

## FORM 51-102F1

### **Management's Discussion and Analysis**

The following management's discussion and analysis ("MD&A") as of August 22, 2022 should be read in conjunction with Reco International Group Inc.'s (the "Company") annual audited financial statements for the years ended September 30, 2021 and 2020 (the "Annual Financial Statements") and the unaudited interim condensed financial statements for the nine months ended June 30, 2022 (the "Interim Financial Statements"), and accompanying notes thereto. All dollar amounts are expressed in Canadian funds unless otherwise stated.

### **International Financial Reporting Standards ("IFRS")**

The Annual Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB"). The Interim Financial Statements are prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting as issued by the IASB and accordingly certain financial information and disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. The disclosure in the Interim Financial Statements are incremental to the disclosure included in the Annual Financial Statements. The Company's external auditors, RSM Alberta LLP, have not performed a review of the Interim Financial Statements.

### **Core Business**

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.

### **Overall Performance**

The Company saw its revenue increase during the three and nine months ended June 30, 2022. There was also an increase in total expenses during the three and nine months ended June 30, 2022. Overall, there was a net loss of \$455,328 during the three months ended June 30, 2022 as compared to a net loss of \$208,867 during the same period in 2021 and a net loss of \$269,601 for the nine months ended June 30, 2022 as compared to a net loss of \$519,721 during the same period in 2021. The Company is actively seeking more opportunities to provide construction services in the greater Vancouver area as well as across Canada.

## Selected Annual Information (in accordance with IFRS)

	2021 \$	2020 \$	2019 \$
Revenue	1,530,799	3,630,427	2,495,212
Expenses	2,034,459	4,094,553	2,710,859
Other Income (Loss)	12,000	20,000	22,399
Income Tax Expense (Recovery)	-	(176)	(14,586)
Net Income (Loss)	(491,660)	(443,950)	(223,460)
Income (Loss) per Share	(0.02)	(0.02)	(0.01)
Fully Diluted Income (Loss) per Share	(0.02)	(0.02)	(0.01)
Total Assets	640,527	1,263,729	1,280,299
Total Long-term Liabilities	70,000	142,345	-

## Selected Quarterly Information (in accordance with IFRS)

Three and nine months ended June 30,	Three months		Nine months	
	2022 \$	2021 \$	2022 \$	2021 \$
Revenue	525,194	295,875	1,759,261	1,018,334
Net and comprehensive loss	(455,328)	(208,869)	(269,601)	(519,721)
Net loss per share (basic and diluted)	(0.01)	(0.00)	(0.01)	(0.02)
Cash used in operating activities	(239,789)	(49,210)	(14,194)	(63,666)
Cash used in investing activities	-	-	-	(1,433)
Cash provided by (used in) financing activities	313,629	(36,572)	221,518	(62,756)
Total assets	N/A	N/A	2,253,020	542,670
Working capital deficit	N/A	N/A	(17,520)	(893,815)
Total non-current liabilities	N/A	N/A	570,911	70,000
Weighted average number of common shares outstanding	36,432,338	25,635,635	27,380,412	25,635,635

## Discuss of Operations and Financial Condition

### Revenues

Revenue increased by 78% during the three months ended June 30, 2022 to \$525,194 as compared to \$295,875 during the three months ended June 30, 2021. Revenue increased 73% during the nine months ended June 30, 2022 to \$1,759,261 as compared to \$1,018,334 during nine months ended June 30, 2021. The increase is primarily due the commencement of a new project in the nine months ended June 30, 2022 combined with certain customers postponing regular projects due to the COVID-19 pandemic during the nine months ended June 30, 2021.

### Subcontract and Material Costs

Subcontract and materials and supplies expenses increased by 117% during the three months ended June 30, 2022 to \$423,964 as compared to \$195,136 during the three months ended June 30, 2021. This represents 81% of total revenues during the three months ended June 30, 2022 as compared to 66% of total revenues during the three months ended June 30, 2021.

Subcontract and materials and supplies expenses increased by 59% during the nine months ended June 30, 2022 to \$939,690 as compared to \$592,557 during the nine months ended June 30, 2021. This represents 53% of total revenues during the nine months ended June 30, 2022 as compared to 58% of total revenues during the nine months ended June 30, 2021.

The increases are primarily due to the nature of the projects undertaken in the respective period with projects in the three and nine months ended June 30, 2022 being those that require additional subcontracting of services together with a general increase in labour and material costs due to supply chain disruptions and inflation.

### General and administrative

General and administrative expenses increased by 443% during the three months ended June 30, 2022 to \$286,577 as compared to \$52,793 during the three months ended June 30, 2021.

General and administrative expenses increased by 124% during the nine months ended June 30, 2022 to \$485,489 as compared to \$217,083 during the nine months ended June 30, 2021.

The increases in general and administrative expenses for the three and nine month periods above is primarily due to management fees of \$120,126 paid to the former Chief Financial Officer and a director of the Company during the three months ended June 30, 2022. In addition, there was an increase in the office premises lease cost which was extended effective June 1, 2022 for an additional three years and an overall increase in payroll costs.

### Depreciation

Depreciation increased by 31% during the three months ended June 30, 2022 to \$72,288 as compared to \$32,273 during the three months ended June 30, 2021 and increased by 7% during the nine months ended June 30, 2022 to \$103,806 as compared to \$96,820 during the nine months ended June 30, 2021. These increases were due to the extension of the Company's office premises lease effective June 1, 2022 and the associated increase in the right-of-use asset.

### Total assets

Total assets increased by 247% to \$2,223,683 as at June 30, 2022 as compared to \$640,527 as at September 30, 2021. This increase was due to the private placements of 24,000,000 common shares at a price of \$0.05 per common share for gross proceeds of \$1,200,000 completed during the three months ended June 30, 2022 together with the increase in the right-of-use asset as described in the depreciation section above.

## Non-current liabilities

Non-current liabilities increased by 716% to \$570,911 as at June 30, 2022 as compared to \$70,000 as at September 30, 2021. This increase was due to the extension of the Company's office premises lease and the associated increased in the lease liability recognized for accounting purposes.

## **Summary of Quarterly Results (in accordance with IFRS)**

	June 30, 2022	March 31, 2022	Dec 31, 2021	Sep 30, 2021	June 30, 2021	March 31, 2021	Dec 31, 2020	Sep 30, 2020
Revenues	\$525,194	\$450,258	\$783,809	\$517,465	\$295,875	\$480,728	\$236,731	\$629,533
Expenses	\$973,407	\$540,641	\$507,699	\$496,406	\$504,742	\$565,126	\$468,185	\$634,791
Other income (expense)	\$-	\$-	\$-	\$12,000	\$-	\$-	\$-	\$20,000
Income taxes	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$(176)
Net Income (Loss)	\$(455,328)	\$(90,383)	\$276,110	\$33,059	\$(208,867)	\$(84,398)	\$(231,454)	\$14,918
Basic and diluted EPS	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Revenue and expenses vary from quarter to quarter based on project activity which tends to generally increase in the summer and winter months and is affected by the number of projects in progress, the receipt of necessary permits, the successful completion of required inspections, and progress to completion, which may not be consistent. During the fiscal 2020 and 2021 years, project activity did not follow historical patterns as the COVID-19 pandemic postponed certain project starts.

## **Liquidity and Capital Resources**

As at June 30, 2022, the Company has a cash balance of \$124,036 (September 30, 2021 – bank indebtedness of \$73,288) and a working capital deficiency of \$17,520 (September 30, 2021 – deficiency of \$833,482). Cash used in operating activities during the three and nine months ended June 30, 2022 was \$239,789 and \$14,194, respectively (three and nine months ended June 30, 2021 - \$49,210 and \$63,666, respectively). Cash used in investing activities during the three and nine months ended June 30, 2022 was \$Nil (three and nine months ended June 30, 2021 - \$Nil and \$1,433, respectively). Cash provided by financing activities for the three and nine months ended June 30, 2022 was \$313,629 and \$221,518, respectively (three and nine months ended June 30, 2021 – cash used in financing activities was \$36,572 and \$62,756, respectively). The increase in cash used in operating activities during the three and nine months ended June 30, 2022 was primarily due to the payment of management fees of \$120,126 to the former Chief Financial Officer and a director of the Company. The increase in cash provided by financing activities

during the three and nine months ended June 30, 2022 was primarily due to the private placement of 24,000,000 common shares completed during the three months ended June 30, 2022.

The Interim Financial Statements have been prepared on a going concern basis 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 a working capital deficiency of \$17,520 (September 30, 2021 - \$833,482) and an accumulated deficit of \$2,307,821 (September 30, 2021 - \$2,038,220). The Company's ability to continue as a going concern is dependent on continued support from related parties and continuing to generate a profit from operations.

With the completion of the private placements during the three months ended June 30, 2022, the Company expects that it will have sufficient financial resources to continue operations and the resources to execute on its planned business improvement plan to increase income in the future.

The Company has commitments due to the lease agreement for its present location, which expires on May 31, 2025.

Lease Commitments years ended June 30 – undiscounted cash flow:

2023	\$ 243,988
2024	263,792
2025	<u>272,484</u>
Total lease commitment	780,264
Future interest portion	<u>(76,463)</u>
	<u>\$ 703,801</u>

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.

### **Transactions with Related Parties**

As at June 30, 2022, amounts receivable from and payable to related parties consists of:

- \$8,110 receivable from Reco Central Alberta Inc. (September 30, 2021 - \$nil) a company controlled by Hugh Zhen, a director of the Company;
- \$21,227 receivable from Reco Southern Alberta Inc. (September 30, 2021 - \$nil), a company controlled by Hugh Zhen, a director of the Company;
- \$nil payable to Q.Q.S. Construction Consulting Ltd., a company controlled by Quin Quang Sie, the former CFO and a director of the Company (September 30, 2021 - \$249,795); and
- \$437,265 payable to H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and a director of the Company (September 30, 2021 - \$436,895).

All amounts are unsecured, bear no interest and have no specific terms of repayment.

Key management during the three and nine months ended June 30, 2022 and 2021 includes senior executives of the Company, including Hugh Zhen the Chief Executive Officer (the "CEO"), William Harper the current Interim Chief Financial Officer (the "CFO"), and Quin Quang Sie the former Chief Financial Officer (the "Former CFO"). The compensation expense paid to key management for employee, consulting and management services are as follows:

<b>Three months ended</b>	<b>June 30, 2022</b>	June 30, 2021
Salaries and other short-term employee benefits	\$ 18,940	\$ 55,320
Management fees	\$ 120,126	\$ -
	<b>June 30, 2022</b>	June 30, 2021
<b>Nine months ended</b>		
Salaries and other short-term employee benefits	\$ 18,940	\$ 168,960
Management fees	\$ 120,126	\$ 52,500

## **Risk Factors**

The corporation is exposed to a variety of business and other risks and uncertainties including the following:

- Volatility in the market price of our common shares.
- Our ability to raise sufficient funds to carry on our operations.
- The demand for our services.
- Our ability to achieve profitable operations.

## **Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable, share subscriptions receivable, 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 and cash flow risk arising from its fixed rate long-term debt and bank indebtedness respectively. Management does not believe this risk is significant.

#### Credit risk

The Company's exposure to credit risk relates to cash, deposits, accounts receivable, and share subscriptions 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 and share subscriptions receivable is low due to the credit worthiness of the counter-parties. The Company's maximum exposure to credit risk is equal to the carrying value of the accounts receivable. 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 aging of accounts receivable is as follows:

	<b>June 30, 2022</b>	September 30, 2021
Current	\$ 1,812	\$ 82,917
0-90 days	336,217	127,183
Over 90 days	<u>332,962</u>	<u>219,227</u>
	<u><b>\$ 670,991</b></u>	<u><b>\$ 429,327</b></u>

During the three and nine months ended June 30, 2022, approximately 76% and 77% of total revenues are from three customers, respectively (three and nine months ended June 30, 2021 – approximately 87% and 79%. As at June 30, 2022, approximately 57% (September 30, 2021 – 49%) of the Company's accounts receivable balance is with three customers.

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. There has been no expected credit loss recorded for accounts receivable since the amount was determined to be nominal based on historical collections.

#### Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and share subscriptions 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, 2022, the Company was holding cash of \$124,036 (September 30, 2021 – \$73,288 bank indebtedness), accounts receivable of \$675,455 (September 30, 2021 - \$431,683), share subscriptions receivable of \$600,000 (September 30, 2021 - \$nil), amounts due from related parties of \$29,337 (September 30, 2021 - \$nil) and had a working capital deficit of \$17,520 (September 30, 2021 - \$833,482).

As at June 30, 2022, the Company's contractual obligation consists of accounts payable and accrued liabilities of \$835,723 (September 30, 2021 - \$452,372) that have a current contractual maturity. Amounts payable to related parties of \$437,265 (September 30, 2021 - \$686,690) have no fixed terms of repayment. Repayment of the \$70,000 CEBA loans is not required until December 31, 2023. The lease liability of \$703,801 must be repaid in accordance with the terms as noted above in the Liquidity and Capital Resources section.

## Fair value

The fair value of cash, accounts receivables, share subscriptions receivable, amounts due from related parties, deposits, accounts payable and accrued liabilities and amounts payable to related parties approximate their carrying amounts due to the short-term nature of these financial instruments. The fair value of the long-term debt approximates its carrying amount since its terms 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 June 30, 2022, the Company does not have any financial instruments measured at fair value.

## **Off – Balance Sheet Arrangements**

As at June 30, 2022, we have not entered into any off-balance sheet arrangements.

## **Share Structure**

The Company had 49,635,635 common shares outstanding as at June 30, 2022.

As at August 22, 2022, 49,635,635 common shares were issued and outstanding and 5,100,000 stock options were outstanding. On a fully diluted basis, 54,735,635 common shares would be outstanding.

## **IFRS Accounting Policies**

The significant accounting policies applied by the Company in the Interim Financial Statements are consistent with those applied by the Company in its Annual Financial Statements.

## Standards Issued But Not Yet Effective

### IAS 1 Presentation of financial statements

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, 2023 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.

## **COVID-19**

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 Public Health Act on March 17, 2020 with respect to COVID-19. As of the date of this MD&A, 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.

## **Forward Looking Information**

This management discussion and analysis may contain forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. These statements are not historical facts and are subject to risks and uncertainties which could cause actual results and the timing of certain events to differ materially from those set forth in or implied herein including, without limitation, risks associated with the company's proposed activities.

## **Additional Information**

Additional information on the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Shareholder communications information may be obtained here:

Reco International Group Inc. – Shareholder Communications: 1-604-273-2932

Email: [hugh@recodeco.com](mailto:hugh@recodeco.com)

The Company's shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "RGI".

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