

RECO INTERNATIONAL GROUP INC.
Consolidated Financial Statements
September 30, 2017 and 2016
(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Reco International Group Inc. for the years ended September 30, 2017 and 2016 have been prepared by management in accordance with International Financial Reporting Standards.

The consolidated 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 consolidated 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 consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated 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 consolidated 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 29, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Reco International Group Inc.

We have audited the accompanying consolidated financial statements of Reco International Group Inc. and its subsidiaries, which comprise the consolidated balance sheets as at September 30, 2017 and September 30, 2016, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended September 30, 2017 and September 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

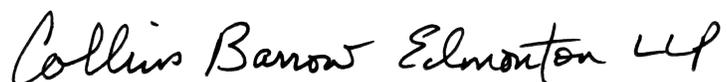
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Reco International Group Inc. and its subsidiaries as at September 30, 2017 and September 30, 2016, and its financial performance and its cash flows for the years ended September 30, 2017 and September 30, 2016 in accordance with International Financial Reporting Standards.

Edmonton, Alberta
January 29, 2018

Chartered Professional Accountants

RECO INTERNATIONAL GROUP INC.

Consolidated Balance Sheets

September 30, 2017 and 2016

(Expressed in Canadian Dollars)

	2017	2016
ASSETS		
Current Assets		
Cash	\$ 491,263	\$ 173,930
Accounts receivable (Note 4)	773,888	691,632
Prepaid expenses and other	<u>55,928</u>	<u>50,880</u>
	1,321,079	916,442
Amounts receivable from related parties (Note 5)	80,905	37,284
Deposits	11,105	29,524
Equipment (Note 6)	<u>255,556</u>	<u>149,072</u>
	<u>\$ 1,668,645</u>	<u>\$ 1,132,322</u>
 LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 729,517	\$ 542,450
Amounts payable to related parties (Note 5)	451,743	468,809
Current portion of long-term debt (Note 9)	6,730	6,435
Deferred revenue (Note 17)	<u>431,533</u>	<u>261,048</u>
	1,619,523	1,278,742
Long-term debt (Note 9)	<u>11,909</u>	<u>18,639</u>
	1,631,432	1,297,381
 SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	1,105,117	1,105,117
Share-based payment reserve	21,665	21,665
Deficit	<u>(1,089,569)</u>	<u>(1,291,841)</u>
	<u>37,213</u>	<u>(165,059)</u>
	<u>\$ 1,668,645</u>	<u>\$ 1,132,322</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.

Consolidated Statements of Operations and Comprehensive Income (Loss)

For the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

	2017	2016
Revenue	<u>\$ 5,103,132</u>	<u>\$ 4,064,724</u>
Expenses		
Subcontracts	1,990,729	1,681,360
Salaries and benefits	1,244,036	1,104,175
General and administrative	821,809	659,761
Materials and supplies	786,900	748,720
Depreciation (Note 6)	<u>57,386</u>	<u>46,899</u>
	<u>4,900,860</u>	<u>4,240,915</u>
Income (loss) before other expenses	202,272	(176,191)
Other expenses		
Loss on disposal of equipment	<u>---</u>	<u>(6,377)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ 202,272</u>	<u>\$ (182,568)</u>
Net income (loss) per common share	<u>\$ 0.01</u>	<u>\$ (0.01)</u>
- basic and diluted (Note 11)		

See accompanying notes to the consolidated financial statements

RECO INTERNATIONAL GROUP INC.

Consolidated Statements of Changes in Equity
For the Years Ended September 30, 2017 and 2016
(Expressed in Canadian Dollars)

	Share Capital		Share-Based Payment Reserve	Deficit	Total
	Shares	Amount			
Balance, September 30, 2015	25,635,635	\$ 1,105,117	\$ 21,665	\$(1,109,273)	\$ 17,509
Net loss	---	---	---	(182,568)	(182,568)
Balance, September 30, 2016	25,635,635	1,105,117	21,665	(1,291,841)	(165,059)
Net income	---	---	---	202,272	202,272
Balance, September 30, 2017	<u>25,635,635</u>	<u>\$ 1,105,117</u>	<u>\$ 21,665</u>	<u>\$(1,089,569)</u>	<u>\$ 37,213</u>

See accompanying notes to the consolidated financial statements

RECO INTERNATIONAL GROUP INC.
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
Cash Provided by (Used in):		
Operating Activities		
Net income (loss)	\$ 202,272	\$ (182,568)
Items not involving cash:		
Depreciation	57,386	46,899
Loss on disposal of equipment	---	6,377
Interest expenses on long-term debt	995	1,277
Net change in non-cash working capital balances (Note 12)	<u>270,248</u>	<u>2,032</u>
	<u>530,901</u>	<u>(125,983)</u>
Investing Activities		
Deposits	18,419	(15,581)
Purchase of equipment	(163,870)	(10,474)
Advances to related parties	(43,621)	(37,284)
Proceeds from disposal of equipment	<u>---</u>	<u>7,000</u>
	<u>(189,072)</u>	<u>(56,339)</u>
Financing Activities		
Advances from related parties	213,050	588,809
Repayment to related parties	(230,116)	(418,700)
Repayment of long-term debt	(6,435)	(6,153)
Interest on long-term debt	<u>(995)</u>	<u>(1,277)</u>
	<u>(24,496)</u>	<u>162,679</u>
Increase (decrease) in cash	317,333	(19,643)
Cash, beginning of year	<u>173,930</u>	<u>193,573</u>
Cash, end of year	<u>\$ 491,263</u>	<u>\$ 173,930</u>

See accompanying notes to the consolidated financial statements

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2017 and 2016
(Expressed in Canadian Dollars)

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.

2. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of January 29, 2018, the date of the Board of Directors approval of the statements.

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.

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 INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2017 and 2016
(Expressed in Canadian Dollars)

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

d) Use of Estimates (Continued)

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

Principles of Consolidation

The consolidated financial statements consist of Reco International Group Inc. and its wholly owned subsidiaries, Reco Decoration Group Inc. and Z & Z Holdings Ltd. All intercompany balances and transactions have been eliminated on consolidation.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
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3. **Summary of Significant Accounting Policies** (Continued)

Revenue Recognition

Revenue related to construction projects is recognized on a percentage of completion basis, which is based on the proportion of contract costs incurred for work performed to the reporting date relative to the estimated total contract costs. Contract costs include all direct materials, subcontractors' costs and direct labour costs. When payments are received from customers in advance of the completion of a construction project or the determined stage of completion of a project, the amounts are recorded as deferred revenue.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately as an expense.

Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the declining balance basis at the following annual rates commencing on the date the equipment is available for use:

Equipment	- 20%
Office furniture	- 20%
Computer equipment	- 30%
Vehicles	- 20% - 30%

Income Taxes

Income tax expense consists of 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 INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
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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 number 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 the statement of operations. Transaction costs are expensed when incurred. The Company has designated cash as “fair value through profit or loss”.

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 receivable and amounts receivable from related parties as “loans and receivables” and accounts payable and accrued liabilities, amounts payable to related parties and long-term debt as “financial liabilities measured at amortized cost”.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
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3. Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets

A financial asset that is not at fair value through profit or loss 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.

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 statement of operations and comprehensive income (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 statement of operations and comprehensive income (loss).

Impairment of Non-financial Assets

Non-financial assets comprising of equipment, are assessed whenever events or changes in circumstances suggest their carrying value may not be recoverable and at the end of 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 of disposal. 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.

Impairment losses may be reversed, in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized in profit or loss.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Share-based Payments

The Company uses the Black-Scholes option pricing model to fair value options granted during the year to directors, officers and employees. The estimated fair value of options on the date of grant is recognized as compensation expense over the vesting period. The number of expected forfeitures is estimated at the grant date and adjustments for actual forfeitures are made as they occur.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian Dollars)

3. **Summary of Significant Accounting Policies** (Continued)

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 for the Company’s fiscal year beginning October 1, 2018. The Company is currently assessing the impact of this standard on its consolidated financial statements.

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 for the Company’s fiscal year beginning October 1, 2018. The Company is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 16 Leases was issued by the IASB in January 2016. The new standard replaces IAS 17 Leases and requires lessees to recognize all leases on the balance sheet. IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. Earlier application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 is effective for the Company’s fiscal year beginning October 1, 2019. The Company is currently assessing the impact of this standard on its consolidated financial statements.

IAS 7 Statement of Cash Flows was amended by the IASB in January 2016. Amendments will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Amendments are effective for the Company’s fiscal year beginning October 1, 2017. The Company is currently assessing the impact of this standard on its consolidated financial statements.

RECO INTERNATIONAL GROUP INC.
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(Expressed in Canadian Dollars)

4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>2017</u>	<u>2016</u>
Trade accounts receivable	\$ 758,968	\$ 688,876
Goods and Services Tax receivable	<u>14,920</u>	<u>2,756</u>
	<u>\$ 773,888</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>2017</u>	<u>2016</u>
Salaries and other short-term employee benefits	\$ 221,580	\$ 205,938
Management fees	<u>194,250</u>	<u>147,000</u>

6. Equipment

	<u>Cost</u>						<u>Balance at September 30, 2017</u>
	<u>Balance at September 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at September 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	
Equipment	\$ 463,224	\$ 4,259	\$ (51,027)	\$ 416,456	\$ 158,662	\$ ---	\$ 575,118
Office furniture	81,926	3,748	---	85,674	107	---	85,781
Computer equipment	61,093	2,467	---	63,560	5,101	---	68,661
Vehicles	<u>170,973</u>	<u>---</u>	<u>---</u>	<u>170,973</u>	<u>---</u>	<u>---</u>	<u>170,973</u>
	<u>\$ 777,216</u>	<u>\$ 10,474</u>	<u>\$ (51,027)</u>	<u>\$ 736,663</u>	<u>\$ 163,870</u>	<u>\$ ---</u>	<u>\$ 900,533</u>

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Notes to the Consolidated Financial Statements
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(Expressed in Canadian Dollars)

6. **Equipment** (Continued)

	Accumulated Depreciation						Balance at September 30, 2017
	Balance at September 30, 2015	Additions	Disposals	Balance at September 30, 2016	Additions	Disposals	
Equipment	\$ 359,814	\$ 20,681	\$ (37,650)	\$ 342,845	\$ 37,052	\$ ---	\$ 379,897
Office furniture	77,640	847	---	78,487	1,437	---	79,924
Computer equipment	49,010	3,625	---	52,635	3,278	---	55,913
Vehicles	91,878	21,746	---	113,624	15,619	---	129,243
	<u>\$ 578,342</u>	<u>\$ 46,899</u>	<u>\$ (37,650)</u>	<u>\$ 587,591</u>	<u>\$ 57,386</u>	<u>\$ ---</u>	<u>\$ 644,977</u>

	Net Book Value	
	Balance at September 30, 2016	Balance at September 30, 2017
Equipment	\$ 73,611	\$ 195,221
Office furniture	7,187	5,857
Computer equipment	10,925	12,748
Vehicles	57,349	41,730
	<u>\$ 149,072</u>	<u>\$ 255,556</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 September 30, 2017 and 2016.

8. **Accounts Payable and Accrued Liabilities**

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

	2017	2016
Trade payables	\$ 429,352	\$ 431,868
Accrued liabilities	253,691	77,215
Goods and Services Tax payable	32,409	29,157
Other payables	14,067	4,210
	<u>\$ 729,517</u>	<u>\$ 542,450</u>

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9. **Long-term Debt**

	<u>2017</u>	<u>2016</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 \$27,272	\$ 18,639	\$ 25,074
Current portion	<u>(6,730)</u>	<u>(6,435)</u>
	<u>\$ 11,909</u>	<u>\$ 18,639</u>

Future minimum payments are as follows:

2018	6,730
2019	7,039
2020	<u>4,870</u>
	<u>\$ 18,639</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>
September 30, 2016 and 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 September 30, 2017 and 2016.

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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 September 30, 2017 of 25,635,635 (September 30, 2016 - 25,635,635). The diluted net income per common share is calculated using the weighted average number of common shares of 25,635,635 (September 30, 2016 – 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>2017</u>	<u>2016</u>
Accounts receivables	\$ (82,256)	\$ 163,449
Prepaid expenses	(5,048)	(16,487)
Accounts payable and accrued liabilities	187,067	(167,230)
Deferred revenue	<u>170,485</u>	<u>22,300</u>
	<u>\$ 270,248</u>	<u>\$ 2,032</u>

13. 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>2017</u>	<u>2016</u>
Income (loss) before income taxes	\$ 202,272	\$ (182,568)
Expected rate	<u>26.00%</u>	<u>26.00%</u>
Expected tax expense (recovery)	52,591	(47,468)
Tax effected adjustments:		
Deductible expense for tax in excess of depreciation	375	(996)
Net effect of unrecognized (recognized) non-capital losses	(57,588)	41,853
Expenses not deductible for tax	<u>4,622</u>	<u>6,611</u>
Income tax expense	<u>\$ ---</u>	<u>\$ ---</u>

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13. **Income Taxes** (Continued)

The consolidated 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 \$858,379 may be carried forward and expire as follows:

2027	\$	52,007
2028		70,075
2029		---
2030		---
2031		---
2032		95,615
2033		93,502
2034		239,295
2035		93,710
2036		125,176
2037		<u>88,999</u>
	\$	<u>858,379</u>

The Company has not recognized deferred tax assets for which it is not probable that realization will occur. Significant components of the Company's deferred tax assets are as follows:

	<u>2017</u>	<u>2016</u>
Deferred Tax Assets		
Excess of tax value over book value of assets	\$ (682)	\$ (2,022)
Tax basis of cumulative eligible capital	12,939	13,950
Loss carry forwards	<u>223,179</u>	<u>271,868</u>
	235,436	283,796
Valuation allowance	<u>(235,436)</u>	<u>(283,796)</u>
Net deferred income tax asset	<u>\$ ---</u>	<u>\$ ---</u>

14. **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.

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14. **Financial Instruments** (Continued)

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.

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 September 30, 2017, the Company has \$177,052 (2016 - \$138,816) of accounts receivable that are past due (over 90 days). No accounts receivable at September 30, 2017 are impaired. As at September 30, 2017, approximately 86% (2016 - 88%) is contract revenue receivable from four customers (2016 - two customers).

Accounts receivable aging details:

	<u>2017</u>	<u>2016</u>
Current	\$ 91,862	\$ 67,705
1 to 30 days	370,780	278,076
31 to 60 days	9,342	186,765
61 to 90 days	109,932	17,514
Over 90 days	<u>177,052</u>	<u>138,816</u>
	<u>\$ 758,968</u>	<u>\$ 688,876</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 September 30, 2017, the Company was holding cash of \$491,263 (2016 - \$173,930), accounts receivable of \$758,968 (2016 - \$688,876) and had a working capital deficiency of \$298,444 (2016 - \$362,300). The contractual maturity of the Company's liabilities of \$736,247 (2016 - \$548,885) will be paid within one year and the amounts payable to related parties of \$451,743 (2016 - \$468,809) 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;

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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 September 30, 2017 and 2016, 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 \$37,213 (2016 – shareholders' deficiency of \$165,059) and amounts payable to related parties of \$451,743 (2016 - \$468,809) 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	108,025
2019	108,025
2020	109,267
2021	111,750
2022	<u>74,500</u>
Total	<u>\$ 511,567</u>

- b) The Company has signed consulting and management contracts with companies that are controlled by directors of the Company to provide services from January 1, 2017 to December 31, 2017 for \$210,000 per annum.

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17. Contracts in Progress

The Company has two construction contracts (2016 – nine construction contracts) in progress and the following is financial information for these contracts in progress:

	<u>2017</u>	<u>2016</u>
Advances received	\$ 431,533	\$ 261,048
Contract revenue recognized in revenue	\$ 837,846	\$ 1,991,463
Contract costs incurred	\$ 404,731	\$ 1,419,943