

RECO INTERNATIONAL GROUP INC.
(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the Nine Months Ended
June 30, 2020
(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, RSM Alberta LLP, have not performed a review of these interim condensed consolidated financial statements.

Hugh Zhen
President and Chief Executive Officer

Quin Quang Sie
Chief Financial Officer

August 28, 2020

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statement of Financial Position

June 30, 2020

(Expressed in Canadian Dollars)

	June 30, 2020	September 30, 2019
ASSETS		
Current Assets		
Cash	\$ 16,294	\$ 138,730
Accounts receivable (Note 4)	1,135,396	918,907
Income taxes receivable	14,586	14,586
Prepaid expenses and other	<u>37,974</u>	<u>37,974</u>
	1,204,250	1,110,197
Deposits	11,600	11,600
Equipment (Note 6)	134,284	158,502
Right of use asset	<u>199,752</u>	<u>---</u>
	<u>\$ 1,549,886</u>	<u>\$ 1,280,299</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	841,356	372,957
Amounts payable to related parties (Note 5)	751,093	596,630
Current portion of long-term debt (Note 9)	---	4,870
Current portion of lease obligation	104,688	---
Contract liabilities	<u>---</u>	<u>94,400</u>
	1,697,137	1,068,857
Lease obligation	<u>100,175</u>	<u>---</u>
	1,797,312	1,068,857
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	1,105,117	1,105,117
Share-based payment reserve	208,935	208,935
Deficit	<u>(1,561,478)</u>	<u>(1,102,610)</u>
	<u>(247,426)</u>	<u>211,442</u>
	<u>\$ 1,549,886</u>	<u>\$ 1,280,299</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, 2020

(Expressed in Canadian Dollars)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019
Revenue	<u>\$ 1,215,711</u>	<u>\$ 350,671</u>	<u>\$ 3,000,894</u>	<u>\$ 1,748,915</u>
Expenses				
Subcontracts	700,929	78,748	2,010,306	305,228
Salaries and benefits	209,953	268,726	661,497	823,319
General and administrative	116,703	149,265	386,186	523,191
Materials and supplies	86,978	59,257	298,039	182,175
Depreciation	34,578	11,029	103,734	33,086
Share-based compensation	---	---	---	187,270
	<u>1,149,141</u>	<u>567,025</u>	<u>3,459,762</u>	<u>2,054,269</u>
Net income (loss) and comprehensive income (loss)	<u>\$ 66,570</u>	<u>\$ (216,354)</u>	<u>\$ (458,868)</u>	<u>\$ (305,354)</u>
Net income (loss) per common share - basic and diluted (Note 11)	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<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, 2020

(Expressed in Canadian Dollars)

	<u>Shares</u>	<u>Amount</u>	<u>Share- Based Payment Reserve</u>	<u>Deficit</u>	<u>Total</u>
Balance, October 1, 2019	25,635,635	\$ 1,105,117	\$ 208,935	\$(1,102,610)	\$ 211,442
Net loss	---	---	---	(458,868)	(458,868)
Balance, June 30, 2020	<u>25,635,635</u>	<u>\$ 1,105,117</u>	<u>\$ 208,935</u>	<u>\$(1,561,478)</u>	<u>\$ (247,426)</u>

	<u>Shares</u>	<u>Amount</u>	<u>Share- Based Payment Reserve</u>	<u>Deficit</u>	<u>Total</u>
Balance, October 1, 2018	25,635,635	\$ 1,105,117	\$ 21,665	\$ (799,275)	\$ 327,507
Share-based compensation	---	---	187,270	---	187,270
Net loss	---	---	---	(305,354)	(305,354)
Balance, June 30, 2019	<u>25,635,635</u>	<u>\$ 1,105,117</u>	<u>\$ 208,935</u>	<u>\$(1,104,629)</u>	<u>\$ 209,423</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, 2020

(Expressed in Canadian Dollars)

	June 30, 2020	June 30, 2019
Cash Provided by (Used in):		
Operating Activities		
Net loss	\$ (458,868)	\$ (305,354)
Items not involving cash:		
Depreciation	103,734	33,086
Share-based compensation	---	187,270
Interest expenses on long-term debt	8,360	266
Net change in non-cash working capital balances (Note 12)	<u>157,510</u>	<u>142,367</u>
	<u>(189,264)</u>	<u>57,635</u>
Investing Activities		
Purchase of equipment	(1,352)	(833)
Advances to related parties	<u>---</u>	<u>(21,958)</u>
	<u>(1,352)</u>	<u>(22,791)</u>
Financing Activities		
Repayments to related parties	---	(14,828)
Repayment of long-term debt and lease obligation	(77,922)	(4,657)
Advances from related parties	154,462	6,313
Interest on long-term debt	<u>(8,360)</u>	<u>(266)</u>
	<u>68,180</u>	<u>(13,438)</u>
Increase in cash	(122,436)	21,406
Cash, beginning of period	<u>138,730</u>	<u>135,676</u>
Cash, end of period	<u>\$ 16,294</u>	<u>\$ 157,082</u>

See accompanying notes to the consolidated financial statements

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2020

(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.

These interim condensed consolidated financial statements were approved by the Board of Directors on August 28 2020.

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, 2019.

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, 2020

(Expressed in Canadian Dollars)

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.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

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, 2019, except for the adoption of IFRS 16 Leases standard effective October 1, 2019.

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. IFRS 16 is effective for the Company's fiscal year beginning October 1, 2019. The adoption of IFRS 16 resulted in a right of use asset and lease obligation of \$277,915 recognized at October 1, 2019.

4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>June 30, 2020</u>	<u>September 30, 2019</u>
Trade accounts receivable	\$ 1,128,641	\$ 916,437
Goods and Services Tax receivable	<u>6,755</u>	<u>2,470</u>
	<u>\$ 1,135,396</u>	<u>\$ 918,907</u>

5. Related Party Balances and Related Party Transactions

- a) 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.
- b) 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, 2020</u>	<u>June 30, 2019</u>
Salaries and other short-term employee benefits	\$ 174,960	\$ 224,740
Management fees	\$ 157,500	\$ 157,700

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

6. Equipment

	Cost						Balance at June 30, 2020
	Balance at October 1, 2018		Balance at September 30, 2019		Balance at September 30, 2019		
	Additions	Disposals	Additions	Disposals	Additions	Disposals	
Equipment	\$ 575,118	\$ ---	\$ ---	\$ 575,118	\$ ---	\$ ---	\$ 575,118
Office furniture	85,781	---	---	85,781	---	---	85,781
Computer equipment	70,503	833	---	71,336	1,352	---	72,688
Vehicles	170,973	---	---	170,973	---	---	170,973
	<u>\$ 902,375</u>	<u>\$ 833</u>	<u>\$ ---</u>	<u>\$ 903,208</u>	<u>\$ 1,352</u>	<u>\$ ---</u>	<u>\$ 904,560</u>

	Accumulated Depreciation						Balance at June 30, 2020
	Balance at October 1, 2018		Balance at September 30, 2019		Balance at September 30, 2019		
	Additions	Disposals	Additions	Disposals	Additions	Disposals	
Equipment	\$ 418,942	\$ 31,235	\$ ---	\$ 450,177	\$ 18,741	\$ ---	\$ 468,918
Office furniture	81,094	938	---	82,032	563	---	82,595
Computer equipment	59,883	3,867	---	63,750	1,875	---	65,625
Vehicles	140,671	8,076	---	148,747	4,391	---	153,138
	<u>\$ 700,590</u>	<u>\$ 44,116</u>	<u>\$ ---</u>	<u>\$ 744,706</u>	<u>\$ 25,570</u>	<u>\$ ---</u>	<u>\$ 770,276</u>

	Net Book Value	
	Balance at September 30, 2019	Balance at June 30, 2020
Equipment	\$ 124,941	\$ 106,200
Office furniture	3,749	3,186
Computer equipment	7,586	7,063
Vehicles	22,226	17,835
	<u>\$ 158,502</u>	<u>\$ 134,284</u>

7. Bank Indebtedness

The Company has available a line of credit of \$100,000 bearing interest at prime plus 3.5%, secured by a general security agreement and is due on demand.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

8. Accounts Payable and Accrued Liabilities

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

	<u>June 30, 2020</u>	<u>September 30, 2019</u>
Trade payables	\$ 706,131	\$ 230,072
Accrued liabilities	91,802	113,382
Goods and Services Tax payable	25,059	29,503
Other payables	<u>18,364</u>	<u>---</u>
	<u>\$ 841,356</u>	<u>\$ 372,957</u>

9. Long-term Debt

	<u>June 30, 2020</u>	<u>September 30, 2019</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 \$11,359.	\$ ---	\$ 4,870
Current portion	<u>---</u>	<u>(4,870)</u>
	<u>\$ ---</u>	<u>\$ ---</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, 2020 and September 30, 2019	<u>25,635,635</u>	<u>\$ 1,105,117</u>

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

10. Share Capital (Continued)

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.

There were no stock options issued during the period ended June 30, 2020. The following table summarizes information on stock options outstanding and exercisable at June 30, 2020:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Weighted Average Contractual Life (years)</u>
\$ 0.05	5,100,000	5,100,000	3.43

11. 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 June 30, 2020 of 25,635,635 (June 30, 2019 - 25,635,635). The diluted net loss per common share is calculated using the weighted average number of common shares of 25,635,635 (June 30, 2019 – 25,635,635).

12. Non-Cash Working Capital Balances

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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Accounts receivables	\$ (216,489)	\$ 667,459
Prepaid expenses	---	4,980
Income taxes	---	(21,345)
Deferred revenue	(94,400)	(92,071)
Accounts payable and accrued liabilities	<u>468,399</u>	<u>(416,656)</u>
	<u>\$ 157,510</u>	<u>\$ 142,367</u>

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

13. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, 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.

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, 2020, the Company has \$101,837 (September 30, 2019 - \$165,431) of accounts receivable that are past due (over 90 days). No accounts receivable at June 30, 2020 are impaired. As at June 30, 2020, approximately 85% (September 30, 2019 - 74%) is contract revenue receivable from three customers (September 30, 2019 - three customers).

Accounts receivable aging details:

	<u>June 30, 2020</u>	<u>September 30, 2019</u>
Current	\$ 263,499	\$ 429,762
0 - 90 days	701,031	321,244
Over 90 days	<u>101,837</u>	<u>165,431</u>
	<u>\$ 1,066,367</u>	<u>\$ 916,437</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, 2020, the Company has a cash balance of \$16,294 (September 30, 2019 - cash of \$138,730), accounts receivable of \$1,066,367 (September 30, 2019 - \$916,437) and had a working capital deficit of \$492,887 (September 30, 2019 - working capital of \$41,340). The contractual maturity of the Company's liabilities of \$946,044 (September 30, 2019 - \$377,827) will be paid within one year and the amounts payable to related parties of \$751,093 (September 30, 2019 - \$596,630) have no terms of repayment.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

13. Financial Instruments (Continued)

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;
- 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, 2020 the Company had no financial instruments measured at fair value.

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' deficiency of \$(247,426) (September 30, 2019 – \$211,442) and amounts payable to related parties of \$751,093 (September 30, 2019 - \$596,630) 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

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:

2020	\$	27,938
2021		111,750
2022		<u>74,500</u>
Total	\$	<u>214,188</u>

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

17. COVID-19

On March 11, 2020, the World Health Organization assessed the coronavirus outbreak (COVID-19) as a pandemic. In Canada, the Government of Alberta declared a provincial state of public health emergency as per the Province of Alberta's Public Health Act on March 17, 2020 with respect to COVID-19. As of the date of these financial statements, the extent to which COVID-19 impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted and dependent upon new information which may emerge concerning the severity of COVID-19 and actions taken to contain this or its impact, among others.