

**1,740** hours saved by  
delivering tooling  
before due date 

HEAVIEST COMPONENT MACHINED

 **109,000 lbs**



**4,224**

solar panels  
on our roofs

---

# NUMBERS

that shape us.

---

REKO INTERNATIONAL GROUP INC. 2017 ANNUAL REPORT

**951,480 lbs**

of metal chips generated



**173,028 km**

TRAVELLED TO SUPPORT CUSTOMERS

# 2017



“Our offerings can be beneficial to manufacturers in many countries and we have an opportunity for growth.”

**RIREKO**  
INTERNATIONAL GROUP INC.



## Chief Executive Officer's Message

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There are always people who long for “the good old days”. They usually describe a simpler time, when things were more predictable and life seemed less complex. While this may sometimes accurately describe the past, the reality is that they have likely forgotten the stresses of the time, and as time has passed, have chosen to remember only the comfortable elements.

In fact, every era has its uncertainties. Fiscal 2017 was no exception for us at Reko International Group.

We faced many uncertainties this past year. Some were ongoing, and you might say symptomatic of the nature of our business, while others were new ones to deal with.

Because we are generally a project-based business, we do not have long-term visibility into our sales and associated workload. The timing of awards has a great impact upon our ability to maximize profitability. This is an uncertainty that is ongoing, although we do our best to reduce its impact. The fluctuations in the exchange rate between the US and Canadian dollar has been another source of volatility. With a significant time elapsed between quotation and cash receipt, changes in exchange rates can affect profitability. The current political state in North America, as well as the NAFTA renegotiations, are adding unpredictability to all exporters, including Reko. Since our customers are also manufacturers, the general state of uncertainty has caused them to pause and contemplate the timing of their product launches and production volumes. We also face a significant change in workforce availability, as the skills of the past become more challenging to find.

But especially because of these uncertainties, opportunities are everywhere, and those capable of meeting these challenges will be successful in the future!

“But even with all these uncertainties, opportunities are everywhere!”

As we announced on August 2, 2017, we have commenced the construction of a new manufacturing and innovation facility, adjacent to our current facility. The new space will be dedicated to our automation division. With the uncertainty around the availability of labour, we believe that the demand for automation, including robotic applications, will grow exponentially over the coming years and we have a very strong base of talent upon which to build. We anticipate that the new space will attract more of the innovative talent that we require to expand the division.

Another opportunity that arises from the uncertainty of workforce availability is that of training. As we see the results of our training efforts and provide our employees with opportunities to innovate, not only will we develop better customer offerings, but we will benefit from a more vibrant and positive corporate culture.

Innovation will be required to offset the uncertainties listed above. We will have to find new ways to produce the time saving manufacturing solutions that our customers require to maintain their world-class status. The suppliers who can best support their customers' needs in quality, delivery, pricing, and service will be the suppliers of choice. With new technologies being developed daily, we will continue to offer unique solutions at competitive prices.

Even the uncertainty of NAFTA renegotiations provides us with an opportunity for market diversification. While our proximity to the United States has made it convenient and practical for this to be our primary target market, this doesn't mean that it is our only alternative. Our offerings can be beneficial to manufacturers in many countries and we have an opportunity for growth in this way.

Rather than looking backward with longing, we, at Reko International Group, choose to focus on the opportunities that uncertainty brings. We have a great team and will continue working towards the "good new days"!

"Diane Reko"

Diane Reko  
Chief Executive Officer





We benefit from  
a vibrant and  
positive culture

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Success is  
built from our  
people and their  
performance

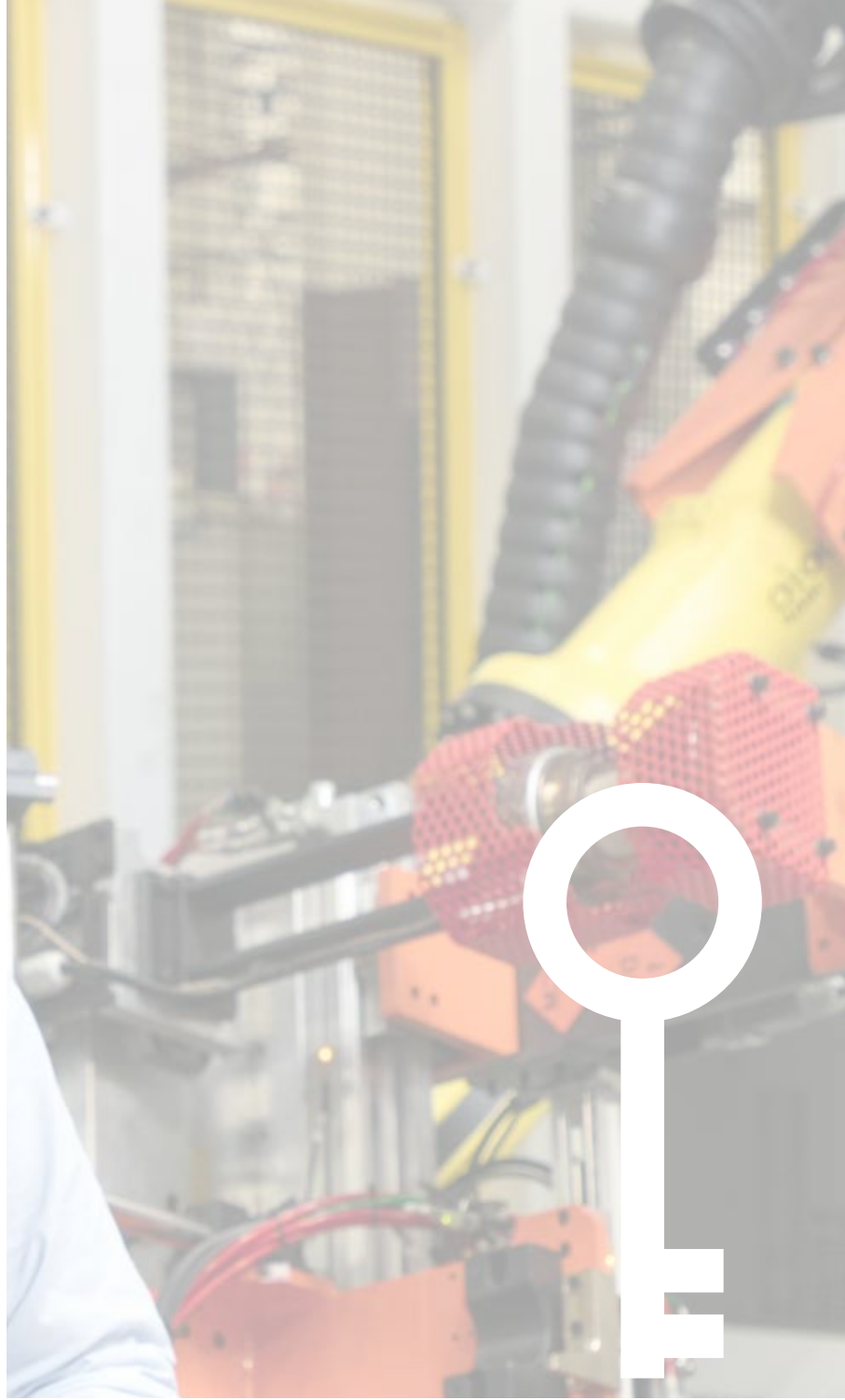


**MANAGEMENT TEAM**

*Top Row ~ Left to Right*  
 Diane Reko, Chief Executive Officer  
 Dave Romanello, General Manager, Tooling  
 Peter Gobel, General Manager,  
 Concorde Precision Machining

*Middle Row ~ Left to Right*  
 Rick Stone, General Manager, Automation  
 Gennaro Pignanelli, Engineering Manager  
 Marilyn Crowley, CPA, CA, Chief Financial Officer

*Bottom Row ~ Left to Right*  
 Ernie Stajduhar, Technology Manager  
 Lauren Brummell, Human Resources Manager



Innovative talent  
and seasoned  
specialists are key



## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following is management's discussion and analysis of operations and financial position ("MD&A") and should be read in conjunction with the audited consolidated financial statements for the year ended July 31, 2017 and the audited consolidated financial statements and MD&A for the year ended July 31, 2016 included in our 2016 Annual Report to Shareholders. The audited consolidated financial statements for the year ended July 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Reko's Chief Executive Officer and Chief Financial Officer have signed a statement outlining management's responsibility for financial information in the annual consolidated financial statements and MD&A. The statement, which can be found on page 26, also explains the roles of the Audit Committee and Board of Directors in respect of that financial information. 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](http://www.rekointl.com) or through the SEDAR website at [www.sedar.com](http://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 13, 2017.*



Our focus is on  
the future and  
people in it

## OVERVIEW

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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.

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

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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 cars and light trucks by OEMs and our ability to secure tooling and automation programs from them through their Tier suppliers. New model releases 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 and safety considerations. 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 following additional risk factors, as well as the other information contained in this MD&A, for the year ended July 31, 2017 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

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### ***CURRENT OUTSOURCING AND IN-SOURCING TRENDS***

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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***

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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 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.

### ***INABILITY TO DIVERSIFY OUR SALES***

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Although we supply factory automation, molds, gauges, and fixtures to all of the leading automobile manufacturers, a significant majority of our sales are 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 are to one locomotive OEM. While we have diversified our customer base in recent years, and continue to attempt to further diversify, 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.

### ***DIFFICULTIES SUCCESSFULLY COMPETING AGAINST SUPPLIERS WITH OPERATIONS IN DEVELOPING MARKETS***

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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 investigate opportunities 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.

## ***A MOVEMENT TOWARDS MORE ISOLATIONIST TRADE POLICIES BY COUNTRIES INTO WHICH WE EXPORT GOODS***

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There is a shift in the political climate occurring throughout a number of jurisdictions (but particularly in the United States and Europe) towards a more restrictive trade policy environment and the renegotiation of the North American Free Trade Agreement (“NAFTA”) is currently in progress. If more isolationist policies are enacted by legislators or if the revised provisions of NAFTA are 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 and certain other trade agreements could have a significant adverse impact on our sales and profitability.

## ***THE CONSEQUENCES OF THE AUTOMOTIVE INDUSTRY’S DEPENDENCE ON CONSUMER SPENDING AND GENERAL ECONOMIC CONDITIONS***

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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***

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While our exposure to individual entities in our supply chain is limited, 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 manufacturing process.

## ***CHANGES IN CONSUMER DEMAND FOR SPECIFIC VEHICLES***

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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 impacted 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.

## ***OUR DEPENDENCE UPON KEY PERSONNEL AND SUCCESSFULLY RECRUITING TALENT IN CRITICAL AREAS***

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The success of Reko is dependent on many people including 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. While the Company continues to develop appropriate succession plans for these positions, the loss of one or more of these individuals without adequate replacement, or the inability to recruit appropriate talent in a competitive labour market, could have a material adverse effect on the Company’s operations and business prospects.

## ***A SIGNIFICANT FAILURE OR BREACH OF OUR INFORMATION TECHNOLOGY (IT) SYSTEM***

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While the Company has established (and continues to monitor and enhance) security controls in order to protect the Company's IT systems, there is no guarantee that these measures will be effective in preventing unauthorized access or cyberattacks. A significant failure or breach of the Company's IT systems could cause disruption to manufacturing processes, loss, destruction or inappropriate use of data, or result in the theft of intellectual property or confidential information of the Company or its key customers. While the Company carries what it considers to be an adequate amount of cybersecurity insurance coverage, the consequences of these events could have a material adverse effect on the Company, its profitability, and financial conditions.

## **FINANCIAL AND CAPITAL MANAGEMENT RISK**

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### ***CONTINUED UNCERTAIN ECONOMIC CONDITIONS***

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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, while other jurisdictions are currently experiencing economic downturns. 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.

### ***THE CONTINUATION OR INTENSIFICATION OF PRICING PRESSURES AND PRESSURE TO ABSORB ADDITIONAL COSTS***

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We face significant pricing pressure, as well as pressure to absorb costs related to tooling and machine design and program management, as well as other items previously paid for directly by automobile manufacturers (such as support in remote production facility locations). These pressures are expected to continue. The continuation or intensification of these pricing pressures and pressure to absorb additional costs and assume additional design, engineering, and management responsibilities could have an adverse effect on our profitability and financial condition.

### ***CONTINUED SUPPORT OF OUR LENDERS***

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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). Additional equity financings may result in dilution to existing shareholders.

### ***SIGNIFICANT LONG-TERM FLUCTUATIONS IN RELATIVE CURRENCY VALUES***

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Although, our financial results are reported in Canadian dollars, significant portions of our sales are realized in US dollars. Movements in the US 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 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.

### ***WE COULD RECORD IMPAIRMENT CHARGES IN THE FUTURE***

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Annually or whenever indicators of impairment exist, we must test our capital assets, future income taxes, and any other long-lived assets for impairment. 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***

---

Prior to 2011, 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. The losses which arose in Canada during this period have now largely been applied to taxable income generated through operations. In the case of the United States, we may not be able to utilize these losses at all if we do not generate profits in the United States.

### ***POTENTIAL VOLATILITY OF REKO'S SHARE PRICES***

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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***

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As of the date of this MD&A, The Reko Family Corporation and individuals related to it, own directly or indirectly 62.3% of the outstanding shares of the Company. Given the number of shares held, 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

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### ***SIGNIFICANT CHANGES IN LAW, GOVERNMENT REGULATIONS, OR ACCOUNTING REGULATIONS***

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.

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 as well as to requirements related to investigation and clean-up of any environmental contamination as defined by these regulations. 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.



## SUBSEQUENT EVENT

### **BUILDING CONSTRUCTION CONTRACT**

On August 2, 2017, the Company signed an agreement to construct a 48,585 square foot building on vacant land owned by Reko which is adjacent to its current production facilities in Lakeshore, Ontario. The total value of the contract is approximately \$5.6 million. Completion of the building is anticipated in the spring of 2018.

### **FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS**

Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and United States (“US”) dollars. More specifically, approximately 85% of the Company’s sales and 20% of its costs are incurred in US dollars. In addition, the Company maintains certain working capital balances in US funds.

In order to minimize our exposure to the impacts of changes in the foreign exchange rate, the Company maintains a forward foreign exchange programme (“FFEC Programme”). Reko’s Programme is based on maintaining our net exposure to the US dollar (total US 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 US dollar, regardless of our net exposure to the US 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 US dollar and the change during any given month of the value of the US dollar in relation to the Canadian dollar.

During each of the last four quarters, the Company’s month-end exposure to the US dollar has been:

<b>Fiscal Period</b>	<b>Total U.s. Exposure Before Hedging Programme</b>	<b>Forward Foreign Exchange Contracts Booked</b>	<b>Net Exposure To The Us Dollar</b>
Q4 – 2017	\$ 10,358	\$ 11,000	\$ (642)
Q3 – 2017	\$ 10,907	\$ 10,000	\$ 907
Q2 – 2017	\$ 11,593	\$ 8,500	\$ 3,093
Q1 - 2017	\$ 13,450	\$ 11,500	\$ 1,950

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 US dollar, as detailed above, is subject to change in market foreign exchange rates on a monthly basis and the remainder of its US 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,			
	2017		2016		2017		2016	
	Actual	Reko effective rate	Actual	Reko effective rate	Actual	Reko effective rate	Actual	Reko effective rate
US Dollar equals Canadian Dollar	1.3160	1.3256	1.2954	1.2920	1.3247	1.3262	1.3291	1.3131

The Company's FFECs represent agreements with an intermediary to trade a specific amount of US dollars for Canadian dollars at a specific rate on a specific date. Currently, the date is between one (1) and eight (8) 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 \$11,000 compared to \$10,500 at the end of the prior year. During fiscal 2017, on average, we held FFECs of \$9,917, as compared with the \$8,400 held 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
Q1 – 2018	\$ 11,000	1.3121

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

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

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:

	2017	2016
Sales	\$ 42,967	\$ 50,599
Less: Material	11,581	12,624
Subcontracting	2,844	1,630
Inventory adjustments	160	403
	\$ 28,384	\$ 35,942



## RESULTS OF OPERATIONS

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### **SALES**

Sales for the year ended July 31, 2017 decreased \$7,632, or 15.1%, to \$42,967 compared to \$50,599 in the prior year.

The decrease in sales was largely related to:

- Impact on sales in the prior year of receipt in July 2016 of one-time payment in lieu of a portion of guaranteed volume under the long-term agreement originally announced September 2014;
- Decreased hourly rates on sales; and,
- Decreased order volume for certain types of work in the industries we serve including transportation and oil and gas.

### **EARNED REVENUE**

The earned revenue for the year ended July 31, 2017, decreased \$7,558 to \$28,384 compared to \$35,942, in the prior year.

The decrease in earned revenue was largely related to:

- Receipt in prior year of a one-time payment in lieu of a portion of the guaranteed volume under our long-term agreement;
- Decreased hourly rates on our sales; and,
- Decreased demand in certain of our markets.

### **GROSS PROFIT**

The gross profit for the year ended July 31, 2017 decreased \$8,143 to \$7,476 or 17.4% of sales, compared to \$15,619, or 30.9% of sales, in the previous fiscal year.

The decrease in gross profit was largely related to:

- Decreased levels of earned revenue during the year;
- Increased production wages and benefits; and
- Higher amortization due to capital acquisitions in the year.

Items offsetting the decrease in gross profit included:

- Decreased fixed overhead costs including small tools expense and repairs and maintenance.

## ***SELLING AND ADMINISTRATION***

Selling and administration expenses (“S,G&A”) decreased by \$654 or 14.1%, to \$3,972, or 9.2% of sales for the year ended July 31, 2017, compared to \$4,626, or 9.1% of sales in the prior year. The decrease in S,G&A was a result of:

- Decreased non-production wages and benefits due to significant reduction in bonus entitlements and decreased sales commissions due to lower sales;
- Decreased directors’ fees and office expenses; and
- Decreases in the premiums of our accounts receivable insurance.

Items offsetting the decrease in selling and administration included:

- Increases in the professional services expense.

## ***EARNINGS OVERVIEW***

The net income for the year ended July 31, 2017 was \$2,545, or \$0.40 per share, compared to a net income of \$7,601, or \$1.18 per share, in the prior year.



## LIQUIDITY AND CAPITAL RESOURCES

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Cash flow from operations decreased from \$19,129 in the prior year to \$5,295 in the current year.

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

- Decline in net income before taxes for the year and the impact of the net change in non-working capital items.

### **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, 2017, the Company invested \$2,699 in capital assets. The total capital asset investment is comprised of \$2,067 related to growth CAPEX and \$632 related to maintenance CAPEX spending.

### **CASH RESOURCES/WORKING CAPITAL REQUIREMENTS**

As at July 31, 2017, Reko had cash on hand of \$4,740 compared to \$5,225 at July 31, 2016 and \$3,343 at April 30, 2017.

Reko has a \$20,000 revolver available. However, based on our current lender defined margining capabilities, our borrowings are limited to \$17,516 of which \$15,898 was unused and available at the end of the year. Due to a short-term deficit in US denominated cash resources, one LIBOR contract in the amount of \$1,300 USD (\$1,618 CDN) was outstanding at July 31, 2017. 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	\$ 5,284	\$ 4,288	\$ 996	--	--
Operating leases	22	10	12	--	--
<b>Total contractual obligations</b>	<b>\$ 5,306</b>	<b>\$ 4,298</b>	<b>\$ 1,008</b>	<b>--</b>	<b>--</b>

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 6,434,920 common shares outstanding at July 31, 2017. During the year, the Company granted an additional 65,000 options to employees, 10,000 options to Ms. Diane Reko (who is both an employee and a director) and 30,000 options to all other directors. During the year, 5,000 options from a previous award were exercised by a director.

Also, during the year, the Company purchased and cancelled 10,000 shares under its normal course issuer bid.

## OUTSTANDING SHARE DATA

Designation of security	Number outstanding	Maximum number issuable if convertible, exercisable or exchangeable for common shares
Common Shares	6,434,920	
Stock options outstanding	414,000	
Stock options exercisable	87,500	
Total (maximum) number of common shares		6,848,920



## 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 2017, ended July 31, 2017. 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/15	Jan/16	Apr/16	July/16
Sales	\$ 10,314	\$ 13,831	\$ 12,572	\$ 13,882
Net income	1,206	1,176	1,112	4,107
Earnings per share: Basic	0.19	0.18	0.17	0.64
Diluted	0.18	0.17	0.16	0.61

	Oct/16	Jan/17	Apr/17	July/17
Sales	\$ 10,360	\$ 11,213	\$ 11,697	\$ 9,695
Net income	636	789	560	560
Earnings per share: Basic	0.10	0.12	0.09	0.09
Diluted	0.09	0.12	0.08	0.08



## NOMAL COURSE ISSUER BID

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On December 12, 2016, 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 321,996 of its common shares during the twelve-month period which commenced December 15, 2016. The 321,996 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.

As of July 31, 2017, the Company had purchased and subsequently cancelled 10,000 shares under the provision of the 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.*



Dedicated staff.  
Masters of  
precision work

Evolving  
with fresh  
perspectives



## 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"

Diane Reko, B.Comm  
Chief Executive Officer  
October 13, 2017

"Marilyn Crowley"

Marilyn Crowley, CPA, CA  
Chief Financial Officer



# Independent Auditor's Report

October 13, 2017

## **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 sheet as at July 31, 2017 and July 31, 2016 and the consolidated statements of income and comprehensive income, changes in equity, and cash flows for the year 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.

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, 2017 and July 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

"PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

**CONSOLIDATED BALANCE SHEET****AS AT JULY 31***(in 000's, except for per share amounts)*

	2017	2016
<b>ASSETS (Notes 9 and 10)</b>		
Current		
Cash	\$ 4,740	\$ 5,225
Accounts receivable	7,318	12,964
Non-hedging financial derivatives (Note 5)	749	--
Work-in-progress (Note 6)	13,019	9,613
Prepaid expenses and other current assets	704	454
	<b>26,530</b>	28,256
Capital assets (Note 7)		
Embedded derivative (Note 8)	50	50
Deferred income taxes (Note 4)	3,466	4,054
	<b>\$ 53,073</b>	\$ 55,777
<b>LIABILITIES</b>		
Current		
Bank indebtedness (Note 9)	\$ 1,618	\$ --
Accounts payable and accrued liabilities	2,890	4,292
Provisions payable (Note 16)	--	175
Non-hedging financial derivatives (Note 5)	--	82
Unearned revenue on work-in-progress (Note 6)	8	557
Current portion of unearned revenue	120	120
Current portion of long-term debt (Note 10)	4,288	2,427
	<b>8,924</b>	7,653
Long-term debt (Note 10)	996	6,134
Unearned revenue	38	94
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	18,803	18,819
Contributed surplus (Note 12)	1,856	1,876
Retained earnings	22,456	21,201
	<b>43,115</b>	41,896
	<b>\$ 53,073</b>	\$ 55,777

Contingencies (Note 20)

On behalf of the Board

"Diane Reko"

Director

"Andrew J. Szonyi"

Director

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



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
AS AT JULY 31**

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

	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive income</b>	<b>Total equity</b>
Balance at July 31, 2015	\$ 18,784	\$ 1,844	\$ 13,600	\$ --	\$ 34,228
Share-based payments	35	32	--	--	67
Net income	--	--	7,601	--	7,601
Balance at July 31, 2016	\$ 18,819	\$ 1,876	\$ 21,201	\$ --	\$ 41,896
<b>Balance at July 31, 2016</b>	<b>\$ 18,819</b>	<b>\$ 1,876</b>	<b>\$ 21,201</b>	<b>\$ --</b>	<b>\$ 41,896</b>
<b>Share-based payments</b>	<b>(16)</b>	<b>(20)</b>	<b>--</b>	<b>--</b>	<b>(36)</b>
<b>Net income</b>	<b>--</b>	<b>--</b>	<b>2,545</b>	<b>--</b>	<b>2,545</b>
<b>Dividends paid</b>	<b>--</b>	<b>--</b>	<b>(1,289)</b>	<b>--</b>	<b>(1,289)</b>
<b>Balance at July 31, 2017</b>	<b>\$ 18,803</b>	<b>\$ 1,856</b>	<b>\$ 22,456</b>	<b>\$ --</b>	<b>\$ 43,115</b>

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

**CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME  
AS AT JULY 31**

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

	2017	2016
Sales	<b>\$ 42,967</b>	\$ 50,599
Costs and expenses		
Cost of sales	<b>32,402</b>	32,026
Amortization	<b>3,089</b>	2,954
	<b>35,491</b>	34,980
Gross profit	<b>7,476</b>	15,619
Selling and administrative (Note 15)	<b>3,972</b>	4,626
Income before the following items	<b>3,504</b>	10,993
Foreign exchange loss	<b>154</b>	456
Other income	<b>(192)</b>	(160)
Loss (gain) on sale of capital assets	<b>(15)</b>	39
Interest on long-term debt	<b>297</b>	390
Interest on other interest-bearing obligations	<b>12</b>	124
	<b>256</b>	849
Income before income taxes	<b>3,248</b>	10,144
Deferred income tax provision (Note 4)	<b>703</b>	2,543
Net income and comprehensive income	<b>\$ 2,545</b>	\$ 7,601
Earnings per common share (Note 13)		
Basic	<b>\$ 0.40</b>	\$ 1.18
Diluted	<b>\$ 0.37</b>	\$ 1.12

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

**CONSOLIDATED STATEMENTS OF CASH RECEIPTS  
AS AT JULY 31**

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

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net income for the year	\$ 2,545	\$ 7,601
Adjustments for:		
Amortization	3,089	2,954
Income tax provision	703	2,543
Interest expense	309	514
(Gain) loss on sale of capital assets	(15)	39
Stock compensation	--	55
	<b>6,631</b>	13,706
Net change in non-cash working capital (Note 18)	<b>(1,023)</b>	5,950
Interest paid	<b>(313)</b>	(527)
	<b>5,295</b>	19,129
<b>FINANCING ACTIVITIES</b>		
Net proceeds of bank indebtedness	1,618	(10,118)
Proceeds from (repurchase) issuance of capital stock	(16)	19
Payment of cash dividend	(1,289)	--
Unrealized foreign exchange (gain) loss	(132)	272
Payments on long-term debt	(3,277)	(2,740)
	<b>(3,096)</b>	(12,567)
<b>INVESTING ACTIVITIES</b>		
Investment in capital assets	(2,699)	(2,927)
Proceeds on sale of capital assets	15	--
	<b>(2,684)</b>	(2,927)
Net change in cash	<b>(485)</b>	3,635
Cash, beginning of year	5,225	1,590
Cash, end of year	\$ 4,740	\$ 5,225

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

# 1. SIGNIFICANT ACCOUNTING POLICIES

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## **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 large custom machining, factory automation and manufacturing molds, 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 4, 2017.

## **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:

<b>Subsidiary</b>	<b>Location</b>	<b>Percentage ownership</b>	<b>Consolidation</b>
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

## **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, 2017, the Company reported a foreign exchange loss of \$154 (2016 – \$456).

The financial statements of US 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 US dollars through the use of US 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	FVTPL
Accounts receivable	Loans and receivables
Embedded derivative	FVTPL
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 allowances 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	15 - 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 - 20 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 as revenue for 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 is the change in the Company's net assets that result from translations, events and circumstances from sources other than the Company's shareholders. When it occurs, other comprehensive income 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.

## **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 forfeiture rates, 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*

## **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.

The Company 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 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, 2018. 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.

## **IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS**

IFRS 15 is the culmination of a joint project between the IASB and the Financial Accounting Standards Board, the accounting standard setter in the U.S., to create a single revenue standard. The core

principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard moves away from a revenue recognition model based on an earnings process to an approach that is based on transfer of control of a good or service to a customer. Additionally, the new standard requires disclosures as to the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The mandatory effective date of IFRS 15 is annual periods beginning on or after January 1, 2018 and accordingly will be implemented for the year ended July 31, 2019. The Company is assessing the impact of the new standard on its results and financial position but does not anticipate that this new standard will have a significant impact on the financial statements of the Company.

## IFRS 16 LEASES

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company is assessing the potential impact of IFRS 16.

## 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.

	2017	
	Revenues	Capital assets
Canada	\$ 41,469	\$ 23,027
United States	1,498	--
	<b>\$ 42,967</b>	<b>\$ 23,027</b>
	2016	
	Revenues	Capital assets
Canada	\$ 45,451	\$ 23,417
United States	5,148	--
	<b>\$ 50,599</b>	<b>\$ 23,417</b>

### 3. FINANCIAL INSTRUMENTS

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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 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, NON-HEDGING FINANCIAL DERIVATIVES, EMBEDDED DERIVATIVE AND LONG-TERM DEBT**

The following table provides an analysis of cash, non-hedging financial derivatives, embedded derivative and long-term debt 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	2017
<b>Financial assets at FVTPL</b>				
Cash	\$ 4,740	\$ --	\$ --	\$ 4,740
Non-hedging financial derivatives	--	749	--	749
Embedded derivative	--	50	--	50
	\$ 4,740	\$ 799	\$ --	\$ 5,539
<b>Financial liabilities at amortized cost</b>				
Long-term debt	\$ --	\$ 5,284	\$ --	\$ 5,284
	\$ --	\$ 5,284	\$ --	\$ 5,284

	Level 1	Level 2	Level 3	2016
<b>Financial assets at FVTPL</b>				
Cash	\$ 5,225	\$ --	\$ --	\$ 5,225
Embedded derivative	--	50	--	50
	\$ 5,225	\$ 50	\$ --	\$ 5,275
<b>Financial liabilities at FVTPL</b>				
Non-hedging financial derivatives	\$ --	\$ 82	\$ --	\$ 82
	\$ --	\$ 82	\$ --	\$ 82
<b>Financial liabilities at amortized cost</b>				
Long-term debt	\$ --	\$ 8,591	\$ --	\$ 8,591
	\$ --	\$ 8,591	\$ --	\$ 8,591

## 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 \$3,483 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.

## FAIR VALUE VERSUS CARRYING AMOUNTS

The fair value of financial instruments, together with the carrying amounts shown in the balance sheet, is as follows:

As at July 31, 2017	FVTPL	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS</b>					
Cash	\$ 4,740	\$ --	\$ --	\$ 4,740	\$ 4,740
Non-hedging financial derivatives	749	--	--	749	749
Embedded derivative	50	--	--	50	50
	\$ 5,539	\$ --	\$ --	\$ 5,539	\$ 5,539
<b>FINANCIAL LIABILITIES</b>					
Long-term debt	\$ --	\$ --	5,284	5,284	5,317
	\$ --	\$ --	5,284	5,284	5,317
Net financial assets (liabilities)	\$ 5,539	\$ --	\$ (5,284)	\$ (255)	\$ 222
<b>As at July 31, 2016</b>					
<b>FINANCIAL ASSETS</b>					
Cash	\$ 5,225	\$ --	\$ --	\$ 5,225	\$ 5,225
Embedded derivative	50	--	--	50	50
	5,275	--	--	5,275	5,275
<b>FINANCIAL LIABILITIES</b>					
Non-hedging financial derivatives	82	--	--	82	82
Long-term debt	--	--	8,561	8,561	8,612
	82	--	8,561	8,643	8,694
Net financial assets (liabilities)	\$ 5,193	\$ --	\$ (8,561)	\$ (3,368)	\$ (3,419)



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 automotive industry. Annually, between 80% and 90% of the Company's revenue is derived from customers who pay in United States dollars.

For the year ended July 31, 2017, sales to the Company's three largest customers (inclusive of all divisions of the same parent company) represented 20.2%, 16.7% and 15.2%, respectively, of total sales. These same customers represent approximately 6.7%, 19.0% and 8.0% of total accounts receivable, respectively as at July 31, 2017.

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 may also include 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 any accounts of concern are reviewed at least quarterly by the Audit Committee. 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 receivable. 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.

## **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 an applicable margin ranging from 175 to 250 basis points. As at July 31, 2017, the Company has cash on hand of \$3,122 in addition to available undrawn lines of credit of approximately \$20,000; however, under its current margining provisions with its lender, the maximum it can draw on its available lines of credit is limited to \$17,516.

## **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 \$5,000 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, 2017, the Company had outstanding foreign exchange contracts, representing commitments to buy and sell foreign currencies. US dollar contracts represent the significant commitments as follows:

	US dollar amount	Weighted average rate
Sell US dollars for delivery in 2018 under forward exchange contracts	\$ 11,000	1.3121

Based on the Company's foreign currency exposures, as at July 31, 2017, a change in the US dollar/Canadian dollar foreign exchange rate to reflect a 100 basis point strengthening of the US dollar would have decreased net income by \$64. We caution that this sensitivity is based on an assumed net US dollar denominated asset or liability balance at a point in time. Our net US 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, 2017, \$1,809 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, 2017, an assumed 0.5 percentage point increase in interest rates on the first day of the year would have decreased net income by \$26, 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, 2017 and July 31, 2016, the above capital management criteria can be illustrated as follows:

	2017	2016
<b>Net debt</b>		
Bank indebtedness	\$ 1,618	\$ --
Current portion of long-term debt	4,288	2,427
Long-term debt	996	6,134
Less: cash	(4,740)	(5,225)
<b>Net debt</b>	<b>\$ 2,162</b>	<b>\$ 3,336</b>
<b>Shareholders' equity</b>	<b>\$ 43,115</b>	<b>\$ 41,896</b>
<b>Ratio</b>	<b>0.05</b>	<b>0.08</b>

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 (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.

## 4. INCOME TAXES

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

	2017	2016
<b>Deferred tax asset</b>		
SR & ED tax credits	\$ 4,529	\$ 4,700
Non-capital losses	27	90
Capital assets	1,068	1,365
Other	131	205
<b>Deferred tax asset</b>	<b>\$ 5,755</b>	<b>\$ 6,360</b>
<b>Deferred tax liability</b>		
Tax impact of SR & ED tax credits	\$ 1,213	\$ 1,243
Unbilled contract revenue	860	1,051
Other	216	12
<b>Deferred tax liability</b>	<b>\$ 2,289</b>	<b>\$ 2,306</b>
<b>Net deferred tax asset</b>	<b>\$ 3,466</b>	<b>\$ 4,054</b>

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which these temporary differences and loss carry forwards are deductible. Management considers the scheduled reversal of future tax liabilities, the character of future income tax assets and available tax planning strategies in making this assessment.

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

	2017	2016
Combined Federal and Provincial rate	26.5%	26.5%
Manufacturing and processing deduction	(0.5%)	0.0%
Increase in net realizable value	0.0%	0.0%
Permanent and other differences	(4.4%)	(1.4%)
Effective rate	21.6%	25.1%

The details of taxable losses by jurisdiction are as follows:

	2017	2016
Canada, which begin to expire, at the earliest, in 2031	\$ 107	\$ 341
United States, which expire between 2022 and 2032	11,807	12,500

## 5. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at July 31, 2017, the Company had entered into foreign exchange contracts to sell an aggregate amount of \$11,000 (USD). These contracts mitigate the Company's expected exposure to US dollar denominated net assets and mature at the latest at March 22, 2018 at an average exchange rate of \$1.3121 Canadian. The mark-to-market value on these financial instruments as at July 31, 2017 was an unrealized gain of \$749, which has been recorded in net income for the year.

As at July 31, 2017	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value asset
Sell USD / Buy CAD	0 - 6 months	\$ 11,749	1.3121	\$ 11,000	\$ 749

As at July 31, 2016	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value liability
Sell USD / Buy CAD	0 - 6 months	\$ 10,418	1.2961	\$ 10,500	\$ 82

## 6. WORK-IN-PROGRESS

Work-in-progress is comprised of:	2017	2016
Work-in-progress incurred plus profits less provision for future losses	\$ 22,319	\$ 20,545
Less: progress billings	(9,308)	(11,489)
	\$ 13,011	\$ 9,056
	2017	2016
Recognized and included in the financial statements as:		
Work-in-progress	\$ 13,019	\$ 9,613
Unearned revenue on work-in-progress	(8)	(557)
	\$ 13,011	\$ 9,056

## 7. CAPITAL ASSETS

Capital assets are comprised of:

		Land	Buildings	Machinery and equipment	Leasehold improvements	Equipment under construction	Total
<b>Cost or deemed cost</b>							
Balance at July 31, 2015	\$	661	\$ 8,200	\$ 45,825	\$ 547	\$ 265	\$ 55,498
Additions		--	167	--	--	2,760	2,927
Transfers		--	39	2,539	40	(2,618)	--
Disposals		--	--	(59)	--	--	(59)
<b>Balance at July 31, 2016</b>	<b>\$</b>	<b>661</b>	<b>\$ 8,406</b>	<b>\$ 48,305</b>	<b>\$ 587</b>	<b>\$ 407</b>	<b>\$ 58,366</b>
<b>Additions</b>		--	41	--	--	2,658	2,699
<b>Transfers</b>		--	--	2,281	--	(2,281)	--
<b>Disposals</b>		--	--	(5,118)	--	--	(5,118)
<b>Balance at July 31, 2017</b>	<b>\$</b>	<b>661</b>	<b>\$ 8,447</b>	<b>\$ 45,468</b>	<b>\$ 587</b>	<b>\$ 784</b>	<b>\$ 55,947</b>
		Land	Buildings	Machinery and equipment	Leasehold improvements	Equipment under construction	Total
<b>Amortization and impairment losses</b>							
Balance at July 31, 2015	\$	--	\$ 3,240	\$ 28,657	\$ 118	\$ 11	\$ 32,015
Amortization for the year		--	263	2,646	45	--	2,954
Transfer		--	--	--	--	--	--
Disposals		--	--	(20)	--	--	(20)
<b>Balance at July 31, 2016</b>	<b>\$</b>	<b>--</b>	<b>\$ 3,503</b>	<b>\$ 31,283</b>	<b>\$ 163</b>	<b>\$ --</b>	<b>\$ 34,949</b>
<b>Amortization for the year</b>		--	271	2,774	44	--	3,089
<b>Transfers</b>		--	--	--	--	--	--
<b>Disposals</b>		--	--	(5,118)	--	--	(5,118)
<b>Balance at July 31, 2017</b>	<b>\$</b>	<b>--</b>	<b>\$ 3,774</b>	<b>\$ 28,939</b>	<b>\$ 207</b>	<b>\$ --</b>	<b>\$ 32,920</b>
<b>Carrying value</b>							
Balance at July 31, 2016	\$	661	\$ 4,903	\$ 17,022	\$ 424	\$ 407	\$ 23,417
<b>Balance at July 31, 2017</b>	<b>\$</b>	<b>661</b>	<b>\$ 4,673</b>	<b>\$ 16,529</b>	<b>\$ 380</b>	<b>\$ 784</b>	<b>\$ 23,027</b>

## 8. 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.

Embedded derivative is comprised of:	2017	2016
Embedded derivative, beginning of year	\$ 50	\$ 50
Additions during the year	--	--
Fair value change, during the year	--	--
Embedded derivative, end of year	\$ 50	\$ 50

## 9. BANK INDEBTEDNESS

At July 31, 2017, the bank indebtedness is repayable on August 18, 2017 and was required due to a shortfall in its US cash position as a result of the settlement of forward foreign exchange contracts and timing of collection of US denominated accounts receivable.

	2017	2016
U.S. dollar LIBORs – bearing interest at 2.978% (2016 – N/A), due in less than 30 days	\$ 1,300	\$ --
Foreign exchange on U.S. dollar LIBORs	318	--
	\$ 1,618	\$ --

The available bank indebtedness is secured by a general assignment of book debts and work-in-progress together with a second collateral mortgage of \$85,000 on all land and buildings. At July 31, 2017, the Company's available operating lines of credit of \$20,000 were limited to \$17,516, due to lender defined margining capabilities.



## 10. LONG-TERM DEBT

The long-term debt is comprised of:

	2017	2016
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	\$ 3,482	\$ 4,003
Loan payable – U.S. Base Rate plus 275 basis points (\$114 USD), \$18 monthly plus interest, due in full in October 2018, secured by equipment	141	476
Loan payable – 6.50% repayable \$20 monthly including interest due in full August 2017 secured by equipment	1	227
Loan payable – US dollar LIBOR (\$1,340 USD) 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 second collateral mortgage	1,668	2,451
Loan payable – US dollar LIBOR (\$1,110 USD) plus applicable margin from 175 to 250 basis points, \$550 USD annually plus interest monthly, due in full in March 2018, secured by general assignment of book debts and work-in-progress, together with a second collateral mortgage	--	1,434
	<b>5,292</b>	8,591
Deduct – unamortized finance fees	8	30
principal portion included in current liabilities	4,288	2,427
Long-term portion	<b>\$ 996</b>	\$ 6,134

Total bank credit facilities are as follows:

Year	Bank Credit Facilities
Next 12 months	\$ 4,296
2 years	672
3 years	324
4 years	--
5 years	--
Balance of obligation	\$ 5,292

## 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	6,434,920	\$

	Shares	Amount
Outstanding, July 31, 2015	6,429,920	\$ 18,784
Transactions during the year	<b>10,000</b>	35
Outstanding, July 31, 2016	<b>6,439,920</b>	\$ 18,819
Transactions during the year as highlighted below	<b>(5,000)</b>	(16)
Outstanding, July 31, 2017	<b>6,434,920</b>	\$ 18,803

During the year, 5,000 shares were issued as a result of a purchase under the Company's stock option plan for proceeds of \$5,750. A charge of \$19,350 was applied to contributed surplus from this transaction.

Also during the year, 10,000 shares were purchased on the open market for \$40,200 under the Company's Normal Course Issuer Bid. These shares were immediately cancelled.

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, 2017 were exercised:

Common shares outstanding at July 31, 2017	6,434,920
Stock options (Note 14)	361,500
	<b>6,796,420</b>

## 12. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2017	2016
Balance, beginning of year	\$ 1,876	\$ 1,844
Amounts charged to contributed surplus in respect of exercised stock options	(20)	(23)
Amounts charged to contributed surplus in respect of the stock based compensation	--	55
Balance, end of year	\$ 1,856	\$ 1,876

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2017 was based on the net income attributable to common shareholders of \$2,545 (2016: \$7,601) and a weighted average number of common shares outstanding of 6,434,920 calculated as follows:

	2017	2016
<b>Basic earnings per share:</b>		
Net income	\$ 2,545	\$ 7,601
Average number of common shares outstanding during the year	6,442,194	6,433,948
Basic earnings per share	\$ 0.40	\$ 1.18
<b>Diluted earnings per share:</b>		
Net earnings available to common shareholders	\$ 2,545	\$ 7,601
Average number of common shares outstanding during the year	6,442,194	6,433,948
'In the money' stock options outstanding during the year	361,500	326,000
	6,803,694	6,759,948
Diluted earnings per share	\$ 0.37	\$ 1.12

## 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. At the directors' discretion, the vesting progression is 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.

During the year, the Company granted an additional 65,000 options to employees, 10,000 options to Ms. Diane Reko (who is both an employee and a director) and 30,000 options to all other directors. During the year, 5,000 options from a previous award were exercised by a director.

As at July 31, 2017, the following options and warrants were outstanding:

Number of Options	Exercise price	Expiry
35,000	\$ 1.15	2019
274,000	\$ 2.00	2020
105,000	\$ 3.90	2022

The weighted average of the options is as follows:

	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	326,000	\$ 1.15	455,000	\$ 1.90
Expired during the year	--	--	--	--
Issued during the year	105,000	3.90	--	--
Exercised during the year	(5,000)	1.15	(10,000)	1.15
Cancelled during the year	(12,000)	2.00	(119,000)	1.96
Outstanding at the end of the year	414,000	\$ 2.41	326,000	\$ 1.90
Exercisable at the end of the year	87,500	\$ 2.80	40,000	\$ 1.15

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:

	2017	2016
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	52.01%	57.51%
Risk free rate of return	0.81%	0.27%
Expected forfeiture rate	83.30%	58.60%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ --	\$ 55

## 15. OPERATING LEASES – LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
Less than one year	\$ 10	\$ 10
Between one and five years	12	22
More than five years	--	--
	\$ 22	\$ 32

During the year ended July 31, 2017, \$10 was expensed with respect to operating leases.

## 16. PROVISIONS

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

	2017	2016
Short-term provisions	\$ --	\$ 175

## 17. 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 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 \$3 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:

	2017	2016
Salaries and cash bonuses	\$ 614	\$ 709
Short-term employment benefits	26	26
Post-employment benefits	3	3
	\$ 643	\$ 738

### **KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS**

Directors of the Company control 3.5% of the voting shares of the Company. Individuals related to a director own, directly or indirectly, 59.5% of the voting shares of the Company.

## 18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2017	2016
Accounts receivable	\$ 5,646	\$ 530
Non-hedging financial derivatives	(831)	(517)
Work-in-progress	(3,406)	5,708
Prepaid expenses and other current assets	(250)	252
Accounts payable and accrued liabilities	(1,402)	(409)
Provisions	(175)	135
Unearned revenue	(56)	(120)
Unearned revenue on work-in-progress	(549)	371
	\$ (1,023)	\$ 5,950

## 19. SUBSEQUENT EVENT

On August 2, 2017, the Company signed an agreement to construct a 48,585 square foot building on vacant land owned by Reko which is adjacent to its current production facilities in Lakeshore, Ontario. The total value of the contract is approximately \$5.6 million. Completion of the building is anticipated in the spring of 2018.

## 20. CONTINGENCIES & COMMITMENTS

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

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.

**SUMMARY OF INCOME (LOSS)****AS AT JULY 31***(in 000's, except for per share amounts)*

	2017	2016	2015	2014	2013
Sales	<b>\$42,967</b>	\$50,599	\$48,296	\$38,894	\$40,674
Cost and expenses					
Cost of sales	<b>32,402</b>	32,026	33,737	29,101	32,422
Depreciation and amortization	<b>3,089</b>	2,954	2,508	2,670	1,786
	<b>35,491</b>	34,980	36,245	31,771	34,208
Gross profit	<b>7,476</b>	15,619	12,051	7,123	6,466
Selling and administrative	<b>3,972</b>	4,626	6,349	4,730	4,307
Income before the following	<b>3,504</b>	10,993	5,702	2,393	2,159
(Gain) loss on sale of capital assets	<b>(15)</b>	39	(25)	(160)	(203)
Income – other	<b>(192)</b>	(160)	(158)	(398)	(297)
Unrealized foreign exchange (gain) loss	<b>154</b>	456	664	547	(81)
Asset impairment	<b>--</b>	--	--	--	--
Business transformation expenses	<b>--</b>	--	--	--	130
Interest on long-term debt	<b>297</b>	390	367	379	456
Interest expense, net	<b>12</b>	124	521	497	630
	<b>256</b>	849	1,369	865	635
Income before income taxes	<b>3,248</b>	10,144	4,333	1,528	1,524
Income taxes (recovered)					
Current	<b>--</b>	--	32	--	--
Deferred	<b>703</b>	2,543	174	(770)	(149)
	<b>703</b>	2,543	206	(770)	(149)
Net income (loss) for the year	<b>\$ 2,545</b>	\$ 7,601	\$ 4,127	\$ 2,298	\$ 1,673
Basic income (loss) per common share	<b>\$ 0.40</b>	\$ 1.18	\$ 0.64	\$ 0.36	\$ 0.26

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

	2017	2016	2015	2014	2013
Costs and expenses					
Cost of sales	<b>75.4%</b>	63.3%	69.9%	74.8%	79.7%
Depreciation and amortization	<b>7.2%</b>	5.8%	5.2%	6.9%	4.4%
Selling and administration	<b>9.2%</b>	9.1%	13.1%	12.2%	10.6%
	<b>91.8%</b>	78.2%	88.2%	93.9%	94.7%
Gross margin	<b>17.4%</b>	30.9%	25.0%	18.3%	15.9%
Return on sales	<b>5.9%</b>	15.0%	8.5%	3.3%	4.1%
Effective tax rate	<b>25.2%</b>	25.1%	4.8%	(50.4%)	(10.2%)



# INFORMATION FOR SHAREHOLDERS

## DIRECTORS AND OFFICERS

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### **Diane Reko**

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

### **Marilyn Crowley, CPA, CA**

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)

### **Maria Thompson**

Director and a member of the Audit and Compensation  
Committees (Entrepreneur in Residence, Arsenal,  
Winter Park, Florida)

## INVESTOR RELATIONS CONTACT

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### **Marilyn Crowley**

Chief Financial Officer

469 Silver Creek Industrial Drive  
Lakeshore, Ontario N8N 4W2  
Tel: (519) 727-3287  
Fax: (519) 727-4315  
irelations@rekointl.com

## ANNUAL MEETING

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The Annual Meeting of the Shareholders will be held at the  
Torino Restaurant & Banquet Hall, 12049 Tecumseh Road,  
Tecumseh, ON N8N 1M1 on December 7, 2017 at 3:00 p.m.

## LISTING

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

## CORPORATE DIRECTORY

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### **Corporate Office**

469 Silver Creek Industrial Drive  
Lakeshore, Ontario N8N 4W2  
Tel: (519) 727-3287  
Fax: (519) 727-6681  
www.rekointl.com

### **Auditors**

PricewaterhouseCoopers LLP  
Windsor, Ontario

### **Bankers**

Bank of Montreal  
Windsor, Ontario  
Comerica Bank  
Detroit, Michigan

### **Counsel**

Bartlet & Richardes LLP  
Windsor, Ontario

### **Transfer Agent**

AST Trust Company (Canada)  
P.O. Box 700  
Postal Station B  
Montreal, Quebec H3B 3K3  
Tel: (416) 682-3860  
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