

**RECO INTERNATIONAL GROUP INC.**  
(Unaudited)  
Interim Condensed Consolidated  
Financial Statements  
For the Nine Months Ended  
June 30, 2018  
(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**  
President and Chief Executive Officer

"Quin Quang Sie"  
Signed

**Quin Quang Sie**  
Chief Financial Officer

August 24, 2018

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Financial Position

June 30, 2018

(Expressed in Canadian Dollars)

	June 30, 2018	September 30, 2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 432,722	\$ 491,263
Accounts receivable (Note 4)	517,871	773,888
Prepaid expenses and other	<u>32,893</u>	<u>55,928</u>
	983,486	1,321,079
<b>Amounts receivable from related parties</b> (Note 5)	111,267	80,905
<b>Deposits</b>	11,105	11,105
<b>Equipment</b> (Note 6)	<u>214,173</u>	<u>255,556</u>
	<u>\$ 1,320,031</u>	<u>\$ 1,668,645</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 276,334	\$ 729,517
Amounts payable to related parties (Note 5)	515,687	451,743
Current portion of long-term debt (Note 9)	6,960	6,730
Deferred revenue (Note 17)	<u>189,057</u>	<u>431,533</u>
	988,038	1,619,523
<b>Long-term debt</b> (Note 9)	<u>6,660</u>	<u>11,909</u>
	994,698	1,631,432
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 10)	1,105,117	1,105,117
<b>Share-based payment reserve</b>	21,665	21,665
<b>Deficit</b>	<u>(801,449)</u>	<u>(1,089,569)</u>
	<u>325,333</u>	<u>37,213</u>
	<u>\$ 1,320,031</u>	<u>\$ 1,668,645</u>

**Commitments** (Note 16)

Approved on behalf of the Board

"Hugh Zhen"

Signed

Director

"Quin Quang Sie"

Signed

Director

See accompanying notes to the consolidated financial statements

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Comprehensive Income

For the Nine Months Ended June 30, 2018

(Expressed in Canadian Dollars)

	<b>Three Months Ended June 30, 2018</b>	Three Months Ended June 30, 2017	<b>Nine Months Ended June 30, 2018</b>	Nine Months Ended June 30, 2017
<b>Revenue</b>	<b><u>\$ 680,024</u></b>	<u>\$ 1,140,050</u>	<b><u>\$ 2,432,665</u></b>	<u>\$ 3,769,730</u>
<b>Expenses</b>				
Salaries and benefits	<b>259,479</b>	245,217	<b>816,850</b>	811,152
General and administrative	<b>180,887</b>	160,143	<b>592,428</b>	524,925
Materials and supplies	<b>106,359</b>	144,604	<b>295,641</b>	565,387
Subcontracts	<b>80,496</b>	413,732	<b>398,016</b>	1,629,878
Depreciation	<b><u>13,870</u></b>	<u>16,208</u>	<b><u>41,610</u></b>	<u>41,179</u>
	<b><u>641,091</u></b>	<u>979,904</u>	<b><u>2,144,545</u></b>	<u>3,572,521</u>
<b>Net income and comprehensive income</b>	<b><u>\$ 38,933</u></b>	<u>\$ 160,146</u>	<b><u>\$ 288,120</u></b>	<u>\$ 197,209</u>
<b>Net income per common share - basic and diluted (Note 11)</b>	<b><u>\$ 0.00</u></b>	<u>\$ 0.01</u>	<b><u>\$ 0.01</u></b>	<u>\$ 0.01</u>

*See accompanying notes to the consolidated financial statements*

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Changes in Equity

For the Nine Months Ended June 30, 2018

(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, 2017</b>	<b>25,635,635</b>	<b>\$ 1,105,117</b>	<b>\$ 21,665</b>	<b>\$ (1,089,569)</b>	<b>\$ 37,213</b>
<b>Net income</b>	<u>---</u>	<u>---</u>	<u>---</u>	<u>288,120</u>	<u>288,120</u>
<b>Balance, June 30, 2018</b>	<b><u>25,635,635</u></b>	<b><u>\$ 1,105,117</u></b>	<b><u>\$ 21,665</u></b>	<b><u>\$ (801,449)</u></b>	<b><u>\$ 325,333</u></b>

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

*See accompanying notes to the consolidated financial statements*

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Cash Flows

For the Nine Months Ended June 30, 2018

(Expressed in Canadian Dollars)

	June 30, 2018	June 30, 2017
<b>Cash Provided by (Used in):</b>		
<b>Operating Activities</b>		
Net income	\$ 288,120	\$ 197,209
Items not involving cash:		
Depreciation	41,610	41,179
Interest expense on long-term debt	553	773
Net change in non-cash working capital balances (Note 12)	<u>(416,607)</u>	<u>(141,087)</u>
	<u>(86,324)</u>	<u>98,074</u>
<b>Investing Activities</b>		
Purchase of equipment	(227)	(247,884)
Advances to related parties	(30,362)	(39,417)
Deposits refunded	<u>---</u>	<u>18,419</u>
	<u>(30,589)</u>	<u>(268,882)</u>
<b>Financing Activities</b>		
Repayment of long-term debt	(5,019)	(4,799)
Interest on long-term debt	(553)	(773)
Advances from related parties	165,374	---
Repayment to related parties	<u>(101,430)</u>	<u>(25,603)</u>
	<u>58,372</u>	<u>(31,175)</u>
<b>Decrease in cash</b>	<b>(58,541)</b>	<b>(201,983)</b>
<b>Cash, beginning of period</b>	<u><b>491,263</b></u>	<u><b>173,930</b></u>
<b>Cash, end of period</b>	<u><u><b>\$ 432,722</b></u></u>	<u><u><b>\$ (28,053)</b></u></u>

*See accompanying notes to the consolidated financial statements*

# **RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2018

(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, 2018.

## **2. Basis of Presentation**

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

These interim condensed 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 consolidated 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, 2017.

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

These 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 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, 2018

(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 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, 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 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. The revenue recognized is based on the costs incurred on the project in relation to management's estimate of the 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.

### **3. Summary of 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, 2017.

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

**4. Accounts Receivable**

Accounts receivable is comprised of the following items:

	<u>June 30, 2018</u>	<u>September 30, 2017</u>
Trade accounts receivable	\$ 515,135	\$ 758,968
Goods and Services Tax receivable	<u>2,736</u>	<u>14,920</u>
	<u>\$ 517,871</u>	<u>\$ 773,888</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, 2018</u>	<u>June 30, 2017</u>
Salaries and other short-term employee benefits	\$ 257,765	\$ 142,560
Management fees	\$ 157,500	\$ 110,250

**6. Equipment**

	<u>Cost</u>						<u>Balance at June 30, 2018</u>
	<u>Balance at October 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at September 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	
Equipment	\$ 416,456	\$ 158,662	\$ ---	\$ 575,118	\$ 227	\$ ---	\$ 575,345
Office furniture	85,674	107	---	85,781	---	---	85,781
Computer equipment	63,560	5,101	---	68,661	---	---	68,661
Vehicles	<u>170,973</u>	<u>---</u>	<u>---</u>	<u>170,973</u>	<u>---</u>	<u>---</u>	<u>170,973</u>
	<u>\$ 736,663</u>	<u>\$ 163,870</u>	<u>\$ ---</u>	<u>\$ 900,533</u>	<u>\$ 227</u>	<u>\$ ---</u>	<u>\$ 900,760</u>

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

**6. Equipment (Continued)**

	<b>Accumulated Depreciation</b>						<b>Balance at June 30, 2018</b>
	Balance at October 1, 2016		Additions	Disposals	Balance at September 30, 2017		
Equipment	\$ 342,845	\$ 37,052	\$ ---	\$ 379,897	\$ 29,283	\$ ---	\$ 409,180
Office furniture	78,487	1,437	---	79,924	880	---	80,804
Computer equipment	52,635	3,278	---	55,913	2,876	---	58,789
Vehicles	113,624	15,619	---	129,243	8,571	---	137,814
	<u>\$ 587,591</u>	<u>\$ 57,386</u>	<u>\$ ---</u>	<u>\$ 644,977</u>	<u>\$ 41,610</u>	<u>\$ ---</u>	<u>\$ 686,587</u>

	<b>Net Book Value</b>	
	Balance at September 30, 2017	Balance at June 30, 2018
Equipment	\$ 195,221	\$ 166,165
Office furniture	5,857	4,977
Computer equipment	12,748	9,872
Vehicles	41,730	33,159
	<u>\$ 255,556</u>	<u>\$ 214,173</u>

**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, 2018.

**8. Accounts Payable and Accrued Liabilities**

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

	<b>June 30, 2018</b>	September 30, 2017
Trade payables	\$ 168,363	\$ 429,350
Accrued liabilities and payroll liabilities	64,390	253,691
Goods and Services Tax payable	27,904	32,409
Other payables	15,677	14,067
	<u>\$ 276,334</u>	<u>\$ 729,517</u>

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2018

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### 9. Long-term Debt

	<u>June 30, 2018</u>	<u>September 30, 2017</u>
Vehicle loan bearing interest 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 \$21,135	\$ 13,620	\$ 18,639
Current portion	<u>(6,960)</u>	<u>(6,730)</u>
	<u>\$ 6,660</u>	<u>\$ 11,909</u>

Future minimum payments are as follows:

2019	\$ 6,960
2020	<u>6,660</u>
	<u>\$ 13,620</u>

### 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:

	<u>Number of Common Shares</u>	<u>Amount</u>
June 30, 2018 and September 30, 2017	<u>25,635,635</u>	<u>\$ 1,105,117</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 terms and vesting period of each option is at the discretion of the Board of Directors.

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, 2018.

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

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### 11. Net Income Per Common Share

The basic net income per common share is based on the weighted average number of common shares outstanding as at June 30, 2018 of 25,635,635 (June 30, 2017 - 25,635,635). The diluted net income per common share is calculated using the weighted average number of common shares of 25,635,635 (June 30, 2017 - 25,635,635) as there are no anti-dilutive shares.

### 12. Non-Cash Working Capital Balances

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Accounts receivables	\$ 256,017	\$ (617,953)
Prepaid expenses	23,035	(382)
Accounts payable and accrued liabilities	(453,183)	198,751
Deferred revenue	<u>(242,476)</u>	<u>278,497</u>
	<u>\$ (416,607)</u>	<u>\$ (141,087)</u>

### 13. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, amounts receivable from related parties, 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 fair value risk arising from its fixed rate long-term debt. Management does not believe this risk is significant.

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

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### 13. Financial Instruments (Continued)

#### 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. As at June 30, 2018, the Company has \$ \$65,975 (September 30, 2017 - \$177,052) of accounts receivable that are past due (over 90 days). No accounts receivable at June 30, 2018 are impaired. As at June 30, 2018, approximately 87% (September 30, 2017 - 86%) is contract revenue receivable from two customers (September 30, 2017 - four customers).

Accounts receivable aging details:

	<u>June 30, 2018</u>	<u>September 30, 2017</u>
Current	\$ ---	\$ 91,862
1 to 30 days	<b>303,548</b>	370,780
31 to 60 days	<b>145,612</b>	9,342
61 to 90 days	---	109,932
Over 90 days	<b><u>65,975</u></b>	<u>177,052</u>
	<b><u>\$ 515,135</u></b>	<u>\$ 758,968</u>

#### 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, 2018, the Company was holding cash of \$432,722 (September 30, 2017 - \$491,263), accounts receivable of \$517,871 (September 30, 2017 - \$773,888) and had a working capital deficiency of \$4,552 (September 30, 2017 - \$298,444). The contractual maturity of the Company's liabilities of \$283,294 (September 30, 2017 - \$736,247) will be paid within one year and the amounts payable to related parties of \$515,687 (September 30, 2017 - \$451,743) have no terms of repayment.

#### Fair value

The fair value of cash, accounts receivables, amounts receivable from related parties, accounts payable and accrued liabilities and amounts payable to related parties approximate its carrying amount due to the short-term nature of the financial instrument. The fair value of the long-term debt approximates its carrying amount since its terms approximate market terms.

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;

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

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### 14. Financial Instruments (Continued)

#### Fair value (Continued)

- 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, 2018, the Company had only cash, classified as “fair value through profit or loss”, measured at fair value – Level 1.

### 15. 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 \$325,333 (September 30, 2017 - \$37,213) and amounts payable to related parties of \$515,687 (September 30, 2017 - \$451,743) 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.

### 16. Commitments

- a) 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:

2018	\$	27,006
2019		108,025
2020		109,267
2021		111,750
2022		<u>74,500</u>
Total	\$	<u>430,548</u>

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

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### 17. Contracts in Progress

The Company has two construction contracts (September 30, 2017 - five construction contracts) in progress and the following is financial information for these contracts in progress:

	<b>June 30, 2018</b>	September 30, 2017
Advances received	\$ 189,057	\$ 431,533
Contract revenue recognized in revenue	\$ 59,438	\$ 837,846
Contract costs incurred	\$ 22,283	\$ 404,731