 14.9% | 12.8% | 13.0% |
| | **94.7%** | 96.0% | 107.3% | 117.5% | 96.5% | 106.3% |
| Gross margin | **15.9%** | 17.1% | 7.4% | (2.3%) | 16.3% | 6.6% |
| Return on sales | **4.1%** | 3.0% | (24.2%) | (18.6%) | 0.4% | (6.3%) |
| Effective tax rate | **(10.2%)** | (20.0%) | 1.9% | 12.2% | (31.4%) | (31.4%) |


## DIRECTORS AND OFFICERS

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

Carl A. Merton, CPA, 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, CPA, 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, CPA, CA, FCBV
*Chief Financial Officer*

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Tel: (519) 727-3287
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*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 5, 2013 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

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Windsor, Ontario

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### BANK OF MONTREAL

Windsor, Ontario

### COMERICA BANK

Detroit, Michigan

## COUNSEL

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respect & reputation

excels through process & innovation

keeps commitments

operates efficiently & profitably