

Reko International Group Inc.

Interim Condensed Consolidated Financial Statements

(unaudited)

For the three months ended October 31, 2018 and 2017

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Reko International Group Inc. for the three months ended October 31, 2018 have been prepared by Management and approved by the Board of Directors on December 6, 2018. The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

REKO INTERNATIONAL GROUP INC.
(in 000's, except for per share amounts)

	October 31, 2018	July 31, 2018
ASSETS		
Current		
Cash	\$ 3,444	\$ 6,565
Accounts receivable	13,250	11,978
Work-in-progress	8,433	10,163
Prepaid expenses and other current assets	2,003	1,319
	27,130	30,025
Grants Receivable (Note 15)	--	436
Capital assets (Note 6)	30,932	31,259
Embedded derivative (Note 7)	42	48
Deferred income taxes	3,199	3,271
	\$ 61,303	\$ 65,039
LIABILITIES		
Current		
Bank indebtedness	\$ --	\$ 4,815
Accounts payable and accrued liabilities	4,191	3,226
Non-hedging financial derivatives (Note 5)	144	27
Unearned revenue on work-in-progress	440	336
Current portion of unearned revenue	80	102
Current portion of long-term debt (Note 9)	1,087	1,169
Long-term debt subject to demand provisions (Note 9)	6,646	6,868
	12,588	16,543
Long-term debt (Note 9)	3,322	3,315
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	18,928	18,824
Contributed surplus	1,803	1,865
Retained earnings	24,662	24,492
	45,393	45,181
	\$ 61,303	\$ 65,039

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

REKO INTERNATIONAL GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in 000's, except for per share amounts)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at July 31, 2017	\$ 18,803	\$ 1,856	\$ 22,456	\$ --	\$ 43,115
Share-based payments	--	--	--	--	--
Net income	--	--	255	--	255
Balance at October 31, 2017	\$ 18,803	\$ 1,856	\$ 22,711	\$ --	\$ 43,370
Balance at July 31, 2018	\$ 18,824	\$ 1,865	\$ 24,492	\$ --	\$ 45,181
Share-based payments	104	(62)	--	--	42
Net income	--	--	170	--	170
Balance at October 31, 2018	\$ 18,928	\$ 1,803	\$ 24,662	\$ --	\$ 45,393

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

REKO INTERNATIONAL GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in 000's, except for per share amounts)

	For the three months ended,	
	October 31, 2018	October 31, 2017
Sales	\$ 11,438	\$ 8,761
Costs and expenses		
Cost of sales	8,750	6,618
Depreciation	896	797
	9,646	7,415
Gross profit	1,792	1,346
Selling and administrative	1,308	1,005
Income before other items	484	341
Foreign exchange loss	125	27
Other income	(26)	(46)
(Gain) loss on disposal of capital assets	(2)	--
Interest on long-term debt	105	61
Interest on other interest-bearing obligations	40	16
	242	58
Income before income taxes	242	283
Deferred income tax provision	72	28
Net income and comprehensive income	\$ 170	\$ 255
Earnings per common share (Note 12)		
Basic	\$ 0.03	\$ 0.04
Diluted	\$ 0.03	\$ 0.04

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

	For the three months ended October 31, 2018	For the three months ended October 31, 2017
OPERATING ACTIVITIES		
Net income for the period	\$ 170	\$ 255
Adjustments for:		
Depreciation	896	797
Gain on sale of capital assets	(2)	--
Stock compensation	104	--
Fair value of embedded derivative	6	--
Income tax expense	72	28
Interest expense	145	77
	1,391	1,157
Net change in non-cash working capital	1,084	(1,208)
Interest paid	(147)	(79)
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	2,328	(130)
FINANCING ACTIVITIES		
Change in bank indebtedness	(4,815)	1,343
Unrealized foreign exchange gain	80	6
Issuance of capital stock	69	--
Payments on long-term debt	(214)	(317)
CASH PROVIDED BY FINANCING ACTIVITIES	(4,880)	1,032
INVESTING ACTIVITIES		
Investment in capital assets	(569)	(1,966)
CASH USED IN INVESTING ACTIVITIES	(569)	(1,966)
Net change in cash	(3,121)	(1,064)
Cash, beginning of period	6,565	4,740
Cash, end of period	\$ 3,444	\$ 3,676

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

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

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 and the State of Michigan 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 industrial automation, large custom machining projects, and manufacturing molds, primarily for the automotive sector.

Statement of compliance

The Board of Directors approved the unaudited interim condensed consolidated financial statements on December 6, 2018.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended July 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies adopted are consistent with the accounting policies and methods as those used in the Company's audited consolidated annual financial statements for the year ended July 31, 2018 except as noted below.

Basis of measurement

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

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The Company's subsidiaries are as follows:

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

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

Concorde USA LLC	Michigan	100%	Full
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2. CHANGES IN ACCOUNTING POLICIES

IFRS 15 Revenue from Contracts with Customers

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued IFRS 15 to replace IAS 18 – Revenue. The core principle of the new standard is for companies to recognize revenue in accordance with the transfer of goods and services to customers in amounts that reflect the consideration to which the Company is entitled in exchange for those goods and services. The new standard will also expand disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements.

Management has evaluated each of the five steps in the new revenue recognition model for the Company's revenue streams. Through its evaluation, management does not expect the new revenue guidance to have a significant impact on the Company's consolidated statement balance sheet or the consolidated statement of income in comparison to the previous revenue guidance under IAS 18. The new standard will result in changes to the nature and quantity of annual disclosures with respect to revenue recognition. Management has implemented the Company's revised revenue policies, reporting processes and related controls.

The Company has adopted IFRS 15 effective August 1, 2018 using the modified retrospective approach. This adoption did not result in a need to adjust opening retained earnings.

IFRS 9 Financial Instruments

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued IFRS 9 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 replaces the provisions of IAS 39 and introduces a model for classification and measurement, a single, forward-looking "expected loss" impairment model and an updated approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new standard also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. In addition, IFRS 9 significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

Management has evaluated the changes introduced by IFRS 9. Management has determined that the new financial instruments guidance does not have a significant impact on the Company's consolidated balance sheet or the consolidated income statements. The new standard will impact the nature and quantity of annual disclosures. Management has implemented the Company's revised policies, reporting processes and related controls.

The Company has adopted this guidance effective August 1, 2018. This adoption did not result in an adjustment to opening retained earnings.

3. 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.

	Three months ended October 31, 2018	
	Revenues	Capital assets
Canada	\$ 11,438	\$ 30,932
United States	--	--
	\$ 11,438	\$ 30,932

	Three months ended October 31, 2017	
	Revenues	Capital assets
Canada	\$ 8,761	\$ 24,196

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

United States	--	--
	\$ 8,761	\$ 24,196

4. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, non-hedging financial derivatives, embedded derivative, bank indebtedness, accounts payable and accrued liabilities and long-term debt.

Fair Value

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

Accounts receivable, bank indebtedness, accounts payable and accrued liabilities

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

Categories of method of fair valuing cash, non-hedging financial derivatives, embedded derivative and long-term debt

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	October 31, 2018
Financial assets at FVTPL				
Cash	\$ 3,444	\$ --	\$ --	\$ 3,444
Embedded derivative	--	42	--	42
	\$ 3,444	\$ 42	\$ --	\$ 3,486
Financial liabilities at FVTPL				
Non-hedging financial derivatives	\$ --	\$ 144	\$ --	\$ 144
	\$ --	\$ 144	\$ --	\$ 144

	Level 1	Level 2	Level 3	July 31, 2018
Financial assets at FVTPL				
Cash	\$ 6,565	\$ --	\$ --	\$ 6,565
Embedded derivative	--	48	--	48
	\$ 6,565	\$ 48	\$ --	\$ 6,613
Financial liabilities at FVTPL				
Non-hedging financial derivatives	\$ --	\$ 142	\$ --	\$ 142

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

\$ -- \$ 142 \$ -- \$ 142

Non-hedging financial derivatives

The Company's non-hedging financial derivatives are the Company's future forward exchange contracts and are subject to fluctuations in foreign exchange rates between the Canadian and US dollar. The Company's non-hedging financial derivatives are valued based on discounting the future cash outflows associated with the contract based on the closing foreign exchange rate between the Canadian and US dollar.

Embedded derivative

The Company's embedded derivative relates to a provision in a long-term supply agreement with a customer. The provision provides that at the end of each six-month period in the five-year contract, the average foreign exchange rate between US dollars and Canadian dollars, during that period, shall be at least \$1.09. In the event the average foreign exchange rate is less than \$1.09, the customer equalizes the Company based on an average foreign exchange rate of \$1.09. The Company's embedded derivative is valued based on valuation models for Asian puts and the closing foreign exchange rate between the Canadian and US dollar.

Long-term debt

The Company's long-term debt of \$6,366 CDN and \$2,978 US (currently valued at \$3,904 CDN) is subject to fixed interest rates. The Company's long-term debt is valued based on discounting the future cash outflows associated with the long-term debt. The discount rate is based on the incremental premium above market rates for Government of Canada securities of similar duration. In each period thereafter, the incremental premium is held constant while the Government of Canada security is based on the then current market value to derive the discount rate. At October 31, 2018, the fair value of the Company's long term debt is \$5,774 CDN and \$2,275 USD (currently valued at \$2,982 CDN). At October 31, 2017, the fair value of the Company's long term debt was \$4,971.

5. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at October 31, 2018, the Company had entered into foreign exchange contracts to sell an aggregate amount of \$10,000 (USD). These contracts mitigate the Company's expected exposure to U.S. dollar denominated net assets and mature at the latest at, April 10, 2018, at an average exchange rate of \$1.3003 Canadian. The mark-to-market value on these financial instruments as at October 31, 2018 was an unrealized loss of \$144, which has been recorded in net income for the period.

As at October 31, 2018	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value liability
Sell USD / Buy CAD	0 – 6 months	\$ 9,856	1.3003	\$ 10,000	\$ 144
As at July 31, 2018	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value liability
Sell USD / Buy CAD	0 – 6 months	\$ 9,973	1.2951	\$ 10,000	\$ 27

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6. CAPITAL ASSETS

Capital assets are comprised of:

	Land	Buildings	Machinery and equipment	Leasehold improvements	Assets under construction	Total
Cost or deemed cost						
Balance at July 31, 2017	\$ 661	\$ 8,447	\$ 45,468	\$ 587	\$ 784	\$ 55,947
Additions	--	--	--	--	11,499	11,499
Transfers	--	5,203	4,869	--	(10,072)	--
Disposals	--	--	(144)	--	--	(144)
Balance at July 31, 2018	\$ 661	\$ 13,650	\$ 50,193	\$ 587	\$ 2,211	\$ 67,302
Additions	--	40	--	--	529	569
Transfers	--	213	472	--	(685)	--
Disposals	--	--	(2)	--	--	(2)
Balance at Oct 31, 2018	\$ 661	\$ 13,903	\$ 50,663	\$ 587	\$ 2,055	\$ 67,869
Amortization and impairment losses						
Balance at July 31, 2017	\$ --	\$ 3,774	\$ 28,939	\$ 207	\$ --	\$ 32,920
Amortization for the year	--	326	2,894	43	--	3,263
Transfer	--	--	--	--	--	--
Disposals	--	--	(140)	--	--	(140)
Balance at July 31, 2018	\$ --	\$ 4,100	\$ 31,693	\$ 250	\$ --	\$ 36,043
Amortization for the year	--	115	771	10	--	896
Transfers	--	--	--	--	--	--
Disposals	--	--	(2)	--	--	(2)
Balance at Oct 31, 2018	\$ --	\$ 4,215	\$ 32,462	\$ 260	\$ --	\$ 36,937
Carrying value						
Balance at July 31, 2018	\$ 661	\$ 9,550	\$ 18,500	\$ 337	\$ 2,211	\$ 31,259
Balance at Oct 31, 2018	\$ 661	\$ 9,688	\$ 18,201	\$ 327	\$ 2,055	\$ 30,932

7. EMBEDDED DERIVATIVE

During the first quarter of 2015, the Company entered into a long-term supply agreement with one of its customers. One of the terms of that agreement included an embedded derivative, establishing a foreign exchange rate floor of \$1.09 on sales by the Company to the customer. This floor is measured every six months during the term of the agreement and is based on the average foreign exchange rate during the period under measurement. The embedded derivative is comprised of:

	Oct 31, 2018	July 31, 2018
Embedded derivative, beginning of period	\$ 48	\$ 50
Additions during the period	--	--
Fair value change, during the period	6	2

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NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

Embedded derivative, end of period	\$ 42	\$ 48
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8. BANK INDEBTEDNESS

The bank indebtedness is payable over various maturities, not exceeding 30 days, with interest at various amounts ranging from LIBOR plus 175 basis points to bank prime plus 50 basis points, as follows:

	Oct 31, 2018	July 31, 2018
Bank overdraft – bearing interest at 5.25%	\$ --	\$ 49
Canadian dollar bankers' acceptance bearing interest at 3.338% due in less than 30 days	--	1,500
U.S. dollar LIBOR bearing interest at 3.64826% due in less than 30 days	--	2,500
Foreign exchange on U.S. dollar LIBOR	--	766
	\$ --	\$ 4,815

The bank indebtedness is secured by a general assignment of book debts and work-in-progress together with a second collateral mortgage of \$85,000 on all land and buildings. At October 31, 2018, of the Company's available operating lines of credit of \$20,000, \$17,596 was fully available based on lender defined margining capabilities.

9. LONG-TERM DEBT

The long-term debt is comprised of:

	Oct 31, 2018	July 31, 2018
Mortgage payable – 3.97%, repayable \$21 monthly including interest, due in full April 2023, secured by certain land and building and an assignment of rents on the subject property	\$ 3,441	\$ 3,471
Mortgage payable – 4.42%, repayable \$21 monthly including interest, due in full August 2023, secured by certain land and building and general security agreement, subject to demand provisions	2,925	2,950
Mortgage payable – 3.06% plus a credit spread, which may vary over the life of facility to a maximum of 275, currently at 175 for an all-in rate of 4.81%, repayable \$14 USD monthly plus interest, due in full August 2025, secured by certain land, buildings and a general security agreement, subject to demand provisions	3,904	3,925
Loan payable – US dollar LIBOR (\$ 800USD) plus applicable margin from 175 to 250 basis points, \$45 USD monthly plus interest, due in full in March 2020, secured by general assignment of book debts and work-in-progress, together with a collateral mortgage	872	1,045
	11,142	11,391
Deduct – unamortized finance fees	87	39
current portion including amounts subject to demand	7,733	8,037
Long-term portion	\$ 3,322	\$ 3,315

Notwithstanding the fact that certain facilities listed above are subject to demand provisions and are classified as current liabilities as a result, the Company expects to repay the principal over the entire scheduled term of the loans and these payments are outlined below. At October 31, 2018, \$1,087 is due within the next twelve months under

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

normal repayment terms and an additional \$6,646 is not expected to be due in the next year but is subject to demand provisions.

Total bank credit facilities are as follows:

Year	Bank Credit Facilities
Next 12 months	\$ 1,175
2 years	634
3 years	476
4 years	481
5 years	5,455
Thereafter	2,921
Balance of obligation	\$ 11,142

10. 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	6,469,920	\$ 18,928

Share capital transactions during the period were as follows:

	October 31, 2018		July 31, 2018	
	Shares	Amount	Shares	Amount
Outstanding, beginning of year	6,439,920	\$18,824	6,434,920	\$ 18,803
Transactions during the period	30,000	104	5,000	21
Outstanding, end of period	6,469,920	\$18,928	6,439,920	\$ 18,824

The following table presents the maximum number of shares that would be outstanding if all the dilutive “in the money” instruments outstanding, as at October 31, 2018 were exercised:

Common shares outstanding at October 31, 2018	6,469,920
Stock options	173,492
	6,643,412

11. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	Oct 31, 2018	July 31, 2018
Balance, beginning of year	\$ 1,865	\$ 1,856
Amounts charged to contributed surplus in respect of the stock based compensation	7	9

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

Balance, end of year	\$ 1,803	\$ 1,865
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12. EARNINGS PER SHARE

The calculation of basic earnings per share at October 31, 2018 was based on the net income attributable to common shareholders of \$170 and a weighted average number of common shares outstanding of 6,448,492 calculated as follows:

	Oct 31, 2018	Oct 31, 2017
Basic earnings per share:		
Net income for the three month period	\$ 170	\$ 255
Average number of common shares outstanding during the period	6,448,492	6,434,920
Basic earnings per share	\$ 0.03	\$ 0.04
Diluted earnings per share:		
Net earnings available to common shareholders	\$ 170	\$ 255
Average number of common shares outstanding during the period	6,448,492	6,434,920
'In the money' stock options outstanding during the period	173,492	309,000
	6,621,984	6,743,920
Diluted earnings per share	\$ 0.03	\$ 0.04

13. STOCK-BASED COMPENSATION

The Company has established a stock option plan for directors, officers and key employees. The terms of the plan state that the aggregate number of shares, which may be issued and sold, will not exceed 10% of the issued and outstanding common shares of the Company on a non-diluted basis. The issue price of the shares shall be determined at the time of grant based on the closing market price of the shares on the specified date of issue. Options shall be granted for a period of five years. At the directors' discretion, the vesting progression is 30% in the year of grant, 30% in the second year after grant and 40% in the third year after the grant. Options given to outside directors vest immediately and can be exercised immediately.

As at October 31, 2018, the following options were outstanding:

Number of Options	Exercise price	Expiry
256,000	\$ 2.00	2020
100,000	\$ 3.90	2022
10,000	\$ 3.70	2024
5,000	\$ 3.41	2024

The weighted average of the options is as follows:

Oct 31, 2018	Oct 31, 2017
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	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the period	401,000	\$ 2.47	414,000	\$ 2.41
Expired during the period	--	--	--	--
Issued during the period	--	--	--	--
Exercised during the period	(30,000)	1.15		
Cancelled during the period	--	--	5,000	3.90
Outstanding at the end of the period	371,000	\$ 2.58	409,000	\$ 2.39
Exercisable at the end of the period	76,500	\$ 3.88	86,000	\$ 2.78

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:

	Oct 31, 2018	Oct 31, 2017
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	46.34%	50.59%
Risk free rate of return	0.81%	0.67%
Expected forfeiture rate	90.0%	85.6%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ 7	\$ --

14. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

In addition to their salaries, the Company also provides non-cash benefits to its executive officers and contributes to a post-employment defined contribution benefit plan on their behalf. In accordance with the terms of the plan, executive officers are entitled to receive a \$1 contribution to the Company's Group RRSP annually, once they have completed 5 years of service to the Company (or as otherwise, negotiated). During the period, the Company expensed contributions of less than \$1 to the defined contribution plan in Canada. The above contribution plans are identical to the contribution plans provided to all Canadian employees of the Company of key management personnel.

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

Key management personnel compensation comprised:

	Oct 31, 2018	Oct 31, 2017
Salaries and cash bonuses	\$ 189	\$ 215
Short-term employment benefits	7	7
Post-employment benefits	1	1
	\$ 197	\$ 223

Key management personnel and director transactions

Directors of the Company control 3.7% of the voting shares of the Company. Relatives of a director own, directly or indirectly, 59.9% of the voting shares of the Company.

15. GOVERNMENT GRANT

REKO INTERNATIONAL GROUP INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Effective August 1, 2017, the Company entered into a contract with the Ontario Ministry of Economic Growth and Development to receive funding of \$300 per year for five successive years under the Southwestern Ontario Development Fund (SWODF). The contract provides a non-repayable grant in the amount of 10% of approved capital expenditures incurred in connection with the expansion of the Company's manufacturing capabilities during the period from May 1, 2017 through July 31, 2021 and is contingent upon the Company meeting agreed upon job creation targets.

The funding relates to capital acquisitions and as a result, related assets are recorded net of the applicable grant amount - with the net amount being amortized over the useful life of each individual asset.

At October 31, 2018, the Company has received the first instalment of \$300 in cash funding from SWODF and accrued an additional amount receivable of \$599 on total eligible expenditures of \$8,994. This balance is included in accounts receivable at October 31, 2018, as the payment is anticipated within the next twelve months. Grant amounts will be paid in accordance with the funding contract over the period of the agreement as long as job creation targets and certain reporting and other obligations are fulfilled on an annual basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of operations and financial position ("MD&A") and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the period ended October 31, 2018 and the audited consolidated financial statements and MD&A for the year ended July 31, 2018 included in our 2018 Annual Report to Shareholders. The unaudited interim condensed consolidated financial statements for the period ended October 31, 2018 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. 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 measure of performance, and management believes it is used by certain investors and analysts as a measure of the Company's financial performance. This measure is not necessarily comparable to similarly titled measures used by other companies.

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

This MD&A is current to December 6, 2018.

OVERVIEW

Reko International Group Inc. is a diversified, technology-driven manufacturing organization. Our touchstone philosophy is "Strengthening Communities By Advancing Manufacturing" which epitomizes our commitment to using our distinctive blend of technology and skills to improve the lives of our team members, our customers, our shareholders - as well as our local and global communities.

Reko designs and manufactures a variety of engineered products and services for original equipment manufacturers ("OEMs") and their Tier suppliers. These products include design and construction of unique specialty machines and lean cell factory automation solutions and robotics; high precision, custom machining of very large critical components and assemblies; and plastic injection and low compression acoustic molds. While many of our customers are in the automotive market, the Company has diversified beyond automotive into a number of sectors.

For the transportation and oil and gas industries, the Company machines customer supplied metal castings to customer indicated specifications. For the automotive industry, the Company conceptualizes designs and builds innovative solutions to manufacturing challenges, including specialty machines for gas tank assembly lines; unique material handling applications; work cell solutions as well as compression molds and plastic injection molds. Across our target industries, Reko is known for outstanding quality and customer focus and for an unwavering commitment to exceeding customer expectations and deliverables while striving for constant improvement across all our chosen metrics.

With the opening of a new state of the art automation facility in April 2018, our design and manufacturing operations are carried on in three manufacturing plants located on adjacent parcels of land in Lakeshore, Ontario a suburb of the City of Windsor in Southwestern Ontario.

INDUSTRY TRENDS AND RISKS

While the Company has increased the level of diversification across industries, sales volumes still have a significant dependence upon the levels of new model releases for vehicles by OEMs and on the construction, expansion or retooling of production facilities and our ability to secure tooling and automation programs from as a result of these activities through their Tier suppliers. New model releases and production expansion/retooling in the automotive sector can be impacted by many factors, including general economic and political conditions, interest rates, energy and fuel prices, labour relations' issues, regulatory requirements, infrastructure, legislative changes, environmental emissions, safety considerations and changing technologies.

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The Company's sales levels are also impacted by demand levels in the transportation and oil and gas sectors. Demand in these areas can be affected by many factors, including general economic and political conditions, interest rates, energy and fuel prices, regulatory requirements, transportation infrastructure and safety issues.

The economic, industry and risk factors discussed in our Annual Report, each in respect of the year ended July 31, 2018, remain substantially unchanged in respect of the three months ended October 31, 2018, however, the most significant of these are repeated below.

Current outsourcing and in-sourcing trends

During periods of weakened demand, our customers traditionally revisit outsourcing decisions as a method of maintaining their employment levels. Then, during periods of strong demand, they return to previous levels of outsourcing. As a result of this and other factors, our demand levels will swing with general economic activity related to the industries we serve. Depending on how the current economic climate impacts particular customers, Reko may experience reductions in outsourced work orders.

A shift away from technologies in which the Company is investing

Like our OEM and Tier 1 and 2 customers, we continue to invest in technologies and innovations, which the Company believes are critical to 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. Current technological shifts in the industry would include the application of the Internet of Things, integration of additive manufacturing capabilities into our processes and the transition to electric and autonomous vehicles. If there is a movement away from the use of specific technologies that the Company is focused on developing or someone applies these technologies more quickly or effectively, 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. Management continually monitors the emergence of new technologies and updates our investments in these emerging technologies accordingly.

Diversification of our sales

Although we supply factory automation, molds, gauges, and fixtures to all the leading automobile manufacturers, a majority of our sales are still to the Detroit 3. In addition, although we supply machined locomotive crankcases to each of the leading locomotive manufacturers, a significant majority of our sales in this sector are to one locomotive OEM. While we have diversified our customer base in recent years, and continue to attempt to further diversify, we may experience varying degrees of success. Inability to successfully grow our sales to non-traditional customers could have an adverse effect on our profitability and financial condition.

Challenges successfully competing against suppliers with operations in developing markets

Many of our customers have sought, and will likely continue to seek, to take advantage of lower operating costs in Mexico, China, India, Southeast Asia, and other developing markets. We continue to investigate opportunities to expand our manufacturing sources, with a view to taking advantage of these lower cost countries. However, 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.

A movement towards more isolationist trade policies by countries into which we export goods

There is a shift in the political climate occurring throughout a number of jurisdictions (but particularly in the United States) towards a more restrictive trade policy environment and the renegotiation of the North American Free Trade Agreement ("NAFTA") and the impact of its replacement with the United States Mexico Canada Agreement ("USMCA") is still being evaluated. If more isolationist policies are enacted by legislators or if the application of provisions in the USMCA prove to be injurious to the industries in which we operate, these changes could significantly affect our ability to export our products to these countries – even if such changes were challenged under World Trade Organization regulations or similar international bodies. Given that a sizeable majority of our sales relate to goods which are exported, a shift in the scope and terms of NAFTA,

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the implementation of Buy American policies and ongoing tariffs in steel and aluminum (or the implementation of new tariffs) could have a significant adverse impact on our sales and profitability. Management continues to pursue both geographical and industry diversification of our sales to mitigate these risks.

Continued support of our lenders

The Company operates in a capital-intensive business, has significant financing requirements placed on it by its customers, and our financial resources are, in many cases, less than the financial resources of our customer base. There can be no assurance that if 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 to obtain these resources at all). However, the Company maintains a strong relationship with a number of key lenders and keeps them apprised of, not only financial results, but also future plans and challenges. In the event that debt financing was not available at some future date, additional equity financings may result in dilution to existing shareholders.

Significant long-term fluctuations in relative currency values

Although, our financial results are reported in Canadian dollars, significant portions of our sales are realized in U.S. dollars. Movements in the U.S. dollar against the Canadian dollar affect our profitability. As a result of the purchase of appropriate amounts of forward exchange contracts, foreign currency transactions are not fully impacted by movements in exchange rates. Due to this program, our accounting risk (i.e. the risk associated with our foreign exchange balances on our balance sheet at any point in time) is reduced. This program does not necessarily reduce our economic risk (i.e. the risk associated with all 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.

FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS

Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and United States ("U.S.") dollars. More specifically, approximately 88% of the Company's sales and 20% of its costs are incurred in U.S. dollars. In addition, the Company maintains certain working capital balances in U.S. funds.

To minimize our exposure to the impacts of changes in the foreign exchange rate, the Company maintains a forward foreign exchange contract purchasing programme ("FFEC Programme"). Reko's Programme is based on maintaining our approximate net exposure to the U.S. dollar (total U.S. exposure less forward foreign exchange contracts) between positive and negative \$5,000. This Programme is designed to minimize the Company's exposure to foreign exchange risks over the mid-term. 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 may 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 quarter-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
Q1 – 2019	\$12,202	\$ 10,000	\$ 2,202
Q4 – 2018	\$ 11,962	\$ 10,000	\$ 1,962
Q3 – 2018	\$ 12,222	\$ 11,000	\$ 1,222
Q2 - 2018	\$ 10,853	\$ 10,000	\$ 853

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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 changes 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.

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 October 31, 2018,				For the year ended July 31, 2018,			
	2018		2017		2018		2017	
	Actual	Reko effective rate	Actual	Reko effective rate	Actual	Reko effective rate	Actual	Reko effective rate
U.S. Dollar equals Canadian Dollar	1.3025	1.2996	1.2892	1.2486	1.2731	1.2745	1.3247	1.3262

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.

During the first quarter, the Company recorded a pre-tax loss of approximately \$142 related to the fair value of its U.S. dollar exposures. At the end of the quarter, Reko held FFECs of \$10,000 compared to \$9,000 at the end of the quarter in the prior year. During fiscal 2018, on average, we held FFECs of \$, compared to \$9,917 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
Q2 – 2018	\$ 10,000	1.3003

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 recording 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).

RECONCILIATION OF NON-IFRS MEASURES

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

	Three months ended	
	October 31, 2018	October 31, 2017
Sales	\$ 11,438	\$ 8,761
Less: Materials	3,271	1,683
Sub-contracting	838	643
Inventory adjustments	(118)	(205)
	\$ 7,447	\$ 6,640

RESULTS OF OPERATIONS

Sales

Sales for the three months ended October 31, 2018 increased \$2,677, or 30.6%, to \$11,438, compared to \$8,761 in the same period in the prior year.

The increase in sales was largely related to:

- Timing of kick off and completion for jobs in certain divisions;
- Continuing lower volumes in certain sectors; and
- Increased foreign exchange rates for U.S. dollar sales.

Earned revenue

Earned revenue is not a standard IFRS measurement. The Company's explanation of how it measures earned revenue is located in the previous section. Earned revenue effectively measures that portion of our total revenue available to the Company to pay its workers, pay for its fixed and operating costs and earn a profit. The Company believes that earned revenue is a more effective measurement of how the Company is performing than its sales metric, as the sales metric includes inherent differences in individual project sizes that may or may not indicate a difference in the amount of work the Company is going to perform based solely on the materials or sub-contracting associated with the project.

The earned revenue for the three months ended October 31, 2018 increased \$807 or 12.2% to \$7,447 compared to \$6,640, in the same period of the previous fiscal year.

The increase in earned revenue was largely related to:

- Increase in sales as outlined above;

The above factor was offset by:

- Increase in relative materials expense based on the type of projects undertaken in the quarter.

Gross profit

The gross profit for the three months ended October 31, 2018 increased \$446 to \$1,792 or 15.7% of sales, compared to \$1,346, or 15.4% of sales, in the same period of the previous fiscal year.

The increase in gross profit was largely related to:

- Increased sales and earned revenue in the quarter;

This increase was offset by:

- Investment in enhanced productions processes related to upcoming projects particularly in the precision machining division.

Selling and administration

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Selling and administration expenses ("S,G&A") increased by \$303, or 30.1%, to \$1,308 or 11.4% of sales for the three months ended October 31, 2018, compared to \$1,005, or 11.5% of sales for the same period in the prior year. The increase in S,G&A was a result of:

- Increase in administrative wages, benefits and commissions particularly as a result of the addition of a full-time Director of Business Development and two full time sales positions and the increase in sales;

These factors were partially offset by:

- Decreases in certain group costs.

Earnings overview

The net income for the three months ended October 31, 2018 was \$170, or \$0.03 per share, compared to a net income of \$255, or \$0.04 per share, in the same period of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operations for the quarter was \$2,328 as compared to cash flow used in operations of \$130 in the same period of the previous year. The increase in cash flow provided by operations is primarily a result of:

- An increase in the net change in non-cash working capital items at the end of the quarter; and
- Reduced profitability in the quarter offset by an increase in non-cash items such as stock compensation and income tax expense recorded.

Financial covenants

The Company met its financial covenants at the end of the first quarter of 2019 and at all times in the last 12 months.

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 three months ended October 31, 2018, the Company invested \$569 in capital assets.

Cash resources/working capital requirements

As at October 31, 2018, Reko had net cash on hand of \$3,444, compared to \$6,565 at July 31, 2018 and compared to \$715 at October 31, 2017. The net cash on hand decreased by \$3,121 in the quarter and increased by approximately \$2,328 for the year.

There was no borrowing under the revolving line of credit at October 31, 2018 compared to \$4,815 at July 31, 2018 and \$2,961 at October 31, 2017. We expect the net cash position to increase over the next quarter as we begin to collect accounts receivable related to jobs completed during the current quarter.

Reko has a \$20,000 revolver available. Based on our current lender defined margining capabilities, \$17,496 of was unused and available at the end of the quarter. Under the terms of our credit facilities, Reko must achieve certain financial covenants including a maximum Total Debt to Tangible Net Worth, a minimum Current Ratio and a minimum Debt Service Coverage Ratio. 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	Total	Payments due by period			
		Less than 1	1 – 3 years	4 – 5 years	After 5

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	year				years
Long-term debt	\$ 11,142	\$ 1,175*	\$ 1,110*	\$ 5,936*	\$ 2,921*
Operating leases	50	10	20	20	--
Total contractual obligations	\$ 11,192	\$ 1,185	\$ 1,130	\$ 5,956	\$ 2,921

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.

Amounts denoted by an asterisk (*) are subject to demand provisions in that the lender is contractually entitled to require payment of the outstanding balance "on demand". The Company is in receipt of correspondence from the lender indicating that there is no expectation that the balances will be called within the next twelve months and it is anticipated that principal and interest payments on these facilities will be made as scheduled throughout the term of the loans. These scheduled payments are reflected in the table above.

Reko does not maintain any off-balance sheet financing.

Share capital

The Company had 6,469,920 common shares outstanding at October 31, 2018.

Outstanding share data

Designation of security	Number outstanding	Maximum number issuable if convertible, exercisable or exchangeable for common shares
Common Shares	6,469,920	
Stock options issued	371,000	
Stock options exercisable	76,500	
Total (maximum) number of common shares		6,840,920

QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the first quarter of fiscal 2019, ended October 31, 2018. The information has been derived from the Company's unaudited consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained elsewhere in the Annual Report for the year ended July 31, 2018, 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.

	Jan/17	Apr/17	July/17	Oct/17
Sales	\$ 11,213	\$ 11,697	\$ 9,695	\$ 8,761
Net income	789	560	560	255
Earnings per share: Basic	0.12	0.09	0.09	0.04
Diluted	0.12	0.08	0.08	0.04
	Jan/18	Apr/18	July/18	Oct/18
Sales	\$ 11,530	\$ 11,776	\$ 10,206	\$ 11,438
Net income	420	647	713	170
Earnings per share: Basic	0.07	0.10	0.11	0.03

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Diluted	0.06	0.10	0.10	0.03
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NORMAL COURSE ISSUER BID

On December 18, 2017, the Company announced the extension of the normal course issuer bid. Under the plan, the Company may purchase on the TSX Venture Exchange up to a total of 321,746 of its common shares during the twelve-month period which commenced December 22, 2017. The 321,746 common shares represent approximately 5% of the total common shares outstanding. The price that the Company will pay for any such shares will be the market price at the time of acquisition and all shares acquired under the bid will be cancelled by the Company.

During the quarter ended October 31, 2018, Reko did not purchase any shares under the provision of the normal course issuer bid. However, during the month of November, the Company purchased and subsequently cancelled 5,500 shares.

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.