

RECO INTERNATIONAL GROUP INC.
(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the Nine Months Ended
June 30, 2023
(Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The Company's external auditors, RSM Canada LLP, have not performed a review of these interim condensed consolidated financial statements.

"Hugh Zhen"
Signed
Hugh Zhen
President and Chief Executive Officer

"William Harper"
Signed
William Harper
Interim Chief Financial Officer

August 21, 2023

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statement of Financial Position

June 30, 2023

(Expressed in Canadian Dollars)

	June 30, 2023	September 30, 2022
ASSETS		
Current Assets		
Cash	\$ 176,628	\$ 750,107
Accounts receivable (Note 4)	274,972	894,267
Prepaid expenses and other	<u>39,304</u>	<u>41,868</u>
	490,904	1,686,242
Deposits	11,105	20,080
Equipment (Note 6)	68,238	78,574
Right-of-use asset (Note 11)	<u>459,776</u>	<u>639,689</u>
	<u>\$ 1,030,023</u>	<u>\$ 2,424,585</u>
LIABILITIES		
Current Liabilities		
Bank indebtedness (Note 7)	\$ -	\$ 74,509
Accounts payable and accrued liabilities (Note 8)	535,756	950,488
Amounts payable to related parties (Note 5)	492,662	538,328
Contract liabilities (Note 9)	213,495	387,913
Current portion of lease liability (Note 11)	237,339	211,926
Current portion of long-term debt (Note 10)	<u>70,000</u>	<u>-</u>
	1,549,252	2,163,164
Long-term debt (Note 10)	-	70,000
Lease liability (Note 11)	<u>263,572</u>	<u>443,796</u>
	1,812,824	2,676,960
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 12)	2,272,335	2,272,335
Share-based compensation reserve	408,584	318,742
Deficit	<u>(3,463,720)</u>	<u>(2,843,452)</u>
	<u>(782,801)</u>	<u>(252,375)</u>
	<u>\$ 1,030,023</u>	<u>\$ 2,424,585</u>

Reporting entity and going concern (Note 1)

Approved on behalf of the Board

"Hugh Zhen"

Signed

Director

"Hubert Lau"

Signed

Director

See accompanying notes to the interim condensed consolidated financial statements

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statement of Operations and Comprehensive Loss
For the Three and Nine Months Ended June 30, 2023
(Expressed in Canadian Dollars)

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Nine Months Ended June 30, 2023	Nine Months Ended June 30, 2022
Revenue	<u>\$ 836,396</u>	<u>\$ 525,194</u>	<u>\$ 1,991,926</u>	<u>\$ 1,759,261</u>
Expenses				
Subcontracts	403,372	238,715	1,073,099	503,999
General and administrative	125,763	286,577	444,952	485,489
Salaries and benefits	146,571	220,578	460,385	486,692
Materials and supplies	114,752	185,249	250,652	435,691
Depreciation	64,291	42,288	192,872	103,806
Share-based compensation (Note 12)	29,947	-	89,842	-
Finance costs (Note 13)	15,636	7,115	43,083	13,185
Bad debt	4,778	-	4,778	-
	<u>905,110</u>	<u>980,522</u>	<u>2,559,663</u>	<u>2,028,862</u>
Net loss before other income (expense)	<u>\$ (68,714)</u>	<u>\$ (455,328)</u>	<u>\$ (567,737)</u>	<u>\$ (269,601)</u>
Other income (expense)				
Impairment of amounts due from related parties (Note 5)	(4,292)	-	(61,799)	-
Gain on settlement of liabilities	-	-	9,244	-
Other income	-	-	24	-
	<u>(4,292)</u>	<u>-</u>	<u>(52,531)</u>	<u>-</u>
Net loss and comprehensive loss	<u>\$ (73,006)</u>	<u>\$ (455,328)</u>	<u>\$ (620,268)</u>	<u>\$ (269,601)</u>
Net loss per common share – basic and diluted (Note 14)	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding – basic and diluted (Note 14)	<u>49,635,635</u>	<u>36,432,338</u>	<u>49,635,635</u>	<u>27,380,412</u>

See accompanying notes to the interim condensed consolidated financial statements

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statement of Changes in Equity

For the Nine Months Ended June 30, 2023

(Expressed in Canadian Dollars)

	Share Capital		Share-Based	Deficit	Total
	Shares	Amount	Compensation Reserve		
Balance, October 1, 2022	49,635,635	\$ 2,272,335	\$ 318,742	\$(2,843,452)	\$ (252,375)
Share-based compensation (Note 12)	-	-	89,842	-	89,842
Net loss	-	-	-	(620,268)	(620,268)
Balance, June 30, 2023	49,635,635	\$ 2,272,335	\$ 408,584	\$(3,463,720)	\$ (782,801)

	Share Capital		Share-Based	Deficit	Total
	Shares	Amount	Compensation Reserve		
Balance, October 1, 2021	25,635,635	\$ 1,105,117	\$ 208,935	\$(2,038,220)	\$ (724,168)
Private placement	24,000,000	1,200,000	-	-	1,200,000
Net loss	-	-	-	(269,601)	(269,601)
Balance, June 30, 2022	49,635,635	\$ 2,305,117	\$ 208,935	\$(2,307,821)	\$ 206,231

See accompanying notes to the interim condensed consolidated financial statements

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statement of Cash Flows

For the Nine Months Ended June 30, 2023

(Expressed in Canadian Dollars)

	June 30, 2023	June 30, 2022
Cash Provided by (Used in):		
Operating Activities		
Net loss	\$ (620,268)	\$ (269,601)
Items not involving cash:		
Share-based compensation (Note 12)	89,842	-
Depreciation	192,872	103,806
Impairment of amounts due from related parties (note 5)	61,799	-
Accretion expense	29,577	5,866
Net change in non-cash working capital balances (Note 15)	<u>82,493</u>	<u>140,074</u>
	<u>(163,685)</u>	<u>(19,855)</u>
Investing Activities		
Advances to related parties (Note 5)	(61,799)	(29,337)
Purchase of equipment (Note 6)	<u>(2,624)</u>	<u>-</u>
	<u>(64,423)</u>	<u>(29,337)</u>
Financing Activities		
Proceeds from private placement	-	600,000
Repayments to related parties	(86,474)	(264,425)
Advances from related parties	-	15,000
Repayment of lease obligation	<u>(184,388)</u>	<u>(104,059)</u>
	<u>(270,862)</u>	<u>246,516</u>
Increase (decrease) in cash	(498,970)	197,324
Cash (bank indebtedness), beginning of period	<u>675,598</u>	<u>(73,288)</u>
Cash, end of period	<u>\$ 176,628</u>	<u>\$ 124,036</u>

See accompanying notes to the interim condensed consolidated financial statements

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2023

(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 interim condensed consolidated 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), had 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 required.

These interim condensed consolidated financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenues and expenses and the statement of financial position 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 interim condensed financial statements have been prepared in accordance and compliance with International Accounting Standard 34, (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain financial information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. The disclosure herein is incremental to the disclosure included in the annual consolidated financial statements. The interim condensed consolidated financial statement should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2022.

The Board of Directors approved these interim condensed financial statements for issuance on August 21, 2023.

b) Basis of Measurement

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

c) Functional Currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company’s and its subsidiaries’ functional currency.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2023

(Expressed in Canadian Dollars)

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

d) Use of Management Critical Judgment, Estimates and Assumptions

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 interim condensed consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation were:

Accounts Receivable

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.

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Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2023

(Expressed in Canadian Dollars)

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

d) Use of Management Critical Judgment, Estimates and Assumptions (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.

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.

Share-based Compensation

The fair value of stock options granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the stock options, the expected volatility of the Company's shares, the expected life of the stock options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical volatility of its common shares. The expected life of the stock options is based on historical experience and estimates of the holder's behaviour. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of stock options that will be forfeited, and the rate is adjusted to reflect the actual number of stock options that vest.

3. **Summary of Significant Accounting Policies**

The accounting policies applied by the Company in these interim condensed consolidated financial statements are the same as those applied by the Company in its audited consolidated financial statements for the year ended September 30, 2022.

Reclassification

Advances to related parties of \$29,337, which was included and presented in repayment to related parties as part of cash used in financing activities for the nine months ended June 30, 2022 on the interim condensed consolidated statement of cash flows was reclassified to cash used in investing activities to conform with the current period's presentation. The reclassification resulted in a decreased of \$29,337 in cash used in financing activities and an increase of the same amount in cash used in investing activities for the nine months ended June 30, 2022.

RECO INTERNATIONAL GROUP INC.

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Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in Canadian Dollars)

4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>June 30, 2023</u>	<u>September 30, 2022</u>
Trade accounts receivable	\$ 269,707	\$ 894,267
Goods and Services Tax receivable	<u>5,265</u>	<u>-</u>
	<u>\$ 274,972</u>	<u>\$ 894,267</u>

During the three and nine months ended June 30, 2023, the Company recorded bad debt expense of \$4,778.

5. Related Party Balances and Related Party Transactions

- a) During the nine months ended June 30, 2023, the Company advanced \$61,799 (2022 - \$29,337) to companies that have common management and directors with the Company. The advances 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 amounts advanced due to the uncertainty of repayment (Note 16(d)).
- b) As at June 30, 2023, amounts payable to related parties includes:
- \$451,853 of advances from a company controlled by the Chief Executive Officer ("CEO") and director of the Company (September 30, 2022 - \$538,328), these amounts are unsecured, bear no interest and have no specific terms of repayment;
 - \$6,535 of consulting fees owed to the Interim Chief Financial Officer ("CFO") (September 30, 2022 - \$7,500); and
 - \$33,900 and \$374 of consulting fees owed to a company controlled by a close family member of a director of the Company and a close family member of a director of the Company, respectively (September 30, 2022 - \$111,923 and \$12,669, respectively).
- c) During the nine months ended June 30, 2023, the Company received advances of \$nil (2022 - \$15,000) from a related party and made repayments of \$86,474 (2022 - \$264,425) to the same related party.
- d) During the three and nine months ended June 30, 2023 and 2022, key management includes senior executives and directors of the Company. The compensation expense of key management and their close family members are as follows:

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

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(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2023

(Expressed in Canadian Dollars)

5. Related Party Balances and Related Party Transactions (continued)

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	\$ -

6. Equipment

	Cost						Balance at June 30, 2023
	Balance at September 30, 2021	Additions	Disposals	Balance at September 30, 2022	Additions	Disposals	
Equipment	\$ 575,118	\$ -	\$ -	\$ 575,118	\$ -	\$ -	\$ 575,118
Office furniture	87,214	-	-	87,214	-	-	87,214
Computer equipment	72,688	-	-	72,689	2,624	-	75,313
Vehicles	170,973	-	-	170,973	-	-	170,973
	<u>\$ 905,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 905,993</u>	<u>\$ 2,624</u>	<u>\$ -</u>	<u>\$ 908,618</u>

	Accumulated Depreciation						Balance at June 30, 2023
	Balance at September 30, 2021	Additions	Disposals	Balance at September 30, 2022	Additions	Disposals	
Equipment	\$ 495,155	\$ 15,993	\$ -	\$ 511,148	\$ 9,595	\$ -	\$ 520,743
Office furniture	83,382	766	-	84,148	460	-	84,608
Computer equipment	68,700	1,430	-	70,130	1,196	-	71,326
Vehicles	158,887	3,106	-	161,993	1,710	-	163,703
	<u>\$ 806,124</u>	<u>\$ 21,295</u>	<u>\$ -</u>	<u>\$ 827,419</u>	<u>\$ 12,961</u>	<u>\$ -</u>	<u>\$ 840,380</u>

	Net Book Value	
	Balance at June 30, 2023	Balance at September 30, 2022
Equipment	\$ 54,375	\$ 63,970
Office furniture	2,606	3,066
Computer equipment	3,987	2,558
Vehicles	7,270	8,980
	<u>\$ 68,238</u>	<u>\$ 78,574</u>

7. Bank Indebtedness

The Company has available a line of credit of \$100,000 bearing interest at prime plus 3.5%, secured by a general security agreement and is due on demand. No amount has been drawn on the line of credit as at June 30, 2023 (September 30, 2022 - \$19,268 was drawn on the line of credit with outstanding cheques of \$55,241).

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2023

(Expressed in Canadian Dollars)

8. Accounts Payable and Accrued Liabilities

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

	June 30, 2023	September 30, 2022
Trade payables	\$ 425,816	\$ 645,644
Accrued liabilities	109,940	252,375
Goods and Services Tax payable	<u>-</u>	<u>52,469</u>
	<u>\$ 535,756</u>	<u>\$ 950,488</u>

9. Contract Liabilities and Major Customers

For the three and nine months ended June 30, 2023, revenues from one (1) customer of the Company (2022 – four (4) customers) represented approximately \$654,000 and \$1,385,000, respectively revenues (2022 – approximately \$463,000 and \$1,407,000), or approximately 78% and 70%, respectively, of the Company's total revenues (2022 – approximately 88% and 80%).

As at June 30, 2023, the Company has five (5) construction contracts (September 30, 2022 – three (3) construction contracts) in progress and the following is financial information for the contracts in progress:

	Nine months ended June 30, 2023	Year ended September 30, 2022
Balance, beginning of period	\$ 387,913	\$ 30,000
Add – amounts billed during the period	1,211,287	622,923
Deduct – recognized in revenue	<u>(1,385,705)</u>	<u>(265,010)</u>
Balance, end of period	<u>\$ 213,495</u>	<u>\$ 387,913</u>

The construction contracts in progress are scheduled to be completed within the next twelve (12) months.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2023

(Expressed in Canadian Dollars)

10. Long-term Debt

	<u>June 30, 2023</u>	<u>September 30, 2022</u>
CEBA loan, interest free, no principal payments until December 2023, repayment of loan balance on or before December 31, 2023 will result in forgiveness of \$30,000. After December 31, 2023, unpaid balance is payable over 3-year term at interest of 5% per annum.	<u>\$ 70,000</u>	<u>\$ 70,000</u>
Less – current portion	<u>\$ 70,000</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ 70,000</u>

The Company received an \$100,000 COVID-19 relief line of credit from the Canada Small Business Financing Program as support for businesses. 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 of \$70,000 has been reflected above.

11. Lease Liability and Right-of-Use Asset

Effective June 1, 2022, the Company extended its office premises lease for an additional three (3) years. The office premises lease expires on May 31, 2025. The associated lease liability and right-of-use asset has been calculated using an incremental borrowing rate of 6.7% and is summarized below:

	<u>Nine months Ended June 30, 2023</u>	<u>Year ended September 30, 2022</u>
Right-of-Use Asset		
Balance, start of period	<u>\$ 639,689</u>	<u>\$ 67,845</u>
Modification – extension of lease term	<u>-</u>	<u>719,650</u>
Less - depreciation	<u>(179,913)</u>	<u>(147,806)</u>
Balance, end of period	<u>\$ 459,776</u>	<u>\$ 639,689</u>
Lease Liability		
Balance, start of period	<u>\$ 655,722</u>	<u>\$ 82,345</u>
Modification – extension of lease term	<u>-</u>	<u>719,650</u>
Less – lease payments	<u>(184,388)</u>	<u>(163,660)</u>
Add – finance expense	<u>29,577</u>	<u>17,387</u>
Balance, end of period	<u>\$ 500,911</u>	<u>\$ 655,722</u>
Less – current portion	<u>\$ (237,339)</u>	<u>\$ (211,926)</u>
	<u>\$ 263,572</u>	<u>\$ 443,796</u>

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Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2023

(Expressed in Canadian Dollars)

11. Lease Liability and Right-of-Use Asset (continued)

Lease Commitments years ended June 30 – undiscounted cash flow:

2024	\$	263,792
2025		<u>272,484</u>
Total lease commitment		536,276
Future interest portion		<u>(35,365)</u>
	\$	<u>500,911</u>

12. 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:

	Number of Common Shares	Amount
Balance, September 30, 2021	25,635,635	\$ 1,105,117
Private placement, net of share issue costs	<u>24,000,000</u>	<u>\$ 1,167,218</u>
Balance, September 30, 2022 and June 30, 2023	<u>49,635,635</u>	<u>\$ 2,272,335</u>

During the year ended September 30, 2022, the Company issued 24,000,000 common shares at a price of \$0.05 per common share for gross proceeds of \$1,200,000 and incurred \$32,782 of share issue costs.

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Notes to the Interim Condensed Consolidated Financial Statements

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12. **Share Capital** (Continued)**Share-Based Compensation Plan**

Under the Company's Share-based Compensation Plan, options to purchase common shares of the Company may be granted to directors, employees, management company employees and consultants of the Company. The Board of Directors determines the price per common share and the number of common shares which may be allocated to each eligible participant and all other terms and conditions of the options, subject to the rules of the TSX Venture Exchange.

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, September 30, 2021	5,100,000	\$ 0.05
Options grants	6,300,000	0.05
Options cancelled	<u>(2,100,000)</u>	<u>0.05</u>
Balance, September 30, 2022 and June 30, 2023	<u>9,300,000</u>	<u>\$ 0.05</u>

The following table summarizes information on stock options outstanding and exercisable at June 30, 2023:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Expiry date</u>
\$ 0.05	3,000,000	3,000,000	December 6, 2023
\$ 0.05	6,300,000	2,100,000	July 3, 2027

As at June 30, 2023, the weighted average life remaining of the total number of outstanding stock options was 2.86 years and the weighted average life remaining of exercisable stock options was 1.91 years.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the stock options. During the three and nine months ended June 30, 2023, the Company recorded \$29,947 and \$89,842, respectively (2022 - \$nil), in share-based compensation expense on stock options granted during the year ended September 30, 2022 with the following assumptions used to estimate their fair value:

Annualized volatility	101.06%
Risk-free interest rate	3.04%
Expected life of	5 years
Dividend rate	0.00%
Fair value per stock option	\$0.038
Share price	\$0.05

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13. Finance Costs

The components of finance costs are as follows:

Three months ended	June 30, 2023	June 30, 2022
Interest expense	\$ 6,638	\$ 1,249
Interest on lease liability	<u>8,998</u>	<u>5,866</u>
	<u>\$ 15,636</u>	<u>\$ 7,115</u>
Nine months ended	June 30, 2023	June 30, 2022
Interest expense	\$ 13,507	\$ 7,319
Interest on lease liability	<u>29,576</u>	<u>5,866</u>
	<u>\$ 43,083</u>	<u>\$ 13,185</u>

14. Earnings Per Share

The basic earnings per share is based on the weighted average number of common shares outstanding as at June 30, 2023 of 49,635,635 (2022 - 25,635,635). The diluted earnings per share is calculated using the weighted average number of common shares of 49,635,635 (2022 – 25,635,635) and does not include the stock options which were anti-dilutive.

15. Non-Cash Working Capital Balances

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

	June 30, 2023	June 30, 2022
Accounts receivable	\$ 619,295	\$ (243,772)
Prepaid expenses and other	2,564	-
Deposit	\$ 8,975	\$ 495
Accounts payable and accrued liabilities	(373,923)	383,351
Contract liabilities	<u>(174,418)</u>	<u>-</u>
	<u>\$ 82,493</u>	<u>\$ 140,074</u>

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2023

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16. 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.

- a) The credit risk for cash is mitigated with the Company holding cash with major financial institutions.
- b) The credit risk for deposits is low due to the credit worthiness of the counterparty.
- c) 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:

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

- d) During the three and nine months ended June 30, 2023, the Company recognized an allowance for impairment on amounts due from related parties (Note 5(a)) 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).

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Notes to the Interim Condensed Consolidated Financial Statements

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16. Financial Instruments (Continued)

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 long-term debt is disclosed in Note 10. The contractual maturity of the Company's lease liability is disclosed in Note 11.

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 approximate 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.

17. Contingencies

In the normal course of operations, the Company will become subject to a variety of legal and other claims against the Company. Management and the Company's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Company will not be material.

As of June 30, 2023 and September 30, 2022, no amounts have been recorded and none are required to be disclosed in the interim condensed consolidated financial statements with respect to contingencies.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

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18. 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 \$782,801 (September 30, 2022 – \$252,375) and certain amounts payable to related parties of \$451,852 (September 30, 2022 - \$538,328) 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.