FOCUSED ON THE

FUTURE

REKO

INTERNATIONAL GROUP INC.

2020 ANNUAL REPORT


REKO




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We will get through these difficult times and come out stronger!

FOCUSED ON THE FUTURE

I'm unsure how many companies can claim that they've survived a global pandemic, but I don't think it was a large number before 2020.

Reko International Group Inc. can be added to that list.

I expect that many companies will not be able to make that claim because they will no longer be here. Not only has Reko survived, it has remained profitable during these challenging times.

Many industries are struggling and it is likely that many companies will fall victim to insufficient demand or lack of cash. Even industries which are enjoying increasing market demand are challenged with other problems like lack of capacity and supply chain interruptions and delays. The inconsistent consumer confidence in North America continues as I write this, so I think there is still a way to go before we will see the recovery of the economy and sales increases in our traditional markets.

Fortunately for Reko International Group Inc., we entered the pandemic with two valuable resources: cash and a dedicated team of problem solvers. The cash will make it possible to weather the extended downturn in sales. The team of problem solvers will ensure that we find the niche areas of demand and will help us move towards the growing areas of the economy that best suit our organization.

Our strong balance sheet is a source of pride for Reko. We had $5.4 million in cash at the end of fiscal 2019. At the end of fiscal 2020, the cash and short-term investments has grown to $9.4 million. The combination of these cash balances and the CEWS funding provided by the federal government allowed us to maintain employment levels even when sales were heavily impacted by the pandemic. The strong balance sheet will be maintained and is critical to our ability to participate in new projects as the economy begins to strengthen and orders begin to flow again. If our quote volumes are any indication, there is currently a great deal of pent up demand.

Cash and our strong balance sheet are important not only for surviving the pandemic, but also as the foundation for pursuing growth and future opportunities. As our world has changed dramatically over the past number of months, many of the problems are unique and require unique solutions. Having a strong team of problem solvers is another reason why I am confident in the future of Reko.

Here are some of the innovations that we deployed during the lockdown. When customers couldn't travel here for mold tryouts, we used Microsoft Teams and a laptop to let them participate virtually. The savings in travel time and expense as well as the potential for unlimited participants, and archived recordings, were the added value generated by this innovation. One could say that the Covid 19 lockdown accelerated the adoption of this alternate process. In the future, it will likely be the preferred method of approving a mold; pandemic or not. While this specific innovation was not capital intensive, having the financial ability to develop and invest in innovation is critical. When we learned that local frontline workers were not able to access face shields, we commenced 3D printing the supporting structures and began to assemble them for free distribution. There were so many grateful recipients that we then produced a mold and increased our production to help others in our community.

The importance of our manufacturing base became obvious when we were dependent upon foreign countries and companies to get the personal protection equipment required to protect our people. I suspect that the Second World War was probably the last time manufacturing was appreciated to this extent. Hopefully we've learned the importance of maintaining a domestic manufacturing base.

Reko remains focused on the future. We are cognizant of the changes in technology and demand and are working to adjust our manufacturing processes and output accordingly. We know that the innovation of our team will allow us to succeed in these efforts. It's important to our customers and it is important to the people who live in North America that Reko exists. We are here to help other manufacturers stay globally competitive and to help us all maintain our independence. We will get through these difficult times and come out stronger!

"Diane Reko"
Diane Reko
Chief Executive Officer

FOCUSED ON

WELL BEING

MANAGEMENT TEAM

Diane Reko
Chief Executive Officer

Caterina (Catia) Longo CPA, CMA
Chief Financial Officer

Dave Romanello
Director, Tooling Division

Ernie Stajduhar
Director, Technology

Greg Yzerman
Director, Sales and Business Development

Lauren Brummell-Beaudoin
Director, Corporate Human Resources

Peter Gobel
Director, Concorde Precision Manufacturing

Barrie Cutting
Mechanical Engineering Manager

Gennaro Pignanelli
Engineering Manager

Paul Rauch
Controls Engineering Manager

Christine Ferrari CPA, CMA
Controller

FOCUSED ON PRECISION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of operations and financial position ("MD&A") and should be read in conjunction with the audited consolidated financial statements for the year ended July 31, 2020 and the audited consolidated financial statements and MD&A for the years ended July 31, 2019 and July 31, 2018 included in our 2019 Annual Report to Shareholders. The audited consolidated financial statements for the years ended July 31, 2020 and July 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Reko's Chief Executive Officer and Chief Financial Officer have signed a statement outlining management's responsibility for financial information in the annual consolidated financial statements and MD&A. The statement, which can be found on page 29, also explains the roles of the Audit Committee and Board of Directors in respect of that financial information. When we use the terms "we", "us", "our", "Reko", or "Company", we are referring to Reko International Group Inc. and its subsidiaries.

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

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding Reko International Group Inc., including copies of our continuous disclosure materials, is available on our website at www.rekointl.com or through the SEDAR website at www.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 16, 2020.

FOCUSED ON GROWTH

OVERVIEW

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

Reko designs and manufactures a variety of engineered products and services for original equipment manufacturers ("OEMs") and their Tier suppliers. These products include design and construction of unique specialty machines and lean cell factory automation solutions and robotics integration; high precision, custom machining of very large critical components and assemblies; and plastic injection and compression acoustic molds. While many of our customers are in the automotive market, the Company has diversified beyond automotive and into a number of sectors.

For the transportation and oil and gas industries, the Company machines customer supplied metal castings to customer indicated specifications. For the automotive industry, the Company conceptualizes, designs and builds innovative solutions to manufacturing challenges, including specialty machines for gas tank assembly lines; unique material handling applications; work cell solutions, as well as compression molds and plastic injection molds. Across our target industries, Reko is known for outstanding quality and customer focus and for an unwavering commitment to exceeding customer expectations and deliverables while striving for constant improvement across all our chosen metrics.

Our design and manufacturing operations are carried on in three manufacturing plants located on adjacent parcels of land in Lakeshore, Ontario - a suburb of the City of Windsor in Southwestern Ontario. This includes a new state of the art automation facility which was opened in April 2018.

SUMMARY OF RESULTS

Reko International Group Inc. had a challenging fiscal 2020, particularly in the latter part of the year which experienced the impact of COVID-19. Efforts to reduce discretionary and non-production spending helped mitigate some of the impact of the pandemic on lower sales volumes. The Company also held its commitment to maintaining a strong cash position.

FOCUSED ON

DEMAND

RECONCILIATION OF NON-IFRS MEASURES

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

		2020		2019
Sales	$	40,226	$	47,989
Less: Material		10,574		12,650
Subcontracting		2,447		2,876
Inventory adjustments		(651)		100
	$	27,856	$	32,363

RESULTS OF OPERATIONS

REVENUES

Revenues for the year ended July 31, 2020 decreased by 16.1%, or $7,763, to $40,226 compared to the prior year. The decrease is primarily driven by continued lower volumes in certain sectors, as well as continued challenges with breaking into diversified markets. Certain divisions also experienced a delayed timing of kick off and completion for certain jobs throughout the year. The COVID-19 pandemic did affect the Company's ability to secure sales, particularly in Q4. Wide-spread shutdowns of businesses temporarily impacted customer demand during the quarter and made overall contact with new or existing customers difficult at times. The decrease was partially offset by an increase in foreign exchange for U.S. dollar sales, particularly in the latter half of the year.

EARNED REVENUE

Earned revenue is not a standard IFRS measurement. The Company's explanation of how it measures earned revenue is noted previously. Earned revenue effectively measures that portion of total revenue available to pay for the Company's employees, fixed and operating costs, and to earn a profit. The Company believes that earned revenue is an effective measurement of how it is performing. For 2020, earned revenue decreased by 13.9%, or $4,507, to $27,856 compared to 2019. The decrease is largely due to the overall decrease in revenues.

GROSS PROFIT

Gross profit for 2020 decreased $3,739 to $4,442, or 11.0% of sales, compared to 17.0% of sales in 2019. The decrease in gross profit was mostly driven by the decrease in sales and earned revenue. Lower sales volume and corresponding lower utilization of assets, driven partly by the impact of the COVID-19 pandemic, had a negative impact on the Company's profitability.

SELLING AND ADMINISTRATION

Selling and administration expenses ("SG&A") during 2020 decreased by 3.3% to $5,096, or 12.7% of sales, compared to $5,271, or 11.0% of sales during 2019. The decrease in SG&A was mostly attributed to efforts made by the Company, particularly in the latter half of the year in response to the COVID-19 pandemic, to reduce discretionary and non-production spending. Those efforts resulted in an overall decrease in office expenses, travel, and wages.

EARNINGS OVERVIEW

Fourth quarter net income was $501, or $0.08 per share, being the same as the final quarter of fiscal 2019. Net income for the year ended July 31, 2020 was $763, or $0.12 per share, compared to net income of $1,577, or $0.25 per share, for the year ended July 31, 2019. As previously explained, the lower sales volumes and efficiency challenges, partially a result of the COVID-19 pandemic, significantly impacted the Company's overall profitability.

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FOCUSED ON

TECHNOLOGY

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations decreased from $6,765 in the prior year to $6,657 in the current year. The decrease is primarily a result of a decrease in net income from operations.

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, 2020, the Company invested $1,683 in capital assets (maintenance CAPEX spending).

CASH RESOURCES/WORKING CAPITAL REQUIREMENTS

As at July 31, 2020, Reko had cash and short term investments of $9,441 compared to $5,448 at July 31, 2019 and $7,405 at April 30, 2020.

Reko has a $20,000 revolver available. However, based on our current lender defined margining capabilities, our borrowings are limited to $16,922, all of which was unused and available at the end of the year.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET FINANCING

		PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	AFTER 5 YEARS
Long-term debt	$ 3,270	$ 85	$ 269	$ 2,916	$ --
Long term debt subject to demand provisions	6,306	351*	701*	2,619*	2,635*
Lease liabilities	30	10	20	--	--
Total contractual obligations	$ 9,606	$ 446	$ 990	$ 5,535	$ 2,635

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

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

Reko does not maintain any off-balance sheet financing.

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SHARE CAPITAL

The Company had 6,242,650 common shares outstanding at July 31, 2020. During the year, 630 shares were issued as a result of a purchase under the Company's stock option plan.

OUTSTANDING SHARE DATA

DESIGNATION OF SECURITY	NUMBER OUTSTANDING	MAXIMUM NUMBER ISSUABLE IF CONVERTIBLE, EXERCISABLE OR EXCHANGEABLE FOR COMMON SHARES
Common Shares	6,242,650	
Stock options outstanding	202,900	
Stock options exercisable	73,740	
Total (maximum) number of common shares		6,445,550

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 2020, ended July 31, 2020. 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.

F2019		OCT/18	JAN/19	APR/19	JULY/19
Sales		$ 11,438	$ 11,615	$ 14,277	$ 10,659
Net income		170	272	609	526
Earnings per share:	Basic	0.03	0.04	0.10	0.08
	Diluted	0.03	0.04	0.09	0.07
F2020		**OCT/19**	**JAN/20**	**APR/20**	**JULY/20**
Sales		$ 9,350	$ 9,538	$ 9,985	$ 11,353
Net income		140	57	65	501
Earnings per share:	Basic	0.02	0.01	0.01	0.08
	Diluted	0.02	0.01	0.01	0.08

INDUSTRY TRENDS AND RISKS

While the Company has increased the level of diversification across industries, sales volumes still have a significant dependence upon the levels of new model releases for cars and light trucks by OEMs and on the construction, expansion or retooling of production facilities and our ability to secure tooling and automation programs from them through their Tier suppliers. New model releases in the automotive sector can be impacted by many factors, including general economic and political conditions, interest rates, energy and fuel prices, labour relations issues, regulatory requirements, infrastructure, legislative changes, environmental emissions and safety considerations. The Company's sales levels are also impacted by demand levels in the transportation and oil and gas sectors. Demand in these areas can be affected by many factors, including general economic and political conditions, interest rates, energy and fuel prices, regulatory requirements, transportation infrastructure and safety issues.

The following additional risk factors, as well as the other information contained in this MD&A, for the year ended July 31, 2020 or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements related to the Company.

OPERATIONAL RISK

CURRENT OUTSOURCING AND IN-SOURCING TRENDS

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

A SHIFT AWAY FROM TECHNOLOGIES IN WHICH THE COMPANY IS INVESTING

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

DIVERSIFICATION OF OUR SALES

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

CHALLENGES SUCCESSFULLY COMPETING AGAINST SUPPLIERS WITH OPERATIONS IN DEVELOPING MARKETS

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

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

The global automotive industry is cyclical and largely tied to general economic conditions. As our customers revisit their business models and make design changes to existing models and new vehicle introductions, the market for tooling and factory automation may decline. However, management feels that the existence of multiple product lines in our automotive focused divisions should serve to moderate the impact of any such declines.

THE FINANCIAL VIABILITY OF OUR SUPPLY BASE

While our exposure to individual entities in our supply chain is limited, we are still exposed to multiple relatively small niche market players whose declining financial viability may present challenges for securing the necessary inputs to our manufacturing process. Management continues to monitor the strength of our supply base and restricts the development of single source suppliers for any significant inputs into our production process.

CHANGES IN CONSUMER DEMAND FOR SPECIFIC VEHICLES

The global automotive industry is cyclical and consumer demand for automobiles is sensitive to changes in economic and political conditions, including interest rates, energy prices, employment levels, and international conflicts, including acts of terrorism. Automotive production and, more importantly for Reko, the frequency of automotive model changes, is affected by consumer demand and may be impacted by macro-economic factors. As a result of these and other factors, some of our customers are currently experiencing, and/or may experience in the future, reduced consumer demand for all or a portion of their vehicles, leading to reduced product offerings.

RELIANCE ON KEY PERSONNEL AND SUCCESSFULLY RECRUITING TALENT IN CRITICAL AREAS

The success of Reko is dependent on many people including our design engineers, control engineers, machinists, and our management team. The experience and talents of these individuals is a significant factor in the Company's continued growth and success. While the Company continues to develop appropriate succession plans for these positions, the loss of one or more of these individuals without adequate replacement, or the inability to recruit appropriate talent in a competitive labour market, could have a material adverse effect on the Company's operations and business prospects. Management has implemented several innovative recruitment and retention strategies to effectively reduce the risks in this area.

THE SECURITY OF OUR INFORMATION TECHNOLOGY (IT) SYSTEM

While the Company has established (and continues to monitor and enhance) security controls and has appropriate employee training in order to protect the Company's IT systems, there is no guarantee that these measures will be effective in preventing unauthorized access or cyberattacks. A significant failure or breach of the Company's IT systems could cause disruption to manufacturing processes; loss, destruction or inappropriate use of data; or result in the theft of intellectual property or confidential information of the Company or its key customers. While the Company carries what it considers to be an adequate amount of cybersecurity insurance coverage and continuously monitors its system, the consequences of these events could have a material adverse effect on the Company, its profitability, and financial condition.

FINANCIAL AND CAPITAL MANAGEMENT RISK

CONTINUED UNCERTAIN ECONOMIC CONDITIONS

While some of the world regions are experiencing significant economic growth and have fully recovered from the 2008-2009 global recession, uncertainty remains about the strength of growth prospects in some regions, while still other jurisdictions continue to experience economic downturns. A rise in economic uncertainty or a deterioration of the global economy, particularly in the wake of the current COVID-19 global pandemic, could have a material adverse effect on our profitability and financial condition.

PRICING PRESSURES AND PRESSURE TO ABSORB ADDITIONAL COSTS

We face significant pricing pressure, as well as pressure to absorb costs related to tooling and machine design and program management, as well as other items previously paid for directly by automobile manufacturers and non-automotive OEMs (such as support in remote production facility locations). These pressures are expected to continue. The continuation or intensification of these pricing pressures and pressure to absorb additional costs and assume additional design, engineering, and management responsibilities could have an adverse effect on our profitability and financial condition.

CONTINUED SUPPORT OF OUR LENDERS

The Company operates in a capital-intensive business, has significant financing requirements placed on it by its customers, and our financial resources are, in many cases, less than the financial resources of our customer base. While there can be no assurance that if and when the Company seeks additional equity or debt financing, it will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms (or to obtain these resources at all), the Company continues to enjoy strong banking relationships and support from major charter banks. Any additional equity financing to raise new capital may result in dilution to existing shareholders.

SIGNIFICANT LONG-TERM FLUCTUATIONS IN RELATIVE CURRENCY VALUES

Although our financial results are reported in Canadian dollars, significant portions of our sales are realized in US dollars. Movements in the US dollar against the Canadian dollar affect our profitability. As a result of the purchase of appropriate amounts of forward exchange contracts, foreign currency transactions are not fully impacted by movements in exchange rates. Due to this program, our accounting risk (i.e. the risk associated with our foreign exchange balances on our balance sheet at any point in time) is reduced. This program does not necessarily reduce our economic risk (i.e. the risk associated with our foreign exchange balances and potential balances regardless of whether those balances and potential balances are on our balance sheet at any one particular time). Despite these measures, significant long-term fluctuations in relative currency values could have an adverse effect on our profitability and financial condition and any sustained change could adversely impact our competitiveness.

COVID-19 PANDEMIC

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

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

On March 23, 2020, the Government of Ontario announced that certain manufacturers and their suppliers were deemed essential businesses due to their importance to the Ontario economy. As Reko has maintained full operations during this unprecedented time, the Company implemented several measures aimed at protecting the health and safety of our employees, and customers, and limiting the exposure and spread of the virus.

The Company will continue to evaluate all developments and make any necessary modifications and enhancements to our COVID-19 response. We continuously monitor the updates provided by public health authorities and by all levels of government, and will modify our response as new information is provided. Our efforts with respect to this pandemic are ongoing and include our top executive and operational management team continually monitoring changes in best practices and regulations, and their impact on the safety of our employees, our operations and our customers and suppliers. While it is unclear how long the economic recovery from COVID-19 will take, we are committed as a Company to make every effort to succeed.

In March 2020, the Government of Canada announced the introduction of the Canada Emergency Wage Subsidy (CEWS) to support employers that are hardest hit by the pandemic and protect the jobs Canadians depend on.

The subsidy generally covers 75% of an employee's wages (to a maximum amount) for employers of all sizes and across all sectors who have suffered a drop in gross revenues of at least 15% in March, and 30% in April and May. The Company has determined that it would be eligible for the CEWS amount and has applied for such assistance from the Government of Canada. Details are noted in Note 17 of the Company's financial statements.

The Company will continue to review all programs offered by the Government and ensure that it applied for all appropriate support.

THE POSSIBILITY OF IMPAIRMENT CHARGES IN THE FUTURE

Annually or whenever indicators of impairment exist, we must test our capital assets, future income taxes, and any other long-lived assets for impairment. The bankruptcy of a significant customer could be an indicator of impairment. In addition, to the extent that forward-looking assumptions regarding the impact of improvement plans on current operations, outsourcing, and other new business opportunities are not met, impairment charges could occur.

OUR INABILITY TO UTILIZE TAX LOSSES

Prior to 2011, we incurred tax losses in both Canada and the United States, which we may not be able to fully or partially offset against future income in those countries. The losses which arose in Canada during this period have now largely been applied to taxable income generated through operations. In the case of the United States, we may not be able to utilize these losses if we do not generate profits in the United States.

POTENTIAL VOLATILITY OF REKO'S SHARE PRICES

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

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

As of the date of this MD&A, The Reko Family Corporation and individuals related to it, own directly or indirectly 65.85% of the outstanding shares of the Company. Given the number of shares held, the Reko Family Corporation will be able to elect or remove the directors of the Company and to exercise control in certain respects over the Company's affairs.

REGULATORY RISK

SIGNIFICANT CHANGES IN LAW, GOVERNMENT REGULATIONS, OR ACCOUNTING REGULATIONS

A significant change in the current regulatory environment in our principal markets could impact future profitability. Specifically, our profitability could be adversely impacted by significant changes in the tariffs and duties imposed on our products or on our inputs. In addition, we could be affected by changes in tax or other laws, which impose additional costs on automobile manufacturers or consumers, or more stringent or inconsistent fuel economy requirements on manufacturers of sport-utility vehicles, light trucks, and other vehicles from which we derive some of our sales.

We are subject to a wide range of environmental laws and regulations relating to air emissions, wastewater discharge, waste management, and storage of hazardous substances as well as to requirements related to investigation and clean-up of any environmental contamination as defined by these regulations. These environmental laws and regulations are complex, change frequently, and, in Canada, have tended to become more stringent and expensive over time. Therefore, we may not have been, and in the future may not be, in complete compliance with all such laws and regulations, and we may incur material costs or liabilities as a result of such laws and regulations significantly in excess of amounts we have reserved.

FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS

Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and United States ("US") dollars. More specifically, approximately 85% of the Company's sales and 20% of its costs are incurred in US dollars. In addition, the Company maintains certain working capital balances in US funds.

In order to minimize our exposure to the impacts of changes in the foreign exchange rate, the Company maintains a forward foreign exchange programme ("FFEC Programme"). Reko's Programme is based on maintaining our net exposure to the US dollar (total US exposure less forward foreign exchange contracts) between positive and negative $5,000. This Programme is designed to minimize the Company's exposure to foreign exchange risks over the mid-term. During periods of rapid fluctuation in the foreign exchange rate between the Canadian dollar and the US dollar, regardless of our net exposure to the US dollar, the Company can

generate significant gains or losses, which may materially impact financial results. These significant gains or losses are entirely related to mark-to-market accounting rules and represent the product of our net exposure to the US dollar and the change during any given month of the value of the US dollar in relation to the Canadian dollar.

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

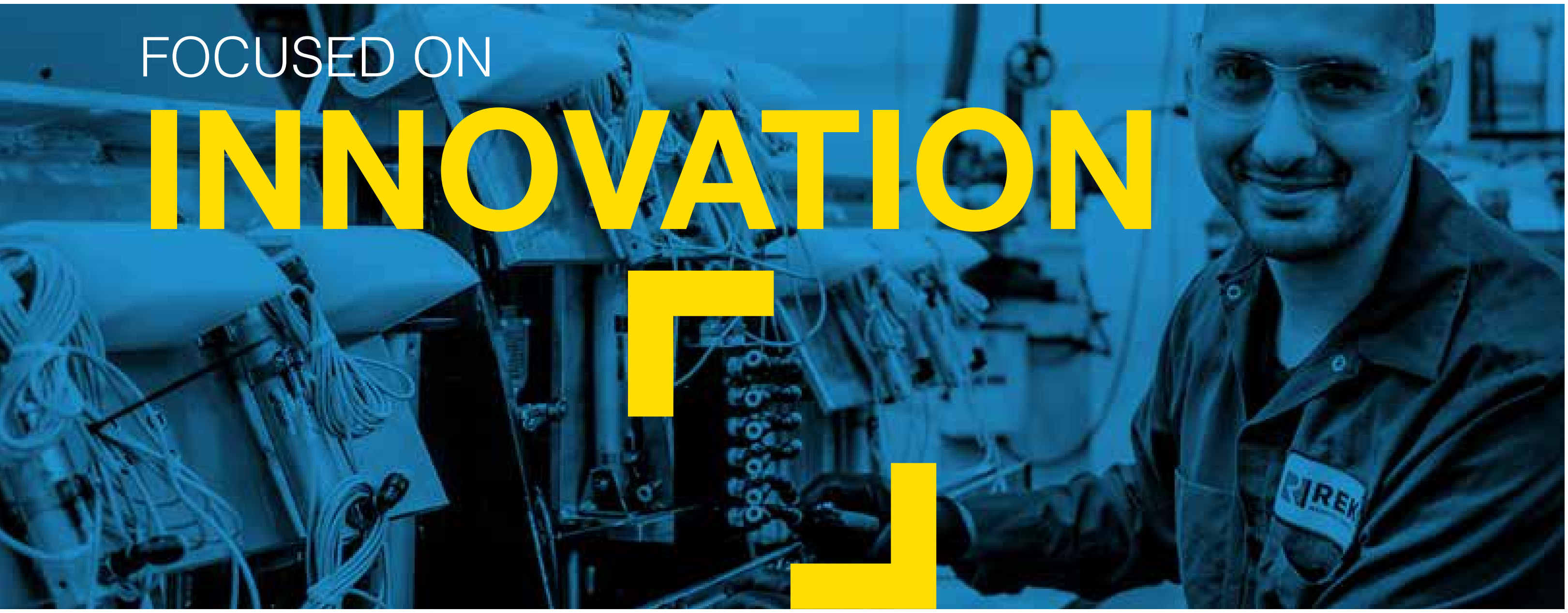
FISCAL PERIOD	TOTAL U.S. EXPOSURE BEFORE HEDGING PROGRAMME	FORWARD FOREIGN EXCHANGE CONTRACTS BOOKED	NET EXPOSURE TO THE US DOLLAR
Q4 – 2020	$ 8,717	$ 4,000	$ 4,717
Q3 – 2020	$ 7,436	$ 9,000	$ (1,564)
Q2 – 2020	$ 7,772	$ 1,000	$ 6,772
Q1 – 2020	$ 9,300	$ 4,000	$ 5,300

As a result of the Company's purchase of forward foreign exchange contracts ("FFECs"), the Company is subject to changes in foreign exchange rates that may not be consistent with changes in the current quoted foreign exchange rates. More specifically, the Company's foreign exchange risk is split such that its net exposure to the US dollar, as detailed above, is subject to change in market foreign exchange rates on a monthly basis and the remainder of its US dollar exposure is subject to foreign exchange risks based on the specific foreign exchange rate contained in its FFECs.

The table below presents a comparison between actual foreign exchange rates and Reko's effective rate on its booked FFECs.

	FOR THE THREE MONTHS ENDED JULY 31,				FOR THE YEAR ENDED JULY 31,			
	2020		2019		2020		2019	
	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE
US Dollar equals Canadian Dollar	1.3705	1.3982	1.3309	1.3275	1.3448	1.3480	1.3234	1.3150

The Company's FFECs represent agreements with an intermediary to trade a specific amount of US dollars for Canadian dollars at a specific rate on a specific date. Currently, the date is between one (1) and six (6) months after the date on which the FFEC is booked. The specific rate entered into is not necessarily indicative of what either the intermediary or Reko believes the foreign exchange rate will be on the date the settlement of the trade occurs, rather it is a rate set by the intermediary which Reko can either accept or reject.



At the end of the year, we held FFECs of $4,000 compared to $7,000 at the end of the prior year. During fiscal 2020, on average, we held FFECs of $5,250, as compared with the $9,917 held during the prior year.

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

FISCAL PERIOD	CONTRACT VALUE BOOKED (000'S)	EFFECTIVE AVERAGE RATE
Q4 – 2020	$ 4,000	1.4076

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

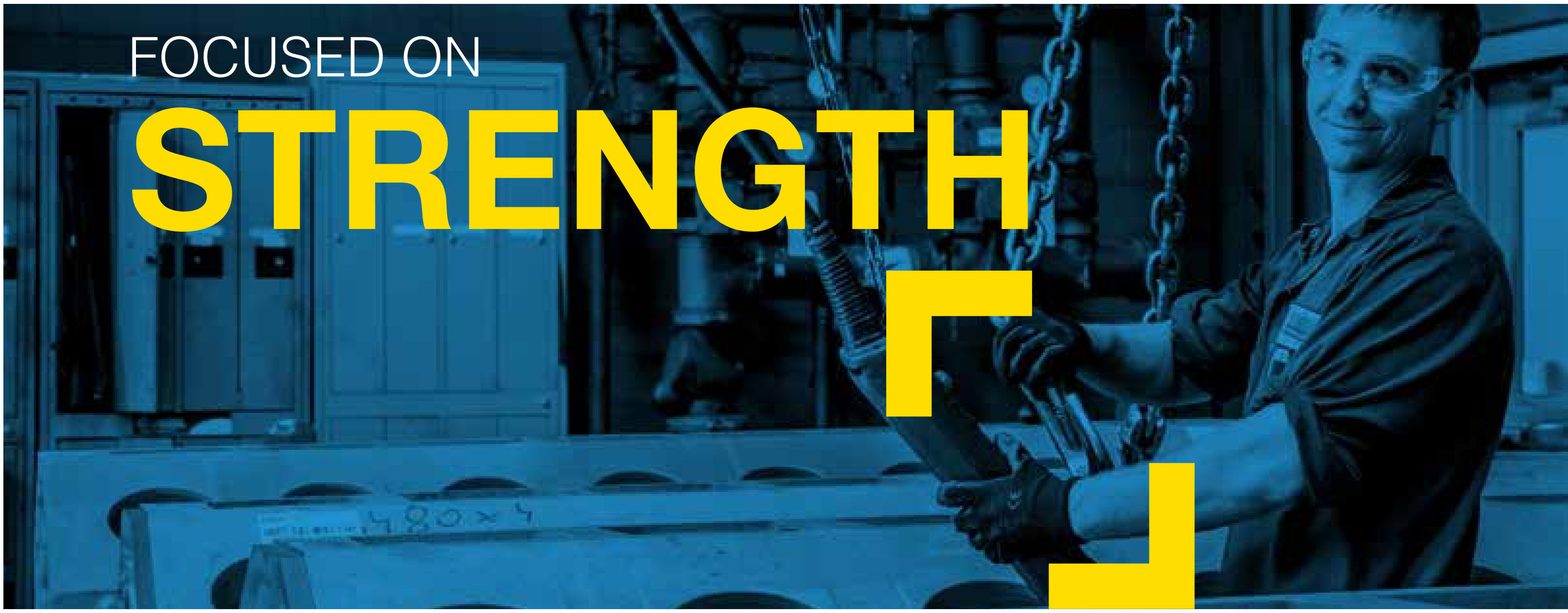
Foreign currency transactions are recorded at rates in effect at the time of the transaction. Forward exchange contracts are recorded at month-end at their fair value, with unrealized holding gains and losses recorded in foreign exchange gain (loss).

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

NORMAL COURSE ISSUER BID

On December 27, 2019, the Company announced the extension of the normal course issuer bid. Under the plan, the Company may purchase on the TSX Venture Exchange up to a total of 316,933 of its common shares during the twelve-month period which commenced December 31, 2019. The 316,933 common shares represent approximately 5% of the total common shares outstanding. The price that the Company will pay for any such shares will be the market price at the time of acquisition and all shares acquired under the bid will be cancelled by the Company.

During the quarter ended July 31, 2020, Reko purchased and subsequently cancelled 20,600 shares under the provision of the normal course issuer bid. The total amount of shares purchased and cancelled during the current fiscal year are 109,600.



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