



# Going the Distance



2023 ANNUAL REPORT



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## 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”.





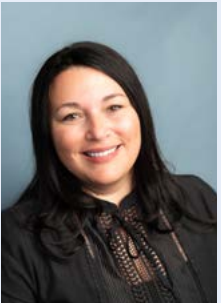
# Management Team



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](http://www.rekointl.com) or through the SEDAR+ website at [www.sedarplus.com](http://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





## 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

CONTRACTUAL OBLIGATIONS	TOTAL	PAYMENTS DUE BY PERIOD			
		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	--	--
<b>Total contractual obligations</b>	<b>\$ 12,075</b>	<b>\$ 1,453</b>	<b>\$ 8,135</b>	<b>\$ 1,523</b>	<b>\$ 964</b>

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

Reko does not maintain any off-balance sheet financing.

## SHARE CAPITAL

The Company had 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

# 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.



# 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

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.





