

**RECO INTERNATIONAL GROUP INC.**  
(Unaudited)  
Interim Condensed Consolidated  
Financial Statements  
For the Nine Months Ended  
June 30, 2021  
(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"  
Signed  
**Hugh Zhen**  
President and Chief Executive Officer

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

August 30, 2021

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Financial Position

June 30, 2021

(Expressed in Canadian Dollars)

	June 30, 2021	September 30, 2020
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 5,216	\$ 133,071
Accounts receivable (Note 4)	288,748	786,565
Prepaid expenses and other	<u>37,120</u>	<u>37,120</u>
	331,084	965,756
<b>Deposits</b>	<b>11,600</b>	11,600
<b>Equipment</b> (Note 6)	<u>199,986</u>	<u>295,373</u>
	<u>\$ 542,670</u>	<u>\$ 1,236,729</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 403,853	\$ 549,636
Amounts payable to related parties (Note 5)	708,652	686,690
Current portion of lease obligation	<u>112,394</u>	<u>117,566</u>
	1,224,899	1,353,892
<b>Long-term debt</b> (Note 9)	<b>70,000</b>	60,000
<b>Lease obligation</b>	<u>---</u>	<u>82,345</u>
	1,294,899	1,496,237
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 10)	1,105,117	1,105,117
<b>Share-based payment reserve</b>	208,935	208,935
<b>Deficit</b>	<u>(2,066,281)</u>	<u>(1,546,560)</u>
	<u>(752,229)</u>	<u>(232,508)</u>
	<u>\$ 542,670</u>	<u>\$ 1,263,729</u>

**Reporting entity and 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 consolidated financial statements*

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Comprehensive Loss

For the Nine Months Ended June 31, 2021

(Expressed in Canadian Dollars)

	<b>Three Months Ended June 30, 2021</b>	Three Months Ended June 30, 2020	<b>Nine Months Ended June 30, 2021</b>	Nine Months Ended June 30, 2020
<b>Revenue</b>	<b><u>\$ 295,875</u></b>	<u>\$ 1,215,711</u>	<b><u>\$ 1,018,334</u></b>	<u>\$ 3,000,894</u>
<b>Expenses</b>				
Salaries and benefits	<b>219,677</b>	209,953	618,229	661,497
Materials and supplies	<b>174,501</b>	86,978	411,524	298,039
General and administrative	<b>57,656</b>	116,703	230,449	386,186
Subcontracts	<b>20,635</b>	700,929	181,033	2,010,306
Depreciation	<b><u>32,273</u></b>	<u>34,578</u>	<u>96,820</u>	<u>103,734</u>
	<b><u>504,742</u></b>	<u>1,149,141</u>	<b><u>1,538,055</u></b>	<u>3,459,762</u>
<b>Net income (loss) and comprehensive income (loss)</b>	<b><u>\$ 208,867</u></b>	<u>\$ 66,570</u>	<b><u>\$ (519,721)</u></b>	<u>\$ (458,868)</u>
<b>Net income (loss) per common share - basic and diluted (Note 11)</b>				

*See accompanying notes to the consolidated financial statements*

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended June 30, 2021

(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, 2020</b>	<b>25,635,635</b>	<b>\$ 1,105,117</b>	<b>\$ 208,935</b>	<b>\$(1,546,560)</b>	<b>\$ (232,508)</b>
<b>Net loss</b>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(519,721)</u>	<u>(519,721)</u>
<b>Balance, June 30, 2021</b>	<u><b>25,635,635</b></u>	<u><b>\$ 1,105,117</b></u>	<u><b>\$ 208,935</b></u>	<u><b>\$(2,066,281)</b></u>	<u><b>\$ (752,229)</b></u>

	<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	<u>---</u>	<u>---</u>	<u>---</u>	<u>(458,868)</u>	<u>(458,868)</u>
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>

*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, 2021

(Expressed in Canadian Dollars)

	June 30, 2021	June 30, 2020
<b>Cash Provided by (Used in):</b>		
<b>Operating Activities</b>		
Net loss	\$ (519,721)	\$ (458,868)
Items not involving cash:		
Depreciation	96,820	103,734
Interest expenses on long-term debt	7,200	8,360
Net change in non-cash working capital balances (Note 12)	<u>352,035</u>	<u>157,510</u>
	<u>(63,666)</u>	<u>(189,264)</u>
<b>Investing Activities</b>		
Purchase of equipment	<u>(1,433)</u>	<u>(1,352)</u>
	<u>(1,433)</u>	<u>(1,352)</u>
<b>Financing Activities</b>		
Advances from related parties	21,962	155,462
Repayment of long-term debt	(87,517)	(77,922)
Advance from long-term debt	10,000	---
Interest on long-term debt	<u>(7,200)</u>	<u>(8,360)</u>
	<u>(62,756)</u>	<u>68,180</u>
<b>Decrease in cash</b>	<b>(127,855)</b>	<b>(122,436)</b>
<b>Cash, beginning of period</b>	<u>133,071</u>	<u>138,730</u>
<b>Cash, end of period</b>	<u>\$ 5,216</u>	<u>\$ 16,294</u>

*See accompanying notes to the consolidated financial statements*

# **RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(Expressed in Canadian Dollars)

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## **1. Reporting Entity and Going Concern**

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 30, 2021.

### **Going Concern**

These 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. The Company has incurred a net loss of \$519,721, had a working capital deficiency of \$893,815 and an accumulated deficit of \$2,066,281. The Company’s ability to continue as a going concern is dependent on continued support from related parties and generating a profit from operations.

On March 11, 2020, the World Health Organization assessed the coronavirus outbreak (COVID-19) as a pandemic. In Canada, the Government of British Columbia declared a provincial state of public health emergency as per the Province of British Columbia’s Emergency Program Act on March 17, 2020 with respect to COVID-19. The Company has been impacted from COVID-19 as certain projects have been on hold as a result of business closures. 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. The impact of COVID-19 may have an effect on the Company’s ability to generate a profit from operations, and accordingly affect the going concern uncertainty.

These consolidated financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(Expressed in Canadian Dollars)

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## 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, 2020.

### b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis.

### 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.

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.

## **RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(Expressed in Canadian Dollars)

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

#### **d) Use of Estimates (Continued)**

##### 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.

##### Going Concern

The assessment of the Company's ability to continue as a going concern through achieving profitable operations, continued financial support from related parties or accessing additional funding involves judgment based on historical experience and expectation of future events.

##### 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.

##### Lease Liability

The incremental borrowing rate is based on estimates made by management taking into consideration economic environment, terms, and underlying risk inherent to the asset. The carrying balance of the right of use asset, lease obligation and interest expense may vary due to changes in market conditions.

### **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, 2020.

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(Expressed in Canadian Dollars)

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### 4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>June 30, 2021</u>	<u>September 30, 2020</u>
Trade accounts receivable	\$ 282,776	\$ 778,911
Goods and Services Tax receivable	<u>5,972</u>	<u>7,654</u>
	<u>\$ 288,748</u>	<u>\$ 786,565</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, 2021</u>	<u>June 30, 2020</u>
Salaries and other short-term employee benefits	\$ 168,960	\$ 224,300
Management fees	\$ 52,500	\$ 157,500

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(Expressed in Canadian Dollars)

**6. Equipment**

	<b>Cost</b>						<b>Balance at June 30, 2021</b>
	Balance at October 1, 2019	Additions	Disposals	Balance at September 30, 2020	Additions	Disposals	
Equipment	\$ 575,118	\$ ---	\$ ---	\$ 575,118	\$ ---	\$ ---	\$ 575,118
Office furniture	85,781	---	---	85,781	1,433	---	87,214
Computer equipment	71,336	1,352	---	72,688	---	---	72,688
Vehicles	170,973	---	---	170,973	---	---	170,973
Right-of-use asset	271,379	---	---	271,379	---	---	271,379
	<u>\$ 1,174,587</u>	<u>\$ 1,352</u>	<u>\$ ---</u>	<u>\$ 1,175,939</u>	<u>\$ 1,433</u>	<u>\$ ---</u>	<u>\$ 1,177,372</u>

	<b>Accumulated Depreciation</b>						<b>Balance at June 30, 2021</b>
	Balance at October 1, 2019	Additions	Disposals	Balance at September 30, 2020	Additions	Disposals	
Equipment	\$ 450,177	\$ 24,988	\$ ---	\$ 475,165	\$ 14,994	\$ ---	\$ 490,159
Office furniture	82,032	750	---	82,782	450	---	83,232
Computer equipment	63,750	2,500	---	66,250	1,837	---	68,087
Vehicles	148,747	5,855	---	154,602	3,214	---	157,816
Right-of-use asset	---	101,767	---	101,767	76,325	---	178,092
	<u>\$ 744,706</u>	<u>\$ 135,860</u>	<u>\$ ---</u>	<u>\$ 880,566</u>	<u>\$ 96,820</u>	<u>\$ ---</u>	<u>\$ 977,386</u>

	<b>Net Book Value</b>	
	Balance at September 30, 2020	Balance at June 30, 2021
Equipment	\$ 99,953	\$ 84,959
Office furniture	2,999	3,982
Computer equipment	6,438	4,601
Vehicles	16,371	13,157
Right-of-use asset	169,612	93,287
	<u>\$ 295,373</u>	<u>\$ 199,986</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. No amount has been drawn on the line of credit as at June 30, 2021.

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(Expressed in Canadian Dollars)

## 8. Accounts Payable and Accrued Liabilities

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

	<u>June 30, 2021</u>	<u>September 30, 2020</u>
Trade payables	\$ 262,071	\$ 395,013
Accrued liabilities	91,327	132,061
Goods and Services Tax payable	<u>50,455</u>	<u>22,562</u>
	<u>\$ 403,853</u>	<u>\$ 549,636</u>

## 9. Long-term Debt

	<u>June 30, 2021</u>	<u>September 30, 2020</u>
CEBA loan, interest free, no principal payments until December 2022, repayment of loan balance on or before December 31, 2022 will result in forgiveness of \$30,000. After December 31, 2022, unpaid balance is payable over 3-year term at interest of 5% per annum.	<b>70,000</b>	60,000

The Company received a \$100,000 COVID-19 relief line of credit from the Canada Small Business Financing Program as support for businesses. Since 30% of the loan amount, \$30,000, will be forgiven if the Company repays the amount before December 31, 2022, the Company has recognized \$30,000 as government assistance and the remaining balance outstanding of \$70,000 has been reflected above. The government assistance recognized as income during the year ended September 30, 2020 and the period ended June 30, 2021 is \$20,000 and \$10,000, respectively.

## 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, 2021 and September 30, 2020	<u><b>25,635,635</b></u>	<u>\$ 1,105,117</u>

## RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(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, 2021. The following table summarizes information on stock options outstanding and exercisable at June 30, 2021:

<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	2.43

### 11. Loss Per Share

The basic net loss per common share is based on the weighted average number of common shares outstanding as at June 30, 2021 of 25,635,635 (June 30, 2020 - 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, 2020 – 25,635,635).

### 12. Non-Cash Working Capital Balances

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

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Accounts receivables	\$ 497,817	\$ (216,489)
Deferred revenue	---	(94,400)
Accounts payable and accrued liabilities	<u>(145,782)</u>	<u>468,399</u>
	<u>\$ 352,035</u>	<u>\$ 157,510</u>

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(Expressed in Canadian Dollars)

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## 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. Financial management in conjunction with overall corporate governance carries out risk management.

### 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, 2021, the Company has \$213,044 (September 30, 2020 - \$230,409) of accounts receivable that are past due (over 90 days). No accounts receivable at June 30, 2021 are impaired. As at June 30, 2021, approximately 83% (September 30, 2020 - 89%) is contract revenue receivable from three customers (September 30, 2020 - three customers).

Accounts receivable aging details:

	<u>June 30, 2021</u>	<u>September 30, 2020</u>
Current	\$ 13,545	\$ 481,301
0 - 90 days	56,187	67,201
Over 90 days	<u>213,044</u>	<u>230,409</u>
	<u>\$ 282,776</u>	<u>\$ 778,911</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, 2021, the Company has cash of \$5,216 (September 30, 2020 - cash of \$133,730), accounts receivable of \$288,748 (September 30, 2020 - \$786,565) and had a working capital deficit of \$893,815 (September 30, 2020 - working capital deficit of \$388,136). The contractual maturity of the Company's liabilities of \$403,853 (September 30, 2020 - \$549,636) will be paid within one year and the amounts payable to related parties of \$708,652 (September 30, 2020 - \$686,690) have no terms of repayment.

## **RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2021

(Expressed in Canadian Dollars)

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### **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, 2021 the Company had no financial instruments measured at fair value.

### **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' deficiency of \$752,229 (September 30, 2020 – \$232,508) and amounts payable to related parties of \$708,652 (September 30, 2020 - \$686,690) 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.

### **15. Commitments**

The Company has signed consulting and management contracts with companies that are controlled by directors of the Company to provide services from October 1, 2020 to September 30, 2021 for \$210,000 per annum.