Reko International Group Inc.

Interim Condensed Consolidated Financial Statements

(unaudited)

For the six months ended January 31, 2024 and 2023

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Reko International Group Inc. for the three months and six months ended January 31, 2024 have been prepared by Management and approved by the Board of Directors on March 7, 2024. The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

REKO INTERNATIONAL GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(in 000's, except for per share amounts)

	January 31, 2024	July 31, 2023
ASSETS		
Current		
Cash	$ 5,545	$ 12,139
Accounts receivable	14,755	8,658
Non-hedging financial derivatives (Note 4)	54	143
Work-in-progress	10,370	10,230
Prepaid expenses and other current assets	1,107	1,186
	31,831	32,356
Capital assets (Note 5)	27,317	28,137
Deferred income taxes	2,410	2,295
	61,558	62,788
LIABILITIES		
Current		
Accounts payable and accrued liabilities	4,149	4,163
Unearned revenue on work-in-progress	273	655
Current portion of long-term debt and lease liabilities (Note 6)	1,497	1,448
Long-term debt subject to demand provisions (Note 6)	2,744	2,799
	8,663	9,065
Long-term debt and lease liabilities (Note 6)	7,241	7,816
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	16,235	16,436
Contributed surplus (Note 8)	804	1,270
Retained earnings	28,615	28,201
	45,654	45,907
	$ 61,558	$ 62,788

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

REKO INTERNATIONAL GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in 000's, except for per share amounts)

	Share capital	Contributed surplus	Retained earnings	Total equity
Balance at July 31, 2022	**$ 16,332**	**$ 1,769**	**$ 28,311**	**$ 46,412**
Net share-based transactions	(260)	65	--	(195)
Dividends	--	--	(1,432)	(1,432)
Net income	--	--	1,187	1,187
Balance at January 31, 2023	**$ 16,072**	**$ 1,834**	**$ 28,066**	**$ 45,972**
Balance at July 31, 2023	**$ 16,436**	**$ 1,270**	**$ 28,201**	**$ 45,907**
Net share-based transactions	(201)	(466)	--	**(667)**
Dividends	--	--	--	**--**
Net income	--	--	414	**414**
Balance at January 31, 2024	**$ 16,235**	**$ 804**	**$ 28,615**	**$ 45,654**

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

REKO INTERNATIONAL GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in 000's, except for per share amounts)

	For the three months ended		For the six months ended	
	January 31, 2024	**January 31, 2023**	**January 31, 2024**	**January 31, 2023**
Sales	**$ 11,948**	$ 11,666	**$ 25,651**	$ 25,462
Costs and expenses				
Cost of sales	**9,454**	8,463	**20,172**	19,061
Depreciation	**992**	976	**1,998**	1,947
	10,446	9,439	**22,170**	21,008
Gross profit	**1,502**	2,227	**3,481**	4,454
Selling and administrative	**1,453**	1,569	**2,993**	3,141
Income before the following items	**49**	658	**488**	1,313
Foreign exchange loss (gain)	**68**	176	**(71)**	(98)
Other (income) expense	**(42)**	(50)	**6**	(75)
Loss on sale of capital assets	**58**	--	**112**	--
Interest on long-term debt and leases	**120**	115	**244**	233
Interest income, net	**(38)**	(60)	**(102)**	(115)
	166	181	**189**	(55)
Income (loss) before income taxes	**(117)**	477	**299**	1,368
Deferred income tax (recovery) expense	**(219)**	(6)	**(115)**	181
Net income and comprehensive income	**$ 102**	$ 483	**$ 414**	$ 1,187
Earnings per common share (Note 9)				
Basic	**$ 0.02**	$ 0.08	**$ 0.07**	$ 0.21
Diluted	**$ 0.02**	$ 0.08	**$ 0.07**	$ 0.20

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

REKO INTERNATIONAL GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in 000's, except for per share amounts)

	For the six months ended January 31, 2024	For the six months ended January 31, 2023
OPERATING ACTIVITIES		
Net income for the period	**$ 414**	$ 1,187
Adjustments for:		
Depreciation	**1,998**	1,947
Income tax provision	**(115)**	181
Interest expense	**142**	118
Change in non-hedging financial derivatives	**89**	(75)
Unrealized foreign exchange loss	**146**	294
Share-based compensation	**18**	68
Loss on sale of capital assets	**112**	--
	2,804	3,720
Net change in non-cash working capital	**(6,554)**	(1,756)
Interest paid	**(142)**	(118)
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(3,892)**	1,846
FINANCING ACTIVITIES		
Payment of dividends	**--**	(1,432)
Cost of repurchase of capital stock	**(685)**	(263)
Repayments of long-term debt and lease liabilities	**(727)**	(667)
CASH USED IN FINANCING ACTIVITIES	**(1,412)**	(2,362)
INVESTING ACTIVITIES		
Investment in capital assets	**(1,701)**	(440)
Proceeds on sale of capital assets	**411**	--
CASH USED IN INVESTING ACTIVITIES	**(1,290)**	(440)
Net change in cash	**(6,594)**	(956)
Cash, beginning of period	**12,139**	14,023
Cash, end of period	**$ 5,545**	$ 13,067

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

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Reko International Group Inc. (the "Company" or "Reko") is a diversified, technology-driven manufacturing organization located in Southwestern Ontario with areas of expertise including robotic factory automation solutions and precision machining of large, critical parts. The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate or exist in the Province of Ontario in Canada and the State of Michigan in the United States.

Reko is listed on the TSX Venture Exchange under the symbol REKO. The Company's shares are traded in Canadian dollars. The registered head office is located at 469 Silver Creek Industrial Drive, Lakeshore, Ontario, Canada.

All amounts are in thousands and in Canadian dollars, unless otherwise noted.

Statement of compliance

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on March 7, 2024.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended July 31, 2023, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies adopted are consistent with the accounting policies and methods as those used in the Company's audited consolidated annual financial statements for the year ended July 31, 2023 except as noted below.

Basis of measurement

These unaudited interim 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

These unaudited interim consolidated financial statements represent the accounts of Reko and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when Reko has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany balances and transactions have been eliminated.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(in 000's, except for per share amounts)

Reko's subsidiaries are as follows:

Subsidiary	Location	Percentage ownership	Consolidation
Concorde Precision Machining Inc.	Ontario	100%	Full
Reko Automation Group Inc.	Ontario	100%	Full
Reko International Holdings Inc.	Michigan	100%	Full
Reko International Services Inc.	Michigan	100%	Full
Concorde USA LLC	Michigan	100%	Full

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.

Six months ended January 31, 2024		
	Revenues	**Capital assets**
Canada	**$ 25,645**	**$ 27,317**
United States	**6**	**--**
	$ 25,651	**$ 27,317**

Six months ended January 31, 2023		
	Revenues	Capital assets
Canada	$ 25,455	$ 27,517
United States	7	--
	$ 25,462	$ 27,517

3. FINANCIAL INSTRUMENTS

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

Fair Value

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

Accounts receivable, accounts payable and accrued liabilities

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

Fair value hierarchy

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

(in 000's, except for per share amounts)

- 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	January 31, 2024
Financial assets at FVTPL				
Cash	$ 5,545	$ --	$ --	$ 5,545
Non-hedging financial derivatives	--	54	--	54
	$ 5,545	**$ 54**	**$ --**	**$ 5,599**

	Level 1	Level 2	Level 3	July 31, 2023
Financial assets at FVTPL				
Cash	$ 12,139	$ --	$ --	$ 12,139
Non-hedging financial derivative	--	143	--	143
	$ 12,139	$ 143	$ --	$ 12,282

Non-hedging financial derivatives

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

Long-term debt

The Company's long-term debt of CDN $3,035 and USD $2,190 (currently valued at CDN $2,945) 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.

4. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. During the period, the Company had entered into foreign exchange forward contracts. As at January 31, 2024, the Company holds options to buy and sell USD with maturities ranging from 0-6 months and at various exercise prices. The mark to market value of those options is included below.

As at January 31, 2024	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value asset
Sell USD / Buy CAD forwards	**0 – 6 months**	**$ 3,054**	**1.3583**	**$ 3,000**	**$ 54**
As at July 31, 2023	**Maturity**	**Notional value**	**Average rate**	**Notional USD equivalent**	**Carrying & fair value asset**
Sell USD / Buy CAD forwards	0 – 6 months	$ 3,143	1.3550	$ 3,000	$ 143

(in 000's, except for per share amounts)

5. 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, 2022	$ 661	$ 14,591	$ 58,697	$ 844	$ 1,463	$ 76,256
Additions	--	328	246	--	2,863	3,437
Transfers	--	--	3,611	15	(3,626)	--
Disposals	--	--	(1,458)	--	--	(1,458)
Balance at July 31, 2023	**$ 661**	**$ 14,919**	**$ 61,096**	**$ 859**	**$ 700**	**$ 78,235**
Additions	--	3	-	--	1,698	1,701
Transfers	--	--	893	10	(903)	--
Disposals	--	--	(2,289)	--	--	(2,289)
Balance at January 31, 2024	**$ 661**	**$ 14,922**	**$ 59,700**	**$ 869**	**$ 1,495**	**$ 77,647**

	Land	Buildings	Machinery and equipment	Leasehold improvements	Equipment under construction	Total
Amortization and impairment losses						
Balance at July 31, 2022	$ --	$ 5,887	$ 40,879	$ 466	$ --	$ 47,232
Depreciation for the year	--	433	3,439	46	--	3,918
Disposals	--	--	(1,052)	--	--	(1,052)
Balance at July 31, 2023	**$ --**	**$ 6,320**	**$ 43,266**	**$ 512**	**$ --**	**$ 50,098**
Depreciation for the year	--	227	1,746	25	--	1,998
Disposals	--	--	(1,766)	--	--	(1,766)
Balance at January 31, 2024	**$ --**	**$ 6,547**	**$ 43,246**	**$ 537**	**$ --**	**$ 50,330**
Carrying value						
Balance at July 31, 2023	**$ 661**	**$ 8,599**	**$ 17,830**	**$ 347**	**$ 700**	**$ 28,137**
Balance at January 31, 2024	**$ 661**	**$ 8,375**	**$ 16,454**	**$ 332**	**$ 1,495**	**$ 27,317**

Included in the net book value of machinery and equipment are right of use assets of $5,341 (2023- $5,767).

(in 000's, except for per share amounts)

6. LONG-TERM DEBT AND LEASE LIABILITES

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

	January 31, 2024	July 31, 2023
Mortgage payable – 5.63% (July 31, 2023 – 5.63%), repayable $26 monthly including interest, due in full April 2026, secured by certain land and building and an assignment of rents on the subject property	**$ 3,035**	$ 3,104
Mortgage payable – 3.06% plus a credit spread (July 31, 2023 – 3.06%), which may vary over the life of facility to a maximum of 275, currently at 175 for an all-in rate of 5.00%, repayable USD $14 monthly plus interest, due in full August 2025, secured by certain land, buildings, and a general security agreement, subject to demand provisions	**2,945**	2,997
Equipment lease – 2.78%, repayable US $23 monthly including interest, due in full January 2027, and secured by the equipment	**1,044**	1,198
Equipment lease – 3.99%, repayable $19 USD monthly including interest, due in full April 2027, and secured by the equipment	**946**	1,068
Equipment lease – 5.23%, repayable $18 USD monthly including interest, due in full June 2029, and secured by the equipment	**1,248**	1,323
Equipment lease – 5.82%, repayable $30 USD monthly including interest, due in full June 2030, and secured by the equipment	**2,264**	2,373
	11,482	12,063
Deduct - unamortized finance fees	**--**	--
- principal portion included in current liabilities	**4,241**	4,247
Long-term portion	**$ 7,241**	$ 7,816

Notwithstanding the fact that certain facilities listed above are subject to demand provisions and are classified as current liabilities as a result, the Company expects to repay the principal over the entire scheduled term of the loans and these payments are outlined below. At January 31, 2024, $1,497 is due within the next twelve months under normal repayment terms and an additional $2,744 is not expected to be due in the next year but is subject to demand provisions.

Total credit facilities are as follows:

	Credit Facilities
Next 12 months	$ 1,497
2 years	4,097
3 years	3,945
4 years	651
5 years	1,176
Thereafter	116
Balance of obligation	$ 11,482

(in 000's, except for per share amounts)

7. SHARE CAPITAL

Share capital is comprised of:

	Authorized	Issued Shares	Amount
Class A preference shares	Unlimited	Nil	$ --
Class B preference shares	Unlimited	Nil	--
Common shares – no par value	Unlimited	5,563,413	$ 16,235

Share capital transactions during the period were as follows:

	January 31, 2024		July 31, 2023	
	Shares	**Amount**	Shares	Amount
Outstanding, beginning of period	**5,687,013**	**$ 16,436**	5,780,350	$ 16,332
Stock options exercised during the period	**31,700**	**157**	--	104
Repurchase of shares during the period	**(155,300)**	**(358)**	(93,337)	--
Outstanding, end of period	**5,563,413**	**$ 16,235**	5,687,013	$ 16,436

During the six-month period, the Company repurchased and cancelled 155,300 common shares under the normal course issuer bid for a net cost of $775.

The following table presents the maximum number of shares that would be outstanding if all the dilutive "in the money" instruments outstanding, as at January 31, 2024 were exercised:

Common shares outstanding at January 31, 2024	5,563,413
Stock options	200,500
	5,763,913

8. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	January 31, 2024	July 31, 2023
Balance, beginning of period	**$ 1,270**	$ 1,769
Amounts in respect of exercised stock options	**(67)**	(35)
Amounts in respect of the stock-based compensation	**18**	104
Amounts in respect of share repurchases	**(417)**	(568)
Balance, end of period	**$ 804**	$ 1,270

9. EARNINGS PER SHARE

The calculation of basic earnings per share at January 31, 2024 was based on the net profit attributable to common shareholders and a weighted average number of common shares outstanding as follows:

(in 000's, except for per share amounts)

	January 31, 2024	January 31, 2023
Basic earnings per share:		
Net income for the three-month period	**$ 102**	$ 483
Average number of common shares outstanding during the period	**5,591,346**	5,728,280
Basic earnings per share	**$ 0.02**	$ 0.08
Diluted earnings per share:		
Net income for the three-month period	**$ 102**	$ 483
Average number of common shares outstanding during the period	**5,591,346**	5,728,280
'In the money' stock options outstanding during the period	**200,500**	236,800
	5,791,846	5,965,080
Diluted earnings per share	**$ 0.02**	$ 0.08

	January 31, 2024	January 31, 2023
Basic earnings per share:		
Net income for the six-month period	**$ 414**	$ 1,187
Average number of common shares outstanding during the period	**5,625,563**	5,745,659
Basic earnings per share	**$ 0.07**	$ 0.21
Diluted earnings per share:		
Net income for the six-month period	**$ 414**	$ 1,187
Average number of common shares outstanding during the period	**5,625,563**	5,745,659
'In the money' stock options outstanding during the period	**200,500**	236,800
	5,826,063	5,982,459
Diluted earnings per share	**$ 0.07**	$ 0.20

10. 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 after grant and 40% in the third year after the grant. Options given to outside directors vest immediately and can be exercised immediately.

(in 000's, except for per share amounts)

As at January 31, 2024, the following options were outstanding:

Number of Options	Exercise price	Expiry
105,500	$ 2.80	2026
10,000	$ 4.59	2027
10,000	$ 4.90	2027
60,000	$ 4.65	2028
70,000	$ 4.80	2029

The weighted average of the options is as follows:

	January 31, 2024		January 31, 2023	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the period	**256,800**	**$ 3.41**	230,800	$ 3.12
Expired during the period	**(39,600)**	**$ 2.90**	--	--
Issued during the period	**70,000**	**$ 4.80**	70,000	$ 4.65
Exercised during the period	**(31,700)**	**$ 2.90**	(2,500)	$ 2.90
Cancelled during the period	--	--	(2,500)	$ 2.90
Outstanding at the end of the period	**255,500**	**$ 3.93**	295,800	$ 3.49
Exercisable at the end of the period	**200,500**	**$ 3.71**	236,800	$ 3.18

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:

	January 31, 2024	January 31, 2023
Expected life	5 years	5 years
Expected dividends	$ Nil	$ Nil
Expected volatility – based on a 60-month historical average	30.36%	31.27%
Risk free rate of return	1.63%	1.14%
Expected forfeiture rate	0%	0%
Total compensation cost recognized in income for stock-based employee compensation awards	$ 18	$ 68

11. 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 are entitled to receive up to a maximum of 2.5% of base salary. Company contributions under the plan will match 100% of the employee contributions. During the period, the Company expensed contributions of $39 to the defined contribution plan in Canada for all employees, including key management personnel. The above contribution plans are identical to the contribution plans provided to all Canadian employees of the Company.

(in 000's, except for per share amounts)

Key management personnel and directors compensation comprised of:

	January 31, 2024	January 31, 2023
Salaries and cash bonuses	**$ 587**	$ 456
Short-term employment benefits	**13**	11
Post-employment benefits	**9**	12
	$ 609	$ 478

Key management personnel and director transactions

Directors of the Company control 5.18% of the voting shares of the Company. Individuals related to a director own, directly or indirectly, 69.43% of the voting shares of the Company.