KUKA
ACCURACY
REKO
INTERNATIONAL GROUP INC.
2015 ANNUAL REPORT

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Diane Reko CHIEF EXECUTIVE OFFICER

Everyone knows, sometimes learned the hard way, that you can't build anything of lasting value upon a poor foundation. The foundation is an essential start. However, it isn't the only factor that will determine what the end result will be. The plans must be robust and you must have the right people and sufficient resources to execute those plans. Even then, if you want to maintain strength and structural integrity, you sometimes have to explore alternate paths, so that you can be confident that you have created something that is the very best that it can be.

In the case of Reko International Group, the foundation is solid. We also have a great team of skilled, dedicated and creative employees as well as a strong supply base and a good location in Lakeshore, Ontario. The repeat business from our customer base is evidence of this. We've met some aggressive timelines from our customers and we've continued to provide them with the quality machined parts, automation equipment and tooling that they've come to expect from us.

While Reko is a great company, we aren't finished building yet. Like all companies that are successful for the long term, we must explore alternate paths, and sometimes follow them, in order to make Reko International Group Inc. the very best company that it can be.

What kind of a company are we building? We are building a company that is financially strong. It has consistent, predictable earnings which represent a better than average return on investment. Its earnings allow it to invest in new technologies, to take advantage of market demand opportunities, to compensate employees appropriately and also to provide shareholders with a good return. This company will strengthen our community as well as the communities of our customers by advancing manufacturing in a variety of ways.

What progress have we made this year, in building the company described above?

FINANCIAL STRENGTH, EARNINGS AND RETURN ON INVESTMENT

Our net earnings for the year certainly represent a respectable return on sales. A portion of the net earnings was the result of improved foreign exchange rates on our exports and a portion was due to recognizing previously written off Canadian tax losses and credits, but we still saw strong improvements in our operational results, which drove net earnings upwards. We did incur some debt while adding required capacity to meet the demands of our large project, but our plan is to retire that debt as soon as possible. We have also changed our financing offerings for a large part of our workload, which should allow us to significantly reduce borrowings on our line of credit.

THE PLANS MUST BE ROBUST AND YOU MUST HAVE THE RIGHT PEOPLE AND SUFFICIENT RESOURCES TO FULFILL THOSE PLANS.

Even though we are pleased with the 2015 results, we are still exploring ways to improve our business model so that we generate returns in each area of the business that are commensurate with our investments. The level of return achieved will determine future allocations of manufacturing space as well as the size of further investments.

INVESTING IN NEW TECHNOLOGY AND MARKET OPPORTUNITIES

During Fiscal 2015 we were successful in landing a significant long term agreement with one of our customers which required us to invest in new technology in order to meet volume requirements. The research by our team yielded some very interesting results. Not only did we achieve efficiency gains from the investment in new equipment, but we found ways to reduce difficult manual labour while increasing manufacturing space. As a company, we want to continue to invest in technology that makes us more efficient, particularly when it is associated with market opportunities.

EMPLOYEE COMPENSATION AND SHAREHOLDER RETURNS

It was the dedication and creativity of a group of employees that allowed us to hit the aggressive start date for our large project this year, and it was the efforts of all our employees that helped us to achieve the operating income of fiscal 2015. Employees throughout the company received bonuses as a result. As the supply of skilled workers diminishes, we will have to ensure that we continue to fairly compensate our employees, while also finding ways to use automation to help fill the gaps in the supply of skilled employees. We are also cognizant of the expectations of shareholders for a fair return on their invested capital. The board regularly reviews possible strategies and the appropriate time for implementation to serve the best interests of shareholders, as well as the company.

STRENGTHENING COMMUNITIES BY ADVANCING MANUFACTURING

There were a number of ways that we strengthened both our community, as well as those of our customers during 2015.

Our workforce grew by approximately five percent over the year, and we welcomed a number of students and youth to train with our experienced toolmakers and machinists. The opportunity to experience a career in manufacturing is valuable to them, as well as to our community which will require a new generation of leadership for the future. We've also continued our support for events like Manufacturing Day and tours by students, to allow them an insight into modern manufacturing. There have been many financial donations to local charities both by the company and by our employees, to help strengthen our community.

We shipped some great quality machined parts, automation equipment and tooling to customers throughout North America. Because of Reko's quality, they have been able to successfully manufacture the great products that they do, to meet the needs of their own customers. Without the need for constant repair and expensive downtime, they can count on Reko to help with solutions and provide strength to both their businesses and their communities.

Admittedly, we still have more "construction" to accomplish, but we have certainly made some good progress in 2015. I appreciate the contributions of our employees, customers and vendors towards this success and appreciate the support of our directors, lenders and shareholders in achieving these results. In order to build a solid company that has structural integrity, we are always examining the way that we do business and considering what the market requires as well as where our talents can best be used. Our building plans are good ones, but we aren't afraid to make adjustments to them, if that is required to make Reko International Group Inc. the very best company that it can be.

"Diane Reko", B.COMM
CHIEF EXECUTIVE OFFICER

Diane Reko
CHIEF EXECUTIVE OFFICER

Carl A. Merton, CA, FCBV
CHIEF FINANCIAL OFFICER

Dave Romanello
GENERAL MANAGER, TOOLING

Peter Gobel
GENERAL MANAGER, CONCORDE PRECISION MACHINING

Rick Stone
GENERAL MANAGER, AUTOMATION

Gennaro Pignanelli
ENGINEERING MANAGER

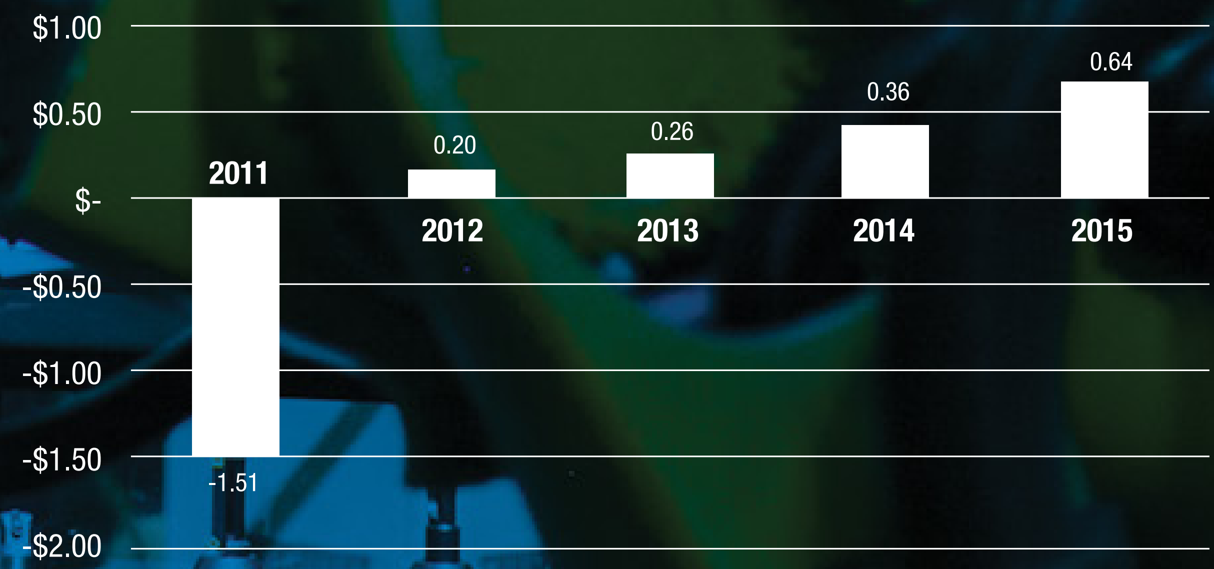
Ernie Stajduhar
TECHNOLOGY MANAGER

Lauren Brummell
HUMAN RESOURCES MANAGER

PARTNERSHIP

MOMENTUM

EARNINGS PER SHARE



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, 2015 and the audited consolidated financial statements and MD&A for the year ended July 31, 2014 included in our 2014 Annual Report to Shareholders. The audited consolidated financial statements for the year ended July 31, 2015 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 has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding Reko International Group Inc., including copies of our continuous disclosure materials, is available on our website at www.rekointl.com or through the SEDAR website at www.sedar.com.

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

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

This MD&A is current to October 21, 2015.

OVERVIEW

Reko designs and manufactures a variety of engineered products and services for original equipment manufacturers ("OEMs") and their Tier 1 suppliers. These products include custom machining of very large castings and assemblies to high precision tolerances, specialty machines and lean cell factory automation, compression molds, hydroform dies, plastic injection molds, fixtures and gauges. Customers are typically OEMs or their Tier 1 suppliers and are predominantly in the automotive market. Divisions of Reko are generally invited to bid upon programmes comprised of a number of custom products used by the customer to produce a complete assembly or product.

For the transportation and oil and gas industry, the Company machines customer supplied metal castings to customer indicated specifications. For the automotive industry, the Company conceptualizes designs and builds innovative solutions to manufacturing challenges, including specialty machines for gas tank assembly lines, work cell solutions for compression molds, plastic secondaries, as well as compression molds, hydroform dies, two shot molds and plastic injection molds. Reko has extensive experience and knowledge in mold design and material flow and the impact of pressure on segments of the mold/die.

Our design and manufacturing operations are carried on in two manufacturing plants located in Lakeshore, Ontario a suburb of the City of Windsor in Southwestern Ontario.

INDUSTRY TRENDS AND RISKS

Historically, our sales levels have been primarily dependent upon the levels of new model releases of cars and light trucks by North American OEMs and our ability to secure moulding and automation programmes from them and demand levels for locomotives. OEM new model releases can be impacted by many factors, including general economic and political conditions, interest rates, energy and fuel prices, labour relation issues, regulatory requirements, infrastructure, legislative changes, environmental emissions and safety issues. Demand levels for locomotives can be impacted by many factors, including general economic and political conditions, interest rates, energy and fuel prices, regulatory requirements, North American rail 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, 2015 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 could materially impact our profitability and financial condition
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 upon the depth and breadth of the current economic climate, Reko may experience reductions in outsourced work orders.

The consequences of a decrease in the world's energy or emission reduction programs could materially impact our profitability and financial condition
Certain of our activities are tied to machining of energy or emission efficient locomotive crankcases. An adverse change in the current worldwide economic demand for energy or emission efficient locomotive crankcases could result in reduction in the demand for our machining operations.

A shift away from technologies in which the Company is investing could have a material adverse effect on our profitability and financial condition
Like our OEM and Tier 1 customers, we continue to invest in technologies and innovations, which the Company believes are critical to its 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. If there is a shift away from the use of such technologies, our costs may not be fully recovered. In addition, if other technologies in which our investment is not as great or our expertise is not as fully developed emerge as the industry-leading technologies, we may be placed at a competitive disadvantage, which could have a material adverse effect on our profitability and financial condition.

Inability to diversify our sales could have an adverse effect on our profitability and financial condition
Although we supply molds, gauges, fixtures and factory automation to all of the leading automobile manufacturers, a significant majority of our sales are to the Detroit 3. In addition, although we supply machined locomotive crankcases to each of the leading locomotive manufacturers, a significant majority of our sales are to one locomotive OEM. While we have diversified our customer base in recent years and continue to attempt to further diversify, there is no assurance we will be successful. Inability to successfully grow our sales to non-traditional customers could have an adverse effect on our profitability and financial condition.

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

The consequences of the automotive industry's dependence on consumer spending and general economic conditions could materially impact our profitability and financial condition
The global automotive industry is cyclical and largely tied to general economic conditions. As our customers revisit their business models and make design changes to existing models and new vehicle introductions, the market for tooling and factory automation may decline.

The financial viability of our supply base could materially impact our profitability and financial condition
While our exposure to individual entities in our supply chain is largely limited to steel suppliers and mold grainers, both of which tend to be mandated by our customers, we are still exposed to multiple relatively small niche market players whose declining financial viability may present challenges for securing the necessary inputs to our manufacturing process.

Changes in consumer demand for specific vehicles could materially impact our profitability and financial condition
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 affected by macro-economic factors. As a result of these and other factors, some of our customers are currently experiencing, and/or may experience in the future, reduced consumer demand for all or a portion of their vehicles, leading to reduced product offerings.

Our dependence upon key personnel could materially impact our profitability and financial condition
The success of Reko is dependent on 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. The loss of one or more of these individuals without adequate replacement could have a material adverse effect on the Company's operations and business prospects.

Our failure to successfully identify, complete, and integrate acquisitions could materially impact profitability and financial condition
While we have not completed an acquisition in a number of years, we may do so in the future. In those product areas in which we identified acquisitions as critical to our business strategy, we may not be able to identify suitable acquisition targets or successfully acquire any suitable targets, which we identify. Additionally, we may not be able to successfully integrate or achieve anticipated synergies from those acquisitions, which we do complete.

MANAGEMENT'S DISCUSSION AND ANALYSIS (IN 000'S, EXCEPT FOR PER SHARE AMOUNTS)

Our manufacturing facilities are subject to risks, which could materially impact our profitability and financial condition

Our manufacturing facilities are subject to risks associated with natural disasters, including fires and floods. The occurrence of any of these natural disasters could cause the total or partial destruction of a manufacturing facility, thus preventing us from supplying products to our customers and disrupting production at their facilities for an indeterminate period of time. The inability to promptly resume the supply of products following a natural disaster at a manufacturing facility could have a material adverse effect on our operations, profitability and financial condition.

FINANCIAL AND CAPITAL MANAGEMENT RISK

Uncertain economic conditions could have a material adverse effect on our profitability and financial condition

Economic uncertainty or deterioration of the global economy for an extended period of time could have a material adverse effect on our profitability and financial condition.

The continuation or intensification of pricing pressures and pressure to absorb additional costs could have an adverse effect on our profitability

We face significant pricing pressure, as well as pressure to absorb extra costs, as well as other items previously paid for directly by customers. These pressures are expected to continue. The continuation or intensification of these pricing pressures and pressure to absorb additional costs could have an adverse effect on our profitability and financial condition.

Continued support of our lenders could have a material impact on our profitability, financial condition and continued sustainability

The Company operates in a capital-intensive business, has significant financing requirements placed on it by its customers and its financial resources are less than the financial resources of our customer base. There can be no assurance that, if, as 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 at all. Additional equity financings may result in dilution to existing shareholders.

Significant long-term fluctuations in relative currency values could have an adverse effect on our profitability and financial condition

Although, our financial results are reported in Canadian dollars, significant portions of our sales are realized in U.S. dollars. Movements in the U.S. dollar against the Canadian dollar affect our profitability. As a result of our hedging program, foreign currency transactions are not fully impacted by movements in exchange rates. Our hedging program is designed to hedge our accounting risk (the risk associated with our foreign exchange balances on our balance sheet at any point in time) but does not hedge our economic risk (the risk associated with all of our foreign exchange balances and potential balances regardless of whether those balances and potential balances are on our balance sheet at any one particular time). Despite these measures, significant long-term fluctuations in relative currency values could have an adverse effect on our profitability and financial condition and any sustained change could adversely impact our competitiveness.

We could record impairment charges in the future, which could materially impact our profitability and financial condition

Annually, we must test our capital assets, future income taxes and any other long-lived assets for impairment or whenever indicators of impairment exist. 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 could materially impact our profitability and financial condition

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. In the case of the United States, we may not be able to utilize these losses at all if we cannot generate profits in the United States.

Potential volatility of Reko's share prices could materially impact the financial returns earned by our shareholders

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 Shirley Reko own directly or indirectly 51.8% of the outstanding shares of the Company. As such, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (IN 000'S, EXCEPT FOR PER SHARE AMOUNTS)

REGULATORY RISK

Significant changes in law, government regulations or accounting regulations could materially impact our profitability and financial condition

A significant change in the current regulatory environment in our principal markets could impact future profitability. In particular, our profitability could be adversely impacted by significant changes in the tariffs and duties imposed on our products. In addition, we could be affected by changes in tax or other laws, which impose additional costs on original equipment manufacturers or consumers, or more stringent fuel economy requirements on manufacturers, of fossil fuel based vehicles from which we derive some of our sales.

Environmental laws and regulations could materially impact our profitability and financial condition

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. We are also subject to environmental laws requiring investigation and clean-up of environmental contamination. Estimating environmental clean-up liabilities is complex and heavily dependent on the nature and extent of historical information and physical data relating to the contaminated sites, the complexity of contamination, the uncertainty of which remedy to apply, and the outcome of discussions with regulatory authorities relating to the contamination. In addition, these environmental laws and regulations are complex, change frequently and have tended to become more stringent and expensive over time. Therefore, we may not have been, and in the future may not be, in complete compliance with all such laws and regulations, and we may incur material costs or liabilities as a result of such laws and regulations significantly in excess of amounts we have reserved.

UNUSUAL ITEMS

PRECISION MACHINING CONTRACT

During the year, the Company secured a three-year precision machining contract with a major global industrial. The contract will generate revenues of at least $27 million during its term, with approximately 40% of the revenues earned during its first year. In order to service the contract, the Company announced it would spend $6.3 million on CAPEX associated with plant additions, new machines and tooling. The Company's actual CAPEX associated with implementing the precision machining contract was $5.1 million. The contract began on March 2, 2015.

RENEGOTIATED BANKING AGREEMENT

During the year, the Company renegotiated its banking agreement with its primary lender. The renegotiated agreement provided for a reduction in the Company's interest rate on its line-of-credit of approximately 200 basis points. In addition, the renegotiated agreement provided term loan facilities to fund the Company's capital investment associated with its new precision machining contract. The term loan facilities are structured into two tranches. The first tranche requires monthly principal and interest payments based on a five-year term and five-year amortization period. The first tranche was drawn on March 27, 2015, in the amount of $2,600 (USD). The second tranche was drawn on April 30, 2015, in the amount of $1,650 (USD). The second tranche was recently renegotiated and requires monthly interest payments and one annual payment of $550 USD on each anniversary date of the loan until the loan is repaid in full. The two tranches bear interest at rates consistent with our current LIBOR rates plus the same premium applicable to our line-of-credit borrowings.

DISSOLUTION OF REKO GLOBAL SERVICES, LLC

During the year, the company entered into an agreement with its joint venture partner in Reko Global Services, LLC to dissolve the joint venture. The Companies liquidated the assets of the joint venture. The Articles of Dissolution were filed with the State of Alabama on January 2, 2015.

RECOVERY OF DEFERRED TAX ASSET

Under IFRS, Reko maintains deferred income tax asset accounts by jurisdiction. Each reporting period Reko assesses the probable net recovery of its Canadian non-capital losses and SR&ED tax credits and its U.S. net operating losses. As a result of the assessment at July 31, 2015, Reko determined that it was probable that its expected recovery of its Canadian non-capital losses and SR&ED tax credits had increased by $746, which resulted in Reko recording $746 income tax recovery in the Company's fourth quarter.

FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS

Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and United States ("U.S.") dollars. More specifically, approximately 80% of the Company's sales and 20% of its costs are incurred in U.S. dollars. In addition, the Company maintains certain working capital in the U.S.

In order to minimize our exposure to the impacts of changes in the foreign exchange rate, the Company maintains a forward foreign exchange hedging programme ("Programme"). Reko's Programme is based on maintaining our net exposure to the U.S. dollar (total U.S. exposure less forward foreign exchange contracts) between positive and negative $2,000. This Programme is designed to minimize the Company's exposure to foreign exchange risks over the mid-term. As a consequence of this mid-term exposure protection, the Company is subject to short-term paper gains and losses on its net exposure to the U.S. dollar, most particularly during periods when our net exposure to the U.S. dollar is outside of our target exposure. During periods of rapid fluctuation in the foreign exchange rate between the Canadian dollar and the U.S. dollar, regardless of our net exposure to the U.S. dollar, the Company can generate significant gains or losses, which will 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 U.S. dollar and the change during any given month of the value of the U.S. dollar in relation to the Canadian dollar.

During each of the last four quarters, the Company's month-end exposure to the U.S. dollar has been:

FISCAL PERIOD	TOTAL U.S. EXPOSURE BEFORE HEDGING PROGRAMME	FORWARD FOREIGN EXCHANGE CONTRACTS BOOKED	NET EXPOSURE TO THE U.S. DOLLAR
Q4 – 2015	$ 8,739	$ 8,500	$ 239
Q3 – 2015	$ 9,701	$ 9,500	$ 201
Q2 – 2015	$ 10,809	$ 11,000	$ (191)
Q1 - 2015	$ 11,250	$ 10,500	$ 750

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 U.S. dollar, as detailed above, is subject to change in market foreign exchange rates on a monthly basis and the remainder of its U.S. 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,			
	2015		2014		2015		2014	
	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE
U.S. DOLLAR EQUALS CANADIAN DOLLAR	1.2454	1.2266	1.0823	1.0907	1.1905	1.1548	1.0732	1.0611

The Company's FFECs represent agreements with an intermediary to trade a specific amount of U.S. dollars for Canadian dollars at a specific rate on a specific date. Currently, the date is between one (1) and three (3) months after the date on which the FFEC is booked. The specific rate entered into is not necessarily indicative of what either the intermediary or Reko believes the foreign exchange rate will be on the date the settlement of the trade occurs, rather it is a rate set by the intermediary which Reko can either accept or reject.

At the end of the year, we held FFECs of $8,500 compared to $9,500 at the end of the prior year. During fiscal 2015, on average, we held FFECs of $10,200, consistent with the $10,200 held during the prior year.

The following table outlines the level of FFECs presently maintained and the average effective rate of these contracts:

FISCAL PERIOD	CONTRACT VALUE BOOKED (000'S)	EFFECTIVE AVERAGE RATE
Q1 – 2016	$ 8,500	1.2391

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

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

Additional information with respect to financial instruments is provided in Note 1, Note 3 and Note 5 to Reko's audited consolidated financial statements, which by this reference are hereby incorporated herein.

RECONCILIATION OF NON-IFRS MEASURES

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

	2015	2014
SALES	$ 48,296	$ 38,894
LESS: MATERIAL	11,473	9,242
SUBCONTRACTING	2,842	2,954
INVENTORY ADJUSTMENTS	406	(482)
	$ 33,575	$ 27,180

RESULTS OF OPERATIONS

Sales

Sales for the year ended July 31, 2015 increased $9,402, or 24.2%, to $48,296 compared to $38,894 in the prior year.

The increase in sales was largely related to:

- Increased foreign exchange rate on our U.S. dollar sales;
- Increased hourly rates on sales;
- Impacts of our long-term agreement announced in September 2014, but which became effective beginning in March 2015; and,
- Increased demand in all of our markets.

Earned revenue

The earned revenue for the year ended July 31, 2015, increased $6,395 to $33,575, compared to $27,180, in the prior year.

The increase in earned revenue was largely related to:

- Increased foreign exchange rate on our U.S. dollar sales;
- Increased hourly rates on our sales;
- Impacts of our long-term agreement announced in September 2014; and,
- Increased demand in all of our markets.

Gross profit

The gross profit for the year ended July 31, 2015 increased $4,928 to $12,051 or 25.0% of sales, compared to $7,123, or 18.3% of sales, in the previous fiscal year.

The increase in gross profit was largely related to:

- Increased levels of earned revenue during the year.

Items offsetting the increase in gross profit included:

- Higher fixed overhead costs during the year, particularly related to wages commensurate with the increased earned revenue during the year; and,
- Increased repair and maintenance costs.

Selling and administration

Selling and administration expenses ("S,G&A") increased by $1,619, or 34.2%, to $6,349, or 13.1% of sales for the year ended July 31, 2015, compared to $4,730, or 12.2% of sales in the prior year. The increase in S,G&A was a result of:

- Increased professional fees;
- Increases in wages paid to sales people;
- Increases in wages, tied to contractual, productivity and income-based bonuses; and,
- Increases in bad debt.

Items offsetting the increase in selling and administration included:

- Decreases in the premiums of our accounts receivable insurance as we eliminated redundant coverages.

Earnings overview

The net income for the year ended July 31, 2015 was $4,127, or $0.64 per share, compared to a net income of $2,298, or $0.36 per share, in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations increased from $356 in the prior year to $2,590 in the current year.

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

- Improved profitability for the year;

Items offsetting the increase in cash flow from operations included:

- Increased investment in new projects as demand increased in the first half of the year.

During the year, the Company obtained equipment financing in the amount of $4,250 USD ($5,282 CDN) bearing interest at LIBOR plus the same premium applicable to our line-of-credit borrowings.

Financial covenants

The Company met its financial covenants at all times during the year.

The Company believes it has sufficient operating room with respect to its financial covenants for the next fiscal year and does not anticipate being in breach of any of its financial covenants during this period.

Capital assets and investment spending

For the year ended July 31, 2015, the Company invested $7,155 in capital assets. The total capital asset investment is comprised of $5,147 related to growth CAPEX and $2,008 related to maintenance CAPEX spending.

Cash resources/working capital requirements

As at July 31, 2015, Reko had borrowed $8,528 on its revolving line of credit, net of its cash on hand, compared to $8,560 at July 31, 2014 and $10,216 at April 30, 2015. The revolver borrowings decreased by $1,688 in the quarter and decreased approximately $32 for the year. Over the next six months, we anticipate collecting more from customers than we will be investing in new projects. Accordingly, we expect borrowings to display a decreasing trend over this period.

Reko has a $20,000 revolver available. However, based on our current lender defined margining capabilities, our borrowings are limited to $20,000, of which approximately $11,472 was unused and available at the end of the year. Under the terms of our credit facilities, Reko must achieve certain financial covenants including a maximum Total Debt to Tangible Net Worth, a minimum Current Ratio and a minimum Debt Service Coverage Ratio. As previously discussed, Reko is confident about its ability to meet these financial covenants over the next fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (IN 000'S, EXCEPT FOR PER SHARE AMOUNTS)
REKO INTERNATIONAL GROUP INC.

Contractual obligations and off-balance sheet financing

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
LONG-TERM DEBT	$ 11,072	$ 2,746	$ 7,285	$ 1,041	--
OPERATING LEASES	42	10	21	11	--
TOTAL CONTRACTUAL OBLIGATIONS	**$ 11,114**	**$ 2,756**	**$ 7,306**	**$ 1,052**	**--**

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

Reko does not maintain any off-balance sheet financing.

Share capital

The Company had 6,429,920 common shares outstanding at July 31, 2015. During the year, the Company granted 400,000 options. Of which, 100,000 were to a director/officer, 80,000 were to an officer, 30,000 were to independent directors and the remainder were to employees.

Outstanding share data

DESIGNATION OF SECURITY	NUMBER OUTSTANDING	MAXIMUM NUMBER ISSUABLE IF CONVERTIBLE, EXERCISABLE OR EXCHANGEABLE FOR COMMON SHARES
Common Shares	6,429,920	
Stock options issued	455,000	
Stock options exercisable	39,000	
Total (maximum) number of common shares		6,884,920

QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the fourth quarter of fiscal 2015, ended July 31, 2015. The information has been derived from the Company's unaudited condensed consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained elsewhere in this Annual Report and include all adjustments necessary for a fair presentation of the information presented. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

		OCT/13	JAN/14	APR/14	JULY/14
Sales		$ 8,469	$ 9,298	$ 10,561	$ 10,566
Net income		42	54	151	2,051
Earnings per share:	Basic	0.01	0.01	0.02	0.32
	Diluted	0.01	0.01	0.02	0.32
		OCT/14	**JAN/15**	**APR/15**	**JULY/15**
Sales		$ 10,586	$ 13,323	$ 13,519	$ 10,868
Net income		366	528	893	2,340
Earnings per share:	Basic	0.06	0.08	0.14	0.36
	Diluted	0.06	0.08	0.13	0.33

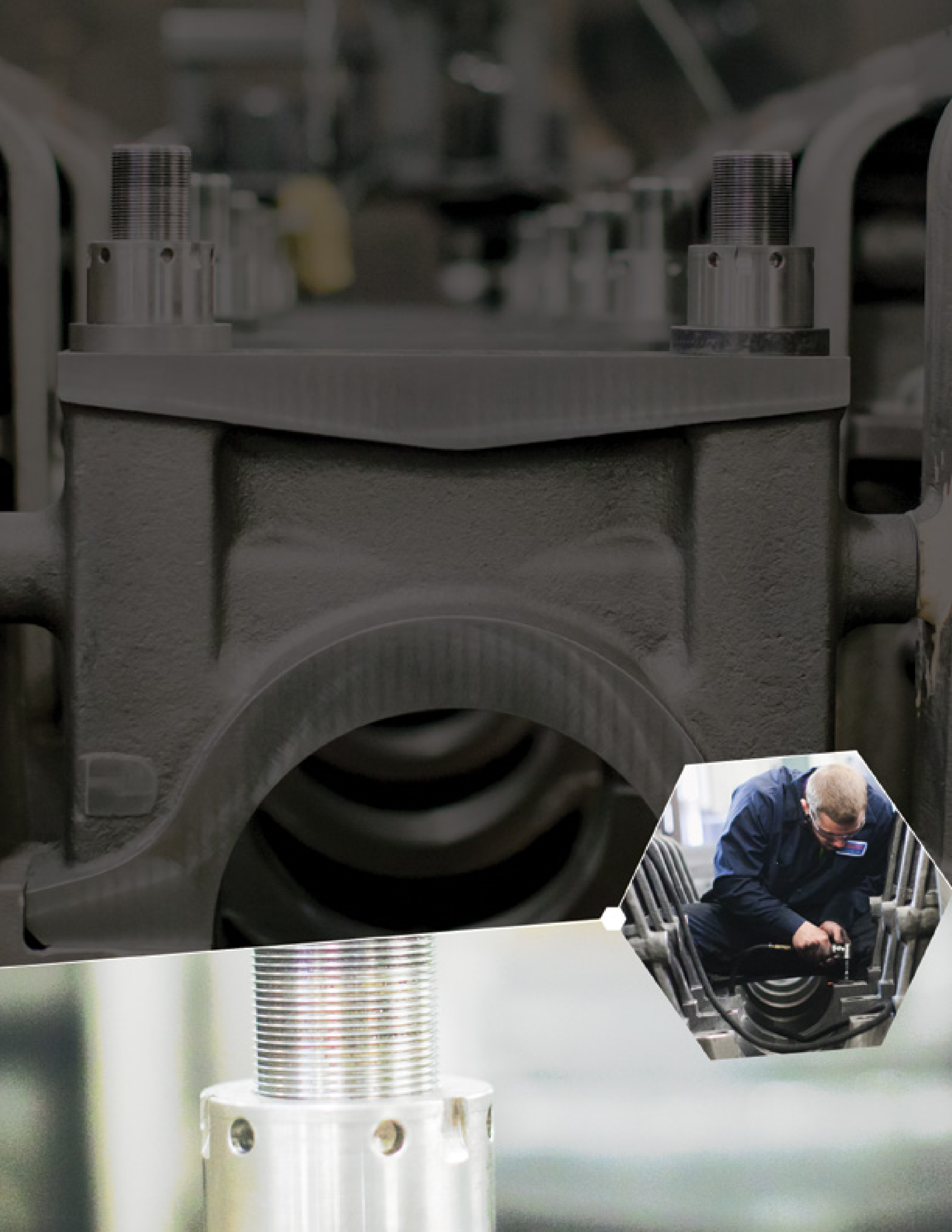
MANAGEMENT'S DISCUSSION AND ANALYSIS (IN 000'S, EXCEPT FOR PER SHARE AMOUNTS)

NORMAL COURSE ISSUER BID

The Company does not currently have an open Normal Course Issuer Bid.

This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. We use words such as "anticipate", "plan", "may", "will", "should", expect", "believe", "estimate" and similar expressions to identify forward-looking information and statements. Such forward-looking information and statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be relevant and appropriate in the circumstances. Readers are cautioned not to place undue reliance on forward-looking information and statements, as there can be no assurance that the assumptions, plans, intentions or expectations upon which such statements are based will occur. Forward-looking information and statements are subject to known and unknown risks, uncertainties, assumptions and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed, implied or anticipated by such information and statements. These risks are described in the Company's MD&A and, from time to time, in other reports and filings made by the Company with securities regulators. While the Company believes that the expectations expressed by such forward-looking information and statements are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors, which could cause actual results or events to differ materially from those, indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company disclaims any obligations to update publicly or otherwise revise any such factors of any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

EFFICIENCY



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", B.COMM
CHIEF EXECUTIVE OFFICER

"Carl A. Merton", CPA, CA, FCBV
CHIEF FINANCIAL OFFICER

October 9, 2015

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF REKO INTERNATIONAL GROUP INC.

We have audited the accompanying consolidated financial statements of Reko International Group Inc. and its subsidiaries, which comprise the consolidated balance sheet as at July 31, 2015 and July 31, 2014 and the consolidated statement of income and comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Reko International Group Inc. and its subsidiaries as at July 31, 2015 and July 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"PricewaterhouseCoopers LLP"

CHARTERED PROFESSIONAL ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS

Windsor, Ontario
October 21, 2015

As at July 31
(in 000's, except for per share amounts)

	2015	2014
ASSETS (Notes 9 and 10)		
Current		
Cash	$ 1,590	$ 1,720
Accounts receivable	13,494	14,281
Work-in-progress (Note 6)	15,321	8,831
Prepaid expenses and other current assets	706	420
	31,111	25,252
Capital assets (Note 7)	23,483	18,932
Embedded derivative (Note 8)	50	--
Deferred income taxes (Note 4)	6,510	6,668
	$ 61,154	$ 50,852
LIABILITIES		
Current		
Bank indebtedness (Note 9)	$ 10,118	$ 10,280
Accounts payable and accrued liabilities	4,627	3,760
Provisions payable (Note 16)	40	40
Non-hedging financial derivatives (Note 5)	599	33
Unearned revenue on work-in-progress (Note 6)	186	142
Current portion of unearned revenue	129	--
Current portion of long-term debt (Note 10)	2,695	794
	18,394	15,049
Long-term debt (Note 10)	8,327	5,754
Unearned revenue	205	--
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	18,784	18,784
Contributed surplus (Note 12)	1,844	1,792
Retained earnings	13,600	9,473
	34,228	30,049
	$ 61,154	$ 50,852

Contingencies (Note 20)

On behalf of the Board

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

"Diane Reko"
DIRECTOR

"Andrew J. Szonyi"
DIRECTOR

As at July 31
(in 000's, except for per share amounts)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
Balance at July 31, 2013	$ 18,772	$ 1,758	$ 7,175	$ --	$ 27,705
Share issuance	12	--	--	--	12
Share-based payments	--	34	--	--	34
Net income	--	--	2,298	--	2,298
Balance at July 31, 2014	$ 18,784	$ 1,792	$ 9,473	$ --	$ 30,049
Balance at July 31, 2014	**$ 18,784**	**$ 1,792**	**$ 9,473**	**$ --**	**$ 30,049**
Share-based payments	**--**	**52**	**--**	**--**	**52**
Net income	**--**	**--**	**4,127**	**--**	**4,127**
Balance at July 31, 2015	**$ 18,784**	**$ 1,844**	**$ 13,600**	**$ --**	**$ 34,228**

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

As at July 31
(in 000's, except for per share amounts)

	2015	2014
Sales	**$ 48,296**	$ 38,894
Costs and expenses		
Cost of sales	**33,737**	29,101
Amortization	**2,508**	2,670
	36,245	31,771
Gross profit	**12,051**	7,123
Selling and administrative (Note 15)	**6,349**	4,730
Income before the following items	**5,702**	2,393
Foreign exchange loss	**664**	547
Other income	**(158)**	(398)
Gain on sale of capital assets	**(25)**	(160)
Interest on long-term debt	**367**	379
Interest on other interest-bearing obligations	**521**	497
	1,369	865
Income before income taxes	**4,333**	1,528
Deferred income tax provision (recovery) (Note 4)	**206**	(770)
Net income and comprehensive income	**$ 4,127**	$ 2,298
Earnings per common share (Note 13)		
Basic	**$ 0.64**	$ 0.36
Diluted	**$ 0.60**	$ 0.36

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

Years ended July 31
(in 000's, except for per share amounts)

	2015	2014
OPERATING ACTIVITIES		
Net income for the year	**$ 4,127**	$ 2,298
Adjustments for:		
Amortization	**2,508**	2,670
Income tax recovery	**206**	(770)
Interest expense	**888**	876
Change in fair value of embedded derivative	**338**	--
Gain on sale of capital assets	**(25)**	(160)
Stock compensation	**52**	34
	8,094	4,948
Net change in non-cash working capital (Note 18)	**(4,567)**	(3,690)
Interest paid	**(889)**	(902)
Income tax paid	**(48)**	--
CASH PROVIDED BY OPERATING ACTIVITIES	**2,590**	356
FINANCING ACTIVITIES		
Net proceeds from bank indebtedness	**(162)**	1,080
Proceeds from issuance of capital stock	**--**	12
Proceeds from long-term debt	**5,282**	1,150
Unrealized foreign exchange loss	**411**	45
Payments on long-term debt	**(1,217)**	(762)
CASH PROVIDED BY FINANCING ACTIVITIES	**4,314**	1,525
INVESTING ACTIVITIES		
Investment in capital assets	**(7,155)**	(3,089)
Proceeds on sale of capital assets	**121**	594
CASH USED IN INVESTING ACTIVITIES	**(7,034)**	(2,495)
Net change in cash	**(130)**	(614)
Cash, beginning of year	**1,720**	2,334
Cash, end of year	**$ 1,590**	$ 1,720

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

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate or exist in the Province of Ontario in Canada and the State of Michigan in the United States. The registered head office is located at 469 Silver Creek Industrial Drive, Lakeshore, Ontario, Canada.

The Company's revenue is generated from the sales of large custom machining, factory automation and manufacturing moulds, primarily for the automotive sector.

Statement of compliance

The policies applied in these consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors on October 9, 2015.

Basis of measurement

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The Company's subsidiaries are as follows:

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

Changes in accounting policy

Effective August 1, 2014, the Company adopted the new suite of IFRS, including IFRS 2 Share-based Payments, IAS 32 Financial Instruments Presentation, IAS 36 Impairment of Assets, IAS 39 Financial Instruments Recognition and Measurement. The adoption of the suite of IFRS did not cause a material retrospective restatement or reclassification and therefore an opening statement of financial position has not been presented.

Foreign currency translation

The reporting currency of the reporting entity is Canadian dollars. Transactions in foreign currencies are translated at the foreign exchange rate in effect at the date of the transaction. The Company translates monetary assets and liabilities denominated in foreign currencies at the exchange rate as at the balance sheet date. Foreign exchange differences arising on translation are recognized in profit or loss. Revenues and expenses are translated at rates prevailing on the date of the transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates at the dates the fair value was determined. For the year ended July 31, 2015, the Company reported a foreign exchange loss of $664 (2014 – $547).

The financial statements of U.S. subsidiaries, whose functional currency has been determined to be Canadian dollars, are translated such that monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the year. Translation gains or losses are included in income.

Financial instruments

The Company utilizes financial instruments in the management of its foreign currency exposure by economically hedging its foreign exchange exposure on anticipated net cash inflows in U.S. dollars through the use of U.S. dollar denominated debt and forward foreign exchange contracts. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial assets and financial liabilities are initially recognized at fair value. Subsequent to initial recognition, financial instruments are stated at fair value and their remeasurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

CLASSIFICATION	
Cash	Fair value through profit or loss ("FVTPL")
Non-hedging financial derivatives	FVTPL
Accounts receivable	Loans and receivables
Embedded derivative	FVTPL
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FVTPL

Financial assets designated as FVTPL are financial assets typically held for trading or that are designated as FVTPL. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in non-operating items. Financial liabilities designated as FVTPL are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through profit or loss. These are accounted for in the same manner as FVTPL assets.

HELD-TO-MATURITY

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. The Company has not designated any financial assets as held to maturity.

AVAILABLE-FOR-SALE

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to earnings. Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method. The Company does not have any non-derivative financial assets classified as available for sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

LOANS AND RECEIVABLES

Loans and receivables are accounted for at amortized cost using the effective interest method.

OTHER FINANCIAL LIABILITIES

Other financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

TRANSACTION COSTS

Transaction costs related to FVTPL financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other financial liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

EFFECTIVE INTEREST METHOD

The Company uses the effective interest method to recognize interest income or expense, which includes transaction costs or fees, premiums or discounts, earned or incurred for financial instruments.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of the financial asset are transferred.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Use of significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are made on the assumption the Company will continue as a going concern and are based on information available at the time of preparation. Estimates may be revised where the circumstances on which they are based change or where new information becomes available.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

The Company has applied judgment in its use of the going concern assumption, identifying cash generating units, identifying indicators for impairment of long-lived assets and deferred taxes and assessing the Company's functional currency. In the absence of standards or interpretations applicable to a specific transaction, management uses its judgment to define and apply accounting policies that provide relevant and reliable information in the context of the preparation of the financial statements.

Estimates are used when estimating the useful lives of long-lived assets for the purposes of quantifying amortization, when accounting for or measuring such items as allowance for uncollectible accounts, allowances for provisions on loss contracts, realizable value of tax losses and other tax credits, assessing the percent complete of work-in progress, certain fair value measures including those related to share-based payments and financial instruments, and when testing long-lived assets for impairment. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Revenue recognition

The Company deals primarily in contracts with a period of completion over several months. Revenue is recognized based on the percentage of completion method, provided the contract has progressed to the point where total costs can be reasonably estimated. The Company considers all jobs, which have completed all aspects of engineering and design to have progressed to the point where total costs can be reasonably estimated. Historically, this occurs somewhere between 15% and 25%, depending on the complexity of the job. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately.

Operating lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Cash

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

Accounts receivable

Accounts receivable are stated at their cost less allowances for doubtful accounts. The allowance for doubtful accounts is determined by taking into consideration the age of receivables, the Company's prior experience with the customer including their ability to pay and/or an assessment of the current economic conditions. Accounts receivable and allowance for doubtful accounts are written off when the balance is no longer considered to be collectible.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)
REKO INTERNATIONAL GROUP INC.

Work-in-progress

Work-in-progress includes unbilled contract revenue and inventory. Tooling inventory is valued at the lower of cost and net realizable value, less any amounts billed to the customer. Cost includes the cost of materials, direct labour applied to the product and specifically identified manufacturing overhead. The results reported under the percentage of completion method are based on management's estimates. Actual results could differ from these estimates.

Capital assets and amortization

OWNED ASSETS

Capital assets are stated at cost less accumulated amortization and impairment losses (see impairment loss accounting policy). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognized for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain capital assets that had been revalued to fair value on August 1, 2010, the date of transition to IFRSs, are measured on the basis of deemed cost, being their fair value at the transition date.

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

LEASED ASSETS

Leases for which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. The capital assets acquired by way of a finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated amortization and impairment losses (see impairment loss accounting policy).

SUBSEQUENT COSTS

The Company recognizes in the carrying amount of a capital asset the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in profit or loss as an expense as incurred.

AMORTIZATION

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of each capital asset. Land is not amortized. The estimated useful lives are as follows:

- Buildings — 25 years
- Building roofs — 15 years
- Heating, ventilation and cooling — 10 years
- Machinery and equipment — 5 – 20 years
- Controls — 10 years
- Tooling — 5 years
- Leasehold improvements — 10 years
- Equipment under capital lease — 10 – 20 years

The residual value and estimated useful life is reassessed annually.

Trade and other payables

Trade and other payables are stated at amortized cost.

Unearned revenue on work-in-progress

In situations where the customer is billed more than the Company has recognized revenue on an individual project on the reporting date, the invoiced amount in excess of the revenue recognized is recorded as unearned revenue on work-in-progress.

Income taxes

Income tax on the profit or loss from the periods presented comprises current and deferred income tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in comprehensive income, in which case it is recognized in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit; and, differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date that are expected to apply when the deferred tax is realized/settled.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

Comprehensive income

Other comprehensive income, when it occurs, is presented below net income on the Consolidated Statements of Income and Comprehensive Income. Comprehensive income is composed of net income and other comprehensive income.

Accumulated other comprehensive income is a separate component of shareholders' equity which includes the accumulated balances of all components of other comprehensive income which are recognized in comprehensive income but excluded from net income.

Earnings per share

Basic earnings per share is calculated on net income using the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated on the weighted average number of common shares that would have been outstanding during the year had all "in the money" stock options outstanding been exercised and converted into common shares using the treasury method.

Impairment losses

The carrying amounts of the Company's long-lived non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

Reversals of impairment losses

An impairment loss, for other than a held-to-maturity security, investment in an equity instrument classified as available-for-sale and in respect of goodwill, is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

Defined contribution employee benefit plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss as incurred.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Restructuring provisions

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for in advance.

Onerous contract provisions

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Stock-based compensation

The share option programme allows certain Company employees to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The Company measures the fair value of stock options at the grant date and spreads the expense over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured using the Black-Scholes option-pricing model. This model requires the input of a number of assumptions, including expected dividend yields, expected stock volatility, expected forfeiture rates, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on market conditions generally outside the Company's control. If other assumptions are used, stock-based compensation expense could be significantly impacted. As stock options are exercised, the proceeds received on exercise, in addition to the portion of the contributed surplus balance related to those stock options, is credited to share capital and contributed surplus is reduced accordingly.

Consideration given to customers

Cash consideration given by the Company to a customer, such as cash discounts and rebates, are presumed to be a reduction of the selling prices of the Company's products or services and are, therefore, accounted for as a reduction of revenue when recognized in the statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)
REKO INTERNATIONAL GROUP INC.

New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

The Company anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 FINANCIAL INSTRUMENTS AND IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

IFRS 9 was a previously issued new standard to partially replace IAS 39 Financial Instruments: Recognition and Measurement. Originally it was to be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, but the IASB has changed the mandatory effective date and included additional disclosures about its initial adoption. The mandatory effective date of IFRS 9 has been changed to annual periods beginning on or after January 1, 2015. Disclosures that illustrate the effect of adopting IFRS 9 have been added to IFRS 7. The amendments to IFRS 7 have been incorporated into Appendix C of IFRS 9. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

The Company is currently assessing the impact that this amendment will have on the financial statements of the Company. However, it does not expect to implement the amendments until all chapters of the IAS 39 replacement have been published and we can comprehensively assess the impact of all changes.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 is the culmination of a joint project between the IASB and the Financial Accounting Standards Board, the accounting standard setter in the U.S., to create a single revenue standard. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard moves away from a revenue recognition model based on an earnings process to an approach that is based on transfer of control of a good or service to a customer. Additionally, the new standard requires disclosures as to the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The mandatory effective date of IFRS 15 is annual periods beginning on or after January 1, 2017. The Company is assessing the impact of the new standard on its results and financial position.

IFRS 11 JOINT ARRANGEMENTS

In May 2014, the IASB issued an amendment to this standard requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendment is effective for annual periods beginning on or after January 1, 2018.
The Company is currently assessing the impact that this amendment will have on the financial statements of the Company.

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.

	2015	
	REVENUES	CAPITAL ASSETS
Canada	**$ 45,879**	**$ 23,483**
United States	**2,417**	**--**
	$ 48,296	**$ 23,483**

	2014	
	REVENUES	CAPITAL ASSETS
Canada	$ 37,094	$ 18,932
United States	1,800	--
	$ 38,894	$ 18,932

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, non-hedging financial derivatives, embedded derivative, bank indebtedness, accounts payable and accrued liabilities and long-term debt.

Fair Value

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

ACCOUNTS RECEIVABLE, BANK INDEBTEDNESS, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Due to the short period of maturity of the instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

CATEGORIES OF METHOD OF FAIR VALUING CASH, NON-HEDGING FINANCIAL DERIVATIVES, EMBEDDED DERIVATIVE AND LONG-TERM DEBT

The following table provides an analysis of cash, non-hedging financial derivatives, embedded derivative and long-term debt that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	LEVEL 1	LEVEL 2	LEVEL 3	2015
Financial assets at FVTPL				
Cash	**$ 1,590**	**$ --**	**$ --**	**$ 1,590**
Embedded derivative	**--**	**50**	**--**	**50**
	$ 1,590	**$ 50**	**$ --**	**$ 1,640**
Financial liabilities at FVTPL				
Non-hedging financial derivatives	**$ --**	**$ 599**	**$ --**	**$ 599**
	$ --	**$ 599**	**$ --**	**$ 599**
Financial liabilities at amortized cost				
Long-term debt	**$ --**	**$ 11,072**	**$ --**	**$ 11,072**
	$ --	**$ 11,072**	**$ --**	**$ 11,072**

	LEVEL 1	LEVEL 2	LEVEL 3	2014
Financial assets at FVTPL				
Cash	$ 1,720	$ --	$ --	$ 1,720
	$ 1,720	$ --	$ --	$ 1,720
Financial liabilities at FVTPL				
Non-hedging financial derivatives	$ --	$ 33	$ --	$ 33
	$ --	$ 33	$ --	$ 33
Financial liabilities at amortized cost				
Long-term debt	$ --	$ 6,634	$ --	$ 6,634
	$ --	$ 6,634	$ --	$ 6,634

NON-HEDGING FINANCIAL DERIVATIVES

The Company's non-hedging financial derivatives are the Company's future forward exchange contracts and are subject to fluctuations in foreign exchange rates between the Canadian and US dollar. The Company's non-hedging financial derivatives are valued based on discounting the future cash outflows associated with the contract based on the closing foreign exchange rate between the Canadian and US dollar.

EMBEDDED DERIVATIVE

The Company's embedded derivative relates to a provision in a long-term supply agreement with a customer. The provision provides that at the end of each six-month period in the three-year contract, the average foreign exchange rate between US dollars and Canadian dollars, during that period, shall be at least $1.09. In the event, the average foreign exchange rate is less than $1.09 the customer equalizes the Company based on an average foreign exchange rate of $1.09. The Company's embedded derivative is valued based on valuation models for Asian puts and the closing foreign exchange rate between the Canadian and US dollar.

LONG-TERM DEBT

The Company's long-term debt of $4,933 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS) REKO INTERNATIONAL GROUP INC.

FAIR VALUE VERSUS CARRYING AMOUNTS

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

As at July 31, 2015	FVTPL	Loans and receivables	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS					
Cash	$ 1,590	$ --	$ --	$ 1,590	$ 1,590
Embedded derivative	50	--	--	50	50
	1,640	--	--	1,640	1,640
FINANCIAL LIABILITIES					
Non-hedging financial derivatives	599	--	--	599	599
Long-term debt	--	--	11,022	11,022	11,133
	599	--	11,022	11,621	11,732
Net financial assets (liabilities)	**$ 1,041**	**$ --**	**$ (11,022)**	**$ (9,981)**	**$ (10,092)**

As at July 31, 2014	FVTPL	Loans and receivables	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS					
Cash	$ 1,720	$ --	$ --	$ 1,720	$ 1,720
	1,720	--	--	1,720	1,720
FINANCIAL LIABILITIES					
Non-hedging financial derivatives	33	--	--	33	33
Long-term debt	--	--	6,548	6,548	5,606
	33	--	6,548	6,581	5,639
Net financial assets (liabilities)	$ 1,687	$ --	$ (6,548)	$ (4,861)	$ (3,919)

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated authority of risk management to the Audit Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and foreign exchange contracts.

ACCOUNTS RECEIVABLE

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which the customers operate, has less of an influence on credit risk. Approximately 40% of the Company's revenue is attributable to the Detroit 3 original equipment manufacturers and 65% of the Company's revenue is attributable to the automotive industry. Annually, between 80% and 90% of the Company's revenue is derived from customers who pay in United States dollars.

For the year ended, July 31, 2015, sales to the Company's three largest customers represented 19.4%, 14.6% and 11.5%, respectively, of total sales. These same customers represent approximately 23.7%, 13.0% and 16.7% of total accounts receivable, respectively as at July 31, 2015.

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. For companies in the automotive industry, the Company's review includes application for accounts receivable insurance, and in some cases bank references. Open amount limits are established for each customer; actual open amounts are reported monthly to the Audit Committee and reviewed by the Audit Committee on a quarterly basis. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Goods are sold subject to available financial liens, so that in the event of non-payment the Company may have a secured claim. The Company does not require collateral in respect of accounts receivable. In addition, the Company maintains, to the extent available, industry standard accounts receivable insurance programs to reduce its exposure to credit risk.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable, non-hedging financial instruments and unbilled contract revenue.

Cash and non-hedging financial instruments are subject to counterparty credit risk. The Company mitigates this credit risk by dealing with counterparties who are major financial institutions that the Company anticipates will be able to satisfy its obligations with the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 150 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of that ability, the Company maintains a $20,000 line of credit facility that is secured against the Company's accounts receivable and work-in-progress. 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, 2015, the Company has undrawn lines of credit available to it of approximately $11,472; however, under its current margining provisions with its lender, the maximum it can draw on its available lines of credit is limited to $20,000.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit Committee.

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the parent Company, the Canadian dollar. The Company's goal is to maintain foreign currency future contracts that are within $2,000 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, 2015, the Company had outstanding foreign exchange contracts, representing commitments to buy and sell foreign currencies. U. S. dollars contracts represent the significant commitments as follows:

	U.S. DOLLAR AMOUNT	WEIGHTED AVERAGE RATE
Sell U.S. dollars for delivery in 2016 under forward exchange contracts	$ 8,500	1.2391

Based on the Company's foreign currency exposures, as at July 31, 2015, a change in the U.S. dollar/Canadian dollar foreign exchange rate to reflect a 100 basis point strengthening of the U.S. dollar would have increased net income by $2. We caution that this sensitivity is based on an assumed net U.S. dollar denominated asset or liability balance at a point in time. Our net U.S. dollar denominated asset or liability position changes on a daily basis, sometimes materially.

INTEREST RATE RISK

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities. The Company uses LIBORs, bankers' acceptances and its line-of-credit to reduce the exposure to interest rate changes.

The Company's interest rate risk primarily arises from its floating rate debt, in particular its bank indebtedness. At July 31, 2015, $6,139 of the Company's total debt portfolio is subject to movements in floating interest rates.

Based on the value of interest-bearing financial instruments, subject to movements in floating interest rates, as at July 31, 2015, an assumed 0.5 percentage point increase in interest rates on the first day of the year would have decreased net income by $31, with an equal but opposite effect for an assumed 0.5 percentage point decrease.

OTHER MARKET PRICE RISK

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

REKO INTERNATIONAL GROUP INC.

Capital management

The Board's policy is to ensure sufficient liquidity to pursue its organic growth strategy, while at the same time taking a conservative approach to financial leverage and management of financial risk. The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion. The Company currently funds these requirements out of its internally generated cash flows and when internally generated cash flow is insufficient, its revolving bank credit facility.

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to shareholders' equity, which it aims to maintain at less than 1:1. As at July 31, 2015 and July 31, 2014, the above capital management criteria can be illustrated as follows:

	2015	2014
Net debt		
Bank indebtedness	$ **10,118**	$ 10,280
Current portion of long-term debt	**2,695**	794
Long-term debt	**8,327**	5,754
Less: cash	**(1,590)**	(1,720)
Net debt	$ **19,550**	$ 15,108
Shareholders' equity	$ **34,228**	$ 30,049
Ratio	**0.57**	0.50

From time to time, the Company purchases its own shares on the market; the timing of these purchases depends on market prices.

There were no changes in the Company's approach to capital management during the year.

As part of the Company's existing debt agreements, three financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis, by management, to ensure compliance with the agreements. The quarterly covenants are: i) debt to equity ratio – calculated as total debt, excluding deferred income taxes divided by shareholders' equity minus minority interest, if any; ii) current ratio – calculated as current assets divided current liabilities and (iii) debt service coverage ratio – calculated as EBITDA less cash taxes (for previous 52 weeks) divided by interest expense plus repayments of long-term debt (based on upcoming 52 weeks).

The Company was in compliance with these covenants at all times during the year.

4. INCOME TAXES

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

	2015	2014
Deferred tax asset		
SR & ED tax credits	$ **4,744**	$ 3,572
Undeducted SR&ED tax expenditures	**--**	1,169
Non-capital losses	**1,748**	216
Capital assets	**3,330**	2,886
Other	**270**	105
Deferred tax asset	$ **10,092**	$ 7,948
Deferred tax liability		
Tax impact of SR & ED tax credits	$ **1,255**	$ 897
Unbilled contract revenue	**2,286**	376
Other	**41**	7
Deferred tax liability	$ **3,582**	$ 1,280
Net deferred tax asset	$ **6,510**	$ 6,668

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

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

	2015	2014
Combined Federal and Provincial rate	**26.5%**	26.5%
Manufacturing and processing deduction	**0.0%**	(1.5%)
Increase in net realizable value	**(20.9%)**	(76.9%)
Permanent and other differences	**(0.8%)**	1.5%
Effective rate	**4.8%**	(50.4%)

The details of taxable losses by jurisdiction are as follows:

	2015	2014
Canada, which begin to expire, at the earliest, in 2031	$ **6,929**	$ 864
United States, which expire between 2022 and 2032	**13,040**	11,250

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)   REKO INTERNATIONAL GROUP INC.

5. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at July 31, 2015, the Company had entered into foreign exchange contracts to sell an aggregate amount of $8,500 (USD). These contracts mitigate the Company's expected exposure to U.S. dollar denominated net assets and mature at the latest at September 17, 2015, at an average exchange rate of $1.2391 Canadian. The mark-to-market value on these financial instruments as at July 31, 2015 was an unrealized loss of $599, which has been recorded in net income for the year.

AS AT JULY 31, 2015	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE LIABILITY
Sell USD / Buy CAD	**0 – 6 months**	**$ 7,901**	**$ 1.2391**	**$ 8,500**	**$ 599**

AS AT JULY 31, 2014	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE LIABILITY
Sell USD / Buy CAD	0 - 6 months	$ 9,467	$ 1.0883	$ 9,500	$ 33

6. WORK-IN-PROGRESS

WORK-IN-PROGRESS IS COMPRISED OF:	2015	2014
Work-in-progress incurred plus profits less provision for future losses	**$ 35,844**	$ 29,277
Less: progress billings	**(20,709)**	(20,588)
	$ 15,135	$ 8,689

RECOGNIZED AND INCLUDED IN THE FINANCIAL STATEMENTS AS:	2015	2014
Work-in-progress	**$ 15,321**	$ 8,831
Unearned revenue on work-in-progress	**(186)**	(142)
	$ 15,135	$ 8,689

7. CAPITAL ASSETS

Capital assets are comprised of:

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Cost or deemed cost						
Balance at July 31, 2013	$ 703	$ 8,554	$ 38,730	$ 476	$ 764	$ 49,227
Additions	--	--	81	--	3,008	3,089
Transfers	--	139	2,729	36	(2,904)	--
Disposals	(42)	(825)	--	--	--	(867)
Balance at July 31, 2014	**$ 661**	**$ 7,868**	**$ 41,540**	**$ 512**	**$ 868**	**$ 51,449**
Additions	**--**	**332**	**596**	**--**	**6,227**	**7,155**
Transfers	**--**	**--**	**6,795**	**35**	**(6,830)**	**--**
Disposals	**--**	**--**	**(3,106)**	**--**	**--**	**(3,106)**
Balance at July 31, 2015	**$ 661**	**$ 8,200**	**$ 45,825**	**$ 547**	**$ 265**	**$ 55,498**

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Amortization and impairment losses						
Balance at July 31, 2013	$ --	$ 2,906	$ 27,321	$ 54	$ --	$ 30,281
Amortization for the year	--	283	2,359	28	--	2,670
Transfer	--	--	--	--	--	--
Disposals	--	(434)	--	--	--	(434)
Balance at July 31, 2014	**$ --**	**$ 2,755**	**$ 29,680**	**$ 82**	**$ --**	**$ 32,517**
Amortization for the year	**--**	**485**	**1,987**	**36**	**--**	**2,508**
Transfers	**--**	**--**	**--**	**--**	**--**	**--**
Disposals	**--**	**--**	**(3,010)**	**--**	**--**	**(3,010)**
Balance at July 31, 2015	**$ --**	**$ 3,240**	**$ 28,657**	**$ 118**	**$ --**	**$ 32,015**
Carrying value						
Balance at July 31, 2014	$ 661	$ 5,113	$ 11,860	$ 430	$ 868	$ 18,932
Balance at July 31, 2015	**$ 661**	**$ 4,960**	**$ 17,168**	**$ 429**	**$ 265**	**$ 23,483**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)
REKO INTERNATIONAL GROUP INC.

8. EMBEDDED DERIVATIVE

During the first quarter of 2015, the Company entered into a long-term supply agreement with one of its customers. One of the terms of that agreement included an embedded derivative, establishing a foreign exchange rate floor of $1.09 on sales by the Company to the customer. This floor is measured every six months during the term of the agreement and is based on the average foreign exchange rate during the period under measurement.

Embedded derivative is comprised of:	2015	2014
Embedded derivative, beginning of year	$ --	$ --
Additions during the year	388	--
Fair value change, during the year	(338)	--
Embedded derivative, end of year	$ 50	$ --

9. BANK INDEBTEDNESS

The bank indebtedness is payable over various maturities, not exceeding 30 days, with interest at various amounts ranging from LIBOR plus an applicable margin ranging from 175 to 250 basis points or bank prime plus an applicable margin ranging from 50 to 125 basis points, as follows:

	2015	2014
Canadian dollar bankers' acceptances – bearing interest at 2.75% (2014 - 5.25%), due in less than 30 days	$ 1,000	$ 1,000
U.S. dollar LIBORs – bearing interest at 1.94% (2014 - 4.15%), due in less than 30 days	7,000	8,500
Foreign exchange on U.S. dollar LIBORs	2,118	780
	$ 10,118	$ 10,280

The bank indebtedness is secured by a general assignment of book debts and work-in-progress together with a second collateral mortgage of $85,000 on all land and buildings. At July 31, 2015, the Company's available operating lines of credit of $20,000 were limited to $20,000, due to lender defined margining capabilities.

10. LONG-TERM DEBT

The long-term debt is comprised of:

	2015	2014
Mortgage payable – 6%, repayable $62 monthly including interest, due in full January 2018, secured by land, buildings and certain machinery, and a second position on a general assignment of book debts and work-in progress	$ 4,494	$ 4,956
Loan payable – U.S. Base Rate plus 275 basis points ($644 USD), $18 monthly plus interest, due in full in October 2018, secured by equipment	838	1,040
Loan payable – 6.50% repayable $20 monthly including interest due in full August 2017 secured by equipment	439	638
Loan payable – US dollar LIBOR ($2,420 USD) plus applicable margin from 175 to 250 basis points, $45 monthly plus interest, due in full in March 2020, secured by general assignment of book debts and work-in-progress, together with a second collateral mortgage	3,152	--
Loan payable – US dollar LIBOR ($1,650 USD) plus applicable margin from 175 to 250 basis points, $550 USD annually plus interest monthly, due in full in March 2018, secured by general assignment of book debts and work-in-progress, together with a second collateral mortgage	2,149	--
	11,072	6,634
Deduct – unamortized finance fees	50	86
principal portion included in current liabilities	2,695	794
Long-term portion	$ 8,327	$ 5,754

Total bank credit facilities and minimum lease payments are as follows:

YEAR	BANK CREDIT FACILITIES
Next 12 months	$ 2,746
2 years	2,903
3 years	4,382
4 years	702
5 years	339
Balance of obligation	$ 11,072

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)
REKO INTERNATIONAL GROUP INC.

11. SHARE CAPITAL

Share capital is comprised of:

	AUTHORIZED	ISSUED SHARES	AMOUNT
Class A preference shares	Unlimited	Nil	--
Class B preference shares	Unlimited	Nil	--
Common shares – no par value	Unlimited	6,429,920	$ 18,784

	SHARES	AMOUNT
Outstanding, July 31, 2013	**6,420,920**	$ 18,772
Transactions during the year	**9,000**	12
Outstanding, July 31, 2014	**6,429,920**	18,784
Transactions during the year	**--**	**--**
Outstanding, July 31, 2015	**6,429,920**	**$ 18,784**

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, 2015 were exercised:

Common shares outstanding at July 31, 2015	6,429,920
Stock options (Note 14)	455,000
	6,884,920

12. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2015	2014
Balance, beginning of year	**$ 1,792**	$ 1,758
Amounts charged to contributed surplus in respect of exercised stock options	**--**	(5)
Amounts charged to contributed surplus in respect of the stock based compensation	**52**	39
Balance, end of year	**$ 1,844**	$ 1,792

13. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2015 was based on the net income attributable to common shareholders of $4,127 (2014: $2,298) and a weighted average number of common shares outstanding of 6,429,920 calculated as follows:

	2015	2014
Basic earnings per share:		
Net income	**$ 4,127**	$ 2,298
Average number of common shares outstanding during the year	**6,429,920**	6,422,420
Basic earnings per share	**$ 0.64**	$ 0.36
Diluted earnings per share:		
Net earnings available to common shareholders	**$ 4,127**	$ 2,298
Average number of common shares outstanding during the year	**6,429,920**	6,422,420
'In the money' stock options outstanding during the year	**455,000**	--
	6,884,920	6,422,420
Diluted earnings per share	**$ 0.60**	$ 0.36

14. STOCK-BASED COMPENSATION

The Company has established a stock option plan for directors, officers, and key employees. The terms of the plan state that the aggregate number of shares, which may be issued and sold, will not exceed 10% of the issued and outstanding common shares of the Company on a non-diluted basis. The issue price of the shares shall be determined at the time of grant based on the closing market price of the shares on the specified date of issue. Options shall be granted for a period of five years. At the directors' discretion, the vesting progression is 30% in the year of grant, 30% in the second year, and 40% in the third year. Options given to outside directors vest immediately and can be exercised immediately.

During 2015, the Company issued 400,000 stock options, of which 30,000 were awarded to outside directors, 100,000 were awarded to a director/officer, 80,000 were awarded to an officer and 190,000 were awarded to employees. The options vest, if before the end of the five-year term of the options, the Company enters into an agreement to sell more than 65% of the Company's net assets, measured as at November 3, 2014. The strike price of the options awarded was $2.00.

During 2014, the Company issued 55,000 stock options, of which 15,000 were awarded to outside directors, 5,000 were awarded to a director/officer and 35,000 were awarded to officers/employees. The strike price of the options awarded was $1.15.

As at July 31, 2015, the following options and warrants were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY
55,000	$ 1.15	2019
400,000	$ 2.00	2020

The weighted average of the options is as follows:

	2015		2014	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the beginning of the year	**55,000**	**$ 1.15**	46,000	$ 1.30
Expired during the year	**--**	**--**	(37,000)	1.33
Issued during the year	**400,000**	**2.00**	55,000	1.15
Exercised during the year	**--**	**--**	(9,000)	1.33
Cancelled during the year	**--**	**--**	--	--
Outstanding at the end of the year	**455,000**	**$ 1.90**	55,000	$ 1.15
Exercisable at the end of the year	**39,000**	**$ 1.15**	27,000	$ 1.15

The description of the method and significant assumptions used during the year to estimate the fair values of options, including the weighted average information, is as follows:

	2015	2014
Expected life	**5 years**	5 years
Expected dividends	**$ Nil**	$ Nil
Expected volatility – based on a 60 month historical average	**60.13%**	57.33%
Risk free rate of return	**0.44%**	0.63%
Expected forfeiture rate	**32.50%**	0.00%
Total compensation cost recognized in income for stock-based employee compensation awards	**$ 52**	$ 39

15. OPERATING LEASES – LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	2015	2014
Less than one year	**$ 10**	$ 10
Between one and five years	**32**	42
More than five years	**--**	--
	$ 42	$ 52

During the year ended July 31, 2015, $10 was expensed with respect to operating leases.

16. PROVISIONS

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

	2015	2014
Short-term provisions	**$ 40**	$ 40

17. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

In addition to their salaries, the Company also provides non-cash benefits to its executive officers and contributes to a post-employment defined contribution benefit plan on their behalf. In accordance with the terms of the plan, executive officers living in Canada are entitled to a receive a $1 contribution to the Company's Group RRSP plan annually, once they have completed 5 years of service to the Company. During the year, the Company expensed contributions of $4 to the defined contribution plan in Canada. The above contribution plans are identical to the contribution plans provided to all employees of the Company.

Executive officers are also eligible, as are all employees, to participate in the Company's share option programme.

Key management personnel compensation comprised:

	2015	2014
Salaries and cash bonuses	**$ 776**	$ 683
Short-term employment benefits	**31**	27
Post-employment benefits	**4**	4
	$ 811	$ 714

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN $000'S, EXCEPT FOR PER SHARE AMOUNTS)

Key management personnel and director transactions

Directors of the Company control 3.6% of the voting shares of the Company. A relative of a director owns, directly or indirectly 51.8% of the voting shares of the Company.

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2015	2014
Accounts receivable	**$ 787**	$ (5,402)
Non-hedging financial derivatives	**566**	4
Work-in-progress	**(6,490)**	2,463
Prepaid expenses and other current assets	**(286)**	114
Accounts payable and accrued liabilities	**866**	(663)
Provisions	**--**	(150)
Unearned revenue	**(54)**	--
Unearned revenue on work-in-progress	**44**	(56)
	$ (4,567)	$ (3,690)

19. REKO GLOBAL SERVICES, LLC

During the year, the Company and its joint venture partner in Reko Global Services, LLC decided to wind-down operations, liquidate its remaining assets and pay-out any excess funds after meeting all of its obligations.

20. CONTINGENCIES & COMMITMENTS

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

Provisions are made in instances where it is probable that a net outflow of cash will occur. The Company has no reason to believe that the ultimate outcome of these matters would have significant impact on its financial position, cash flows or results of operations.

21. COMPARATIVE FIGURES

During the year, the Company reclassified certain transactions and expenses within the Company's income statement.

SUMMARY OF INCOME (LOSS)

	2015	2014	2013	2012	2011
Sales	**$ 48,296**	$ 38,894	$ 40,674	$ 42,091	$ 39,863
Cost and expenses					
Cost of sales	**33,737**	29,101	32,422	32,890	34,141
Depreciation and amortization	**2,508**	2,670	1,786	2,010	2,755
	36,245	31,771	34,208	34,900	36,896
Gross profit	**12,051**	7,123	6,466	7,191	2,967
Selling and administrative	**6,349**	4,730	4,307	5,509	5,869
Income (loss) before the following	**5,702**	2,393	2,159	1,682	(2,902)
Gain on sale of capital assets	**(25)**	(160)	(203)	(742)	(226)
Income – other	**(158)**	(398)	(297)	(390)	--
Unrealized foreign exchange (gain) loss	**664**	547	(81)	109	(975)
Asset impairment	**--**	--	--	--	3,795
Business transformation expenses	**--**	--	130	248	2,359
Interest on long-term debt	**367**	379	456	774	864
Interest expense, net	**521**	497	630	631	763
	1,369	865	635	630	6,580
Income (Loss) before income taxes	**4,333**	1,528	1,524	1,052	(9,482)
Income taxes (recovered)					
Current	**32**	--	--	--	--
Deferred	**174**	(770)	(149)	(215)	184
	206	(770)	(149)	(215)	184
Net income (loss) for the year	**$ 4,127**	$ 2,298	$ 1,673	$ 1,267	$ (9,666)
Basic income (loss) per common share	**$ 0.64**	$ 0.36	$ 0.26	$ 0.20	$ (1.51)

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

	2015	2014	2013	2012	2011
Costs and expenses					
Cost of sales	**69.9%**	74.8%	79.7%	78.1%	85.7%
Depreciation and amortization	**5.2%**	6.9%	4.4%	4.8%	6.9%
Selling and administration	**13.1%**	12.2%	10.6%	13.1%	14.7%
	88.2%	93.9%	94.7%	96.0%	107.3%
Gross margin	**25.0%**	18.3%	15.9%	17.1%	7.4%
Return on sales	**8.5%**	3.3%	4.1%	3.0%	(24.2%)
Effective tax rate	**4.8%**	(50.4%)	(10.2%)	(20.0%)	1.9%

DIRECTORS AND OFFICERS

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

Carl A. Merton, CPA, CA, FCBV
Chief Financial Officer and an Officer

Dr. Andrew J. Szonyi, PH.D., P.ENG., MBA, GPLLM
Lead Independent Director and Chair of the Audit and Compensation Committees (President, Andrew J. Szonyi & Associates, Toronto, Ontario)

John Sartz
Director and a member of the Audit and Compensation Committees (President, Viking Capital Corporation, Toronto, Ontario)

Victor Neufeld, CPA, CA
Director and a member of the Audit and Compensation Committees (Chief Executive Officer, Aphria Inc, Leamington, Ontario)

INVESTOR RELATIONS CONTACT

Carl A. Merton, CPA, CA, FCBV
Chief Financial Officer

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Fax: (519) 727-4315

irelations@rekointl.com

ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the Torino Restaurant & Banquet Hall, 12049 Tecumseh Road, Tecumseh, ON N8N 1M1 on December 3, 2015 at 3:00 p.m.

LISTING

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

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