Going the Distance

REKO
INTERNATIONAL GROUP INC.

2023 ANNUAL REPORT

CONTENTS

CHIEF EXECUTIVE OFFICER MESSAGE

There is no shortage of challenges facing the longevity of a company: rising interest rates, inflation, economic cycles, global conflict and natural disasters.

We've been in business for 47 years now, and the world has changed immensely since 1976.

We, at Reko, are accustomed to going the distance and look forward to our 50th anniversary and beyond!

We've had to change, in order to last this many years. If you are a long-distance runner, you need to train, maintain good nutrition and hydration, and set your mind for success in order to go the distance. What is required to go the distance in business?

Acceptance and integration of technology

There are those who believe that a well-established process should never be changed. Unfortunately, that perspective can leave a company trapped in the past, while its competitors use new methods and technologies to trim production costs or provide a unique offering to the market.

Reko was one of the early adopters of CAD CAM technology in the '80s and more recently of Automation design simulation software before many competitors had even started to explore these technologies. The expertise that we acquired allowed us to set ourselves apart from our competitors in the eyes of our customers.

You might equate this to the training that a long-distance runner does. The repeated integration of new technology has built up our strength and endurance.

Loyal customers who need what you can provide.
It seems obvious, but without a market for your product and services, a company cannot "go the distance". Even the best producer of cassette tapes could not survive today if that was their only product.

Over the years, Reko has had to stop manufacturing the products and stop providing the services that became commoditized as a result of lower cost suppliers entering the market. Additionally, we've had to find new markets such as aerospace and power generation beyond where we started, as well as moving from simple fixtures to robotic automation and from machined parts to machined parts which are washed and processed through a clean room to be assembly ready.

As North America suffers with the decline in workers, Reko Automation Group's equipment will help our customers to get the job done, even when employees are difficult to find. The decline in skilled workers, such as machinists, is also another way that Reko, through its Concorde Precision Machining subsidiary, can provide the services that our customers need, and struggle to find.

You might call this the nutrition and hydration of our business. Great people with strong skills to get the job done.

A commitment to success in every customer project
I don't have any statistics on this, but I'm guessing that there have been very few (if any) winners of long-distance races who didn't believe that they could end up as the champion. Knowing that you've been focused and prepared with good training and nutrition should make the goal of winning seem achievable.

When we, at Reko approach a project, it is always with the expectation of winning. For us, that means solving our customers' production problems and providing support, even when things aren't going as planned, regardless of the reason. We walk the talk. Our word is our commitment, and our action is proof of progress.

We want to be a pillar and protector to all of our customers. As a pillar, we will be functionally supportive, meaning that we will be there with a strong solution that actually supports our customers' success. Our role as protector means that we will be offering solutions that help to protect our customers' market position and ensure that they can satisfy their customers.

People that want to innovate and win.
Of course, achieving these requirements is impossible without a great team. Getting new technology introduced and adding value will not happen without buy-in from the team and significant effort from those who lead the projects. Ensuring that communication with customers is ongoing and strong is also dependent upon a good team. Without listening and timely responses to inquiries, loyal customers will not exist. It's also our people who make sure that we succeed in every customer project and delivery. They make sure that the quality, on time delivery, service and innovation is as, or better than expected by our customers.

For all these efforts,
I thank our team!

Under the guidance and inspiration of our Board of Directors, and with the additional support of our customers, suppliers, advisors, lenders and shareholders, I know that we can go the distance and plan for that big 50th anniversary celebration and beyond!

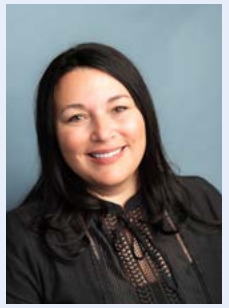
"Diane Reko"
Diane Reko
Chief Executive Officer
Officer Message

"You might call this the nutrition and hydration of our business. Great people with strong skills to get the job done".

Management Team

At Reko International Group going the distance is necessary for the growth and success of our business, employees and customers

Diane Reko
Chief Executive Officer



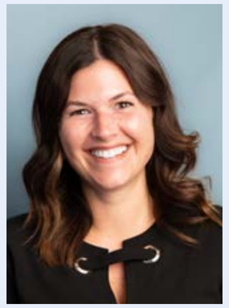
Kim Marks, CPA, CA
Chief Financial Officer

Greg Yzerman
President, Reko Automation Group Inc.

Peter Gobel
President, Concorde Precision Machining Inc.

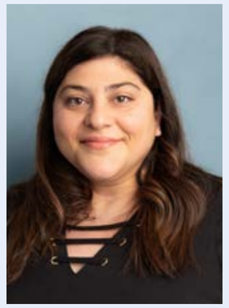
Ernie Stajduhar
Director, Technology

Gennaro Pignanelli
Director, Innovation and Continuous Improvement



Lauren Brummell-Beaudoin
Director, People and Culture

Dave Romanello
Director, Facilities Maintenance, Safety and Continuous Improvement



Christine Ferrari CPA, CMA
Controller

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, 2023 and the audited consolidated financial statements and MD&A for the years ended July 31, 2022 and July 31, 2021 included in our 2022 Annual Report to Shareholders. The audited consolidated financial statements for the years ended July 31, 2023 and July 31, 2022 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 29, 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.sedarplus.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 12, 2023

OVERVIEW

Reko International Group Inc. is a diversified, technology-driven manufacturing organization. Our mission is to be a pillar and protector of the North American manufacturing industry. We provide support to manufacturers and producers as their "go-to" supplier in automation equipment and machining services so that they can be more successful.

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, and high precision, custom machining of very large critical components and assemblies. While many of our customers are in the automotive market, the Company has diversified beyond automotive and into a number of sectors including aerospace, rail, power generation and capital equipment.

For the transportation and power generation 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 plastic punch and weld assembly equipment; unique material handling applications; and work cell solutions. 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 operations are carried out 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

In the past fiscal year, the Company achieved profitability despite a decline in sales while operating within a relatively fixed cost structure. Our strategic decision in 2022 to move away from designing and building tooling to a more concentrated effort on precision machining and robotic automation solutions remains pivotal. However, as is common with most restructurings, we encountered unforeseen delays in certain aspects of the plan, which in turn resulted in delays in realizing certain planned operating benefits. In fiscal 2023 we continued to build on the foundation that will provide growth opportunities in the years to come.

As in previous years, the Company had a strong balance sheet throughout the year and ended the fiscal year with a strong cash position.

RECONCILIATION OF NON-IFRS MEASURES

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

	2023	2022
Sales	$ 46,751	$ 53,884
Less: Material	10,686	16,949
Subcontracting	4,033	5,387
Inventory adjustments	(109)	325
Earned revenue	**$ 32,141**	**$ 31,223**

MANAGEMENT'S DISCUSSION AND ANALYSIS (in 000's, except for per share amounts) 13

RESULTS OF OPERATIONS

SALES

Sales for the year ended July 31, 2023 decreased by 13.2%, or $7,133, to $46,751 compared to the prior year. The reduction in sales was primarily attributed to lower volumes in certain sectors, delays in program kickoffs and an increase in customer backlog at year end.

The Company remains dedicated to pursuing projects aimed at stabilizing workload while actively pursuing expanded volumes in new sectors.

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

EARNED REVENUE

Earned revenue is a non-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 cover the Company's labour expenses and compensation for employees, fixed and operating costs, and to earn a profit and is considered to be an effective measurement of performance.

For 2023, earned revenue increased by 2.9%, or $918, to $32,141, or 68.7% of sales, compared to earned revenue of $31,223, or 57.9% of sales, in 2022.

GROSS PROFIT

Gross profit for fiscal 2023 decreased $1,639 to $7,087 or 15.2% of sales, compared to 16.2% of sales in 2022. The gross margin was negatively affected by a decline in sales volume and increased production costs due to the dynamic nature of the labour market and inflation.

The Company maintains its ongoing commitment to prioritizing strategic hiring, purchasing decisions and operational efficiency enhancements to safeguard and improve margins

SELLING AND ADMINISTRATION

Selling and administration expenses ("SG&A") during 2023 decreased to $5,831, or 12.5% of sales, compared to $6,399, or 11.9% of sales during 2022. Restructuring costs of $848 were expensed in the prior year compared $137 in 2023. Other costs have remained at similar levels compared to the previous fiscal year.

EARNINGS OVERVIEW

Fourth quarter net income was $80, or $0.01 per share, compared to $663, or $0.11 per share, in the final quarter of fiscal 2022. Net income for the year ended July 31, 2023 was $1,322, or $0.23 per share, compared to net income of $2,121, or $0.36 per share, for the year ended July 31, 2022.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations was $4,474, compared to $7,805 in the prior year, largely reflecting a decrease in net income and increase 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, 2023, the Company invested $3,437 in capital assets.

CASH RESOURCES/WORKING CAPITAL REQUIREMENTS

As at July 31, 2023, Reko had cash on hand of $12,139 compared to $14,023 at July 31, 2022 and $13,541 at April 30, 2023. During the fourth quarter the Company repaid a mortgage on one of its buildings in the amount of $2.2 million.

Reko has a $20,000 revolver available. However, based on our current lender defined margining capabilities, our borrowings are limited to $15,343, 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	$ 9,066	$ 1,250	$ 5,329	$ 1,523	$ 964
Long term debt subject to demand provisions	2,997	198	2,799	--	--
Lease liabilities	12	5	7	--	--
Total contractual obligations	**$ 12,075**	**$ 1,453**	**$ 8,135**	**$ 1,523**	**$ 964**

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

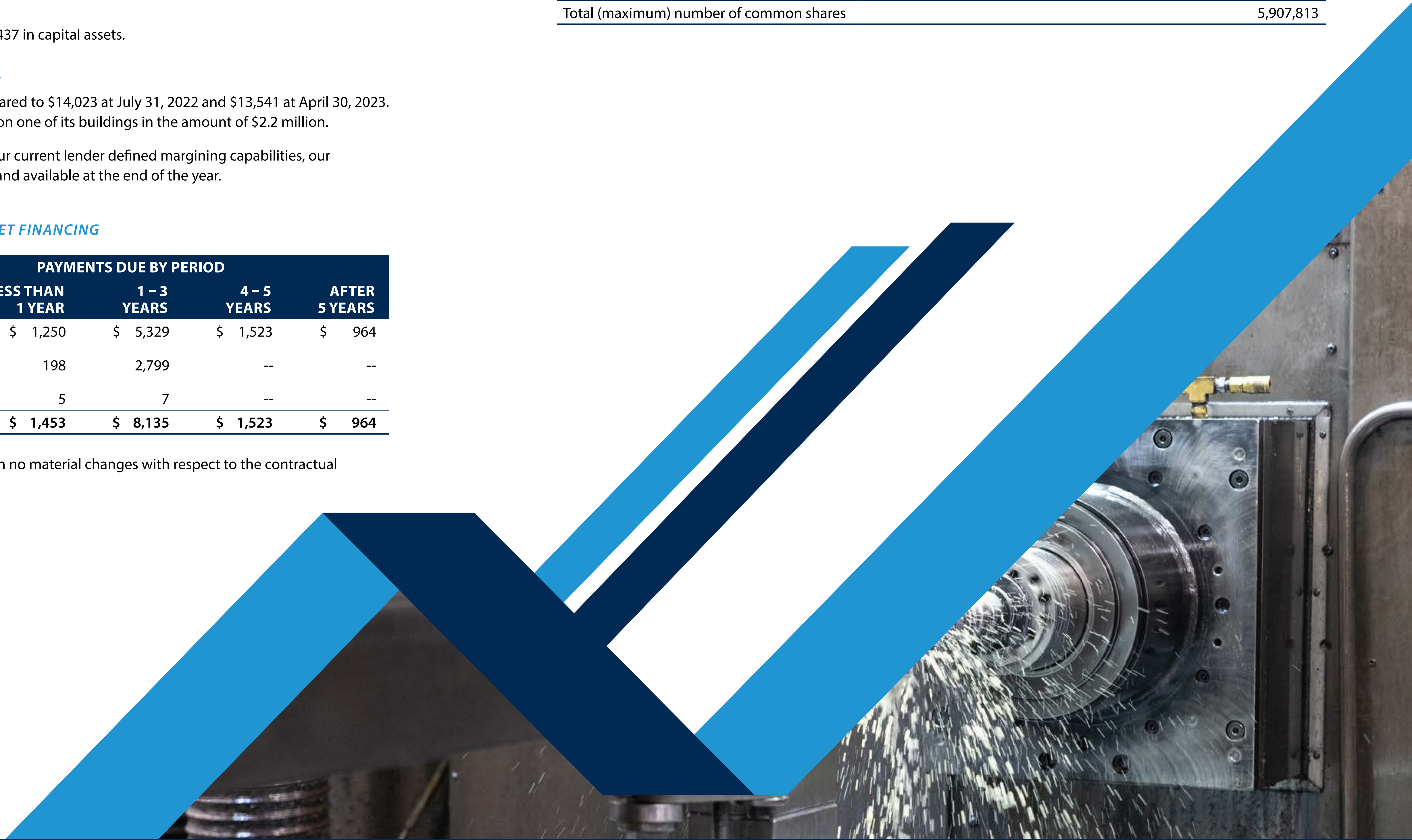
Reko does not maintain any off-balance sheet financing.

SHARE CAPITAL

The Company had 5,687,013 common shares outstanding at July 31, 2023. A total of 256,800 options are outstanding as at year end.

OUTSTANDING SHARE DATA

DESIGNATION OF SECURITY	**NUMBER OUTSTANDING**	**MAXIMUM NUMBER ISSUABLE IF CONVERTIBLE, EXERCISABLE OR EXCHANGEABLE FOR COMMON SHARES**
Common Shares	5,687,013	
Stock options exercisable	220,800	
Total (maximum) number of common shares		5,907,813



MANAGEMENT'S DISCUSSION AND ANALYSIS (in 000's, except for per share amounts) 17

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 2023, ended July 31, 2023. 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.

F2022	OCT/21	JAN/22	APR/22	JULY/22
Sales	$ 12,106	$ 13,419	$ 13,357	$ 15,002
Net income	493	872	92	664
Earnings per share: Basic	0.08	0.15	0.02	0.11
Diluted	0.08	0.14	0.02	0.11
F2023	**OCT/22**	**JAN/23**	**APR/23**	**JULY/23**
Sales	$ 13,796	$ 11,666	$ 10,307	$ 10,982
Net income	704	483	55	80
Earnings per share: Basic	0.13	0.08	0.01	0.01
Diluted	0.12	0.08	0.01	0.01

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 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 power generation 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, 2023 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (in 000's, except for per share amounts) 19

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 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 artificial intelligence, 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

While we have diversified our customer base in recent years, and continue to attempt to further diversify, we may experience varying degrees of success. The 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 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

While we believe the worst of the COVID-19 pandemic is behind us, the continued development and spread of highly transmissible variants continues to create a risk of disruption in the global economy. Any resurgence of COVID-19 that causes prolonged shutdowns or changes in consumer trends, could have a material adverse effect on our profitability and financial condition.

Global markets continue to experience volatility and disruption following the escalation of geopolitical tensions following Russia's invasion of the Ukraine in February 2022.

This conflict could lead to prolonged market disruptions, volatility in commodity prices and other supply chain interruptions. Given that the majority of the markets we supply to and purchase from are primarily North American based, we currently believe our exposure to this conflict to be insignificant. However, the duration of and extent of such conflicts remain unpredictable.

PRICING PRESSURES AND PRESSURE TO ABSORB ADDITIONAL COSTS

We face significant pricing pressure, as well as pressure to absorb costs related to 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. 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.

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 71.96% 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, between 60% and 70% 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 – 2023	$ 11,252	$ 10,000	$ 1,252
Q3 – 2023	$ 13,798	$ 10,000	$ 3,798
Q2 – 2023	$ 14,774	$ 13,000	$ 1,774
Q1 – 2023	$ 13,358	$ 10,000	$ 3,358

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,			
	2023		2022		2023		2022	
	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE
US Dollar equals Canadian Dollar	1.3359	1.3513	1.2863	1.2826	1.3415	1.3425	1.2691	1.2731

MANAGEMENT'S DISCUSSION AND ANALYSIS (in 000's, except for per share amounts) 25

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 fiscal 2023 and fiscal 2022, we held $3,000 of FFECs. During fiscal 2023, on average, we held FFECs of $4,875, as compared with the $2,818 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 – 2023	$ 3,000	1.3550

Additionally, the Company entered into options to purchase USD and sell CAD. These options have varying exercise rates ranging between 1.300 and 1.385 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 January 5, 2023, the Company announced the approval of a normal course issuer bid to purchase up to 286,420 of its outstanding common shares on the TSX Venture Exchange during the twelve-month period commenced on January 9, 2023 and ending on January 8, 2024. The 286,420 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, 2023, Reko purchased and subsequently cancelled 12,300 shares under the provision of the normal course issuer bid. The total amount of shares purchased and cancelled during fiscal 2023 is 114,837.

Reaching Forward

REKO
INTERNATIONAL GROUP INC.

2023 FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR THECONSOLIDATED 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

"Kim Marks"
Kim Marks, CPA, CA
Chief Financial Officer

October 12, 2023

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, 2023 and 2022, 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, 2023 and 2022;
- 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended July 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Evaluation of the estimated costs at completion for revenue recognition *Refer to note 1 – Basis of preparation and significant accounting policies and note 6 – Work-in-progress and unearned revenue on work-in-progress to the consolidated financial statements.* For the year ended July 31, 2023, the Company recognized revenue of $46.8 million. Revenue is recognized over time as performance obligations are satisfied based on the extent of progress towards completion of the performance obligations. Management generally determines the progress of performance obligations based on the proportionate share of accumulated costs to date compared to the total expected costs (the cost input method). Revenue is recognized proportionately as costs are incurred. Due to the nature of the work required to be performed on each performance obligation, management's estimation of costs at completion is complex and requires significant judgment. The significant assumptions used by management in estimating the costs at completion included costs of material and costs of labour and additional costs from delays or penalties. We considered this a key audit matter due to the significant judgment and assumptions used by management to estimate the costs at completion for revenue recognition. This in turn resulted in significant audit effort and subjectivity in performing procedures.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the estimated costs at completion for revenue recognition which included the following: • For a sample of revenue transactions: o Agreed key contractual terms to signed contracts, including contract amendments and correspondence with customers. o Agreed the costs of labour incurred to date to supporting payroll records and timesheets for a selection of cost items; and o Agreed the costs of material to supporting documents for a selection of cost items. o Evaluated the reasonableness of significant assumptions related to estimating the costs at completion including costs of material and costs of labour and the additional costs from delays or penalties by: • Testing the estimated costs to complete by comparing the costs of labour and material initially budgeted for the contracts, to the actual costs of labour and material incurred; • Interviewing project managers to evaluate (i) progress to date; (ii) deviation between initial and revised costs of material and costs of labour at completion; and (iii) impact of any delays and penalties applicable; and • Considering supporting documents obtained from interviewing project managers. o Performed look-back procedures for a selection of contracts completed during the year to compare the originally estimated costs to actual costs incurred.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 12, 2023

pwc

CONSOLIDATED BALANCE SHEETS

As at July 31 (in 000's)	2023	2022
ASSETS		
Current		
Cash	$ **12,139**	$ 14,023
Accounts receivable	**8,658**	11,629
Non-hedging financial derivatives (Note 5)	**143**	26
Work-in-progress (Note 6)	**10,230**	9,222
Prepaid expenses and other current assets	**1,186**	857
	32,356	35,757
Capital assets (Note 7)	**28,137**	29,024
Deferred income taxes (Note 4)	**2,295**	2,110
	$ **62,788**	$ 66,891
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 16)	$ **4,163**	$ 6,818
Unearned revenue on work-in-progress (Note 6)	**655**	693
Current portion of long-term debt and lease liabilities (Note 8)	**1,448**	4,360
Long-term debt subject to demand provisions (Note 8)	**2,799**	5,129
	9,065	17,000
Long-term debt and lease liabilities (Note 8)	**7,816**	3,479
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**16,436**	16,332
Contributed surplus (Note 10)	**1,270**	1,769
Retained earnings	**28,201**	28,311
	45,907	46,412
	$ **62,788**	$ 66,891

Contingencies and commitments (Note 17)

On behalf of the Board "Diane Reko" "Andrew J. Szonyi"
Diane Reko Andrew J. Szonyi
Director Director

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in 000's)	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	TOTAL EQUITY
Balance at July 31, 2021	**$ 17,418**	**$ 1,944**	**$ 27,694**	**$ 47,056**
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
Balance at July 31, 2022	**$ 16,332**	**$ 1,769**	**$ 28,311**	**$ 46,412**
Share based compensation (Notes 9 and 10)	**104**	**69**	**--**	**173**
Share repurchases (Note 9)	**--**	**(568)**	**--**	**(568)**
Dividends	**--**	**--**	**(1,432)**	**(1,432)**
Net income	**--**	**--**	**1,322**	**1,322**
Balance at July 31, 2023	**$ 16,436**	**$ 1,270**	**$ 28,201**	**$ 45,907**

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)*	2023	2022
Sales (Note 2)	**$ 46,751**	$ 53,884
Costs and expenses		
Cost of sales	**35,746**	41,788
Depreciation	**3,918**	3,370
	39,664	45,158
Gross profit	**7,087**	8,726
Selling and administrative (Note 13)	**5,831**	6,399
Income before the following items	**1,256**	2,327
Foreign exchange gain	**(62)**	(325)
Other income	**(108)**	(346)
Loss on sale of capital assets	**65**	35
Interest on long-term debt and leases	**462**	382
Interest income, net	**(238)**	(28)
	119	(282)
Income before income taxes	**1,137**	2,609
Income tax provision (Note 4)		
Deferred (recovery) expense (Note 4)	**(185)**	488
	(185)	488
Net income and comprehensive income	**$ 1,322**	$ 2,121
Earnings per common share (Note 11)		
Basic	**$ 0.23**	$ 0.36
Diluted	**0.22**	$ 0.35

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended July 31 *(in 000's)*	2023	2022
OPERATING ACTIVITIES		
Net income for the year	**$ 1,322**	$ 2,121
Adjustments for:		
Depreciation	**3,918**	3,370
Income tax provision	**(185)**	488
Interest expense (income), net	**224**	354
Unrealized foreign exchange loss	**357**	125
Change in non-hedging financial derivatives	**(117)**	(164)
Loss on sale of capital assets	**65**	35
Stock-based compensation	**173**	160
	5,757	6,489
Net change in non-cash working capital (Note 14)	**(1,059)**	1,629
Interest paid	**(224)**	(313)
CASH PROVIDED BY OPERATING ACTIVITIES	**4,474**	7,805
FINANCING ACTIVITIES		
Payment of dividends	**(1,432)**	(1,504)
Cost of repurchase of capital stock	**(568)**	(1,421)
Proceeds from long-term debt and lease liabilities	**2,427**	4,518
Re-payments on long-term debt and lease liabilities	**(3,689)**	(796)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(3,262)**	797
INVESTING ACTIVITIES		
Investment in capital assets	**(3,437)**	(5,364)
Proceeds from sale of short-term investments	**--**	4,500
Proceeds on sale of capital assets	**341**	76
CASH USED IN INVESTING ACTIVITIES	**(3,096)**	(788)
Net change in cash	**(1,884)**	7,814
Cash, beginning of year	**14,023**	6,209
Cash, end of year	**$ 12,139**	$ 14,023

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 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 12, 2023.

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.

Reko's subsidiaries are as follows:

SUBSIDIARY	LOCATION	PERCENTAGE OWNERSHIP	CONSOLIDATION
Concorde Precision Machining Inc.	Ontario	100%	Full
Reko Automation 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, 2023, Reko reported a foreign exchange gain of $62 (2022 - gain of $325).

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
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. This 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 cost input method). Due to the nature of the work required to be performed on each performance obligation, management's estimation of costs at completion is complex and requires significant judgement. The significant assumptions used by management in estimating the costs at completion included costs of material and costs of labour and additional costs from delays and penalties, and such costs, if probable, are included in estimated costs at completion. 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. 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. 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 and are 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.

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 calculated 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.

	2023		2022	
	REVENUES	CAPITAL ASSETS	REVENUE	CAPITAL ASSETS
Canada	$ 46,738	$ 28,137	$ 51,158	$ 29,024
United States	13	--	2,726	--
	$ 46,751	$ 28,137	$ 53,884	$ 29,024

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3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, non-hedging financial derivatives 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, 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, 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	2023
Cash	$ 12,139	$ --	$ --	$ 12,139
Non-hedging financial derivatives	--	143	--	143
	$ 12,139	$ 143	$ --	$ 12,282

	LEVEL 1	LEVEL 2	LEVEL 3	2022
Cash	$ 14,023	$ --	$ --	$ 14,023
Non-hedging financial derivatives	--	26	--	26
	$ 14,023	$ 26	$ --	$ 14,049

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 $3,104 and USD $2,265 (currently valued at CDN $2,997) 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 56.1% of the Company's revenue is attributable to the automotive industry. Annually, between 60% and 70% of the Company's revenue is derived from customers who pay in United States dollars.

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For the year ended July 31, 2023, sales to the Company's three largest customers (inclusive of all divisions of the same parent company) represented 18.5%, 16.8% and 13.1%, respectively, of total sales. These same customers represent approximately 1.4%, 37.1% and 8.6%, of total accounts receivable, respectively as at July 31, 2023.

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. 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, 2023, the Company has cash on hand of $12,139 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 $15,343.

A portion of the debt noted above $2,997 (USD$2,265) is subject to demand provisions in that the lender is contractually entitled to require payment of the outstanding balance "on demand".

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, 2023, 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 2023 under forward exchange contracts	$ 3,000	1.3550
Sell US dollars for delivery in 2022 under forward exchange contracts	$ 3,000	1.2920

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's interest rate risk primarily arises from its floating rate debt, in particular its bank indebtedness. At July 31, 2023, 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.

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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, 2023 and July 31, 2022, the above capital management criteria can be illustrated as follows:

	2023	2022
Net debt		
Current portion of long-term debt and lease liabilities	$ 1,448	$ 4,360
Long-term debt subject to demand provisions	2,799	5,129
Long-term debt and lease liabilities	7,816	3,479
Less: cash	(12,139)	(14,023)
Net debt	$ (76)	$ (1,055)
Shareholders' equity	$ 45,907	$ 46,412
Ratio	(0.00)	(0.02)

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) fixed charge coverage ratio – calculated as EBITDA less cash taxes, cash dividends paid and non-financed capital expenditures (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:

	2023	2022
Deferred income tax asset		
SR & ED tax credits	$ 6,012	$ 5,594
Non-capital losses	134	110
Other	91	83
Deferred income tax asset	$ 6,237	$ 5,787

Deferred income tax liability		
Tax impact of SR & ED tax credits	$ 1,422	$ 1,344
Unbilled contract revenue	1,704	1,494
Capital assets	816	839
Deferred income tax liability	$ 3,942	$ 3,677
Net deferred tax asset	$ 2,295	$ 2,110

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:

	2023	2022
Combined Federal and Provincial rate	26.5%	26.5%
Manufacturing and processing deduction	(0.5%)	(0.5%)
SR & ED tax credits	(11.3%)	(6.8%)
Permanent and other differences	(31.0%)	(0.7%)
Effective rate	(16.3%)	18.5%

The details of taxable losses by jurisdiction are as follows:

	2023	2022
Canada, which begin to expire, at the earliest, in 2031	$ 506	$ 417
United States, which expire between 2024 and 2035	$ 11,160	$ 11,730

The deferred income tax asset attributable to the taxable losses in the United States is 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, 2023, 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 on October 17, 2023 at an average exchange rate of $1.3550 Canadian. The mark-to-market value on these financial instruments as at July 31, 2023 was an unrealized gain of $143, which has been recorded in net income for the year.

As at July 31, 2023	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE ASSET
Sell USD/ Buy CAD	0-6 months	$ 3,143	1.3550	$ 3,000	$ 143

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

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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:

For the year ended July 31,	2023 WORK-IN-PROGRESS	2023 UNEARNED REVENUE ON WORK-IN PROGRESS	2022 WORK-IN-PROGRESS	2022 UNEARNED REVENUE ON WORK-IN PROGRESS
Balance outstanding – beginning of year	$ 9,222	$ (693)	$ 10,846	$ (1,337)
Revenue earned in the year	46,751	38	53,884	644
Billings in the year	(45,743)	--	(55,508)	--
Balance outstanding – end of year	$ 10,230	$ (655)	$ 9,222	$ (693)

7. CAPITAL ASSETS

Capital assets are comprised of:

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Cost						
Balance at July 31, 2021	$ 661	$ 14,530	$ 53,532	$ 844	$ 2,055	$ 71,622
Additions	--	29	4,237	--	1,098	5,364
Transfers	--	32	1,658	--	(1,690)	--
Disposals	--	--	(730)	--	--	(730)
Balance at July 31, 2022	$ 661	$ 14,591	$ 58,697	$ 844	$ 1,463	$ 76,256
Additions	--	328	246	--	2,863	3,437
Transfers	--	--	3,611	15	(3,626)	--
Disposals	--	--	(1,458)	--	--	(1,458)
Balance at July 31, 2023	$ 661	$ 14,919	$ 61,096	$ 859	$ 700	$ 78,235

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Depreciation						
Balance at July 31, 2021	$ --	$ 5,462	$ 38,597	$ 422	$ --	$ 44,481
Depreciation for the year	--	425	2,901	44	--	3,370
Disposals	--	--	(619)	--	--	(619)
Balance at July 31, 2022	$ --	$ 5,887	$ 40,879	$ 466	$ --	$ 47,232
Depreciation for the year	--	433	3,439	46	--	3,918
Disposals	--	--	(1,052)	--	--	(1,052)
Balance at July 31, 2023	$ --	$ 6,320	$ 43,266	$ 512	$ --	$ 50,098
Carrying value						
Balance at July 31, 2022	$ 661	$ 8,704	$ 17,818	$ 378	$ 1,463	$ 29,024
Balance at July 31, 2023	$ 661	$ 8,599	$ 17,830	$ 347	$ 700	$ 28,137

Included in the net book value of machinery and equipment is $5,767 (2022 - $4,239) are right of use assets.

8. LONG-TERM DEBT AND LEASE LIABILITIES

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

	2023	2022
Mortgage payable – 5.63% (2022– 2.04%), repayable $26 monthly including interest, due in full April 2026, secured by certain land and building and an assignment of rents on the subject property	$ 3,104	$ 3,252
Mortgage payable – 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, repaid during the year	--	2,372
Mortgage payable – 3.06% plus a credit spread, which may vary over the life of facility to a maximum of 275, currently at 175 for an all-in rate of 4.81% , repayable $14 USD monthly plus interest, due in full August 2025, secured by certain land, buildings and a general security agreement, subject to demand provisions	2,997	3,097
Equipment lease – 2.78%, repayable $23 USD monthly including interest, due in full January 2027, and secured by the equipment	1,198	1,488
Equipment lease – 3.99%, repayable $19 USD monthly including interest, due in full April 2027, and secured by the equipment	1,068	1,292
Equipment lease – 5.23%, repayable $18 USD monthly including interest, due in full June 2029, and secured by the equipment	1,323	1,484
Equipment lease – 5.82%, repayable $30 USD monthly including interest, due in full June 2030, and secured by the equipment	2,373	--
	12,063	12,985
Deduct - unamortized finance fees	--	17
- principal portion included in current liabilities	4,247	9,489
Long-term portion	$ 7,816	$ 3,479

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, 2023, $1,448 is due within the next twelve months under normal repayment terms and an additional $2,799 is not expected to be due in the next year but is subject to demand provisions.

Total credit facilities are as follows:

YEAR	CREDIT FACILITIES
Next 12 months	$ 1,448
2 years	1,504
3 years	6,624
4 years	914
5 years	609
Thereafter	964
Balance of obligation	**$ 12,063**

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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	5,687,013	$ 16,436

Share capital transactions during the year were as follows:

	2023		2022	
As at July 31	SHARES	AMOUNT	SHARES	AMOUNT
Outstanding, beginning of year	**5,780,350**	$ 16,332	6,003,850	$ 17,418
Transactions during year	**(93,337)**	104	(223,500)	(1,086)
Outstanding, end of year	**5,687,013**	$ 16,436	5,780,350	$ 16,332

During the year, the Company repurchased 114,837 shares for consideration of $568. Total stock options of 21,500 were exercised during the fiscal year for consideration of $104.

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, 2023 were exercised:

Common shares outstanding at July 31, 2023	5,687,013
Stock options (Note 12)	220,800
	5,907,813

10. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2023	2022
Balance, beginning of year	**$ 1,769**	$ 1,944
Amounts in respect of exercised stock options	**(35)**	(121)
Amounts in respect of the stock-based compensation	**104**	(54)
Amounts in respect of share repurchases	**(568)**	--
Balance, end of year	**$ 1,270**	$ 1,769

11. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2023 was based on the net income attributable to common shareholders of $1,322 (2022 - $2,121) and a weighted average number of common shares outstanding of 5,720,069 calculated as follows:

	2023	2022
Basic earnings per share:		
Net income	**$ 1,322**	$ 2,121
Average number of common shares outstanding during the year	**5,720,069**	5,949,875
Basic earnings per share	**$ 0.23**	$ 0.36
Diluted earnings per share:		
Net income attributable to common shareholders	**$ 1,322**	$ 2,121
Average number of common shares outstanding during the year	**5,720,069**	5,949,875
'In the money' stock options outstanding during the year	**220,800**	159,800
	5,940,869	6,109,675
Diluted earnings per share	**$ 0.22**	$ 0.35

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 70,000 options to employees and directors (2022 – 30,000). During the year, 21,500 options (2022 – 67,800) were exercised by employees and directors.

As at July 31, 2023, the following options were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY
71,300	$ 2.90	2024
105,500	$ 2.80	2026
10,000	$ 4.59	2027
10,000	$ 4.90	2027
60,000	$ 4.65	2028

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in 000's, except for per share data) 57

The weighted average of the options is as follows:

As at July 31	2023 NUMBER OF OPTIONS	2023 WEIGHTED AVERAGE EXERCISE PRICE	2022 NUMBER OF OPTIONS	2022 WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	**230,800**	**$ 3.12**	342,900	$ 3.14
Issued during the year	**70,000**	**4.65**	30,000	4.80
Exercised during the year	**(21,500)**	**3.14**	(67,800)	3.16
Cancelled/expired during the year	**(22,500)**	**4.57**	(74,300)	3.84
Outstanding at end of year	**256,800**	**$ 3.41**	230,800	$ 3.12
Exercisable at the end of the year	**220,800**	**$ 3.21**	159,800	$ 2.93

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:

	2023	2022
Expected life	**5 years**	5 years
Expected dividends	**$ Nil**	$ Nil
Expected volatility – based on a 60-month historical average	**31.8%**	37.3%
Risk free rate of return	**1.62%**	0.93%
Expected forfeiture rate	**0%**	0%
Total compensation cost recognized in income for stock-based employee compensation awards	**$ 104**	$ 160

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. During the year, the Company expensed contributions of $25 (2022- $25) 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:

	2023	2022
Salaries and cash bonuses	**$ 990**	$ 746
Short-term employment benefits	**33**	30
Post-employment benefits	**25**	25
	$ 1,048	$ 801

KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS

Directors of the Company control 4.90% of the voting shares of the Company (2022 – 4.70%). Individuals related to a director own, directly or indirectly, 67.80% of the voting shares of the Company (2022 – 67.02%).

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2023	2022
Accounts receivable	**$ 2,971**	$ (2,012)
Work-in-progress	**(1,008)**	1,624
Prepaid expenses and other current assets	**(329)**	598
Accounts payable and accrued liabilities	**(2,655)**	2,063
Unearned revenue on work-in-progress	**(38)**	(644)
	$ (1,059)	$ 1,629

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, 2023, the Company had received a final payment of $600 (2022 - $1,200) in cash funding from SWODF and accrued an additional amount receivable of $Nil (2022 - $300) on total eligible expenditures of $15,000. At July 31, 2023, the Company had fulfilled all obligations under this program other than those considered to be administrative in nature.

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at July 31	2023	2022
Accounts payable	**$ 1,996**	$ 2,848
Accrued liabilities	**2,167**	3,970
	$ 4,163	$ 6,818

17. CONTINGENCIES AND 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.

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SUMMARY OF INCOME

Year Ended July 31 (in 000's, except for per share data)	2023	2022	2021	2020	2019
Sales	$ 46,751	$ 53,884	$ 39,196	$ 40,226	$ 47,989
Costs and expenses					
Cost of sales	35,746	41,788	31,251	32,116	36,078
Depreciation	3,918	3,370	3,120	3,668	3,730
	39,664	45,158	34,371	35,784	39,808
Gross profit	7,087	8,726	4,825	4,442	8,181
Selling and administrative	5,831	6,399	5,405	5,096	5,271
Income before the following items	1,256	2,327	(580)	(654)	2,910
Foreign exchange (gain)/ loss	(62)	(325)	797	169	444
Other income	(108)	(346)	(2,526)	(2,518)	(78)
Loss on sale of capital assets	65	35	75	95	11
Interest on long-term debt and leases	462	382	349	368	415
Interest income, net	(238)	(28)	(10)	15	59
	119	(282)	(1,315)	(1,871)	851
Income before income taxes	1,137	2,609	735	1,217	2,059
Income tax provision					
Deferred (recovery) expense	(185)	488	(129)	454	482
	(185)	488	(129)	454	482
Net income and comprehensive income	$ 1,322	$ 2,121	$ 864	$ 763	$ 1,577
Earnings per common share					
Basic	$ 0.23	$ 0.36	$ 0.14	$ 0.12	$ 0.25

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

Year Ended July 31	2023	2022	2021	2020	2019
Costs and expenses					
Cost of sales	76.5%	77.6%	79.7%	79.8%	75.2%
Depreciation	8.4%	6.3%	7.9%	9.1%	7.8%
Selling and administrative	12.5%	11.9%	13.8%	12.7%	11.0%
	97.4%	95.8%	101.4%	101.6%	94.0%
Gross profit	15.2%	16.2%	12.3%	11.1%	17.0%
Return on sales	2.8%	3.9%	2.2%	1.9%	3.3%
Effective tax rate	(16.3%)	18.5%	(17.6%)	37.3%	23.4%

DIRECTORS AND OFFICERS

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

Kim Marks, CPA, CA
Chief Financial Officer and an Officer

Peter Gobel
President, Concorde Precision Machining Inc. and an Officer

Greg Yzerman
President, Reko Automation Group Inc. and an Officer

Dr. Andrew J. Szonyi, Ph.D., P.Eng., MBA, GPLLM
Lead Independent Director, Chair of the Audit Committee and member of the Compensation Committee (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, Chair of the Compensation Committee and member of the Audit Committee

INVESTOR RELATIONS CONTACT

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Fax: (519) 727-4315
irelations@rekointl.com

ANNUAL MEETING

December 7, 2023
2:00 p.m. Eastern Time (US and Canada)
Reko International Group Inc
469 Silver Creek Industrial Drive
Lakeshore, Ontario N8N 4W2

CORPORATE DIRECTORY

Corporate Office
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Waterloo, Ontario

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Bank of Montreal
Windsor, Ontario

Toronto Dominion Bank
Windsor, Ontario

Comerica Bank
Detroit, Michigan

COUNSEL

Bartlet & Richardes LLP
Windsor, Ontario

TRANSFER AGENT

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LISTING

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

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REKO
INTERNATIONAL GROUP INC.