

RECO NORTHERN ALBERTA INC.
Financial Statements
September 30, 2016 and 2015
(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Reco Northern Alberta Inc. for the years ended September 30, 2016 and 2015 have been prepared by management in accordance with International Financial Reporting Standards.

The financial statements include some amounts that are based on management's best estimates and judgements and, in their opinion, present fairly the Company's financial position, results of operations and cash flows.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, that all transactions are authorized and duly recorded, and that financial records are properly maintained to facilitate the preparation of the financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Collins Barrow Edmonton LLP, an independent firm of chartered professional accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

"Hugh Zhen"
Signed
Hugh Zhen
President and Chief Executive Officer

"Quin Quang Sie"
Signed
Quin Quang Sie
Chief Financial Officer

January 27, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Reco Northern Alberta Inc.

We have audited the accompanying financial statements of Reco Northern Alberta Inc., which comprise the statements of financial position as at September 30, 2016 and September 30, 2015, and the statements of comprehensive loss, changes in equity and cash flows for the years ended September 30, 2016 and September 30, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Reco Northern Alberta Inc. as at September 30, 2016 and September 30, 2015, and its financial performance and its cash flows for the year ended September 30, 2016 and September 30, 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Edmonton, Alberta
January 27, 2017

Collins Barrow Edmonton LLP

Chartered Professional Accountants

RECO NORTHERN ALBERTA INC.Statements of Financial Position
September 30, 2016 and 2015
(Expressed in Canadian Dollars)

| | 2016 | 2015 |
|--|-----------------|-----------------|
| ASSETS | | |
| Intangible assets (Note 4) | <u>\$ 2,242</u> | <u>\$ 2,242</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 8,758 | \$ 6,750 |
| Amount due to related party (Note 5) | <u>12,425</u> | <u>---</u> |
| | <u>21,183</u> | <u>6,750</u> |
| SHAREHOLDERS' DEFICIENCY | | |
| Share capital (Note 6) | 2,242 | 2,242 |
| Deficit | <u>(21,183)</u> | <u>(6,750)</u> |
| | <u>(18,941)</u> | <u>(4,508)</u> |
| | <u>\$ 2,242</u> | <u>\$ 2,242</u> |

Approved on behalf of the Board

"Hugh Zhen"
Signed _____
Director"Quin Quang Sie"
Signed _____
Director*See accompanying notes to the financial statements*

RECO NORTHERN ALBERTA INC.

Statements of Comprehensive Loss

For the Years Ended September 30, 2016 and September 30, 2015

(Expressed in Canadian Dollars)

| | <u>2016</u> | <u>2015</u> |
|---|--------------------|-------------------|
| Revenue | <u>\$ ---</u> | <u>\$ ---</u> |
| Expenses | | |
| General and administrative | <u>14,433</u> | <u>3,765</u> |
| | <u>14,433</u> | <u>3,765</u> |
| Net loss and comprehensive loss | <u>\$ (14,433)</u> | <u>\$ (3,765)</u> |
| Net loss per common share - basic and diluted (Note 7) | <u>\$ (0.00)</u> | <u>\$ (0.00)</u> |

See accompanying notes to the financial statements

RECO NORTHERN ALBERTA INC.

Statements of Changes in Equity

For the Years Ended September 30, 2016 and September 30, 2015

(Expressed in Canadian Dollars)

| | <u>Shares</u> | <u>Amount</u> | <u>Deficit</u> | <u>Total</u> |
|--|-------------------|-----------------|--------------------|--------------------|
| Balance, September 30, 2014 | 100 | \$ 10 | \$ (2,985) | \$ (2,975) |
| Shares redeemed (Note 6) | (100) | (10) | --- | (10) |
| Shares issued on Plan of Arrangement (Note 6) | 25,635,635 | 2,242 | --- | 2,242 |
| Net loss | --- | --- | <u>(3,765)</u> | <u>(3,765)</u> |
| Balance, September 30, 2015 | 25,635,635 | 2,242 | (6,750) | (4,508) |
| Net loss | --- | --- | <u>(14,433)</u> | <u>(14,433)</u> |
| Balance, September 30, 2016 | <u>25,635,635</u> | <u>\$ 2,242</u> | <u>\$ (21,183)</u> | <u>\$ (18,941)</u> |

See accompanying notes to the financial statements

RECO NORTHERN ALBERTA INC.

Statements of Cash Flows

For the Years Ended September 30, 2016 and September 30, 2015

(Expressed in Canadian Dollars)

| | 2016 | 2015 |
|------------------------------------|----------------------|----------------------|
| Cash Provided by (Used in): | | |
| Operating Activities | | |
| Net loss | \$ (14,433) | \$ (3,765) |
| Item not involving cash: | | |
| General and administrative | <u>14,433</u> | <u>3,765</u> |
| | <u>---</u> | <u>---</u> |
| Increase (decrease) in cash | --- | --- |
| Cash, beginning of year | <u>---</u> | <u>---</u> |
| Cash, end of year | <u>\$ ---</u> | <u>\$ ---</u> |

See accompanying notes to the financial statements

RECO NORTHERN ALBERTA INC.

Notes to the Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

1. Reporting Entity and Going Concern

Reporting Entity

Reco Northern Alberta Inc. (the "Company") was incorporated under the Alberta Business Corporations Act on November 28, 2013 and is in the business of modular home building for the territory of Northern Alberta. The head office and principal address of the Company is #100, 2051 Viceroy Place, Richmond, British Columbia, V6V 1Y9.

Going Concern

The Company has not commenced commercial operations as at September 30, 2016. The Company's continuing operations are dependent upon its ability to fund its potential future operations and is dependent on the ability of the Company to obtain financing. These financial statements have been prepared in accordance with International Financial Reporting Standards applied on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business. There are material uncertainties that cast significant doubt on the validity of this assumption.

These financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenue and expenses, and the statement of financial position classifications that would be necessary if the going concern assumption were not appropriate.

2. Basis of Presentation

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The policies applied in these financial statements are based on IFRS issued and outstanding as of January 27, 2017, the date of the Board of Directors approval of the statements.

b) Basis of Measurement

The financial statements have been prepared on the historical cost basis.

c) Functional Currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

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

RECO NORTHERN ALBERTA INC.

Notes to the Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Basis of Presentation (Continued)

In preparing these financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation are as follows:

Intangible Assets

The valuation of intangible assets are based on management's best estimation of the future recoverability of the asset.

Income Taxes

The amounts recorded for deferred income taxes is based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on the probability of the Company being able to utilize the tax assets.

3. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of these financial statements:

Intangible assets

Intangible assets are stated at cost less accumulated amortization. Intangible assets with a definite life are amortized over their estimated lives using the straight line method, and are assessed for possible impairment whenever events or changes in circumstances indicate that impairment is possible. Intangible assets are amortized over their estimated useful lives at the following rates and methods:

| | |
|---------|-----------------------------------|
| License | straight-line method over 3 years |
|---------|-----------------------------------|

Income Taxes

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

RECO NORTHERN ALBERTA INC.

Notes to the Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Net Income (Loss) Per Common Share

Net income (loss) per share has been calculated using the weighted average number of common shares outstanding during the period. The Company assumes that common shares are issued for the exercise of options and that the assumed proceeds from the exercise of options are used to purchase common shares at the average market price during the period. The difference between the numbers of shares assumed issued and the number of shares assumed purchased is then added to the basic weighted average number of shares outstanding to determine the fully diluted number of common shares outstanding.

Financial Instruments

Classification and Measurement

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost” as defined in IAS 39, “Financial Instruments: Recognition and Measurement”.

Financial assets and financial liabilities at “fair value through profit or loss” are either classified as “held for trading” or “designated at fair value through profit or loss” and are measured at fair value with changes in fair value recognized in net loss. Transaction costs are expensed when incurred. The Company has no financial instrument designated in this category.

Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. “Held-to-maturity” financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. “Financial liabilities measured at amortized cost” are those financial liabilities that are not designated as “fair value through profit or loss” and that are not derivatives. The Company has designated accounts payable and accrued liabilities and amount due to related party as “financial liabilities measured at amortized cost”.

Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

RECO NORTHERN ALBERTA INC.

Notes to the Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Impairment of Financial Assets (Continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statements of comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statements comprehensive loss.

Impairment of Non-Financial Assets

Non-financial assets are reviewed whenever events or changes in circumstances suggest their carrying value may not be recoverable and at each reporting period. Management considers assets to be impaired if the carrying value exceeds the estimated recoverable amount. The recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money. If impairment is determined to exist, the loss is measured based on the amounts by which the assets carrying values exceed their fair values.

Future Accounting Pronouncements

IFRS 9 "Financial Instruments" ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective beginning October 1, 2018.

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services. IFRS 15 is effective beginning October 1, 2018.

RECO NORTHERN ALBERTA INC.

Notes to the Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

4. Intangible Assets

| | Cost | | | | | | |
|---------|----------------------------------|-----------|-------------------------------------|-----------|-----------|-------------------------------------|-------------------------------------|
| | Balance at October 1, 2014 | Additions | Balance at September 30, 2015 | Additions | Disposals | Balance at September 30, 2016 | |
| License | \$ --- | \$ 2,242 | \$ 2,242 | \$ --- | \$ --- | \$ 2,242 | |
| | Accumulated Depreciation | | | | | | |
| | Balance at October 1, 2014 | Additions | Balance at September 30, 2015 | Additions | Disposals | Balance at September 30, 2016 | |
| License | \$ --- | \$ --- | \$ --- | \$ --- | \$ --- | \$ --- | |
| | Net Book Value | | | | | | |
| | | | | | | Balance at September 30, 2015 | Balance at September 30, 2016 |
| License | | | | | | \$ 2,242 | \$ 2,242 |

The license to distribute modular homes was acquired from Reco International Group Inc., a commonly controlled company, and no amortization was recorded as the license has not been put into use.

5. Amount due to Related Party

The amount due to related party is unsecured, bears no interest and has no specific terms of repayment. The related party is related to the Company by reason of common control and has provided financing to the Company for working capital purposes.

6. Share Capital

Authorized:

Unlimited common voting shares

Issued and outstanding:

| | Number of Common Shares | Amount |
|--|-------------------------------|------------------------|
| September 30, 2014 | 100 | \$ 10 |
| Shares redeemed | (100) | (10) |
| Shares issued from Plan of Arrangement | <u>25,635,635</u> | <u>2,242</u> |
| September 30, 2015 | 25,635,635 | \$ 2,242 |
| No transactions | <u>---</u> | <u>---</u> |
| September 30, 2016 | <u>25,635,635</u> | <u>\$ 2,242</u> |

RECO NORTHERN ALBERTA INC.

Notes to the Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

6. Share Capital (Continued)

During 2015, the Company issued 25,635,635 shares as a result of the Plan of Arrangement. The Plan of Arrangement is among Reco International Group Inc. (Reco), Reco Central Alberta Inc., Reco Northern Alberta Inc., and Reco Southern Alberta Inc., for Reco to spin out the modular home building business (the "Assets") to the three subsidiaries. As a result of the Plan of Arrangement, the Company issued 25,635,635 common shares in exchange for the license to distribute modular homes in Northern Alberta which has a value of \$2,242. During the year, the Company also redeemed 100 common shares for \$10.

7. Net Loss Per Common Share

The basic net loss per common share is based on the weighted average number of common shares outstanding as at September 30, 2016 of 25,635,635 (September 30, 2015 -13,766,037). The diluted net loss per common share is calculated using the weighted average number of common shares of 25,635,635 (September 30, 2015 – 13,766,037) as there are no anti-dilutive shares.

8. Income Taxes

The income tax provision reported differs from the amount computed by applying the combined Canadian federal and provincial rate to income before income taxes. The reasons for the difference and the related tax effects are as follows:

| | <u>2016</u> | <u>2015</u> |
|---|---------------|---------------|
| Income (loss) before income taxes | \$ (14,433) | \$ (3,765) |
| Expected rate | <u>27.00%</u> | <u>25.50%</u> |
| Expected tax recovery | (3,897) | (960) |
| Tax effected adjustments: | | |
| Net effect of unrecognized (recognized) non-capital losses | 3,947 | 979 |
| Timing difference | <u>(50)</u> | <u>(19)</u> |
| Income tax expense | <u>\$ ---</u> | <u>\$ ---</u> |

The financial statements do not reflect potential tax reductions available through the application of losses carried forward against future years' earnings otherwise subject to income taxes. These losses amounting to \$14,887 may be carried forward and expire as follows:

| | |
|------|------------------|
| 2035 | \$ 268 |
| 2036 | <u>12,377</u> |
| | <u>\$ 12,645</u> |

RECO NORTHERN ALBERTA INC.

Notes to the Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

8. Income Taxes (Continued)

The Company has recognized a valuation allowance for those deferred tax assets for which it is not probable that realization will occur. Significant components of the Company's deferred tax assets as of September 30, 2016 are as follows:

| | <u>2016</u> | <u>2015</u> |
|--|----------------|---------------|
| Deferred Tax Assets | | |
| Tax basis of cumulative eligible capital | \$ 62 | \$ 249 |
| Loss carry forwards | <u>3,414</u> | <u>68</u> |
| | 3,476 | 317 |
| Valuation allowance | <u>(3,476)</u> | <u>(317)</u> |
| Net deferred income tax asset | <u>\$ ---</u> | <u>\$ ---</u> |

9. Financial Instruments

The Company's financial instruments consist of accounts payable and accrued liabilities and amount due to related party.

Financial risk management

The Company's activities are exposed to a variety of financial risks: interest rate risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is not exposed to any interest rate risk as there are no interest bearing financial instruments.

Liquidity risk

The Company's exposure to liquidity risk is dependent on purchasing commitments and obligations or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. As at September 30, 2016, the Company has a working capital deficiency of \$21,183 (September 30, 2015 - \$6,750).

RECO NORTHERN ALBERTA INC.

Notes to the Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

9. Financial Instruments (Continued)

Fair value

The fair value of accounts payable and accrued liabilities approximates its carrying amount due to their short term nature. The fair value of amount due to related party cannot be reliably determined due to its nature as it is non-interest bearing and has no terms of repayment.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not 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.

As at September 30, 2016, the Company had no amounts, classified as “fair value through profit or loss”.

10. Capital Management

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include sustaining continuing operations. The Company includes shareholders' deficiency of \$18,941 (September 30, 2015 - \$4,508) in the definition of capital.

In managing capital, the Company estimates its future cash requirements by preparing a budget. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities.

The Company's plan is to raise capital through the issuance of additional common shares, through its commercial activities and through obtaining financing. There are no assurances that funds will be made available to the Company when required.

The Company is not subject to externally imposed capital requirements.