

SHAPING OUR FUTURE TODAY



CONTENTS

CHIEF EXECUTIVE OFFICER MESSAGE..... 5

MANAGEMENT’S DISCUSSION AND ANALYSIS 11

OVERVIEW 12

FINANCIAL HIGHLIGHTS 13

RECONCILIATION OF NON-IFRS ACCOUNTING STANDARDS MEASURES..... 15

QUARTERLY RESULTS 20

INDUSTRY TRENDS AND RISKS..... 21

OPERATIONAL RISK 22

FINANCIAL AND CAPITAL MANAGEMENT RISK 25

FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS..... 26

NORMAL COURSE ISSUER BID 27

rooted in purpose



CHIEF EXECUTIVE OFFICER MESSAGE

They say that “What you focus on grows”. I assume that the author meant our thoughts. If they are negative, negativity grows, and if they are positive, positivity grows. However, I’d argue that this statement can apply just as easily to operations within Reko as to events and relationships outside of the company as well.

When it comes to the past fiscal year, many things have clamored for our attention, both inside and outside of the company. We’ve tried to focus on the most important issues, but as those of you that are part of a manufacturing technology company know, there has been a lot going on.

Look over here!

We spent the early part of our fiscal year dealing with the cyclical U.S. election uncertainty that makes businesses cautious about investing. The automotive part of our business had already been quieter than usual, and it got even quieter. Our other markets were not as affected, and some of their volumes were steady, so the impact of the automotive decline was muted in our relatively small sales decline. We were focused on keeping our costs in check and were focused closely on sales opportunities.

Fortunately, our customers in the power generation space were experiencing very high demand and we focused upon their needs and upon ensuring that we could be flexible and adapt to what they needed most. Unfortunately, we continued to wait for the awards of projects quoted months before in other industries. Tariff rumbling turned into actual tariffs and suddenly our customers were asking things like, “How much will the tariff be on this equipment?” and “Can you assure me that the cost of this equipment will not increase due to tariffs?”. It was a flashback to the Covid era. Suddenly it mattered again that we were not located in the United States. As the months passed, we had to focus again on our cost structure and where our sales would be coming from, since some of the previous sources were no longer reliable.

Let’s look at everything.

Our next critical area of focus was the size, capabilities and flexibility of our team. In combination with a strategy to develop and pursue new technologies in our own operations and for the benefit of our customers, we have executed a significant restructuring of our team. While never an easy task, we made some difficult decisions and provided severance and benefits beyond the statutory requirements to those who had been part of our past but wouldn’t be part of our future. These types of changes are always difficult for everyone involved, and the decisions are never taken lightly. Moving forward with a smaller and more flexible team has been essential to the progress that we have experienced since that event.

In addition to our restructuring, we placed an order for a new, very large milling machine (our largest purchase ever) in order to meet the growing needs of our customers in the power generation market. Delivery will be in the spring of 2026, and we anticipate that the technology (functionality) and capacity (size) will be critical to achieving our strategic objectives and to supporting our customers’ needs.

As we look forward.

Unfortunately, the tariff uncertainty that started in the early part of 2025 has no resolution as of the writing of this message and likely will continue until a new USMCA/ CUSMA agreement has been negotiated. This is not a positive situation for the demand for capital investment and for the equipment that we provide. Nonetheless, we continue to innovate by looking for lower cost and lower tariff solutions as well as developing solutions that will allow our customers to achieve significant returns on the investment in our equipment and services.

Artificial intelligence is more than just a buzzword. We are focusing on the integration of AI tools into our everyday operations to provide efficiency and free employees up to spend more time on strategy and execution of our strategy. As with any new technology, there are always growing pains, but we are ready to face them and find the best solutions for achieving our goals.

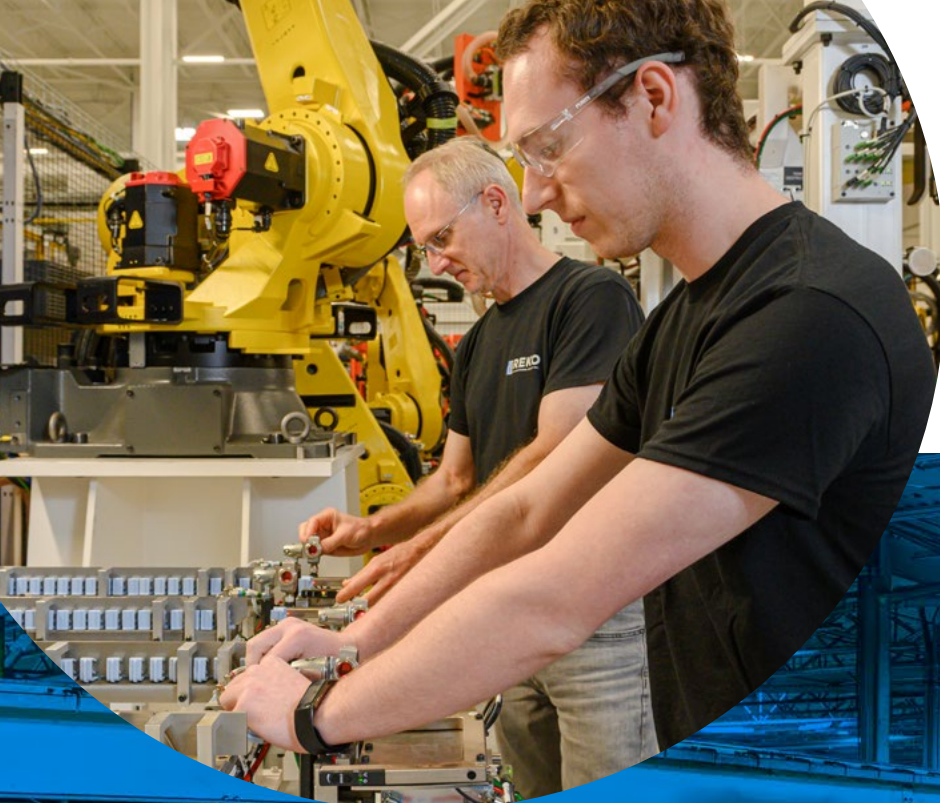
During the year, we also hired our first dedicated software developer. His primary focus has been Reko’s Parapro® software which, when used in conjunction with our automation equipment, allows our customers extreme flexibility to adapt to product variations and versions, eliminating the need for dedicated in-house controls engineering expertise. As we continue to develop the software for more and more applications, we will be focusing on keeping it user-friendly, increasingly flexible and bringing all the benefits of AI, as well.

All forecasts that we have seen and conversations with customers indicate a continuing demand for equipment in the power generation market for the foreseeable future. Given the rapid growth of AI and demand for computing power and other large facilities which are power-dependent, this seems like a reasonable outlook. We are already well-positioned in this market and will continue to build upon this strength as we make decisions around investments in equipment and people. You can be sure that this will continue to be an area of focus for Reko.

What you focus on grows.

Returning to the opening sentence of this message, Reko will continue to focus on the investments, the team and its skills, and most importantly, meeting the evolving needs of our customers in order to drive growth in our market share, strengthen our contribution to the economy and enhance our bottom-line profitability ensuring a foundation for sustainable growth. No doubt we will face ongoing and potentially new distractions. Nonetheless, we will persevere in making the best decisions to accelerate growth and improve profitability. By staying focused on these priorities, **we are shaping our future today.**





At Reko, focused strategy,
empowered teams, and
customer-driven innovation

are what shapes
our resilience and
long-term growth.





focused on
innovation

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 years ended July 31, 2025 and July 31, 2024 and MD&A for the years ended July 31, 2025 and July 31, 2024 included in our 2025 Annual Report to Shareholders. The audited consolidated financial statements for the years ended July 31, 2025 and July 31, 2024 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). Reko's Chief Executive Officer and Chief Financial Officer have signed a statement outlining management's responsibility for financial information in the annual consolidated financial statements and MD&A. The statement, which can be found on page 29, also explains the roles of the Audit Committee and Board of Directors in respect of that financial information. When we use the terms "we", "us", "our", "Reko", or "Company", we are referring to Reko International Group Inc. and its subsidiaries.

This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. We use words such as "anticipate," "plan", "may", "will", "should", "expect", "believe", "estimate" and similar expressions to identify forward-looking information and statements. Such forward-looking information and statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be relevant and appropriate in the circumstances. Readers are cautioned not to place undue reliance on forward-looking information and statements, as there can be no assurance that the assumptions, plans, intentions or expectations upon which such statements are based will occur. Forward-looking information and statements are subject to known and unknown risks, uncertainties, assumptions and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed, implied or anticipated by such information and statements. These risks are described in the Company's MD&A and, from time to time, in other reports and filings made by the Company with securities regulators.

While the Company believes that the expectations expressed by such forward-looking information and statements are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors, which could cause actual results or events to differ materially from those indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company disclaims any obligations to update publicly or otherwise revise any such factors of any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

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

In this MD&A, reference is made to earned revenue, which is not a measure of financial performance under IFRS. The Company calculates earned revenue as sales less the cost of materials and subcontracting. The Company also references adjusted EBITDA, which is defined as earnings before interest, taxes, depreciation, and amortization, adjusted for certain items that management believes are not indicative of ongoing operational performance. The Company further references adjusted earnings per share ("adjusted EPS"), which represents basic earnings per share excluding items not considered reflective of ongoing operations. The Company includes information on earned revenue, adjusted EBITDA and adjusted EPS because these metrics are used by management to assess performance, and management believes they are also used by certain investors and analysts to evaluate the Company's financial performance. These measures are not necessarily comparable to similarly titled measures 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 15, 2025 and was authorized for issue by the Board of Directors on October 9, 2025.

OVERVIEW

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

Reko designs and builds engineered products and solutions for a wide range of customers, including original equipment manufacturers and their tier suppliers, and other industrial manufacturers and contractors. Our capabilities include the design and construction of specialty machines, lean cell factory automation systems, robotics integration, and the high-precision machining of very large, critical components and assemblies. The Company has established a diversified customer base across multiple sectors, including automotive, aerospace, rail, power generation, offsite construction, mining, infrastructure, and capital equipment.

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

Our operations are carried out in three manufacturing plants located on adjacent parcels of land in Lakeshore, Ontario - a suburb of the City of Windsor in Southwestern Ontario.

FINANCIAL HIGHLIGHTS

For the year ended July 31, 2025, the Company delivered stronger earnings despite a modest decline in sales. Demand across several customer sectors was impacted by post-election uncertainty in North America and signs of a weakening economy, leading to delays and lower volumes, most notably in automotive. Profitability improved through a favourable project mix, stronger execution, disciplined labour cost management, and growth in markets with greater pricing resilience.

Both reported basic earnings per share and adjusted EPS improved year-over-year, underscoring the Company’s underlying operating performance (see reconciliation of non-IFRS measures reconciliation). Diversification efforts continued to advance, with new customer wins and increased volumes in non-automotive markets. Cash flow from operations increased significantly, supported by improved net income and strong collections of customer receivables. The balance sheet remains strong, with low leverage, solid liquidity, and no increase in debt during the year, positioning the Company to navigate near-term challenges while pursuing long-term sustainable growth.

The purpose of providing normalized earnings on a per-share basis is to supplement reported results with additional context, enabling readers to better assess underlying performance trends and the comparability of results across reporting periods.





ignited by
progress

RECONCILIATION OF NON-IFRS ACCOUNTING STANDARDS MEASURES

The Company uses certain non-GAAP financial measures, including earned revenue, adjusted EBITDA, and adjusted earnings per share. These measures do not have standardized meanings under IFRS Accounting Standards and may not be comparable to those reported by other companies. Management believes they provide additional insight into underlying operating performance. The reconciliation to the most directly comparable IFRS Accounting Standards measures is provided in the following table:

	Three months ended		Twelve months ended	
	7/31/2025	7/31/2024	7/31/2025	7/31/2024
Sales	\$ 10,781	\$ 9,019	\$ 42,154	\$ 44,277
Less: Materials	2,133	1,902	7,563	10,532
Sub-contracting	625	282	2,590	3,620
Earned revenue	\$ 8,023	\$ 6,835	\$ 32,001	\$ 30,125
Net income (loss)	\$ 996	\$ (3,459)	\$ 1,045	\$ (3,894)
Add: Net Interest (income) expense	(36)	48	(50)	274
Income tax (recovery) expense	(199)	3,016	(617)	2,674
Depreciation	903	990	3,866	3,976
EBITDA	\$ 1,664	\$ 595	\$ 4,244	\$ 3,030
Add:				
(Gain) loss on change in fair value of foreign exchange contracts	(121)	(47)	(25)	185
Net FX losses (gains)	79	(5)	679	(315)
Restructuring expense	-	(27)	892	179
Accounts receivable collection and settlement costs	96	26	286	76
Impairment on assets	-	-	250	-
Net proceeds from insurance	(18)	-	(277)	-
Adjusted EBITDA	\$ 1,700	\$ 542	\$ 6,049	\$ 3,155
Basic earnings per share as reported	\$ 0.18	\$ (0.62)	\$ 0.19	\$ (0.70)
Add:				
Adjustments to deferred tax valuation allowance	(0.13)	0.55	(0.13)	0.55
Net FX (gains) losses	(0.01)	(0.01)	0.12	(0.02)
Restructuring expense	-	-	0.16	0.03
Accounts receivable collection and settlement costs	0.02	-	0.05	0.01
Impairment on assets	-	-	0.05	-
Net proceeds from insurance	-	-	(0.05)	-
Adjusted earnings per share⁽¹⁾	\$ 0.06	\$ (0.08)	\$ 0.39	\$ (0.13)

⁽¹⁾ Per-share adjustments of less than one cent have been omitted from the table above, as their impact is not considered to be material.



motivated by
vision

RESULTS OF OPERATIONS

SALES

Sales for the year ended July 31, 2025 decreased by 4.8%, or \$2,123, to \$42,154 compared to the prior year. The reduction in sales was primarily attributable to lower volumes across certain sectors and delays in program kickoffs. These challenges were compounded by trade tariff pressures, broader economic uncertainty and capital investment hesitancy tied to both the Canadian and U.S. elections, which slowed customer decision-making and resulted in the deferral of certain project commitments.

The Company remains focused on stabilizing sales through targeted initiatives while pursuing diversification into new sectors such as offsite construction and infrastructure. At the same time, Reko continues to invest in its long-standing customer relationships, including within power generation, to ensure it can respond to growing demand and evolving needs. Management remains committed to disciplined execution of its strategy, supporting both diversification and the long-term growth of its core markets.

Foreign exchange fluctuations continue to affect sales and are an inherent risk when doing business in other currencies. In fiscal 2025, the strengthening of the U.S. dollar relative to the Canadian dollar had a favourable impact on reported sales.

EARNED REVENUE

Earned revenue is a non-standard IFRS measurement. The Company's explanation of how it measures earned revenue is noted previously. Earned revenue effectively reflects the portion of total revenue available to cover labour expenses and employee compensation, fixed and operating costs, and to generate profit. Management believes it is an effective measure of performance.

For 2025, earned revenue increased by 6.2%, or \$1,876, to \$32,001, representing 75.9% of sales, compared to \$30,125, or 68.0% of sales, in fiscal 2024. The increase was largely attributable to lower material purchases, resulting from a higher proportion of sales generated from non-automotive customers, which historically carry lower material requirements than automotive programs.

GROSS PROFIT

Gross profit for fiscal 2025 increased by \$2,884 to \$7,203, or 17.1% of sales, compared to 9.8% of sales in 2024. Despite a year-over-year decline in sales, gross profit improved due to a more favourable sales mix, stronger execution on fixed-price contracts, and a more selective go-to-market strategy. The improvement was also supported by higher earned revenue and reduced labour expenses, reflecting management's efforts to more effectively align fixed labour costs with current sales levels.

Management continues to evaluate opportunities to enhance and protect margins through process improvements, increased use of automation, and investments in technology. Recruitment and training programs are also being streamlined to improve workforce efficiency and accelerate new-hire productivity.

SELLING AND ADMINISTRATIVE

Selling and administration expenses for 2025 increased to \$6,543, or 15.5% of sales, compared to \$5,226, or 11.8% of sales, in 2024. The increase includes one-time restructuring costs of \$892 (2024 - \$179), \$286 related to the collection and settlement of a receivable from a customer of Reko's former Tool and Mould division (2024 - \$76), and \$65 in professional fees tied to amendments to banking agreements (2024 - \$Nil).

EARNINGS OVERVIEW

For the year ended July 31, 2025, the Company reported net income of \$1,045, or \$0.19 per share, compared to a net loss of (\$3,894), or (\$0.70) per share in the prior year.

Results included a \$0.13 per share benefit from the re-recognition of deferred tax assets, compared to a (\$0.55) per share charge in the prior year. In addition, fiscal 2025 included restructuring costs of (\$0.16) per share (2024 – (\$0.03) per share), net foreign exchange losses of (\$0.12) per share (2024 – gain of \$0.02 per share), a (\$0.05) per share charge related to a legacy accounts receivable collection and settlement (2024- (\$0.01) per share) and several items not applicable in the prior year: a (\$0.05) per share impairment charge and a \$0.05 benefit resulting from an insurance claim that was settled during the year.

On an adjusted basis, earnings per share were \$0.39, compared to a loss of (\$0.13) in fiscal 2024, while adjusted EBITDA improved to \$6,049, up from \$3,155 in the prior year. These results reflect higher earned revenue, stronger margins and disciplined cost management, highlighting the Company’s progress toward a more resilient earnings base.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations was \$10,404 compared to \$3,244 in the prior year, an increase of \$7,160. The favourable variance was primarily driven by a \$4,939 improvement in net income and a \$6,035 favourable change in non-cash working capital. The working capital change was largely attributable to strong cash collections, which fluctuated with sales volume, customer payment terms, project-specific milestones, and the stage of projects as at the reporting date.

The Company’s financial covenants are calculated on a trailing twelve-month basis, and all requirements were met at each measurement date throughout the fiscal year. However, with respect to the fourth quarter, no covenant testing was required as the Company was in the process of transitioning to a new banking relationship. At that time, the Company’s only remaining obligation to the former lender was a mortgage, which was repaid in full subsequent to year-end. The Company remained in compliance with all other financial covenants on its debt throughout the year.

CAPITAL ASSETS AND INVESTMENT SPENDING

For the year ended July 31, 2025, the Company invested \$2,883 in capital assets, a decline of \$656 compared to the prior year. This amount includes a \$1,653 deposit on new machinery and equipment scheduled for installation in fiscal 2026, for which the Company is currently evaluating financing options.

CASH RESOURCES/WORKING CAPITAL REQUIREMENTS

As at July 31, 2025, the Company had cash on hand of \$17,996 compared to \$11,434 at July 31, 2024 and \$19,974 at April 30, 2025. Subsequent to year-end, the Company repaid in full one of its outstanding mortgage obligations in the amount of \$2,721 (USD \$1,965) using available cash. At year end this mortgage payable was reported in current liabilities.

At year-end, Reko had access to a \$20,000 demand revolving facility. Based on lender-defined margining, availability was limited to \$10,358, all of which remained unused. The Company also had an equipment facility of up to \$1,500 to finance machinery and equipment purchases, with no borrowings outstanding as at July 31, 2025.

Subsequent to year-end, the Company entered into a new credit agreement with a different lender, replacing the prior revolving facility. The new agreement provides (i) a revolving operating line of up to \$20,000, subject to borrowing base calculations, and (ii) a USD \$7,500 demand loan to finance equipment purchases secured by the related assets. As at the date of this MD&A, there have been no borrowings under these facilities. Management believes the Company’s cash position, together with available credit, provides adequate liquidity to support operating requirements and planned capital investments.

Contractual obligations and off-balance sheet financing

CONTRACTUAL OBLIGATIONS	TOTAL	PAYMENTS DUE BY PERIOD			
		LESS THAN 1 YEAR	2-3 YEARS	4-5 YEARS	AFTER 5 YEARS
Long-term debt	\$ 9,403	\$ 4,139	\$ 1,904	\$ 3,360	\$ -
Lease liabilities	19	9	10	-	-
Total contractual obligations	\$ 9,422	\$ 4,148	\$ 1,914	\$ 3,360	\$ -

Subsequent to year-end, the Company repaid in full a mortgage obligation in the amount of \$2,817. Accordingly, this obligation is no longer outstanding as at the date of this MD&A.

There have been no other material changes with respect to the contractual obligations of the Company.

The Company does not maintain any off-balance sheet financing.

SHARE CAPITAL

The Company had 5,499,113 common shares outstanding at July 31, 2025. A total of 295,500 options are outstanding as at year end.

Outstanding share data

DESIGNATION OF SECURITY	NUMBER OUTSTANDING	MAXIMUM NUMBER ISSUABLE IF CONVERTIBLE, EXERCISABLE OR EXCHANGEABLE FOR COMMON SHARES
Common Shares	5,499,113	
Stock options exercisable	232,000	
Total (maximum) number of common shares		5,731,113



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 2025, ended July 31, 2025. 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 the Annual Report for the year ended July 31, 2025, 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.

F2024		Oct/23		Jan/24		Apr/24		Jul/24
Sales	\$	13,703	\$	11,948	\$	9,606	\$	9,019
Net income		312		102		(849)		(3,459)
Earnings per share: Basic		0.05		0.02		(0.15)		(0.62)
Diluted		0.05		0.02		(0.15)		(0.59)
F2025		Oct/24		Jan/25		Apr/25		Jul/25
Sales	\$	10,239	\$	10,786	\$	10,348	\$	10,781
Net income		88		313		(352)		996
Earnings per share: Basic		0.02		0.05		(0.06)		0.18
Diluted		0.02		0.05		(0.06)		0.18

INDUSTRY TRENDS AND RISKS

While the Company has broadened its diversification across industries, sales volumes continue to be influenced by the timing of new car and light truck model releases from OEMs, as well as by the construction, expansion, or retooling of production facilities and our ability to secure automation programs from them through Tier suppliers. New model releases in the automotive sector can be impacted by many factors, including general economic and political conditions, interest rates, energy and fuel prices, labour relations issues, regulatory requirements, infrastructure, legislative changes, environmental emissions and safety considerations. The Company's sales levels are also impacted by demand levels in the transportation and power generation sectors. Demand in these areas can be affected by many factors, including general economic and political conditions, interest rates, energy and fuel prices, regulatory requirements, transportation infrastructure and safety issues.

The following additional risk factors, as well as the other information contained in this MD&A, for the year ended July 31, 2025, or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements related to the Company.



OPERATIONAL RISK

CURRENT OUTSOURCING AND IN-SOURCING TRENDS

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

A SHIFT AWAY FROM TECHNOLOGIES IN WHICH THE COMPANY IS INVESTING

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

DIVERSIFICATION OF OUR SALES

While we have diversified our customer base in recent years, and continue to attempt to further diversify, we may experience varying degrees of success. The inability to successfully increase our sales to non-traditional customers or the speed upon which we can successfully do so could have an adverse effect on our profitability and financial condition.

CUSTOMER CONCENTRATION

A significant portion of the Company's sales and accounts receivable are concentrated with a limited number of customers. The loss of, or a significant reduction in business with, any of these customers, or a material deterioration in their financial condition, could adversely affect the Company's sales, results of operations, and financial position.

CHALLENGES SUCCESSFULLY COMPETING AGAINST SUPPLIERS WITH OPERATIONS IN DEVELOPING MARKETS

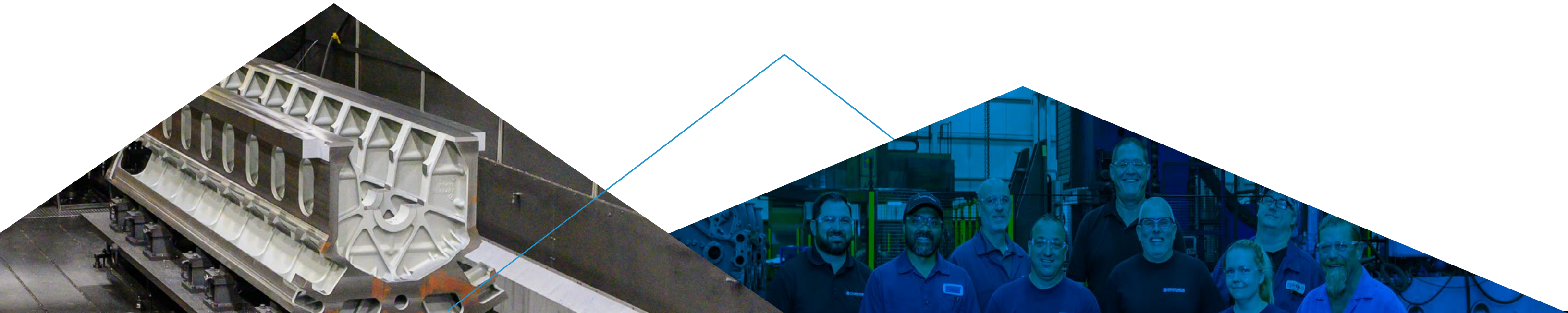
Many of our customers have sought and will likely continue to seek to take advantage of lower operating costs in Mexico, China, India, Southeast Asia, and other developing markets. We continue to investigate opportunities to expand our manufacturing sources, with a view to taking advantage of these lower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

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

The global automotive industry is cyclical and largely tied to general economic conditions. As our customers revisit their business models and make design changes to existing models and new vehicle introductions, the market for factory automation may decline. Management believes that their diversification strategy, focused on reducing reliance on the automotive industry, will help moderate the impact of potential declines.

CHANGES IN CONSUMER DEMAND FOR SPECIFIC VEHICLES INCLUDING ELECTRIC VEHICLES

The demand for electric vehicles remains volatile, with leading automakers adjusting production schedules in response to affordability constraints, supply chain pressures including battery raw materials, and infrastructure limitations. These adjustments are contributing to softer near-term order backlog, including programs with delayed launches. While only a portion of Reko's sales are tied directly to EV programs, prolonged softness in this segment could reduce vehicle production volumes, affect the financial health of Tier customers, and negatively impact the timing or margins of new contract awards. The Company is responding by monitoring EV program schedules with customers, adjusting product mix where possible, and seeking opportunities in non-EV growth sectors to balance demand risk.



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 are 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.

SHORTAGE OF SKILLED LABOUR IN THE MANUFACTURING SECTOR

The manufacturing sector is currently facing a significant shortage of skilled labour which has intensified competition for qualified workers, necessitating strategic investments in recruitment and retention efforts which have also adversely impacted the cost of labour. Reko is increasingly focused on upskilling, reskilling and other initiatives to bridge the skills gap and ensure that our operations remain efficient and competitive.

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.

ADOPTION OF ARTIFICIAL INTELLIGENCE (AI) AND RELATED RISKS

As the Company explores the integration of artificial intelligence ("AI") technologies into its operations, it recognizes the transformative potential of AI to drive efficiencies across key functions, including process optimization, data analytics, and operational decision-making. However, the implementation of AI may present several challenges, including data security and data inaccuracy which could impact decision-making and operational outcomes. Additionally, the speed of AI adoption, if slower than industry peers, could impact competitive position and overall operational efficiency.

The Company is committed to taking a responsible approach to AI adoption, ensuring that its implementation is both ethical and aligned with best practices for data integrity and security. By closely monitoring advancements in AI technology, the Company will adapt its strategy, as needed, to mitigate risks while maximizing the value derived from AI innovations.

FINANCIAL AND CAPITAL MANAGEMENT RISK

CHANGES TO TRADE POLICIES AND TARIFFS

The Company is exposed to risks associated with changes in trade policies, including the introduction or escalation of tariffs. As a significant portion of exports are directed to U.S. markets, such measures could reduce competitiveness through higher costs for customers or import restrictions. Canada has announced the removal of many tariffs on U.S. imports qualifying under the Canada–United States–Mexico Agreement ("CUSMA"), although tariffs on steel, aluminum, and automotive products remain in place. In addition, the scheduled CUSMA review in 2026 introduces further uncertainty that may affect customer investment decisions and supply chain dynamics. Management evaluates these developments on an ongoing basis and considers mitigation strategies to limit potential impacts on financial performance.

CONTINUED UNCERTAIN ECONOMIC CONDITIONS

Ongoing geopolitical tensions, including the conflicts in Ukraine and Gaza, could contribute to market disruptions, commodity price volatility, and supply chain challenges. While our primary markets and suppliers are North American-based, and we currently assess our direct exposure as minimal, the duration and broader economic impact of these conflicts remain uncertain. We continue to monitor the situation closely for potential risks.

PRICING PRESSURES AND PRESSURES TO ABSORB ADDITIONAL COSTS

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

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 and options, 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.

FINANCIAL COVENANTS AND ECONOMIC CONDITIONS

The Company is subject to financial covenants under its credit facilities, which are calculated on a trailing twelve-month basis. Adverse changes in general economic conditions, including economic slowdowns, inflationary pressures or continued political and trade policy uncertainty could negatively impact earnings, which may affect the Company's ability to maintain compliance with its financial covenants. A breach of covenants, if not cured or waived, could result in the acceleration of repayment obligations and have an adverse effect on the Company's liquidity and financial flexibility. Management actively monitors covenant compliance and believes the Company has adequate financial resources in place to mitigate this risk.

FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS

The Company’s operating results and cash flows are sensitive to movements in the Canadian dollar relative to the U.S. dollar, given the significant proportion of sales and costs denominated in U.S. currency. More specifically, between 60% and 70% of the Company’s sales and 20% of its costs are incurred in US dollars. In addition, the Company maintains certain working capital balances in US funds.

In order to manage a portion of this exposure, the Company enters into financial instruments such as forward contracts and structured foreign exchange options to hedge approximately 50% to 80% of its net exposure. Hedging decisions are based on existing customer contracts, current market conditions, and the Company’s past experience. The program is designed to mitigate currency movements over a three-to twelve-month period and is not used for trading or speculative purposes. Contracts are reviewed periodically.

The Company’s outstanding structured FX options have predetermined floor and ceiling rates. If the spot rate falls below the floor, the Company must sell the notional amount at the floor rate. If the spot rate exceeds the ceiling, the Company is required to deliver an additional notional amount at the ceiling rate. If the spot rate remains between the floor and ceiling, the option expires worthless, and the Company may transact at prevailing rates at its discretion.

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 Notes 3 and 5 to Reko’s audited consolidated financial statements, which are incorporated herein by reference

At July 31, the Company held the following foreign exchange contracts:

As at July 31, 2025								
	CURRENCY	NOTIONAL USD EQUIVALENT	FLOOR RATE	CEILING RATE	FORWARD RATE	CONTINGENT NOTIONAL USD	FAIR VALUE ASSET (LIABILITY)	MATURITY
OPTIONS	Sell USD / Buy CAD	\$1,625	1.3700	1.4000	NA	\$2,500	(\$18)	0 – 5 months

As at July 31, 2024								
	CURRENCY	NOTIONAL USD EQUIVALENT	FLOOR RATE	CEILING RATE	FORWARD RATE	CONTINGENT NOTIONAL USD	FAIR VALUE ASSET (LIABILITY)	MATURITY
OPTIONS	Sell USD / Buy CAD	\$3,000	1.3650	1.3925	NA	\$6,000	(\$43)	0 – 3 months

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			
	2025		2024		2025		2024	
	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE
US Dollar equals Canadian Dollar	1.3749	1.3550	1.3689	1.3390	1.3954	1.3506	1.3587	1.3498

At July 31, 2025, the Company held only structured foreign exchange options with strike prices between 1.3700 and 1.4000. At the year-end spot rate of 1.3844, these contracts were in-the-money resulting in a non-cash mark to market gain of \$25 compared to a loss of \$185 in the prior year.

A ten cent strengthening or weakening of the Canadian dollar relative to the U.S. dollar within this range would have resulted in an immaterial change in fair value and, therefore, an immaterial impact on pre-tax earnings.

NORMAL COURSE ISSUER BID

On January 5, 2024, the Company announced the approval of a normal course issuer bid to purchase up to 278,170 of its outstanding Common Shares on the TSX Venture Exchange during the twelve-month period which expired on January 8, 2025. A total of 47,100 shares were purchased under this bid, all of which was purchased during fiscal 2025.

On January 6, 2025, the Company announced the approval of another normal course issuer bid to purchase up to 276,066 of its outstanding Common Shares on the TSX Venture Exchange during the twelve-month period commenced on January 9, 2025, and ending on January 8, 2026. The 276,066 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. A total of 22,200 shares were purchased under this bid during the year ended July 31, 2025.

REKO INTERNATIONAL GROUP INC.

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