

FORM 51-102F1

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") as of January 23, 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 and accompanying notes thereto (the "Financial Statements"). All dollar amounts are expressed in Canadian funds unless otherwise stated.

International Financial Reporting Standards ("IFRS")

The Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB").

The Company's external auditors, RSM Canada LLP, have performed an audit of the Financial Statements.

Except as otherwise noted, the annual and quarterly financial information contained in this MD&A has been prepared in accordance with IFRS.

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 year ended September 30, 2022 as compared to the same period in 2021. There was also a corresponding increase in total expenses during the year ended September 30, 2022 as compared to the same period in 2021. Overall, there was a net loss of \$805,232 during the year ended September 30, 2022 as compared to a net loss of \$491,660 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)

	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

Discuss of Operations and Financial Condition

Revenues

Revenue increased by approximately 70% during the year ended September 30, 2022 to \$2,602,702 as compared to \$1,530,799 during the same period in 2021. The increase is primarily due to the commencement of a new project in the year ended September 30, 2022 combined with certain customers postponing regular projects in 2021 due to the COVID-19 pandemic which were completed in the year ended September 30, 2022.

Subcontract and Material Costs

Subcontracts expenses increased by approximately 253% during the year ended September 30, 2022 to \$900,542 as compared to \$255,341 during the same period in 2021. This represents approximately 35% of total revenues during the year ended September 30, 2022 as compared to approximately 17% of total revenues during the same period in 2021.

Materials and supplies expenses increased by approximately 13% during the year ended September 30, 2022 to \$612,043 as compared to \$542,540 during the same period in 2021. This represents approximately 24% of total revenues during the year ended September 30, 2022 as compared to approximately 35% of total revenues during the same period in 2021.

The increases are primarily due to the nature of the projects undertaken in the respective period with projects in the year ended September 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 approximately 215% during the year ended September 30, 2022 to \$728,852 as compared to \$231,588 during the same period in 2021.

The increases in general and administrative expenses for the year ended September 30, 2022 as compared to the same period in 2021 is primarily due to management fees of approximately \$216,000 for the former Chief Financial Officer and director of the Company and the Chief Executive Officer and director of the Company, offsetting a reduction in their salaries, together with an increase in other administration, legal, and professional fees of approximately \$169,000 related to increased activity and new consultants hired by the Company during the year.

Salaries and benefits

Salaries and benefits decreased by approximately 15% to \$732,736 during the year ended September 30, 2022 as compared to \$860,825 during the same period in 2021.

The decrease in salaries and benefits is primarily due to a reduction in salary of the Chief Executive Officer and former Chief Financial Officer together with the resignation of the former Chief Financial Officer during the year ended September 30, 2022. This reduction was offset by an increase in management fees for these related parties and included in general and administrative

expense during the year ended September 30, 2022. There were no significant changes in the number of staff or their remuneration during the year ended September 30, 2022.

Share-based compensation

Share-based compensation in the year ended September 30, 2022 was \$109,807 as compared to \$nil during the same period in 2021. During the year ended September 30, 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 31% during the year ended September 30, 2022 to \$169,101 as compared to \$129,092 during the same period in 2021. 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.

Bad debt

During the year ended September 30, 2022, the Company recorded a provision of \$22,250 as bad debt expense related to the expected lifetime credit losses on accounts receivable greater than 90 days old and due from a customer (2021 - \$nil).

Impairment of amounts due from related parties

During the year ended September 30, 2022, the Company advanced \$41,800 as unsecured advances, to companies that have common management and directors with the Company, that bear no interest and have no specific terms of repayment. During the year ended September 30, 2022, the Company recorded an allowance for impairment of \$97,391 on amounts previously advanced due to the uncertainty of repayment.

Total assets

Total assets increased by approximately 279% to \$2,424,585 as at September 30, 2022 as compared to \$640,527 as at September 30, 2021. This increase was primarily due to the private placement 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 year ended September 30, 2022 together with the increase in the right-of-use asset as described in the depreciation section above and an increase in accounts receivable.

Non-current liabilities

Non-current liabilities increased by 634% to \$513,796 as at September 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.

Quarterly Results (Comparison of Fourth Quarter of 2022 with Fourth Quarter of 2021)

Revenues

Revenue increased by approximately 65% during Q4 2022 to \$843,441 as compared to \$512,465 during the same period in 2021. The increase is primarily due the commencement of a new project in the year ended September 30, 2022.

Subcontract and Material Costs

Subcontracts expenses increased by approximately 434% during Q4 2022 to \$396,543 as compared to \$74,308 during the same period in 2021. This represents approximately 47% of total revenues during Q4 2022 as compared to approximately 15% of total revenues during the same period in 2021.

Materials and supplies expenses increased by approximately 35% during Q4 2022 to \$176,352 as compared to \$131,016 during the same period in 2021. This represents approximately 21% of total revenues during Q4 2022 as compared to approximately 26% of total revenues during the same period in 2021.

The increases are primarily due to the nature of the projects undertaken in the respective period with projects in Q4 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 approximately 1,578% during Q4 2022 to \$243,364 as compared to \$14,505 during the same period in 2021.

The increases in general and administrative expenses for Q4 2022 as compared to the same period in 2021 is primarily due to management fees of approximately \$96,000 for the Chief Executive Officer and director of the Company, offsetting a reduction in his salary, together with an increase in other administration, legal, and professional fees related to increased activity and new consultants hired by the Company.

Salaries and benefits

Salaries and benefits increased by approximately 1% to \$246,044 during Q4 2022 as compared to \$242,596 during the same period in 2021.

There was no significant changes in salaries and benefits during Q4 2022 as compared to the same period in 2021. The reduction in salary of the Chief Executive Officer and former Chief Financial Officer, offset by an increase in management fees for these related parties included in general and administration expense, together with the resignation of the former Chief Financial Officer was offset by an increase in hourly wages paid to employees which was due to the project and production demands during Q4 2022.

Share-based compensation

Share-based compensation in Q4 2022 was \$109,807 as compared to \$nil during the same period in 2021. During Q4 2022, 6,300,000 stock options were granted with an exercise price of \$0.05 and expire on 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 102% during Q4 2022 to \$65,294 as compared to \$32,272 during the same period in 2021. 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.

Impairment of amounts due from related parties

During Q4 2022, the Company advanced \$12,463 as unsecured advances, to companies that have common management and directors with the Company, that bear no interest and have no specific terms of repayment. During Q4 2022, the Company recorded an allowance for impairment of \$97,391 on amounts previously advanced due to the uncertainty of repayment.

Bad debt

During Q4 2022, the Company recorded a provision of \$22,250 as bad debt expense related to the expected lifetime credit losses on accounts receivable greater than 90 days old and due from a customer (2021 - \$nil).

Summary of Quarterly Results (in accordance with IFRS)

	Sep 30, 2022	June 30, 2022	March 31, 2022	Dec 31, 2021	Sep 30, 2021	June 30, 2021	March 31, 2021	Dec 31, 2020
Revenues	\$ 843,441	\$ 525,194	\$ 450,258	\$ 783,809	\$ 517,465	\$ 295,875	\$ 480,728	\$ 236,731
Expenses	\$ 1,281,687	\$ 980,522	\$ 540,641	\$ 507,699	\$ 496,406	\$ 504,742	\$ 565,126	\$ 468,185
Other income (expense)	\$ (97,385)	\$ -	\$ -	\$ -	\$ 12,000	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income (Loss)	\$ (535,631)	\$ (455,328)	\$ (90,383)	\$ 276,110	\$ 33,059	\$ (208,867)	\$ (84,398)	\$ (231,454)
Basic and diluted earnings (loss) per share	\$ (0.01)	\$ 0.01	\$ (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 effected 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 years, 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 September 30, 2022, the Company's cash totaled \$750,107 and bank indebtedness totaled \$74,509 (2021 – cash of \$nil and bank indebtedness of \$73,288) and the Company had a working capital deficiency of \$476,922 (September 30, 2021 – deficiency of \$833,482). Cash used in operating activities during the year ended September 30, 2022 was \$64,510 (2021 - \$43,046). Cash used in investing activities during the year ended September 30, 2022 was \$41,800 (2021 - \$57,024). Cash provided by financing activities for the year ended September 30, 2022 was \$855,196 (2021 – cash used in financing activities of \$106,289). The increase in cash provided by financing activities during the year ended September 30, 2022 was primarily due to the private placement of 24,000,000 common shares for gross proceeds of \$1,200,000.

The 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 \$476,922 (September 30, 2021 - \$833,482) and an accumulated deficit of \$2,843,452 (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 year ended September 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 September 30 – undiscounted cash flow:

2023	\$ 249,575
2024	272,918
2025	<u>198,170</u>
Total lease commitment	720,663
Future finance costs	<u>(64,941)</u>
	<u>\$ 655,722</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 September 30, 2022, the Company has drawn on \$19,268 of the line of credit with outstanding cheques of \$55,241.

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 year ended September 30, 2022, the Company advanced \$14,341 to Reco Central Alberta Inc. (September 30, 2021 - \$25,995) a company controlled by Hugh Zhen, the CEO and director of the Company and \$27,459 to Reco Southern Alberta Inc. (September 30, 2021 - \$29,596), a company controlled by Hugh Zhen, the CEO and director of 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 year ended September 30, 2022, the Company recorded an allowance for impairment of \$97,391 on amounts previously advanced due to the uncertainty of repayment.

As at September 30, 2022, amounts payable to related parties consists of:

- a) \$nil payable to Q.Q.S. Construction Consulting Ltd., a company controlled by Quin Quang Sie, the former CFO and director of the Company (September 30, 2021 - \$249,795);
- b) \$538,328 payable to H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company (September 30, 2021 - \$436,895); and
- c) \$7,500 payable to William Harper, the current CFO of the Company, for consulting fees.

During the year ended September 30, 2022, the Company received advances of \$216,433 from H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company (2021 - \$nil).

During the year ended September 30, 2022, the Company made repayments of:

- a) \$115,000 to H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company (2021 - \$nil); and
- b) \$249,795 to Q.Q.S. Construction Consulting Ltd., a company controlled by Quin Quang Sie, the former CFO and director of the Company (2021 - \$nil).

The advances and repayments above were to provide working capital to the Company and all amounts are unsecured, bear no interest and have no specific terms of repayment.

As at September 30, 2022, \$7,500 is included in accounts payable and accrued liabilities for consulting fees owed to William Harper, the Interim Chief Financial Officer.

As at September 30, 2022, \$111,923 is included in accounts payable and accrued liabilities for consulting fees owed to 1972888 Alberta Ltd., a company controlled by a close family member of Hubert Lau, a director of the Company, and \$12,669 is included in accounts payable and accrued liabilities for consulting fees owed to Joshua Lau, a close family member of Hubert Lau, a director of the Company.

Key management during the year ended September 30, 2022 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”), and the directors of the Company, including Hugh Zhen, Hubert Lau, James Smith, David Malicki, and Lyn Jones. The compensation expense of key management and their close family members for employee, consulting and management services are as follows:

	<u>2022</u>	<u>2021</u>
Salaries and other short-term employee benefits	\$ 20,143	\$ 211,560
Consulting fees	146,432	-
Management fees	216,376	-
Share-based compensation	\$ 74,948	\$ -

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, 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 September 30, 2022, the Company has \$297,129 (2021 - \$219,227) of accounts receivable that are past due (over 90 days). An expected credit loss of \$22,250 was recorded for accounts receivable during the year ended September 30, 2022 (2021 - \$nil). As at September 30, 2022, approximately 73% (2021 - 49%) of contract revenues receivable are from two (2) customers (2021 – three (3) customers). Trade accounts receivable aging details are as follows:

	<u>2022</u>	<u>2021</u>
Current	\$ 279,079	\$ 82,917
0 - 90 days	318,059	127,183
Over 90 days	<u>297,129</u>	<u>219,227</u>
	<u>\$ 894,267</u>	<u>\$ 429,327</u>

- d) The Company recognized an allowance for impairment on amounts due from related parties of \$97,391 during the year ended September 30, 2022 (2021 - \$nil). As at September 30, 2022, the cumulative allowance for impairment on amounts due from related parties is \$212,092 (2021 - \$170,292).

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, 2022, the Company's cash totaled \$750,107 and bank indebtedness totaled \$74,509 (2021 – cash of \$nil and bank indebtedness of \$73,288), trade accounts receivable totaled \$894,267 (2021 - \$429,327) and the Company had a working capital deficiency of \$476,922 (2021 - \$833,482). The contractual maturity of the Company's bank indebtedness and accounts payable and accrued liabilities of \$1,024,997 (2021 - \$495,660) will be paid within one year and the amounts payable to related parties of \$538,328 (2021 - \$686,690) are due on demand and have 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, 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 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, 2022, the Company does not have any financial instruments measured at fair value.

Off – Balance Sheet Arrangements

As at September 30, 2022, the Company has not entered into any off-balance sheet arrangements.

Share Structure

As at September 30, 2022 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 preparation of the Financial Statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported in the Financial Statements and accompanying notes. There is a full discussion and description of the Company's critical accounting policies in the 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.

COVID-19

The COVID-19 pandemic has had a substantial impact on the economy. Although the impacts of the COVID-19 pandemic have lessened over time, there still remains some uncertainty associated with the unprecedented nature of the pandemic. The Company was impacted from the COVID-19 pandemic as certain projects were put on hold as a result of business closures. As of the date of this MD&A, the extent to which the COVID 19 pandemic may continue to impact the Company’s results will depend on future developments, which are highly uncertain and cannot be predicted.

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.sedar.com.

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.