

FORM 51-102F1

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") as of August 21, 2023 should be read in conjunction with Reco International Group Inc.'s (the "Company") annual audited consolidated financial statements for the years ended September 30, 2022 and 2021 (the "Annual Financial Statements") and the unaudited interim condensed consolidated financial statements for the three and nine months ended June 30, 2023 (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 Canada 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 months ended June 30, 2023 to \$836,396 as compared to \$525,194 in the same period in 2022. During the nine-month period ended June 30, 2023, the Company saw an increase in revenue to \$1,991,926 as compared to \$1,759,261 in the same period in 2022. Total expenses decreased in the three months ended June 30, 2023 as compared to the same period in 2022 and increase during the nine months ended June 30, 2023 as compared to the same period in 2022. Overall, there was a net loss of \$73,006 during the three months ended June 30, 2023 as compared to a net loss of \$455,328 during the same period in 2022 and a net loss of \$620,268 for the nine months ended June 30, 2023 as compared to \$269,601 during the same period in 2022. 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)

	2022 \$	2021 \$	2020 \$
Revenue	2,602,702	1,530,799	3,630,427
Expenses	3,310,549	2,034,459	4,094,553
Other Income (Expense)	(97,385)	12,000	20,000
Income Tax Recovery	-	-	(176)
Net Loss	(805,232)	(491,660)	(443,950)
Loss per Share	(0.02)	(0.02)	(0.02)
Fully Diluted Loss per Share	(0.02)	(0.02)	(0.02)
Total Assets	2,424,585	640,527	1,263,729
Total Long-term Liabilities	513,796	70,000	142,345

Selected Quarterly Information (in accordance with IFRS)

Three and nine months ended June 30,	Three months		Nine months	
	2023 \$	2022 \$	2023 \$	2022 \$
Revenue	836,396	525,194	1,991,926	1,759,261
Net and comprehensive loss	(73,006)	(455,328)	(620,268)	(269,601)
Net income (loss) per share (basic and diluted)	(0.00)	(0.01)	(0.01)	(0.01)
Cash used in operating activities	(164,675)	(245,820)	(163,685)	(19,855)
Cash used in investing activities	(4,292)	-	(64,423)	(29,337)
Cash provided by (used in) financing activities	(24,229)	309,659	(270,862)	246,516
Total assets	N/A	N/A	1,030,023	2,253,020
Working capital deficiency	N/A	N/A	(1,058,348)	(17,520)
Total non-current liabilities	N/A	N/A	263,572	570,911
Weighted average number of common shares outstanding	49,635,635	36,432,338	49,635,635	27,380,412

Discuss of Operations and Financial Condition

Revenues

Revenue increased by 59% during the three months ended June 30, 2023 to \$836,396 as compared to \$525,194 during the same period in 2022. Revenue increased by 13% during the nine months ended June 30, 2023 to \$1,991,926 as compared to \$1,759,261 during the same period in 2022.

The increases during the three and nine months ended June 30, 2023 were primarily due to a project with a major customer. The larger increase during the three months ended June 30, 2023 is because of previous delays in the project which were resolved and the project resumed full operation in the three months ended June 30, 2023.

Subcontracts and Material and Supplies

Subcontracts expenses increased by 69% and 113%, respectively, during the three and nine months ended June 30, 2023 to \$403,372 and \$1,073,099, respectively, as compared to \$238,715 and \$503,999, respectively, during the three and nine months ended June 30, 2022. This represents 48% and 54%, respectively, of total revenues during the three and nine months ended June 30, 2023 as compared to 45% and 29%, respectively, of total revenues during the three and nine months ended June 30, 2022.

Materials and supplies expenses decreased by 38% and 42%, respectively, during the three and nine months ended June 30, 2023 to \$114,752 and \$250,652, respectively as compared to \$185,249 and \$435,691, respectively, during the three and nine months ended June 30, 2022. This represents 14% and 13%, respectively, of total revenues during the three and nine months ended June 30, 2023 as compared to 35% and 25% of total revenues during the three and nine months ended June 30, 2022.

The changes in subcontracts and material and supplies expenses are primarily due to the stage of the project with a major customer during the three and nine months ended June 30, 2023. The initial stage of the project required significant subcontracting work to prepare the space and as it has progressed during the three months ended June 30, 2023, the work has begun to shift more towards material and supplies expenses which are normally incurred later in the project as installation, decorating and finishing is completed.

General and administrative

General and administrative expenses decreased by 56% and 8%, respectively during the three and nine months ended June 30, 2023 to \$125,763 and \$444,952, respectively, as compared to \$286,577 and \$485,489, respectively, during the three and nine months ended June 30, 2022.

The decrease 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. During the nine-month period, this decrease was offset by the increase of the office premises lease cost which was extended effective June 1, 2022 for an additional three years.

Salaries and benefits

Salaries and benefits decreased by approximately 34% and 8%, respectively, during the three and nine months ended June 30, 2023 to \$146,571 and \$460,385, respectively, as compared to \$220,578 and \$486,692, respectively, during the three and nine months ended June 30, 2022.

The decrease in salaries and benefits expenses above is primarily due to one time management fees of \$120,126 paid to the former Chief Financial Officer and director of the Company during the three months ended June 30, 2022 together with normal turnover in staff and was partially offset by management fees paid to the Chief Executive Officer during the 2023 period.

Share-based compensation

Share-based compensation in the three and nine months ended June 30, 2023 was \$29,947 and \$89,842, respectively (2022 - \$nil). In July 2022, 6,300,000 stock options were granted with an exercise price of \$0.05 and an expiry date of July 3, 2027. The stock options vest one third on grant and one third on each of the first and second anniversary of the grant date.

Depreciation

Depreciation increased by approximately 52% and 86%, respectively, during the three and nine months ended June 30, 2023 to \$64,291 and \$192,872, respectively (2022 - \$42,288 and \$103,806, respectively). The increase was 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 due to the increased monthly lease payments pursuant to the modified lease agreement.

Finance costs

Finance costs increased by approximately 120% and 227%, respectively, during the three and nine months ended June 30, 2023 to \$15,636 and \$43,083, respectively (2022 - \$7,115 and \$13,185, respectively). The increase was due to the extension of the Company's office premises lease effective June 1, 2022 and the associated increase in the lease liability due to the increased monthly lease payments pursuant to the modified lease agreement.

Impairment of amounts due from related parties

During the three and nine months ended June 30, 2023, the Company advanced \$4,292 and \$61,799, respectively (2022 - \$nil and \$29,337, respectively), as unsecured advances, to companies that have common management and directors with the Company (see Transactions with Related Parties section below for more details) and recorded an allowance for impairment for the full amount advanced due to the uncertainty of repayment.

Other income

During the nine months ended June 30, 2023, the Company settled outstanding payables at a discount and recognized a gain of \$9,244 on the settlement.

Total assets

Total assets decreased by approximately 54% to \$1,030,023 as at June 30, 2023, as compared to \$2,253,020 as at June 30, 2022. This decrease was primarily due to decreases in accounts receivable and cash as well as continued depreciation of the right-of-use asset.

Non-current liabilities

Non-current liabilities decreased by 54% to \$263,572 as at June 30, 2023 as compared to \$570,911 as at June 30, 2022. This decrease was mainly due to payments on the lease liability and a change in classification of the CEBA loan from long-term to short-term, as it is due on December 31, 2023.

Summary of Quarterly Results (in accordance with IFRS)

	Jun. 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sep. 30, 2021
Revenues	\$ 836,396	\$ 907,662	\$ 247,868	\$ 843,441	\$ 525,194	\$ 450,258	\$ 783,809	\$ 517,465
Expenses	\$ 905,110	\$ 1,057,243	\$ 597,310	\$ 1,281,687	\$ 980,522	\$ 540,641	\$ 507,699	\$ 496,406
Other income (expense)	\$ (4,292)	\$ (33,998)	\$ (14,241)	\$ (97,385)	\$ -	\$ -	\$ -	\$ 12,000
Income taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income (Loss)	\$ (73,006)	\$ (183,579)	\$ (363,683)	\$ (535,631)	\$ (455,328)	\$ (90,383)	\$ 276,110	\$ 33,059
Basic and diluted earnings (loss) per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (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 2021 fourth quarter, project activity did not follow historical patterns as the COVID-19 pandemic postponed certain project starts. During Q4 2022, the Company recognized \$97,391 in impairment of amounts due from related companies which has been included in other income (expense).

Liquidity and Capital Resources

As at June 30, 2023, the Company's cash totaled \$176,628 and bank indebtedness totaled \$nil (September 30, 2022 – cash of \$750,107 and bank indebtedness of \$74,509) and the Company had a working capital deficiency of \$1,058,348 (September 30, 2022 – \$476,922). Cash used in operating activities during the nine months ended June 30, 2023 was \$163,685 (2022 – \$19,855). Cash used in investing activities during the nine months ended June 30, 2023 was \$64,423 (2022 - \$29,337). Cash used in financing activities for the nine months ended June 30, 2023 was \$270,862 (2022 – cash provided by financing activities of \$246,516). The increase in cash used in financing activities in the nine months ended June 30, 2023 was mainly due to proceeds of \$600,000 from a private placement during the nine months ended June 30, 2022 which did not recur in 2023.

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 incurred a net loss during the three and nine months ended June 30, 2023 of \$73,006 and \$620,268, respectively (2022 – \$455,328 and \$269,601, respectively), has a working capital deficiency of \$1,058,348 (September 30, 2022 - \$476,922) and an accumulated deficit of

\$3,463,720 (September 30, 2022 - \$2,843,452). The Company's ability to continue as a going concern is dependent on continued support from related parties, generating a profit from operations, and obtaining additional financing, as necessary.

The Company expects that it will have sufficient financial resources to continue operations and the resources to execute on its business improvement plan to increase income in the future.

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

Lease Commitments years ended June 30 – undiscounted cash flow:

2024	\$ 263,792
2025	<u>272,484</u>
Total lease commitment	<u>\$ 536,276</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. As at June 30, 2023, the Company has drawn on \$nil of the line of credit.

The Company received an \$100,000 COVID-19 relief line of credit from the Canada Small Business Financing Program as support for businesses in the prior years. Since \$30,000 of the loan amount will be forgiven if the Company repays the loan before December 31, 2023, the Company has recognized \$30,000 as government assistance (\$10,000 in 2021 and \$20,000 in 2020) and the remaining balance outstanding is expected to be repaid by December 31, 2023.

Transactions with Related Parties

During the nine months ended June 30, 2023, the Company advanced \$30,536 to Reco Central Alberta Inc. (2022 - \$8,110) a company that has common management and directors with the Company and \$31,263 to Reco Southern Alberta Inc. (2022 - \$21,227), a company that has common management and directors with the Company. The advances were to provide working capital to these companies and consisted of unsecured advances that bear no interest and have no specific terms of repayment. During the three and nine months ended June 30, 2023, the Company recorded an allowance for impairment of \$4,292 and \$61,799, respectively (2022 - \$nil), on the amounts advanced due to the uncertainty of repayment.

As at June 30, 2023, amounts payable to related parties consists of:

- a) \$451,853 payable to H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company (September 30, 2022 - \$538,328);
- b) \$6,535 payable to William Harper, the current CFO of the Company, for consulting fees (September 30, 2022 - \$7,500); and
- c) \$33,900 for consulting fees owed to 1972888 Alberta Ltd., a company controlled by a close family member of Hubert Lau, a director of the Company (September 30, 2022 - \$111,923), and \$374 for consulting fees owed to Joshua Lau, a close family member of Hubert Lau, a

director of the Company (September 30, 2022 - \$12,669).

During the nine months ended June 30, 2023, the Company received advances of \$nil (2022 - \$15,000) and made repayments of \$86,474 (2022 - \$15,000) to H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company. The advances and repayments were to provide working capital to the Company and all amounts are unsecured, bear no interest and have no specific terms of repayment.

During the nine months ended June 30, 2022, the Company made repayments of \$249,425 to Q.Q.S. Construction Consulting Ltd., a company controlled by Quin Quang Sie, the former CFO and director of the Company.

Key management during the three and nine months ended June 30, 2023 includes senior executives of the Company, Hugh Zhen the Chief Executive Officer (the “CEO”) and William Harper the Interim Chief Financial Officer (the “CFO”), the directors of the Company, Hugh Zhen, Hubert Lau, James Smith, David Malicki, and Lyn Jones and companies controlled by them. The compensation expense of key management and their close family members are as follows:

Three months ended	June 30, 2023	June 30, 2022
Salaries and other short-term employee benefits	\$ -	\$ 18,940
Consulting fees	\$ (2,075)	\$ -
Management fee	\$ 40,500	\$ 120,126
Share-based compensation	\$ 20,441	\$ -

Nine months ended	June 30, 2023	June 30, 2022
Salaries and other short-term employee benefits	\$ 7,863	\$ 18,940
Consulting fees	\$ 12,325	\$ -
Management fee	\$ 121,500	\$ 120,126
Share-based compensation	\$ 61,321	\$ -

Risk Factors

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

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

Financial Instruments

The Company's financial instruments consist of cash, deposits, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, amounts payable to related parties, lease liability 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 variable-rate 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 amounts due from related parties that arises from the possibility that the third party does not satisfy its contractual obligations. The carrying amounts of financial assets represent the maximum credit exposure.

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 counterparty.

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 June 30, 2023, the Company has \$256,136 (September 30, 2022 - \$297,129) of trade accounts receivable that are past due (over 90 days). An expected credit loss of \$4,778 was recorded for accounts receivable during the three and nine months ended June 30, 2023 (2022 - \$nil). As at June 30, 2023, approximately 78% (September 30, 2022 - 73%) of trade accounts receivable are from four (4) customers (September 30, 2022 – two (2) customers). Trade accounts receivable aging details are as follows:

	June 30, 2023	September 30, 2022
Current	\$ -	\$ 279,079
0 – 90 days	13,571	318,059
Over 90 days	256,136	297,129
	<u>\$ 269,707</u>	<u>\$ 894,267</u>

During the three and nine months ended June 30, 2023, the Company recognized an allowance for impairment on amounts due from related parties of \$4,292 and \$61,779, respectively (2022 - \$nil). As at June 30, 2023, the cumulative allowance for impairment on amounts due from related parties is \$273,891 (September 30, 2022 - \$212,092).

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, 2023, the Company's cash totalled \$176,628 (September 30, 2022 – \$750,107) and bank indebtedness totalled \$nil (September 30, 2022 - \$74,509), accounts receivable totalled \$274,972 (September 30, 2022 - \$894,267) and the Company had a working capital deficiency of \$1,058,348 (September 30, 2022 - \$476,922). The contractual maturity of the Company's bank indebtedness and accounts payable and accrued liabilities of \$535,756 (September 30, 2022 - \$1,024,997) will be paid within one year and the amounts payable to related parties of \$492,662 (September 30, 2022 - \$538,328) is composed of \$40,810 which will be paid within one year and \$451,852 due on demand with no formal terms of repayment. The contractual maturity of the Company's lease liability and long-term debt is disclosed above in the Liquidity and Capital Resources section.

Fair value

The fair value of cash, deposits, accounts receivables, bank indebtedness, accounts payable and accrued liabilities and amounts payable to related parties approximate their carrying amounts due to the short-term nature of the financial instruments. The fair value of the lease liability and long-term debt approximates their carrying amounts since their 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 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, 2023 and September 30, 2022, the Company does not have any financial instruments measured at fair value.

Off – Balance Sheet Arrangements

As at June 30, 2023, the Company has not entered into any off-balance sheet arrangements.

Share Structure

As at June 30, 2023 and the date of this MD&A, the Company has 49,635,635 common shares and 9,300,000 stock options issued and outstanding and fully diluted share capital of 58,935,635.

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.

New Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB and the Company is currently evaluating the potential impacts on the Financial Statements of such pronouncements. Pronouncements that are not applicable or are not expected to have a significant impact on the Financial Statements have been excluded.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023.

Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

The amendments introduced the definition of accounting estimates and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023.

Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract

The amendment specifies that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted.

Amendments to IFRS 9: Financial Instruments

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022, with earlier adoption permitted.

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 acts 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.sedarplus.ca.

Shareholder communications information may be obtained here:

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

Email: 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.