

RECO INTERNATIONAL GROUP INC.
Consolidated Financial Statements
September 30, 2020 and 2019
(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, 2020 and 2019 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. RSM Alberta 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 28, 2021



RSM Alberta LLP

2500, Bell Tower
10104 – 103rd Avenue NW
Edmonton, Alberta T5J0H8

O +1 780 428 1522
F +1 780 425 8189

rsmcanada.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Reco International Group Inc.

Opinion

We have audited the consolidated financial statements of Reco International Group Inc. (the "Company") which comprise the consolidated balance sheets as at September 30, 2020 and September 30, 2019, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Company as at September 30, 2020 and September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years ended September 30, 2020 and September 30, 2019 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Company incurred a net loss of \$443,950 during the year ended September 30, 2020 and, as of that date, the Company's current liabilities exceeded current assets by \$388,136. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt upon the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Joseph Man.

RSM Alberta LLP

Edmonton, Alberta
January 28, 2021

Chartered Professional Accountants

RECO INTERNATIONAL GROUP INC.

Consolidated Balance Sheets

September 30, 2020 and 2019

(Expressed in Canadian Dollars)

	2020	2019
ASSETS		
Current Assets		
Cash	\$ 133,071	\$ 138,730
Accounts receivable (Note 4)	786,565	918,907
Income taxes receivable	---	14,586
Prepaid expenses and other	<u>37,120</u>	<u>37,974</u>
	965,756	1,110,197
Deposits	11,600	11,600
Equipment (Note 6)	125,761	158,502
Right-of-use asset (Note 10)	<u>169,612</u>	<u>---</u>
	<u>\$ 1,263,729</u>	<u>\$ 1,280,299</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 549,636	\$ 372,957
Amounts payable to related parties (Note 5)	686,690	596,630
Current portion of long-term debt (Note 9)	---	4,870
Current portion of lease liability (Note 10)	117,566	---
Contract liabilities (Note 18)	<u>---</u>	<u>94,400</u>
	1,353,892	1,068,857
Long-term debt (Note 9)	60,000	---
Lease liability (Note 10)	<u>82,345</u>	<u>---</u>
	1,496,237	1,068,857
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	1,105,117	1,105,117
Share-based compensation reserve	208,935	208,935
Deficit	<u>(1,546,560)</u>	<u>(1,102,610)</u>
	<u>(232,508)</u>	<u>211,442</u>
	<u>\$ 1,263,729</u>	<u>\$ 1,280,299</u>

Reporting entity and going concern (Note 1)**Commitments** (Note 17)

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 Loss
For the Years Ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

	2020	2019
Revenue	<u>\$ 3,630,427</u>	<u>\$ 2,495,212</u>
Expenses		
Salaries and benefits	946,201	1,109,055
General and administrative	473,763	667,742
Subcontracts	2,165,981	433,301
Materials and supplies	372,746	291,774
Share-based compensation	---	187,270
Depreciation	<u>135,862</u>	<u>44,116</u>
	<u>4,094,553</u>	<u>2,733,258</u>
Net loss before other item and income taxes	(464,126)	(238,046)
Other item		
Government assistance	<u>20,000</u>	<u>---</u>
Net loss before income taxes	(444,126)	(238,046)
Income taxes recovery (Note 14)	<u>(176)</u>	<u>(14,586)</u>
Net loss and comprehensive loss	<u><u>\$ (443,950)</u></u>	<u><u>\$ (223,460)</u></u>
Loss per share - basic and diluted (Note 12)	<u><u>\$ (0.02)</u></u>	<u><u>\$ (0.01)</u></u>

See accompanying notes to the consolidated financial statements

RECO INTERNATIONAL GROUP INC.
Consolidated Statements of Changes in Equity
For the Years Ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

	Share Capital		Share-Based Compensation Reserve	Deficit	Total
	Shares	Amount			
Balance, September 30, 2018	25,635,635	\$ 1,105,117	\$ 21,665	\$ (799,275)	\$ 327,507
Effect of IFRS 9 adoption	---	---	---	(79,875)	(79,875)
Balance, October 1, 2018 as restated	25,635,635	1,105,117	21,665	(879,150)	247,632
Share-based compensation	---	---	187,270	---	187,270
Net loss	---	---	---	(223,460)	(223,460)
Balance, September 30, 2019	25,635,635	1,105,117	208,935	(1,102,610)	211,442
Net loss	---	---	---	(443,950)	(443,950)
Balance, September 30, 2020	<u>25,635,635</u>	<u>\$ 1,105,117</u>	<u>\$ 208,935</u>	<u>\$ (1,546,560)</u>	<u>\$ (232,508)</u>

See accompanying notes to the consolidated financial statements

RECO INTERNATIONAL GROUP INC.
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

	2020	2019
Cash Provided by (Used in):		
Operating Activities		
Net loss	\$ (443,950)	\$ (223,460)
Items not involving cash:		
Share-based compensation	---	187,270
Depreciation	135,862	44,116
Government assistance	(20,000)	---
Interest on lease liabilities	14,117	---
Net change in non-cash working capital balances (Note 13)	<u>230,061</u>	<u>(19,842)</u>
	<u>(83,910)</u>	<u>(11,916)</u>
Investing Activities		
Deposits	---	(495)
Purchase of equipment	<u>(1,352)</u>	<u>(833)</u>
	<u>(1,352)</u>	<u>(1,328)</u>
Financing Activities		
Advances from related parties	90,059	220,500
Repayment to related parties	---	(197,163)
Advance from long-term debt	80,000	---
Repayment of long-term debt	(4,871)	(7,039)
Repayment of lease liability	<u>(85,585)</u>	<u>---</u>
	<u>79,603</u>	<u>16,298</u>
Increase (decrease) in cash	(5,659)	3,054
Cash, beginning of year	<u>138,730</u>	<u>135,676</u>
Cash, end of year	<u>\$ 133,071</u>	<u>\$ 138,730</u>

See accompanying notes to the consolidated financial statements

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

1. Reporting Entity and Going Concern

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 Company is traded on the TSX Venture Exchange under the symbol RGI.

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

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 \$443,950 (2019 - \$223,460), negative cash flow from operations of \$83,910 (2019 - \$11,916), had a working capital deficiency of \$388,136 (2019 - \$41,340 net working capital) and an accumulated deficit of \$1,546,560 (2019 - \$1,102,610). 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.

2. Basis of Presentation

a) Statement of Compliance

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

The Board of Directors approved these financial statements for issuance on January 28, 2021.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

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

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 and its subsidiaries' 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 and amounts receivable from related parties, estimated useful life of equipment for use in calculation of depreciation, recognition of deferred tax assets, estimating percentage of completion for revenue recognition, and share-based compensation reserve.

Accounts Receivable and Amounts Receivable from Related Parties

The valuation of accounts receivable is based on management's best estimate of the lifetime expected credit loss related to these accounts.

Equipment and Right-of-Use Asset

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.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

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

d) Use of Estimates (Continued)

Revenue

The progress towards the complete satisfaction of the performance obligation 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.

Share-based payment reserve

The amounts recorded for share-based compensation reserve is based on the assumptions used in the Black-Scholes option pricing model. The assumptions for future volatility, market price of the Company's shares, expected lives of the options, expected forfeiture rates, and expected dividends is based on management's best estimate at the time the options are issued.

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 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.

Revenue Recognition

The Company considers their contracts to contain one performance obligation which is satisfied over time. Revenue related to construction projects is recognized by measuring the progress towards the complete satisfaction of the performance obligation using contract costs incurred for work performed relative to the estimated total contract costs. Contract costs include all direct materials, subcontractors' costs and direct labour costs. The Company is acting as the principal in all their arrangements with subcontractors. When consideration is 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 contract liability. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately as an expense.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

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

Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Useful lives, residual values and depreciation methods are reviewed and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. 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.

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.

Earnings Per Share

Earnings 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 "in-the-money 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.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

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

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial instruments are measured initially at fair value and thereafter based on their classification. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. At initial recognition financial instruments are classified in the following categories depending on the nature and purpose for which the instruments were acquired:

(i) Financial Assets and Liabilities at Fair Value through Profit or Loss ("FVTPL")

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term are classified as FVTPL. For items classified as FVTPL, the Company initially recognizes such financial assets or liabilities on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statements of operations. Transaction costs incurred are expensed in the consolidated statements of operations. The Company does not have any financial assets or liabilities designated as FVTPL.

(ii) Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

Equity investments that are held for trading are classified as FVTPL. For other equity investments, on the day of acquisition the Company can make an irrevocable election to designate them as FVTOCI. Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss). The Company does not currently hold any assets or liabilities designated as FVTOCI.

(iii) Amortized Cost

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including cash, accounts receivable, deposits and amounts receivable from related parties. The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

(iv) Other Financial Liabilities

This category is for financial liabilities that are not classified as FVTPL and includes bank indebtedness, accounts payable and accrued liabilities, amounts payable to related parties, and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated balance sheet.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Impairment of Financial Assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost as follows:

The measurement of the loss allowance depends upon the Company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognized is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate. A significant increase in credit risk is defined by the Fund as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Derecognition

Financial Assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial Liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets, is recognized in profit or loss.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

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

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 Compensation

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.

Government Assistance

The Company receives grants from different government incentive programs. These grants are recognized initially when there is a reasonable assurance that they will be received and when the Company has intentions to comply with the conditions associated with the grants. The grant received for expenditures incurred are recognized on a systematic basis and in the same accounting period in which the expenditures are incurred.

Recently Adopted Accounting Standards

IFRS 16, Leases

On October 1, 2019, the Company adopted IFRS 16, *Leases* ("IFRS 16"). According to IFRS 16, a contract is a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. With exceptions for certain short-term leases and lease of low-value assets, IFRS 16 requires a lessee to recognize lease contracts as a right-of-use asset representing its right to use an identified asset for a period of time and a lease liability representing its obligation to make lease payments

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Standards (Continued)

IFRS 16, Leases (Continued)

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after September 30, 2019.

The Company has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the standard as an adjustment to retained earnings and no restatement of comparative information which continues to be reported under IAS 17, Leases. The Company had no leases classified as financial leases at September 30, 2019.

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date. Right-of-use assets are subsequently depreciated from the commencement date of the lease to the earlier of the end of the lease term or the end of the useful life of the asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any re-measurement of the lease liability.

The lease liability is initially recognized as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined the lessee's applicable incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments made and to reflect any reassessments or modifications.

The Company used an incremental borrowing rate to determine the present value of future lease payments and recorded an opening lease liability on October 1, 2019. As a result, the Company recorded a lease liability of \$271,379 upon the adoption of IFRS 16, with a right-of-use asset being recognized in the same amount. See additional information regarding the impact of the implementation of IFRS 16 on these financial statements in Note 10.

Future Accounting Pronouncements

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether or not an entity will exercise their right to defer settlement of a liability. The amendments further clarify that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively. The Company is currently evaluating the impact of these amendments on its financial statements and will apply the amendments from the effective date.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>2020</u>	<u>2019</u>
Trade accounts receivable	\$ 778,911	\$ 916,437
Goods and Services Tax receivable	<u>7,654</u>	<u>2,470</u>
	<u>\$ 786,565</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>2020</u>	<u>2019</u>
Salaries and other short-term employee benefits	\$ 220,000	\$ 220,000
Management fees	105,000	210,000
Share-based compensation	---	55,079

6. Equipment

	<u>Cost</u>						<u>Balance at September 30, 2020</u>
	<u>Balance at September 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at September 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	
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	<u>170,973</u>	---	---	<u>170,973</u>	---	---	<u>170,973</u>
	<u>\$ 902,375</u>	<u>\$ 833</u>	<u>\$ ---</u>	<u>\$ 903,208</u>	<u>\$ 1,352</u>	<u>\$ ---</u>	<u>\$ 904,560</u>

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

6. **Equipment** (Continued)

	Accumulated Depreciation						Balance at September 30, 2020		
	Balance at September 30, 2018		Additions	Disposals	Balance at September 30, 2019			Additions	Disposals
	\$	\$			\$	\$			
Equipment	\$ 418,942	\$ 31,235	\$ ---	\$ 450,177	\$ 24,988	\$ ---	\$ 475,165		
Office furniture	81,094	938	---	82,032	750	---	82,782		
Computer equipment	59,883	3,867	---	63,750	2,500	---	66,250		
Vehicles	140,671	8,076	---	148,747	5,855	---	154,602		
	<u>\$ 700,590</u>	<u>\$ 44,116</u>	<u>\$ ---</u>	<u>\$ 744,706</u>	<u>\$ 34,093</u>	<u>\$ ---</u>	<u>\$ 778,799</u>		

	Net Book Value	
	Balance at September 30, 2020	Balance at September 30, 2019
	\$	\$
Equipment	\$ 99,953	\$ 124,941
Office furniture	2,999	3,749
Computer equipment	6,438	7,586
Vehicles	<u>16,371</u>	<u>22,226</u>
	<u>\$ 125,761</u>	<u>\$ 158,502</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 September 30, 2020 and 2019.

8. **Accounts Payable and Accrued Liabilities**

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

	<u>2020</u>	<u>2019</u>
Trade payables	\$ 395,013	\$ 230,072
Accrued liabilities	132,061	113,382
Goods and Services Tax payable	<u>22,562</u>	<u>29,503</u>
	<u>\$ 549,636</u>	<u>\$ 372,957</u>

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

9. **Long-term Debt**

	<u>2020</u>	<u>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 \$19,669.	\$ ---	\$ 4,870
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 \$20,000. After December 31, 2022, unpaid balance is payable over 3 year term at interest of 5% per annum.	60,000	---
Current portion	---	(4,870)
	<u>\$ 60,000</u>	<u>\$ ---</u>

The Company received an \$80,000 COVID-19 relief line of credit from the Canada Small Business Financing Program as support for businesses. Since 25% of the loan amount, \$20,000, will be forgiven if the Company repays the amount before December 31, 2022, the Company has recognized \$20,000 as government assistance and the remaining balance outstanding of \$60,000 has been reflected above.

10. **Lease Liability and Right-of-Use Asset**

The Company has a lease for its office premises until May 31, 2022. The associated lease liability and right-of-use asset information is summarized below.

	<u>September 30 2020</u>
Right-of-use Asset	
Recognized upon adoption of IFRS 16	\$ 271,379
Less: depreciation	<u>(101,767)</u>
	<u>\$ 169,612</u>
Lease Liability	
Upon adoption of IFRS 16	\$ 271,379
Less: lease payments	(85,585)
finance expense	<u>14,117</u>
Total lease liability	199,911
Less: current portion	<u>(117,566)</u>
	<u>\$ 82,345</u>
Lease Commitments – undiscounted cash flow:	
Less than one year	\$ 126,289
2022	84,193
Finance charges	<u>(10,571)</u>
	<u>\$ 199,911</u>

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

11. 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, 2019 and 2020	<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 activity related to stock options is as follows:

	<u>Number of Options</u>	<u>Exercise Price</u>
Balance, October 1, 2018	---	\$ ---
Options issued	<u>5,100,000</u>	<u>0.05</u>
Balance, September 30, 2019	5,100,000	0.05
Options issued	<u>---</u>	<u>---</u>
Balance, September 30, 2020	<u>5,100,000</u>	<u>\$ 0.05</u>

The Company issued 5,100,000 stock options in fiscal 2019 to purchase common shares of the Company at an exercise price of \$0.05 per common share, expire December 6, 2023 and vests immediately.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

11. **Share Capital** (Continued)

The following table summarizes information on stock options outstanding and exercisable at September 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	3.18

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the stock options. During the year, the Company recorded \$nil (2019 - \$187,270) in share-based compensation expense. The following assumptions were used to estimate the fair value of the stock options granted during fiscal 2019:

Annualized volatility	158.09%
Risk-free interest rate	2.00%
Expected life of	5 years
Dividend rate	0.00%
Fair value per stock option	\$ 0.037
Share price	\$ 0.04

12. **Loss Per Share**

The basic earnings per share is based on the weighted average number of common shares outstanding as at September 30, 2020 of 25,635,635 (2019 - 25,635,635). The diluted earnings per share is calculated using the weighted average number of common shares of 25,635,635 (2019 – 25,635,635) and does not include the stock options which were anti-dilutive.

13. **Non-Cash Working Capital Balances**

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

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 132,342	\$ 231,115
Income taxes receivable	14,586	(14,586)
Prepaid expenses	854	(5,405)
Accounts payable and accrued liabilities	176,679	(211,950)
Income taxes payable	---	(21,345)
Deferred revenue	<u>(94,400)</u>	<u>2,329</u>
	<u>\$ 230,061</u>	<u>\$ (19,842)</u>

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

14. Income Taxes

The income tax provision reported differs from the amount computed by applying the combined Canadian federal and provincial rate to income (loss) before income taxes. The reasons for the difference and the related tax effects are as follows:

	<u>2020</u>	<u>2019</u>
Loss before income taxes	\$ (444,126)	\$ (238,046)
Expected rate	<u>26.74%</u>	<u>26.79%</u>
Expected tax expense (recovery)	(118,759)	(63,770)
Tax effected adjustments:		
Effect of change in tax rates	735	8
Expenses not deductible for tax	4,631	58,200
Net effect of deferred tax asset not recognized	<u>113,217</u>	<u>(9,024)</u>
	<u>\$ (176)</u>	<u>\$ (14,586)</u>

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 \$911,245 may be carried forward and expire as follows:

2028	\$ 16,253
2032	95,615
2033	88,307
2034	73,743
2035	93,710
2036	61,475
2037	88,999
2039	17,030
2040	<u>376,113</u>
	<u>\$ 911,245</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>2020</u>	<u>2019</u>
Deferred Tax Assets		
Excess (deficiency) of tax value over book value of assets	\$ (37,646)	\$ 8,986
Lease payment obligation	53,976	---
Loss carry forwards	<u>222,299</u>	<u>138,012</u>
	238,629	146,998
Unrecognized deferred tax asset	<u>(238,629)</u>	<u>(146,998)</u>
Net deferred income tax asset	<u>\$ ---</u>	<u>\$ ---</u>

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

15. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, amounts receivable from related parties, deposits, 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 cash, deposits and accounts receivable that arises from the possibility that the third party does not satisfy its contractual obligations. The credit risk for cash is mitigated with the Company holding cash with major financial institutions. The credit risk for deposits is low due to the credit worthiness of the counter-party. The Company minimizes its exposure to credit risk on accounts receivable through a program of credit evaluation of customers or obtaining deposits on projects. The Company performs continuous evaluation of its accounts receivable and records an expected credit loss based on recoverability of receivable balances from each customer taking into account historic collection of past due accounts. As at September 30, 2020, the Company has \$230,409 (2019 - \$165,431) of accounts receivable that are past due (over 90 days). There has been no expected credit loss recorded for accounts receivable since the amount was determined to be nominal based on historical collections. As at September 30, 2020, approximately 89% (2019 - 74%) of contract revenue receivable are from three customers (2019 – three customers).

Trade accounts receivable aging details:

	<u>2020</u>	<u>2019</u>
Current	\$ 481,301	\$ 429,762
0 - 90 days	67,201	321,244
Over 90 days	<u>230,409</u>	<u>165,431</u>
	<u>\$ 778,911</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 September 30, 2020, the Company was holding cash of \$133,071 (2019 - \$138,730), trade accounts receivable of \$778,911 (2019 - \$916,437) and had a working capital deficit of \$388,136 (2019 - surplus of \$41,340). The contractual maturity of the Company's liabilities of \$549,636 (2019 - \$377,827) will be paid within one year and the amounts payable to related parties of \$686,690 (2019 - \$596,630) have no terms of repayment.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

15. **Financial Instruments** (Continued)

Fair value

The fair value of cash, accounts receivables, deposits, 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 term approximates 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 September 30, 2020 and 2019, the Company does not have any financial instruments measured at fair value.

16. **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 \$232,508 (2019 – shareholders' equity of \$211,442) and amounts payable to related parties of \$686,690 (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.

RECO INTERNATIONAL GROUP INC.
Notes to the Consolidated Financial Statements
September 30, 2020 and 2019
(Expressed in Canadian Dollars)

17. 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, 2019 to September 30, 2020 for \$105,000 per annum. New contracts are currently being negotiated and until such time new contracts have been signed, the terms from the existing contracts are effective.

18. Contract Liabilities

As at September 30, 2020, the Company has no construction contracts (2019 – two construction contracts) in progress and the following is financial information for these contracts in progress:

	<u>2020</u>	<u>2019</u>
Contract liabilities recognized in revenue	\$ 94,400	\$ 92,071
Contract liabilities	\$ ---	\$ 94,400