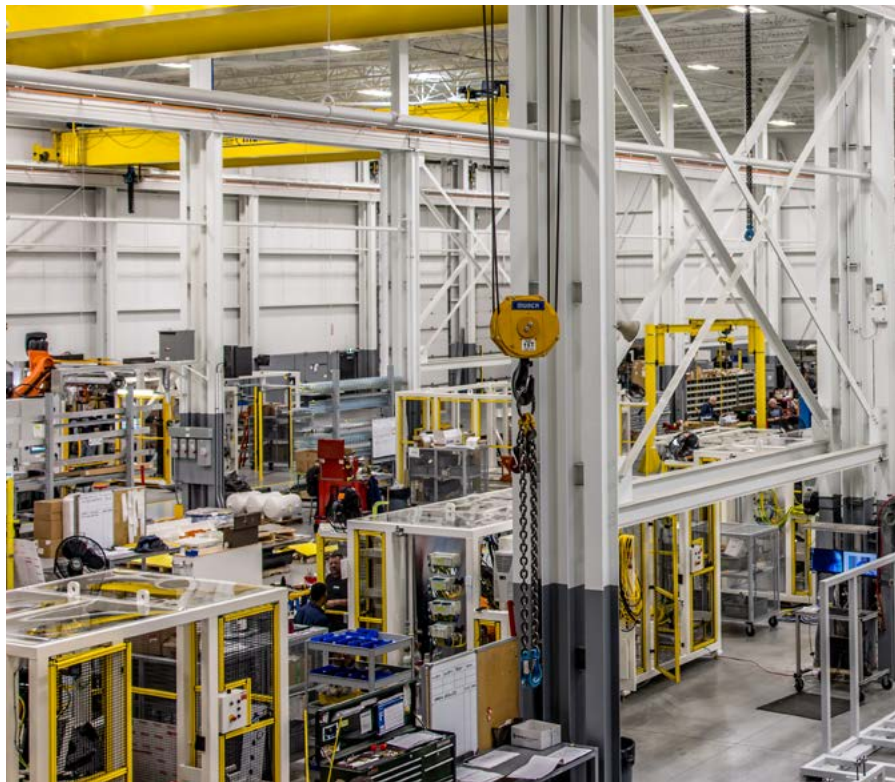




**VALUE**

**OF SUCCESS**



2022  
Financial  
Statements





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**VALUED  
EMPLOYEES**



# VALUABLE SERVICES



## 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

"Caterina Longo"  
**Caterina Longo, CPA**  
Chief Financial Officer

October 14, 2022



# VALUE OF QUALITY



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Reko International Group Inc.

### OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Reko International Group Inc. and its subsidiaries (together, the Company) as at July 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at July 31, 2022 and 2021;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

## OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Gilfillan.

(Signed) "PricewaterhouseCoopers LLP"  
Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Ontario  
October 14, 2022



## CONSOLIDATED BALANCE SHEETS

<i>As at July 31 (in 000's)</i>	2022	2021
<b>ASSETS</b>		
Current		
Cash	\$ 14,023	\$ 6,209
Accounts receivable	11,629	9,617
Short-term investments	--	4,500
Non-hedging financial derivatives (Note 5)	26	--
Work-in-progress (Note 6)	9,222	10,846
Prepaid expenses and current assets	857	1,155
	35,757	32,327
Grant receivable	--	300
Capital assets (Note 7)	29,024	27,141
Deferred income taxes (Note 4)	2,110	2,593
	\$ 66,891	\$ 62,361
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 16)	\$ 6,818	\$ 4,750
Unearned revenue on work-in-progress (Note 6)	693	1,337
Non-hedging financial derivatives (Note 5)	--	138
Current portion of long-term debt and lease liabilities (Note 8)	4,360	448
Long-term debt subject to demand provisions (Note 8)	5,129	5,380
	17,000	12,053
Long-term debt and lease liabilities (Note 8)	3,479	3,252
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	16,332	17,418
Contributed surplus (Note 10)	1,769	1,944
Retained earnings	28,311	27,694
	46,412	47,056
	\$ 66,891	\$ 62,361

Contingencies and commitments (Note 17)

On behalf of the Board	"Diane Reko" Diane Reko Director	"Andrew J. Szonyi" Andrew J. Szonyi Director
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The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(in 000's)</i>	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	TOTAL EQUITY
Balance at July 31, 2020	\$ 18,210	\$ 1,869	\$ 26,830	\$ 46,909
Net share-based transactions	(792)	75	--	(717)
Net income	--	--	864	864
<b>Balance at July 31, 2021</b>	<b>\$ 17,418</b>	<b>\$ 1,944</b>	<b>\$ 27,694</b>	<b>\$ 47,056</b>
Share based compensation (Notes 9 and 10)	335	(175)	--	160
Share repurchases (Note 9)	(1,421)	--	--	(1,421)
Dividends	--	--	(1,504)	(1,504)
Net income	--	--	2,121	2,121
<b>Balance at July 31, 2022</b>	<b>\$ 16,332</b>	<b>\$ 1,769</b>	<b>\$ 28,311</b>	<b>\$ 46,412</b>

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



## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Year Ended July 31 (in 000's, except for per share data)	2022	2021
Sales	\$ 53,884	\$ 39,196
Costs and expenses		
Cost of sales	41,788	31,251
Depreciation	3,370	3,120
	45,158	34,371
Gross profit	8,726	4,825
Selling and administrative (Note 13)	6,399	5,405
Income (loss) before the following items	2,327	(580)
Foreign exchange (gain) loss	(325)	797
Other income	(346)	(2,526)
Loss on sale of capital assets	35	75
Interest on long-term debt and leases	382	349
Interest on other interest-bearing obligations, net	(28)	(10)
	(282)	(1,315)
Income before income taxes	2,609	735
Income tax provision (Note 4)		
Deferred expense (recovery) (Note 4)	488	(129)
	488	(129)
Net income and comprehensive income	\$ 2,121	\$ 864
Earnings per common share (Note 11)		
Basic	\$ 0.36	\$ 0.14
Diluted	\$ 0.35	\$ 0.14

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended July 31 (in 000's)	2022	2021
<b>OPERATING ACTIVITIES</b>		
Net income for the year	\$ 2,121	\$ 864
Adjustments for:		
Depreciation	3,370	3,120
Income tax provision	488	(129)
Interest expense	354	339
Unrealized foreign exchange loss (gain)	125	(23)
Change in non-hedging financial derivatives	(164)	414
Loss (gain) on sale of capital assets	35	75
Stock-based compensation	160	75
	6,489	4,735
Net change in non-cash working capital (Note 14)	1,629	1,386
Interest paid	(313)	(339)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>7,805</b>	<b>5,782</b>
<b>FINANCING ACTIVITIES</b>		
Payment of dividends	(1,504)	--
Net proceeds from issuance (cost of repurchase) of capital stock	(1,421)	(792)
Proceeds from long-term debt	4,518	--
Re-payments on long-term debt	(796)	(460)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>797</b>	<b>(1,252)</b>
<b>INVESTING ACTIVITIES</b>		
Investment in capital assets	(5,364)	(3,093)
Proceeds from sale of short-term investments	4,500	500
Proceeds on sale of capital asset	76	17
Change in grant receivable	--	(186)
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(788)</b>	<b>(2,762)</b>
Net change in cash	7,814	1,768
Cash, beginning of year	6,209	4,441
Cash, end of year	\$ 14,023	\$ 6,209

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NATURE OF OPERATIONS

Reko International Group Inc. (the "Company" or "Reko"), is a diversified, technology-driven manufacturing organization located in Southwestern Ontario with areas of expertise including robotic factory automation solutions and precision machining of large, critical parts. The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate or exist in the Province of Ontario in Canada and in the State of Michigan in the United States.

Reko is listed on the TSX Venture Exchange under the symbol REKO. The Company's shares are traded in Canadian dollars. The registered head office for Reko International Group Inc. is 469 Silver Creek Industrial Drive, Lakeshore, Ontario, Canada.

All amounts are in thousands and in Canadian dollars unless otherwise noted.

The consolidated financial statements were authorized for issue by the Board of Directors on October 13, 2022.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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.

### CONSOLIDATION

The consolidated financial statements represent the accounts of Reko and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when Reko 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. All significant intercompany balances and transactions have been eliminated.

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.

Reko's subsidiaries are as follows:

SUBSIDIARY	LOCATION	PERCENTAGE OWNERSHIP	CONSOLIDATION
Concorde Precision Machining Inc.	Ontario	100%	Full
Reko Manufacturing Group Inc.	Ontario	100%	Full
Reko International Holdings, Inc.	Michigan	100%	Full
Reko International Services, Inc.	Michigan	100%	Full
Concorde USA LLC	Michigan	100%	Full

### FOREIGN CURRENCY TRANSLATION

The reporting currency of the reporting entity is Canadian dollars. All subsidiaries, including those in the United States, have a functional currency of 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, 2022, Reko reported a foreign exchange gain of \$325 (2021 - loss of \$797).

### FINANCIAL INSTRUMENTS

Reko 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 remeasured depending on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and Reko'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. The following table outlines the classification of financial instruments under IFRS 9:

CLASSIFICATION	CLASSIFICATION UNDER IFRS 9
Cash	FVTPL
Short-term investments	FVTPL
Non-hedging financial derivatives	FVTPL
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt subject to demand provisions	Amortized cost
Long-term debt	Amortized cost



### 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.

### AMORTIZED COST FINANCIAL ASSETS

Financial assets at amortized cost are non-derivative financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transactions costs, and subsequently at amortized cost.

### OTHER FINANCIAL LIABILITIES

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured 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.

### IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account.

The Company uses an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortized cost and contract assets.

The Company is using the simplified approach to recognize lifetime expected credit losses for its trade receivables and contract assets that are within the scope of IFRS 15 and that do not have a significant financing component.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the asset.

### EFFECTIVE INTEREST METHOD

Reko 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 Reko 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, 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

Reko enters into contracts with customers to design and manufacture a variety of engineered products and services. These contracts are entered into with a customer when the Company can identify each parties' rights and the contract has commercial substance, where the parties have approved the contract in accordance with customary Company business practices, both parties are committed to their obligations and payment terms are identifiable and collectible. Contracts are typically priced based on estimated expected costs plus a margin approach.

The Company recognizes revenue over time as performance obligations are satisfied. Revenue is recognized based on the extent of progress towards completion of performance obligations. Reko generally determines the progress of performance obligations based on the proportionate share of accumulated costs to date compared to the total expected costs. The Company considers all jobs, which have completed all aspects of engineering and design to have progressed to the point where total expected costs can be reasonably estimated. Historically, this occurs somewhere between 15% and 25%, depending on the complexity of the job. Revenues, including estimated reasonable profits, are then recorded proportionately as costs are incurred.

The Company has elected to use the practical expedient provided under IFRS 15 for unsatisfied or partially unsatisfied performance obligations of contracts that have an expected duration of one year or less. Any projected loss is recognized immediately.

#### **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.

#### **CONSIDERATION GIVEN TO CUSTOMERS**

Cash consideration given by Reko 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.

#### **LEASE LIABILITY PAYMENTS**

The Company leases certain property, plant and equipment as right-of-use assets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Assets and liabilities arising from a lease are initially measured on a present value basis, discounted using the interest rate implicit in the lease. Lease liabilities include the present value of fixed and variable payments, residual value guarantees, exercise of purchase options if reasonably certain to be exercised and any penalties for terminating the lease is reasonably certain to terminate. Right-of-use assets are measured at cost comprised of the amount of the initial measurement of the lease liability plus any lease payments made before the lease commencement date, any initial direct costs and restoration costs. Lease payments are allocated between finance charges and a reduction of the outstanding lease obligation.

#### **CASH**

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

#### **SHORT-TERM INVESTMENTS**

Short-term investments are comprised of liquid investments in redeemable short-term investment certificates with maturities of less than 1 year. Short-term investments are recognized initially at fair value and subsequently adjusted to fair value through profit or loss (FVTPL).

#### **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, Reko'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 under the ECL model.

#### **CAPITAL ASSETS AND DEPRECIATION**

##### **OWNED ASSETS**

Capital assets are stated at cost less accumulated depreciation 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.

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

#### **RIGHT OF USE ASSETS**

Leases for which the Company assumes substantially all of the risks and rewards of ownership are classified as a right-of-use asset. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

#### **SUBSEQUENT COSTS**

Reko 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.

#### **DEPRECIATION**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each capital asset. Land and equipment under construction is not depreciated. The estimated useful lives are as follows:

Buildings	10 - 50 years
Machinery and equipment	3 - 30 years
Leasehold improvements	5 - 25 years

The residual value and estimated useful life is reassessed annually.

#### **BORROWING COSTS**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

#### **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 any current (if applicable) 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, if any after application of available losses and deductions, 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 Reko'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, with the exception 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.

#### NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

As of the date of these consolidated financial statements, there are no new standards, amendments or interpretations to existing standards have been published but are not yet effective and have not been adopted early by Reko.

All 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 would have been provided below. Certain other new standards, amendments and interpretations may have been issued but are not expected to have a material impact on the Company's financial statements.

## 2. GEOGRAPHIC INFORMATION

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

	2022		2021	
	REVENUES	CAPITAL ASSETS	REVENUE	CAPITAL ASSETS
Canada	\$ 51,158	\$ 29,024	\$ 37,259	\$ 27,141
United States	2,726	--	1,937	--
	\$ 53,884	\$ 29,024	\$ 39,196	\$ 27,141

### 3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, short-term investments, accounts receivable, non-hedging financial derivatives, grant receivable, accounts payable and accrued liabilities and long-term debt.

#### FAIR VALUE

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

#### ACCOUNTS RECEIVABLE, GRANT RECEIVABLE, 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.

#### FAIR VALUE HIERARCHY

The following 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	2022
Financial assets at FVTPL				
Cash	\$ 14,023	\$ --	\$ --	\$ 14,023
Non-hedging financial derivatives	--	26	--	26
	\$ 14,023	\$ 26	\$ --	\$ 14,049

	LEVEL 1	LEVEL 2	LEVEL 3	2021
Financial assets (liabilities) at FVTPL				
Cash	\$ 6,209	\$ --	\$ --	\$ 6,209
Short-term investments	4,500	--	--	4,500
Non-hedging financial derivatives	--	(138)	--	(138)
	\$ 10,709	\$ (138)	\$ --	\$ 10,571

#### 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.

#### LONG-TERM DEBT

Reko's long-term debt of CDN \$5,624 and USD \$2,415 (currently valued at CDN \$3,097) 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.

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 Reko'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 Audit Committee reports regularly to the Board of Directors on its activities.

Reko'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. Reko, 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

Reko'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 59.5% of the Company's revenue is attributable to the automotive industry. Annually, between 70% and 80% of the Company's revenue is derived from customers who pay in United States dollars.



For the year ended July 31, 2022, sales to the Company's three largest customers (inclusive of all divisions of the same parent company) represented 13.2%, 12.1% and 10.4%, respectively, of total sales. These same customers represent approximately 5.2%, 9.5% and 10%, of total accounts receivable, respectively as at July 31, 2021.

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. Reko's review generally also includes application for accounts receivable insurance, and in some cases bank references. Open amount limits are established for each customer; actual open amounts are reported monthly to the Audit Committee and any accounts of concern are reviewed at least quarterly by the Audit Committee. Customers that fail to meet Reko'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 Reko may have a secured claim. The Company does not require collateral in respect of accounts receivable. In addition, Reko 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.

Reko'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 Reko 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, Reko ensures that it has sufficient cash on demand to meet expected operational expenses for a period of at least 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, 2022, the Company has cash on hand of \$14,023 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 \$16,174.

A portion of the debt noted above (CDN\$2,372 and USD\$2,415) is 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 and that it is anticipated that principal and interest payments on these facilities will be made as scheduled throughout the term of the loans.

#### 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.

Reko 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

Reko 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, 2022, 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 2022 under forward exchange contracts	\$ 3,000	1.2920
Sell US dollars for delivery in 2021 under forward exchange contracts	\$ 7,000	1.2370

#### INTEREST RATE RISK

Reko 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, 2022, none of Reko's total debt portfolio is subject to movements in floating interest rates.

#### 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. Reko'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 Reko 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, 2022 and July 31, 2021, the above capital management criteria can be illustrated as follows:

	2022	2021
Net debt		
Current portion of long-term debt	\$ 4,360	\$ 448
Long term debt subject to demand provisions	5,129	5,380
Long-term debt	3,479	3,252
Less: cash	(14,023)	(6,209)
<b>Net debt</b>	<b>\$ (1,055)</b>	<b>\$ 2,871</b>
<b>Shareholders' equity</b>	<b>\$ 46,412</b>	<b>\$ 47,056</b>
<b>Ratio</b>	<b>(0.02)</b>	<b>0.06</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.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is a non-GAAP measure but can be used as an indicator of the overall profitability of a company.

#### 4. INCOME TAXES

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

	2022	2021
Deferred income tax asset		
SR & ED tax credits	\$ 5,594	\$ 5,469
Non-capital losses	110	54
Other	83	113
<b>Deferred income tax asset</b>	<b>\$ 5,787</b>	<b>\$ 5,636</b>
Deferred income tax liability		
Tax impact of SR & ED tax credits	\$ 1,344	\$ 1,313
Unbilled contract revenue	1,494	900
Capital assets	839	830
<b>Deferred income tax liability</b>	<b>\$ 3,677</b>	<b>\$ 3,043</b>
<b>Net income deferred tax asset</b>	<b>\$ 2,110</b>	<b>\$ 2,593</b>

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

	2022	2021
Combined Federal and Provincial rate	26.5%	26.5%
Manufacturing and processing deduction	(0.5%)	(0.5%)
Permanent and other differences including SR & ED	(7.5%)	(43.6%)
<b>Effective rate</b>	<b>18.5%</b>	<b>(17.6%)</b>

The details of taxable losses by jurisdiction are as follows:

	2022	2021
Canada, which begin to expire, at the earliest, in 2031	\$ 417	\$ 204
United States, which expire between 2022 and 2032	\$ 11,730	\$ 10,889

The deferred income tax asset attributable to the taxable losses in the United States are not recognized.

#### 5. NON-HEDGING FINANCIAL DERIVATIVES

Reko utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at July 31, 2022, the Company had entered into foreign exchange contracts to sell an aggregate amount of \$3,000 (USD). These contracts mitigate the Company's expected exposure to US dollar denominated net assets and mature at the latest at Dec 15, 2022 at an average exchange rate of \$1.2939 Canadian. The mark-to-market value on these financial instruments as at July 31, 2022 was an unrealized gain of \$26, which has been recorded in net income for the year.

<i>As at July 31, 2022</i>	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE LIABILITY
Sell USD/ Buy CAD	0-6 months	\$ 3,026	1.2920	\$ 3,000	\$ 26

<i>As at July 31, 2021</i>	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE ASSET
Sell USD/ Buy CAD	0-6 months	\$ 6,862	1.2370	\$ 7,000	\$ (138)



## 6. WORK-IN-PROGRESS AND UNEARNED REVENUE ON WORK-IN-PROGRESS

A reconciliation of the beginning and ending carrying amounts of work-in-progress and unearned revenue on work-in-progress is as follows:

	2022		2021	
	WORK-IN-PROGRESS	UNEARNED REVENUE ON WORK-IN-PROGRESS	WORK-IN-PROGRESS	UNEARNED REVENUE ON WORK-IN-PROGRESS
<i>For the year ended July 31,</i>				
Balance outstanding – beginning of year	\$ 10,846	\$ (1,337)	\$ 12,298	\$ (439)
Revenue earned in the year	53,884	644	39,196	(898)
Billings in the year	(55,508)	--	(40,648)	--
Balance outstanding – end of year	\$ 9,222	\$ (693)	\$ 10,846	\$ (1,337)

## 7. CAPITAL ASSETS

Capital assets are comprised of:

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Cost						
Balance at July 31, 2020	\$ 661	\$ 14,146	\$ 53,646	\$ 844	\$ 417	\$ 69,714
Additions	--	384	--	--	2,709	3,093
Transfers	--	--	1,071	--	(1,071)	--
Disposals	--	--	(1,185)	--	--	(1,185)
Balance at July 31, 2021	\$ 661	\$ 14,530	\$ 53,532	\$ 844	\$ 2,055	\$ 71,622
Additions	--	29	--	--	5,335	5,364
Transfers	--	32	1,658	--	(1,690)	--
Disposals	--	--	(730)	--	--	(730)
Balance at July 31, 2022	\$ 661	\$ 14,591	\$ 54,460	\$ 844	\$ 5,700	\$ 76,256

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Amortization and impairment losses						
Balance at July 31, 2020	\$ --	\$ 5,052	\$ 37,033	\$ 369	\$ --	\$ 42,454
Amortization for the year	--	410	2,657	53	--	3,120
Disposals	--	--	(1,093)	--	--	(1,093)
Balance at July 31, 2021	\$ --	\$ 5,462	\$ 38,597	\$ 422	\$ --	\$ 44,481
Amortization for the year	--	425	2,901	44	--	3,370
Disposals	--	--	(619)	--	--	(619)
Balance at July 31, 2022	\$ --	\$ 5,887	\$ 40,879	\$ 466	\$ --	\$ 47,232
Carrying value						
Balance at July 31, 2021	\$ 661	\$ 9,068	\$ 14,935	\$ 422	\$ 2,055	\$ 27,141
Balance at July 31, 2022	\$ 661	\$ 8,704	\$ 13,581	\$ 378	\$ 5,700	\$ 29,024

Included in the net book value of machinery and equipment are right of use assets of \$4,239 (2021 - \$5).

## 8. LONG-TERM DEBT AND LEASE LIABILITIES

The long-term debt and lease liabilities are comprised of:

	2022	2021
Mortgage payable – 2.04% (2021 – 4.25%), repayable \$23 monthly including interest, due in full April 2023, secured by certain land and building and an assignment of rents on the subject property	\$ 3,252	\$ 3,399
Mortgage payable – 4.31% (2021 – 4.31%), repayable \$21 monthly including interest, due in full August 2023, secured by certain land and building and general security agreement, subject to demand provisions	2,372	2,520
Mortgage payable – 3.06% plus a credit spread, which may vary over the life of facility to a maximum of 275, currently at 175 for an all-in rate of 5.00% (2021 – 5.00%), repayable \$14 USD monthly plus interest, due in full August 2025, secured by certain land, buildings and a general security agreement, subject to demand provisions	3,097	3,197
Equipment lease – 2.78%, repayable \$23 USD monthly including interest, due in full January 2027, and secured by the equipment	1,488	--
Equipment lease – 3.99%, repayable \$19 USD monthly including interest, due in full April 2027, and secured by the equipment	1,292	--
Equipment lease – 5.23%, repayable \$18 USD monthly including interest, due in full June 2029, and secured by the equipment	1,484	--
	12,985	9,116
Deduct		
- unamortized finance fees	17	36
- principal portion included in current liabilities	9,489	5,828
Long-term portion	\$ 3,479	\$ 3,252

Notwithstanding the fact that certain facilities listed above are subject to demand provisions and are classified as current liabilities as a result, the Company expects to repay the principal over the entire scheduled term of the loans and these payments are outlined below. At July 31, 2022, \$4,377 is due within the next twelve months under normal repayment terms and an additional \$5,129 is not expected to be due in the next year but is subject to demand provisions.

Total bank credit facilities are as follows:

YEAR	BANK CREDIT FACILITIES
Next 12 months	\$ 4,377
2 years	3,209
3 years	1,014
4 years	3,372
5 years	548
Thereafter	465
Balance of obligation	\$ 12,985

## 9. 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	5,780,350	\$ 16,332

Share capital transactions during the year were as follows:

As at July 31	2022		2021	
	SHARES	AMOUNT	SHARES	AMOUNT
Outstanding, beginning of year	6,003,850	\$ 17,418	6,242,650	\$ 18,210
Transactions during year	(223,500)	(1,086)	(238,800)	(792)
Outstanding, end of year	5,780,350	\$ 16,332	6,003,850	\$ 17,418

During the year, the Company repurchased 291,300 shares for consideration of \$1,421. Total stock options of 67,800 were exercised during the fiscal year for consideration of \$335.

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, 2022 were exercised:

Common shares outstanding at July 31, 2022	5,780,350
Stock options (Note 12)	159,800
	5,940,150

## 10. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2022	2021
Balance, beginning of year	\$ 1,944	\$ 1,869
Amounts in respect of exercised stock options	(121)	--
Amounts in respect of the stock-based compensation	(54)	75
Balance, end of year	\$ 1,769	\$ 1,944

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2022 was based on the net income attributable to common shareholders of \$2,121 (2021 - \$864) and a weighted average number of common shares outstanding of 5,949,875 calculated as follows:

	2022	2021
<b>Basic earnings per share:</b>		
Net income	\$ 2,121	\$ 864
Average number of common shares outstanding during the year	5,949,875	6,121,025
Basic earnings per share	\$ 0.36	\$ 0.14

### Diluted earnings per share:

Net income attributable to common shareholders	\$ 2,121	\$ 864
Average number of common shares outstanding during the year	5,949,875	6,121,025
'In the money' stock options outstanding during the year	159,800	165,180
	6,109,675	6,286,205
Diluted earnings per share	\$ 0.35	\$ 0.14

## 12. 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 30,000 options to employees and directors (2021 – 140,000). During the year, 67,800 options (2021 - nil) were exercised by employees and directors.

As at July 31, 2022, the following options and warrants were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY
76,300	\$ 2.90	2024
10,000	\$ 3.50	2025
114,500	\$ 2.80	2026
10,000	\$ 4.59	2027
20,000	\$ 4.90	2027



The weighted average of the options is as follows:

	2022		2021	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
<i>As at July 31</i>				
Outstanding at beginning of year	342,900	\$ 3.14	202,900	\$ 3.37
Issued during the year	30,000	4.80	140,000	2.80
Exercised during the year	(67,800)	3.16	--	--
Cancelled/expired during the year	(74,300)	3.84	--	--
Outstanding at end of year	230,800	\$ 3.12	342,900	\$ 3.14
Exercisable at the end of the year	159,800	\$ 2.93	165,180	\$ 2.86

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:

	2022	2021
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	37.3%	37.11%
Risk free rate of return	0.93%	0.06%
Expected forfeiture rate	0%	0%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ 160	\$ 75

### 13. 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 up to a maximum of 2.5% of base salary. Company contributions under the plan will match 100% of the employee contributions. This plan became effective March 2, 2021. Prior to March 2, 2021, the plan paid up to \$1 contribution to the pension plan annually. During the year, the Company expensed contributions of \$5 (2021 - \$5) 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 and directors compensation comprised:

	2022	2021
Salaries and cash bonuses	\$ 746	\$ 668
Short-term employment benefits	30	27
Post-employment benefits	25	11
	\$ 801	\$ 705

#### KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS

Directors of the Company control 4.7% of the voting shares of the Company (2021 - 3.9%). Individuals related to a director own, directly or indirectly, 67.02% of the voting shares of the Company (2021 - 64.5%).

### 14. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital is comprised of:

	2022	2021
Accounts receivable	\$ (2,012)	\$ (1,477)
Work-in-progress	1,624	1,452
Prepaid expenses and other current assets	598	147
Accounts payable and accrued liabilities	2,063	325
Unearned revenue on work-in-progress	(644)	898
	\$ 1,629	\$ 1,345

### 15. GOVERNMENT GRANTS

#### SOUTHWESTERN ONTARIO DEVELOPMENT FUND

Effective August 1, 2017, the Company entered into a contract with the Ontario Ministry of Economic Growth and Development to receive funding in the amount of \$1.5 million under the Southwestern Ontario Development Fund (SWODF). The contract provides a non-repayable grant in the amount of 10% of approved capital expenditures incurred in connection with the expansion of the Company's manufacturing capabilities during the period from May 1, 2017 through July 31, 2021 and is contingent upon the Company meeting agreed upon job creation targets. The funding relates to capital acquisitions and as a result, related assets are recorded net of the applicable grant amount - with the net amount being amortized over the useful life of each individual asset.

At July 31, 2022, the Company had received \$1,200 (2021 - \$900) in cash funding from SWODF and accrued an additional amount receivable of \$300 (2021 - \$600) on total eligible expenditures of \$15,000. The current portion of this amount is included in prepaids and other current assets and the balance is reflected in long term grants receivable. Grant amounts will be paid in accordance with the funding contract over the period of the agreement as long as job creation targets and certain reporting and other obligations are fulfilled on an annual basis.

#### CANADA EMERGENCY WAGE SUBSIDY

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 to protect the jobs Canadians depend on. The CEWS program provides a wage subsidy on eligible remuneration, subject to limits per employee, and based on demonstrated revenue declines as a result of COVID-19.

The Company reviews its eligibility under the CEWS program monthly and applies for assistance when it determines that it would be eligible. The Company recognizes the CEWS amount as other income in the financial statements. During the fiscal year, the Company received \$157 (2021 - \$2,470) of funding under the CEWS program. At July 31, 2022, the Company had nil accrued (2021 - \$110) in assistance from the CEWS program.

## 16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

<i>As at July 31</i>	<b>2022</b>	<b>2021</b>
Accounts payable	\$ 2,848	\$ 2,984
Accrued liabilities	3,970	1,766
	<b>\$ 6,818</b>	<b>\$ 4,750</b>

## 17. CONTINGENCIES & COMMITMENTS

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 a significant impact on its financial position, cash flows or results of operations.

## SUMMARY OF INCOME

<i>Year Ended July 31</i> <i>(in 000's, except for per share data)</i>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Sales	\$ 53,884	\$ 39,196	\$ 40,226	\$ 47,989	\$ 42,272
Costs and expenses					
Cost of sales	41,788	31,251	32,116	36,078	32,288
Depreciation	3,370	3,120	3,668	3,730	3,264
	<b>45,158</b>	<b>34,371</b>	<b>35,784</b>	<b>39,808</b>	<b>35,552</b>
Gross profit	8,726	4,825	4,442	8,181	6,720
Selling and administrative	6,399	5,405	5,096	5,271	4,729
Income before the following items	2,327	(580)	(654)	2,910	1,991
Foreign exchange (gain)/ loss	(325)	797	169	444	(189)
Other income	(346)	(2,526)	(2,518)	(78)	(280)
Loss on sale of capital assets	35	75	95	11	3
Interest on long-term debt	382	349	368	415	204
Interest on other interest-bearing obligations	(28)	(10)	15	59	23
	<b>(282)</b>	<b>(1,315)</b>	<b>(1,871)</b>	<b>851</b>	<b>(239)</b>
Income before income taxes	2,609	735	1,217	2,059	2,230
Income taxes (recovered)					
Current	--	--	--	--	--
Deferred	488	(129)	454	482	195
	<b>488</b>	<b>(129)</b>	<b>454</b>	<b>482</b>	<b>195</b>
Net income and comprehensive income	\$ 2,121	\$ 864	\$ 763	\$ 1,577	\$ 2,035
Earnings per common share					
Basic	\$ 0.36	\$ 0.14	\$ 0.12	\$ 0.25	\$ 0.32

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

<i>Year Ended July 31</i>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Costs and expenses					
Cost of sales	77.6%	79.7%	79.8%	75.2%	76.4%
Depreciation	6.3%	7.9%	9.1%	7.8%	7.7%
Selling and administrative	11.9%	13.8%	12.7%	11.0%	11.2%
	<b>95.8%</b>	<b>101.4%</b>	<b>101.6%</b>	<b>94.0%</b>	<b>95.3%</b>
Gross profit	16.2%	12.3%	11.1%	17.0%	15.9%
Return on sales	4.8%	2.2%	1.9%	3.3%	4.8%
Effective tax rate	18.5%	(17.6)%	37.3%	23.4%	8.7%



## DIRECTORS AND OFFICERS

### Diane Reko

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

### Caterina Longo, CPA

Chief Financial Officer and an Officer

### Greg Yzerman

Chief Operating 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 (Venture Partner,  
Arsenal, Winter Park, Florida)

### Roy Verstraete

Director and member of the Audit and  
Compensation Committees

## INVESTOR RELATIONS CONTACT

### Diane Reko

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

## ANNUAL MEETING

December 1, 2022  
3:00 p.m. Eastern Time (US and Canada)  
Holiday Inn Express & Suites Lakeshore  
14 Amy Croft Drive, Lakeshore, ON N9K 0A1

## CORPORATE DIRECTORY

### Corporate Office

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Lakeshore, Ontario N8N 4W2  
Tel: (519) 727-3287  
Fax: (519) 727-4315  
[www.rekointl.com](http://www.rekointl.com)

## AUDITORS

### PricewaterhouseCoopers LLP

Waterloo, Ontario

## BANKERS

Bank of Montreal  
Windsor, Ontario

Toronto Dominion Bank  
Windsor, Ontario

Comerica Bank  
Detroit, Michigan

## COUNSEL

Bartlet & Richardes LLP  
Windsor, Ontario

## TRANSFER AGENT

TSX Trust Company  
P.O. Box 700, Postal Station B  
Montreal, QC H3B 3K3

## LISTING

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

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