Cultivating Success

Shaped by our Values

REKO
INTERNATIONAL GROUP INC.

2021 Annual Report

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Our core values ensure that our customers get what they request, on time.

We will maximize value for all stakeholders.

Respect Innovation

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Chief Executive Officer Message

Diane Reko
Chief Executive Officer

We've "brushed up" our mission and vision statements to reflect a more detailed picture of who we are, why we exist and what we are working towards:

Reko International Group Inc. serves manufacturers and producers who put their trust in us to help them be more successful. We will be the "go-to" team by using innovative processes and providing creative solutions to any production need.

Adhering to our core values of respect, customer focus, innovation, flexibility, teamwork, honesty and dedication, we work creatively to ensure that our customers get what they request, on time. We will maximize value for all stakeholders. Our supportive family culture means that we embrace diversity; that we work together; and that we enjoy lots of social events together, too.

We believe that through this, people and communities can be independent and self-sufficient.

Lately I've thought a lot about what makes a manufacturer or producer successful. There is, of course, the obvious financial definition associated with profitability and cash flow. In today's world, though, there is much more to be considered before placing a "successful" stamp on any manufacturer or producer.

Would you still be willing to label a company successful if it was not also socially responsible? Let's say it was inflexible and did not change production according to demand and therefore produced enormous amounts of waste. Let's say that a large portion of production was of sub-standard quality, making it unsaleable and/or scrap. Let's say that all of that wasted product ended up in a landfill or in a river, lake or ocean. Let's say that manufacturer or producer used child or slave labour to produce. Would you still label such companies successful, because of a great bottom line?

I'm proud to say that our team at Reko works hard at ***being successful AND being socially responsible***. We also help manufacturers and producers reduce their waste via quality tooling, automation equipment and machined components. If our customers are not successful, there is an obvious impact upon Reko, but there is an even greater impact upon the communities and countries which depend upon such manufacturing and production strength. When we outsource our manufacturing and production capabilities to companies in foreign countries and become solely dependent on these suppliers, the risks are significant, as evidenced by the current semi-conductor or "chip" shortages and the previous PPE shortages in the early part of the pandemic. Ensuring that we establish and maintain manufacturing and production capability for certain critical products and components in our country, is critical to independence.

Of course, we manufacturers and producers require a "special ingredient" beyond critical components in order to be successful and sustainable. That special ingredient is a strong supply of talented and engaged people. Even the most automated operation requires people to plan, trouble shoot, create and innovate if it hopes to be sustainable over the long term. Finding and developing talent is not a new problem, but it has certainly been exacerbated by the Covid pandemic. Some of the resulting government policies and propagation of the myth that each and every employee can work more effectively remotely is creating additional strain in that search for talent. Since this is our reality, and we are not sustainable without talent, we are focusing on solutions to solve the problem.

There are also opportunities for Reko resulting from the talent shortages of our customers. Some continue to be plagued by additional "Covid waves" and are turning to automated equipment as a solution. Some are using our machining expertise to handle demand beyond what their internal staff and equipment can produce. Some are asking us to complete molds and run parts for them because another supplier has let them down because of talent shortages or Covid.

Unfortunately, the pandemic era has also hurt Canadian exporters. As manufacturers and producers, we were deemed "essential" from the early days of the pandemic, with the intent to allow our goods and services to flow across the border as they did before pandemic. Unfortunately, government policies and CBSA interpretation of those policies resulted in some terrible inconsistencies, additional costs, aggravation and worst of all, difficulties meeting customer contract obligations and damage to customer relationships. There will be long term negative effects for the Canadian manufacturing and producing export sector resulting from these decisions and the delays in correcting them once the problems were identified.

Because of these risks and opportunities, Reko has identified several required investments, objectives and actions. We are focused on the automation and efficiency improvement in our production given the ongoing shortage of skilled talent. We have installed new equipment and research and development tools to accelerate our innovation. We are also working towards enhancing our work environment to make us the employer of choice for the smaller pool of talented people that are available. Additionally, we are seeking an acquisition in the United States to offset the border "thickness" which has developed since the beginning of the pandemic.

I'm grateful to all of those who have contributed to and supported Reko on our mission to be both successful and responsible. To our team members who have led, stepped up and found ways to solve the problems that have presented us with both risks and opportunities, I thank you from the bottom of my heart. To our vendors, lenders, shareholders and directors, I thank you for your support, advice and encouragement. To our customers, I thank you for your continued trust in Reko and for allowing us to contribute to your success. Your success is ultimately our success, as well as the source of strength and independence of our communities.

"Diane Reko"
Diane Reko
Chief Executive Officer

Management

Greg Yzerman
Chief Operating Officer

Dave Romanello
Director, Tooling Division

Diane Reko
Chief Executive Officer

Barrie Cutting
Mechanical Engineering Manager

Caterina (Catia) Longo CPA, CMA
Chief Financial Officer


Lauren Brummell-Beaudoin
Director, Corporate Human Resources
Peter Gobel
Director, Concorde Precision Machining
Paul Rauch
Controls Engineering Manager
Christine Ferrari CPA, CMA
Controller
Gennaro Pignanelli
Engineering Manager
Ernie Stajduhar
Director, Technology
Team

Innovation

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, 2021 and the audited consolidated financial statements and MD&A for the years ended July 31, 2020 and July 31, 2019 included in our 2020 Annual Report to Shareholders. The audited consolidated financial statements for the years ended July 31, 2021 and July 31, 2020 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 33, 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 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.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding Reko International Group Inc., including copies of our continuous disclosure materials, is available on our website at www.rekointl.com or through the SEDAR website at www.sedar.com.

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

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

This MD&A is current to October 14, 2021.

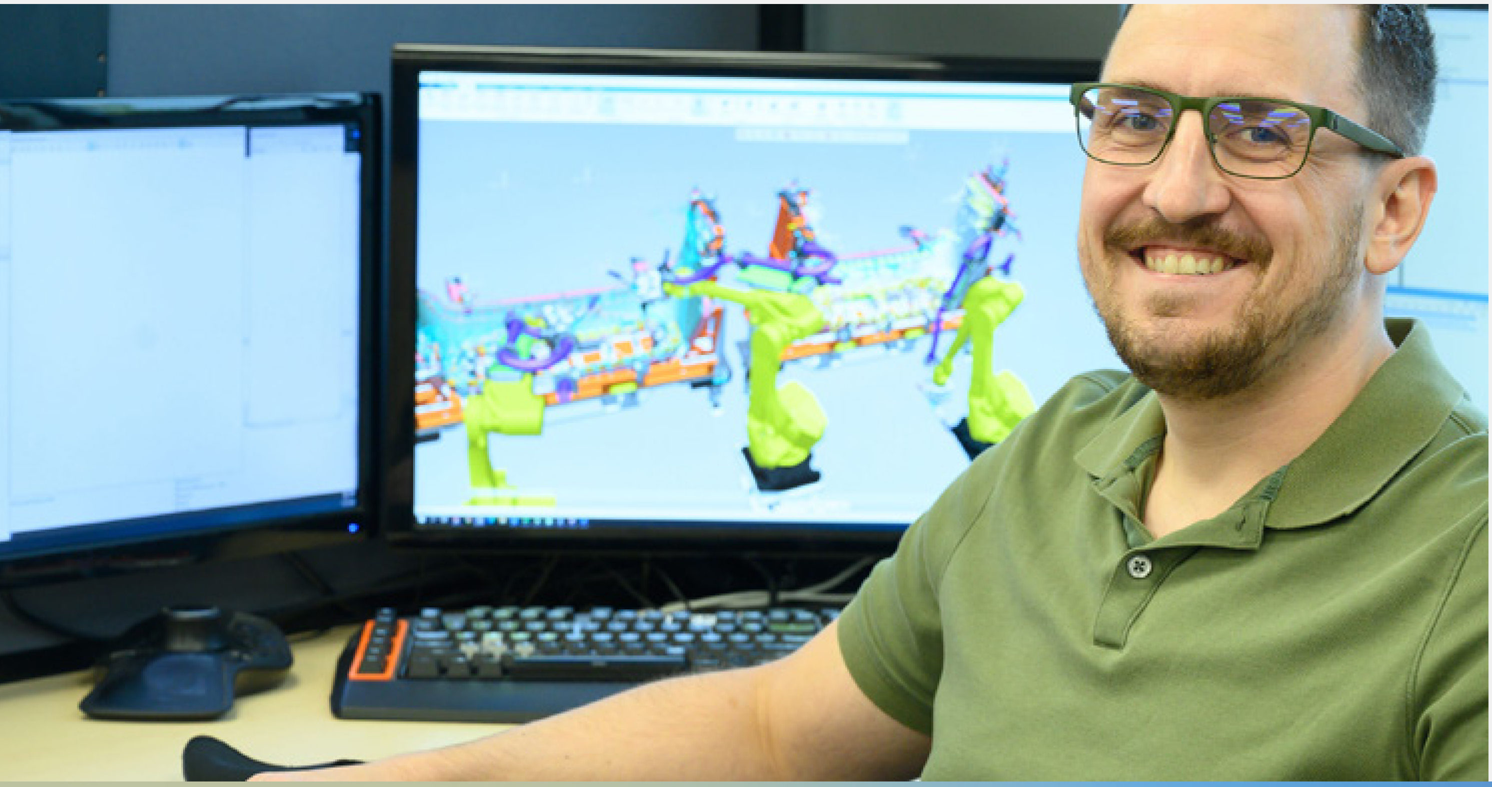
Overview

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

Reko designs and manufactures a variety of engineered products and services for original equipment manufacturers ("OEMs") and their Tier suppliers. These products include design and construction of unique specialty machines and lean cell factory automation solutions and robotics integration; high precision, custom machining of very large critical components and assemblies; and plastic injection and compression acoustic molds. While many of our customers are in the automotive market, the Company has diversified beyond automotive and 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 three manufacturing plants located on adjacent parcels of land in Lakeshore, Ontario - a suburb of the City of Windsor in Southwestern Ontario.



Summary of Results

Reko International Group Inc. had a challenging but profitable fiscal, particularly as the Company continued to navigate through the various continued impacts of the ongoing COVID-19 pandemic. Strategically, the Company has focused on maintaining stability of sales volumes within its traditional markets, while pursuing a focused effort at breaking into diversified industries. The Company also focused strong efforts on maintaining a strong cash position, which, in turn, permitted some key capital expenditures that will help support our sales strategy and overall growth mission.

Reconciliation of Non-IFRS Measures

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

	2021	2020
Sales	$ 39,196	$ 40,226
Less: Material	12,343	10,574
Subcontracting	1,992	2,447
Inventory adjustments	375	(651)
	$ 24,486	**$ 27,856**

Results of Operations

REVENUES

Revenues for the year ended July 31, 2021 decreased by 2.6%, or $1,030, to $39,196 compared to the prior year. The decrease is partly due to the impact of the global pandemic. At the start of the fiscal, the Company's ability to secure new sales was greatly challenged due to continued lockdowns and travel restrictions. Wide-spread shutdowns of businesses temporarily impacted customer demand and made overall contact with new or existing customers difficult at times. Those challenges, along with an overall increase in global uncertainty, caused delays in kick-off of new awards. As the year progressed, sales volumes and awards picked up, as companies appeared more willing and able to kick start new work. By the end of the fiscal year, the Company had a strong backlog of work. Continued border restrictions, however, did impact the ability to get customer buy off on some larger projects. This impacted sales for the fiscal, as a portion of those revenues will shift to next fiscal.

Diversifying our sales and targeting non-automotive customers continues to be a strong strategic initiative for the Company. The Company has been solidly pursuing discussions with potential customers in order to break into targeted diversified markets. Strategically, the Company is focusing on work that fits our wheelhouse and that is reasonable for a Company new to the space. Our focused strategy is paying off and we have made significant headway, particularly in recent months.

Foreign exchange fluctuations continue to affect revenues and is an inherent risk when doing business in other currencies. Overall, the fluctuation and decrease in foreign exchange for the U.S. dollar sales had a negative impact in the fiscal.

EARNED REVENUE

Earned revenue is not a standard IFRS measurement. The Company's explanation of how it measures earned revenue is noted previously. Earned revenue effectively measures that portion of total revenue available to pay for the Company's employees, fixed and operating costs, and to earn a profit. The Company believes that earned revenue is an effective measurement of how its performing.

For 2021, earned revenue decreased by 12.1%, or $3,370, to $24,486, or 62.5% of sales, compared to earned revenue of $27,856, or 69.2% of sales, in 2020. The lower sales volume contributed to the lower earned revenue amount. One division had a contract with a customer which included the flow-through of material purchases. As well, current project costs associated with recognized revenue include a large concentration of material purchases, which largely occurs at the early phases of a project. Earned revenue and margins at this phase of project completion tend to be lower than overall performance expected by completion of the work.

GROSS PROFIT

Gross profit for fiscal 2021 increased $383 to $4,825, or 12.3% of sales, compared to 11.0% of sales in 2020. The increase in gross profit was largely driven by the overall operational efficiencies from staff in completing projects. Keeping teams busy has a natural tendency of promoting efficiency and as sales volumes improved throughout the year, gross profit tended to improve. Teams were driven to work efficiently, reducing excessive labour where possible. The organization restructure that occurred by the end of the first quarter also provided a more effective mix of talent within the team, which has proven to positively affect performance. Securing the best pricing from our suppliers when possible has also helped improve profitability.

SELLING AND ADMINISTRATION

Selling and administration expenses ("SG&A") during 2021 increased to $5,405, or 13.8% of sales, compared to $5,096, or 12.7% of sales during 2020. The increase in SG&A was mostly attributed to the costs associated with the organization restructure that occurred during the year. The Company continuously challenges its staff to reduce discretionary spending where possible, and overall decreases in overtime, offices expenses, meals and entertainment and travel have helped offset the severance payments associated with the restructure.

EARNINGS OVERVIEW

Fourth quarter net income was $491, or $0.08 per share, compared to the same in the final quarter of fiscal 2020. Net income for the year ended July 31, 2021 was $864, or $0.14 per share, compared to net income of $763, or $0.12 per share, for the year ended July 31, 2020.

Liquidity and Capital Resources

Cash flow from operations decreased from $6,557 in the prior year to $5,782 in the current year. The decrease is primarily a result of a decrease in non-cash working capital.

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, 2021, the Company invested $3,093 in capital assets (maintenance CAPEX spending).

CASH RESOURCES/WORKING CAPITAL REQUIREMENTS

As at July 31, 2021, Reko had cash on hand of $6,209 compared to $4,441 at July 31, 2020 and $6,028 at April 30, 2021.

Reko has a $20,000 revolver available. However, based on our current lender defined margining capabilities, our borrowings are limited to $15,234, all of which was unused and available at the end of the year.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET FINANCING

	Payments due by period				
Contractual obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Long-term debt	$ 3,399	$ 147	$ 3,252	$ --	$ --
Long term debt subject to demand provisions	5,717	337*	674*	4,706*	--
Lease liabilities	22	10	12	--	--
Total contractual obligations	**$ 9,138**	**$ 494**	**$ 3,938**	**$ 4,706**	**$ --**

Except as disclosed elsewhere in this MD&A, there have been no material changes with respect to the contractual obligations of the Company during the year.

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

Reko does not maintain any off-balance sheet financing.

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SHARE CAPITAL

The Company had 6,003,850 common shares outstanding at July 31, 2021.

OUTSTANDING SHARE DATA

Designation of security	Number outstanding	Maximum number issuable if convertible, exercisable or exchangeable for common shares
Common Shares	6,003,850	
Stock options outstanding	342,900	
Stock options exercisable	165,180	
Total (maximum) number of common shares		**6,346,750**

Customer Focus

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 2021, ended July 31, 2021. 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.

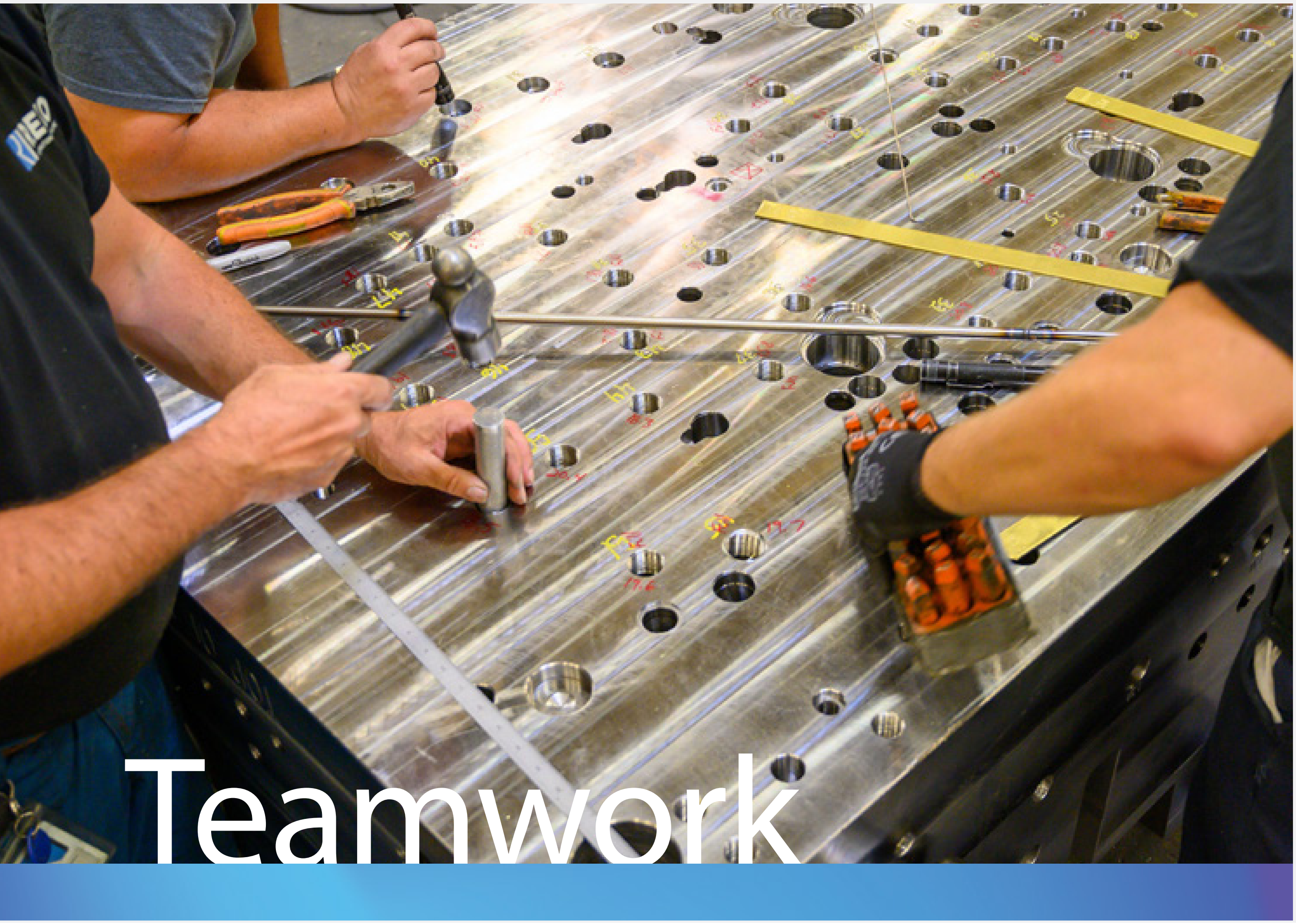
F2020	**Oct/19**	**Jan/20**	**Apr/20**	**July/20**
Sales	$ 9,350	$ 9,538	$ 9,985	$ 11,353
Net income	140	57	65	501
Earnings per share: Basic	0.02	0.01	0.01	0.08
Diluted	0.02	0.01	0.01	0.08
F2021	**Oct/20**	**Jan/21**	**Apr/21**	**July/21**
Sales	$ 6,844	$ 10,982	$ 12,413	$ 8,957
Net income	(896)	468	801	491
Earnings per share: Basic	(0.14)	0.07	0.13	0.08
Diluted	(0.14)	0.07	0.13	0.08

Management's Discussion and Analysis (in 000's, except for per share amounts) 19

Industry Trends and Risks

While the Company has increased the level of diversification across industries, sales volumes still have a significant dependence upon the levels of new model releases for cars and light trucks by OEMs and on the construction, expansion or retooling of production facilities 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, 2021 or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements related to the Company.



Operational Risk

CURRENT OUTSOURCING AND IN-SOURCING TRENDS

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

A SHIFT AWAY FROM TECHNOLOGIES IN WHICH THE COMPANY IS INVESTING

Like our OEM and Tier 1 and 2 customers, we continue to invest in technologies and innovations, which the Company believes are critical to long-term growth. Our ability to anticipate changes in technology and to successfully develop and introduce new and enhanced products on a timely basis using such technologies will be a significant factor in our ability to remain competitive. Current technological shifts in the industry would include the application of the Internet of Things, integration of additive manufacturing capabilities into our processes and the transition to electric and autonomous vehicles. If there is a movement away from the use of specific technologies that the Company is focused on developing or someone applies these technologies more quickly or effectively, our costs may not be fully recovered. In addition, if other technologies in which our investment is not as great, or our expertise is not as fully developed emerge as the industry-leading technologies, we may be placed at a competitive disadvantage, which could have a material adverse effect on our profitability and financial condition. Management pays particular attention to the emergence of new technologies and updates our investments in these emerging technologies accordingly.

DIVERSIFICATION OF OUR SALES

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

CHALLENGES SUCCESSFULLY COMPETING AGAINST SUPPLIERS WITH OPERATIONS IN DEVELOPING MARKETS

Many of our customers have sought and will likely continue to seek to take advantage of lower operating costs in Mexico, China, India, Southeast Asia, and other developing markets. We continue to investigate opportunities to expand our manufacturing sources, with a view to taking advantage of these lower cost countries. However, we cannot guarantee that we will be able to fully realize such opportunities. The inability to quickly adjust our manufacturing sources to take advantage of opportunities in these markets could harm our ability to compete with competitors and suppliers operating in or from such markets, which could have an adverse effect on our profitability and financial condition.

THE CONSEQUENCES OF THE AUTOMOTIVE INDUSTRY'S DEPENDENCE ON CONSUMER SPENDING AND GENERAL ECONOMIC CONDITIONS

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. However, management feels that the existence of multiple product lines in our automotive focused divisions should serve to moderate the impact of any such declines.

THE FINANCIAL VIABILITY OF OUR SUPPLY BASE

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. Management continues to monitor the strength of our supply base and restricts the development of single source suppliers for any significant inputs into our production process.

CHANGES IN CONSUMER DEMAND FOR SPECIFIC VEHICLES

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.

RELIANCE ON KEY PERSONNEL AND SUCCESSFULLY RECRUITING TALENT IN CRITICAL AREAS

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. Management has implemented several innovative recruitment and retention strategies to effectively reduce the risks in this area.

THE SECURITY OF OUR INFORMATION TECHNOLOGY (IT) SYSTEM

While the Company has established (and continues to monitor and enhance) security controls and has appropriate employee training 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 and continuously monitors its system, the consequences of these events could have a material adverse effect on the Company, its profitability, and financial condition.

Financial and Capital Management Risk

CONTINUED UNCERTAIN ECONOMIC CONDITIONS

A rise in economic uncertainty or a deterioration of the global economy, particularly in the wake of the current COVID-19 global pandemic, could have a material adverse effect on our profitability and financial condition.

PRICING PRESSURES AND PRESSURE TO ABSORB ADDITIONAL COSTS

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 and non-automotive OEMs (such as support in remote production facility locations). These pressures are expected to continue, particularly as Company's attempt to recover from the consequences of the pandemic. 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

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. While 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), the Company continues to enjoy strong banking relationships and support from major charter banks. Any additional equity financing to raise new capital may result in dilution to existing shareholders.

SIGNIFICANT LONG-TERM FLUCTUATIONS IN RELATIVE CURRENCY VALUES

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

COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This outbreak, which has spread globally, has adversely affected workforces, economies, and financial markets globally. While the recent events are potentially leading to an economic downturn, governments and central banks have implemented significant monetary and fiscal interventions designed to stabilize the economic conditions.

COVID-19 has resulted in wide-spread and extended shutdowns of businesses throughout the world. Such disruptions have included temporary closures of third-party supplier facilities, restrictions on the export or shipment of product, or unavailability of key components sourced from affected manufacturers or suppliers. The outbreak has also impacted customer demand, either temporarily or permanently. While the effects of the pandemic did have a negative impact on the Company's financial results, the Company cannot determine the ultimate financial impacts at this time. The extent to which COVID-19 may impact the Company's business activities will depend on future developments, and in particular, the duration of the outbreak, including the current discussion surrounding a possible "fourth wave" brought on by newly found variants of the virus, border and travel restrictions, business disruptions and the effectiveness of actions taken in Canada and other countries to contain and treat the disease, as well as the success of the global vaccination efforts.

On March 23, 2020, the Government of Ontario announced that certain manufacturers and their suppliers were deemed essential businesses due to their importance to the Ontario economy. As Reko has maintained full operations during this unprecedented time, the Company implemented several measures aimed at protecting the health and safety of our employees, and customers, and limiting the exposure and spread of the virus. The Company will continue to evaluate all developments and make any necessary modifications and enhancements to our COVID-19 response. We continuously monitor the updates provided by public health authorities and by all levels of government and will modify our response as new information is provided. Our efforts with respect to this pandemic are ongoing and include our top executive and operational management team continually monitoring changes in best practices and regulations, and their impact on the safety of our employees, our operations and our customers and suppliers. While it is unclear how long the economic recovery from COVID-19 will take, we are committed as a Company to make every effort to succeed.

In March 2020, the Government of Canada announced the introduction of the Canada Emergency Wage Subsidy (CEWS) to support employers that are hardest hit by the pandemic and protect the jobs Canadians depend on. The CEWS program provides a subsidy to qualifying employers on eligible remuneration, subject to limits per employee, and based on demonstrated revenue declines as a result of the pandemic.

The company reviews its eligibility under the CEWS program monthly and applies for assistance when it determines that it would be eligible. Details are noted in Note 15 of the Company's financial statements. The Company will continue to review all programs offered by the Government and ensure that it applied for all appropriate support.

THE POSSIBILITY OF IMPAIRMENT CHARGES IN THE FUTURE

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 if we do not generate profits in the United States.

POTENTIAL VOLATILITY OF REKO'S SHARE PRICES

The market price of the Company's common shares has been, and will likely continue to be, subject to fluctuations in response to a variety of factors, many of which are beyond the Company's control. These fluctuations may be exaggerated if the trading volume of the common shares remains low. In addition, due to the evolving nature of its business, the market price of the common shares may fall dramatically in response to a variety of factors, including quarter-to-quarter variations in operating profits, announcements of technological or competitive developments by the Company or its competitors, large short-term fluctuations in foreign exchange rates, acquisitions or entry into strategic alliances by the Company or its competitors, the industry or its customer's industry, and general market and economic conditions.

INTEREST OF THE MAJORITY AND MINORITY SHAREHOLDERS MAY BE IN CONFLICT WITH THE INTERESTS OF THE COMPANY

As of the date of this MD&A, The Reko Family Corporation and individuals related to it, own directly or indirectly 64.48% 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

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. Specifically, our profitability could be adversely impacted by significant changes in the tariffs and duties imposed on our products or on our inputs. 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 or inconsistent 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, in Canada, 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.

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:

Fiscal Period	Total U.S. exposure before hedging programme	Forward foreign exchange contracts booked	Net exposure to the US dollar
Q4 – 2021	$ 8,438	$ 7,000	$ 1,438
Q3 – 2021	$ 12,480	$ 7,400	$ 5,080
Q2 – 2021	$ 12,151	$ 6,300	$ 6,851
Q1 – 2021	$ 8,131	--	$ 8,131

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,			
	2021		2020		2020		2019	
	Actual	Reko effective rate	Actual	Actual	Actual	Reko effective rate	Actual	Reko effective rate
US Dollar equals Canadian Dollar	1.2275	1.2330	1.3705	1.3982	1.2741	1.2824	1.3448	1.3480

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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 six (6) months after the date on which the FFEC is booked. The specific rate entered into is not necessarily indicative of what either the intermediary or Reko believes the foreign exchange rate will be on the date the settlement of the trade occurs, rather it is a rate set by the intermediary which Reko can either accept or reject.

At the end of the year, we held FFECs of $7,000 compared to $4,000 at the end of the prior year. During fiscal 2021, on average, we held FFECs of $3,050, as compared with the $5,250 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
Q4 – 2021	$ 7,000	1.2370

Additionally, the Company entered into a few different options to purchase USD and sell CAD. These options have varying exercise rates ranging between 1.20 and 1.29 over the next 6 months.

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 3 and Note 5 to Reko's audited consolidated financial statements, which by this reference are hereby incorporated herein.

Normal Course Issuer Bid

On December 23, 2020, 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 307,162 of its common shares during the twelve-month period which commenced December 31, 2020. The 307,162 common shares represent approximately 5% of the total common shares outstanding. The price that the Company will pay for any such shares will be the market price at the time of acquisition and all shares acquired under the bid will be cancelled by the Company.

During the quarter ended July 31, 2021, Reko purchased and subsequently cancelled 11,900 shares under the provision of the normal course issuer bid. The total amount of shares purchased and cancelled during the current fiscal year are 238,800.

REKO
INTERNATIONAL GROUP INC.