

**RECO INTERNATIONAL GROUP INC.**  
(Unaudited)  
Interim Condensed Consolidated  
Financial Statements  
For the Nine Months Ended  
June 30, 2017  
(Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF  
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The Company's external auditors, Collins Barrow Edmonton LLP, have not performed a review of these interim condensed consolidated financial statements.

"Hugh Zhen"  
signed  
Hugh Zhen  
Chief Executive Officer

"Quin Quang Sie"  
signed  
Quin Quang Sie  
Chief Financial Officer

August 24, 2017

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

## Interim Condensed Consolidated Statement of Financial Position

June 30, 2017

(Expressed in Canadian Dollars)

	June 30, 2017	September 30, 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ ---	\$ 173,930
Accounts receivable (Note 4)	1,309,585	691,632
Prepaid expenses and other	<u>51,262</u>	<u>50,880</u>
	1,360,847	916,442
<b>Amounts receivable from related parties (Note 5)</b>	<b>76,701</b>	<b>37,284</b>
<b>Deposits</b>	<b>11,105</b>	<b>29,524</b>
<b>Equipment (Note 6)</b>	<b><u>355,777</u></b>	<b><u>149,072</u></b>
	<b><u>\$ 1,804,430</u></b>	<b><u>\$ 1,132,322</u></b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank indebtedness (Note 7)	\$ 28,053	\$ ---
Accounts payable and accrued liabilities (Note 8)	741,201	542,450
Amounts payable to related parties (Note 5)	443,206	468,809
Current portion of long-term debt (Note 9)	6,655	6,435
Deferred revenue	<u>539,545</u>	<u>261,048</u>
	1,758,660	1,278,742
<b>Long-term debt (Note 9)</b>	<b><u>13,620</u></b>	<b><u>18,639</u></b>
	1,772,280	1,297,381
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 10)</b>	<b>1,105,117</b>	<b>1,105,117</b>
<b>Share-based payment reserve</b>	<b>21,665</b>	<b>21,665</b>
<b>Deficit</b>	<b><u>(1,094,632)</u></b>	<b><u>(1,291,841)</u></b>
	<b><u>32,150</u></b>	<b><u>(165,059)</u></b>
	<b><u>\$ 1,804,430</u></b>	<b><u>\$ 1,132,322</u></b>

**Going Concern (Note 1)****Commitments (Note 15)**

Approved on behalf of the Board

"Hugh Zhen"

signed

Director

"Quin Quang Sie"

signed

Director

See accompanying notes to the interim condensed consolidated financial statements

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)

For the Nine Months Ended June 30, 2017

(Expressed in Canadian Dollars)

	<b>Three Months Ended June 30, 2017</b>	Three Months Ended June 30, 2016	<b>Nine Months Ended June 30, 2017</b>	Nine Months Ended June 30, 2016
<b>Revenue</b>	<b><u>\$ 1,140,050</u></b>	<u>\$ 1,096,523</u>	<b><u>\$ 3,769,730</u></b>	<u>\$ 3,099,429</u>
<b>Expenses</b>				
Subcontracts	413,732	494,256	1,629,878	1,418,004
Salaries and benefits	245,217	258,015	811,152	840,360
General and administrative	160,143	139,574	524,925	480,219
Materials and supplies	144,604	201,598	565,387	514,538
Depreciation	<u>16,208</u>	<u>11,725</u>	<u>41,179</u>	<u>35,175</u>
	<b><u>979,904</u></b>	<u>1,105,168</u>	<b><u>3,572,521</u></b>	<u>3,288,296</u>
<b>Net income (loss) and comprehensive income (loss)</b>	<b><u>\$ 160,146</u></b>	<u>\$ (8,645)</u>	<b><u>\$ 197,209</u></b>	<u>\$ (188,867)</u>
<b>Net income (loss) per common share - basic and diluted (Note 11)</b>	<b><u>\$ 0.01</u></b>	<u>\$ 0.00</u>	<b><u>\$ 0.01</u></b>	<u>\$ (0.01)</u>

*See accompanying notes to the interim condensed consolidated financial statements*

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Changes in Equity

For the Nine Months Ended June 30, 2017

(Expressed in Canadian Dollars)

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	<u>Shares</u>	<u>Amount</u>	<u>Share- Based Payment Reserve</u>	<u>Deficit</u>	<u>Total</u>
<b>Balance, October 1, 2016</b>	<b>25,635,635</b>	<b>\$ 1,105,117</b>	<b>\$ 21,665</b>	<b>\$(1,291,841)</b>	<b>\$ (165,059)</b>
<b>Net income</b>	<u>---</u>	<u>---</u>	<u>---</u>	<u>197,209</u>	<u>197,209</u>
<b>Balance, June 30, 2017</b>	<u><b>25,635,635</b></u>	<u><b>\$ 1,105,117</b></u>	<u><b>\$ 21,665</b></u>	<u><b>\$(1,094,632)</b></u>	<u><b>\$ 32,150</b></u>

  

	<u>Shares</u>	<u>Amount</u>	<u>Share- Based Payment Reserve</u>	<u>Deficit</u>	<u>Total</u>
<b>Balance, October 1, 2015</b>	25,635,635	\$ 1,105,117	\$ 21,665	\$(1,109,273)	\$ 17,509
<b>Net loss</b>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(188,867)</u>	<u>(188,867)</u>
<b>Balance, June 30, 2016</b>	<u>25,635,635</u>	<u>\$ 1,105,117</u>	<u>\$ 21,665</u>	<u>\$(1,298,140)</u>	<u>\$ (171,358)</u>

*See accompanying notes to the interim condensed consolidated financial statements*

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Cash Flows

For the Nine Months Ended June 30, 2017

(Expressed in Canadian Dollars)

	June 30, 2017	June 30, 2016
<b>Cash Provided by (Used in):</b>		
<b>Operating Activities</b>		
Net income (loss)	\$ 197,209	\$ (188,867)
Items not involving cash:		
Depreciation	41,179	35,175
Interest expenses on long-term debt	773	983
Net change in non-cash working capital balances (Note 12)	<u>(141,087)</u>	<u>33,352</u>
	<u>98,074</u>	<u>(119,357)</u>
<b>Investing Activities</b>		
Purchase of equipment	(247,884)	(6,489)
Advances to related parties	(39,417)	---
Deposits refunded	<u>18,419</u>	<u>---</u>
	<u>(268,882)</u>	<u>(6,489)</u>
<b>Financing Activities</b>		
Advances from related parties	---	139,180
Repayment of long-term debt	(4,799)	(4,589)
Interest on long-term debt	(773)	(983)
Repayment to related parties	<u>(25,603)</u>	<u>---</u>
	<u>(31,175)</u>	<u>133,608</u>
<b>Increase (decrease) in cash</b>	<b>(201,983)</b>	<b>7,762</b>
<b>Cash, beginning of period</b>	<b><u>173,930</u></b>	<b><u>193,573</u></b>
<b>Cash (bank indebtedness), end of period</b>	<b><u>\$ (28,053)</u></b>	<b><u>\$ 201,335</u></b>

*See accompanying notes to the interim condensed consolidated financial statements*

# **RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

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## **1. Reporting Entity**

Reco International Group Inc. (the "Company") was incorporated under the Alberta Business Corporations Act on October 12, 1999 and is in the business of commercial and residential construction and millwork operating in British Columbia.

The head office and principal address of the Company is #100, 2051 Viceroy Place, Richmond, British Columbia, V6V 1Y9.

These interim condensed consolidated financial statements were approved by the Board of Directors on August 24, 2017.

### **Going Concern**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are material uncertainties that may cast significant doubt on the validity of this assumption. At June 30, 2017, the Company had a working capital deficiency of \$397,813 and an accumulated deficit of \$1,094,632. The Company's ability to continue as a going concern is dependent on accessing additional funding and generating a profit from operations.

## **2. Basis of Presentation**

### **a) Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance and compliance with International Accounting Standard 34, ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly certain financial information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. The disclosure herein is incremental to the disclosure included in the annual financial statements. The interim condensed consolidated financial statement should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2016.

### **b) Basis of Measurement**

These interim condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments classified as "fair value through profit and loss".

### **c) Functional Currency**

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

## **RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

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### **2. Basis of Presentation (Continued)**

#### **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.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation were valuation of accounts receivable, estimated useful life of equipment for use in calculation of depreciation, measuring impairment of long-lived assets, recognition of deferred tax assets and estimating percentage of completion for revenue recognition.

#### **Accounts Receivable**

The valuation of accounts receivable is based on management's evaluation of collectability and a provision for doubtful accounts is recorded as necessary.

#### **Equipment**

The valuation of equipment is based on management's best estimate of the future recoverability of these assets. This is based on projected cash flows expected to be generated from the use of these assets over its estimated life. The amounts recorded for depreciation is based on management's best estimate of the useful lives of the assets.

#### **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.

#### **Revenue**

The percentage completion on a project is the basis that management uses to determine the recognition of revenue. Management's estimate is based on the costs incurred on the project in relation to total costs expected for the project. However, due to unforeseen changes in the nature or cost of the work to be completed, contract profit can differ significantly from earlier estimates.

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

### 3. Significant Accounting Policies

The accounting policies applied by the Company in these interim condensed consolidated financial statements are the same as those applied by the Company in its audited consolidated financial statements for the year ended September 30, 2016.

### 4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
Trade accounts receivable	\$ 1,305,671	\$ 688,876
Goods and Services Tax receivable	<u>3,914</u>	<u>2,756</u>
	<u>\$ 1,309,585</u>	<u>\$ 691,632</u>

### 5. Related Party Balances and Related Party Transactions

- a) The amounts receivable from related parties are non-interest bearing, unsecured and have no fixed terms of repayment. The related parties are related to the Company by reason of being under common control.
- b) Amounts payable to related parties consist of advances from directors and companies controlled by directors of the Company. Amounts are unsecured, bear no interest and have no specific terms of repayment.
- c) Key management includes senior executives of the Company. The compensation expense paid to key management for employee, consulting and management services are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Salaries and other short-term employee benefits	\$ 252,810	\$ 270,168

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

**6. Equipment**

	<b>Cost</b>						
	Balance at October 1, 2015			Balance at September 30, 2016			Balance at June 30, 2017
	Balance at October 1, 2015	Additions	Disposals	Balance at September 30, 2016	Additions	Disposals	Balance at June 30, 2017
Equipment	\$ 463,224	\$ 4,259	\$ (51,027)	\$ 416,456	\$ 245,199	\$ ---	\$ 661,655
Office furniture	81,926	3,748	---	85,674	107	---	85,781
Computer equipment	61,093	2,467	---	63,560	2,578	---	66,138
Vehicles	170,973	---	---	170,973	---	---	170,973
	<u>\$ 777,216</u>	<u>\$ 10,474</u>	<u>\$ (51,027)</u>	<u>\$ 736,663</u>	<u>\$ 247,884</u>	<u>\$ ---</u>	<u>\$ 984,547</u>

	<b>Accumulated Depreciation</b>						
	Balance at October 1, 2015			Balance at September 30, 2016			Balance at June 30, 2017
	Balance at October 1, 2015	Additions	Disposals	Balance at September 30, 2016	Additions	Disposals	Balance at June 30, 2017
Equipment	\$ 359,814	\$ 20,681	\$ (37,650)	\$ 342,845	\$ 25,927	\$ ---	\$ 368,772
Office furniture	77,640	847	---	78,487	1,078	---	79,565
Computer equipment	49,010	3,625	---	52,635	2,459	---	55,094
Vehicles	91,878	21,746	---	113,624	11,715	---	125,339
	<u>\$ 578,342</u>	<u>\$ 46,899</u>	<u>\$ (37,650)</u>	<u>\$ 587,591</u>	<u>\$ 41,179</u>	<u>\$ ---</u>	<u>\$ 628,770</u>

	<b>Net Book Value</b>	
	Balance at September 30, 2016	Balance at June 30, 2017
Equipment	\$ 73,611	\$ 292,883
Office furniture	7,187	6,216
Computer equipment	10,925	11,044
Vehicles	57,349	45,634
	<u>\$ 149,072</u>	<u>\$ 355,777</u>

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in Canadian Dollars)

### 7. Bank Indebtedness

The Company has available a line of credit of \$35,000 bearing interest at prime plus 3.5%, secured by a general security agreement and is due on demand. No amount has been drawn on the line of credit as at June 30, 2017. Bank indebtedness as at June 30, 2017 consists of cheques issued in excess of cash on hand.

### 8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following items:

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
Trade payables	\$ 624,925	\$ 431,868
Accrued liabilities	43,793	77,215
Goods and Services Tax payable	42,765	29,157
Other payables	<u>29,718</u>	<u>4,210</u>
	<u>\$ 741,201</u>	<u>\$ 542,450</u>

### 9. Long-term Debt

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
Vehicle loan with a rate of 4.49% per annum, payable in monthly instalments of \$619, including interest, maturing on May 30, 2020, secured by a vehicle with a net book value of \$33,116	\$ 20,275	\$ 25,074
Current portion	<u>(6,655)</u>	<u>(6,435)</u>
	<u>\$ 13,620</u>	<u>\$ 18,639</u>

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

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### 10. Share Capital

Authorized:

Unlimited common voting shares

Unlimited redeemable, retractable, non-voting preferred shares

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares and determine the designation, rights and privileges attached to each series of shares.

Issued and outstanding:

	Number of Common Shares	Amount
<b>June 30, 2017 and September 30, 2016</b>	<u><b>25,635,635</b></u>	<u><b>\$ 1,105,117</b></u>

#### Share-Based Compensation Plan

Under the Company's Share-based Compensation Plan, options to purchase common shares of the Company may be granted to directors, officers, key employees and consultants of the Company. These options entitle the holder to purchase one common share at a subscription price that shall not be less than that which may be acceptable to any stock exchange on which the Company's shares are traded. Options expire between two and five years after being issued or ninety days after an employee ceases employment with the Company. The Board of Directors has the discretion to extend the expiration period on cessation of employment.

The maximum number of common shares authorized for issuance by the Board of Directors under the plan is limited to 20% of the total issued and outstanding common shares of the Company.

The Company has no stock options outstanding as at June 30, 2017.

### 11. Net Income (Loss) Per Common Share

The basic net income (loss) per common share is based on the weighted average number of common shares outstanding as at June 30, 2017 of 25,635,635 (June 30, 2016 – 25,635,635). The diluted net income per common share is calculated using the weighted average number of common shares 25,635,635 (June 30, 2016 – 25,635,635) as there are no anti-dilutive shares.

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

### 12. Non-Cash Working Capital Balances

The net change in non-cash working capital balances consists of:

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
Accounts receivables	\$ (617,953)	\$ 319,542
Prepaid expenses	(382)	(5,699)
Accounts payable and accrued liabilities	198,751	(41,743)
Deferred revenue	<u>278,497</u>	<u>(238,748)</u>
	<u>\$ (141,087)</u>	<u>\$ 33,352</u>

### 13. Financial Instruments

The Company's financial instruments consist of accounts receivable, amounts receivable from related parties, bank indebtedness, accounts payable and accrued liabilities, amounts payable to related parties and long-term debt.

#### Financial risk management

The Company's activities are exposed to a variety of financial risks: interest rate risk, credit 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 exposed to interest rate risk arising from fluctuations in interest rates received on its cash. Management does not believe this risk is significant.

#### Credit risk

The Company's exposure to credit risk relates to accounts receivables and arises from the possibility that the third party does not satisfy its contractual obligations. The Company minimizes its exposure to credit risk through a program of credit evaluation of customers and obtaining deposits on all projects. The Company performs continuous evaluation of its accounts receivable and records an allowance for doubtful accounts as necessary.

#### Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, 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 June 30, 2017, the Company is in bank indebtedness position of \$28,053, accounts receivable of \$1,309,585 and had a working capital deficiency of \$397,813.

## **RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

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### **13. Financial Instruments (Continued)**

#### **Fair value**

The fair value of accounts receivables, bank indebtedness and accounts payable and accrued liabilities approximate its carrying amount due to the short term nature of the financial instrument. The fair value of amounts receivable from related parties and amounts payable to related parties cannot be reliably determined as they are non-interest bearing and have no terms of repayment. The fair value of the long-term debt approximates its carrying amount since there have been no changes in market interest rates.

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 June 30, 2017, the Company had only bank indebtedness, classified as “fair value through profit or loss”, measured at fair value – Level 1.

### **14. 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' equity of \$32,150 and amounts payable to related parties of \$443,206 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.

Historically, funding for the Company's plan was primarily managed 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.

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

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### 15. Commitments

The Company has a lease agreement for its present location which expires May 31, 2022. The remaining commitment on the lease excluding operating costs is as follows:

2017	\$	27,006
2018		108,025
2019		108,025
2020		109,267
2021		111,750
Thereafter		<u>74,500</u>
	\$	<u>538,573</u>