

RECO INTERNATIONAL GROUP INC.
(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the Three and Nine Months Ended
June 30, 2024
(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, Kenway Mack Slusarchuk Stewart 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 26, 2024

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statements of Financial Position

June 30, 2024

(Expressed in Canadian Dollars)

	June 30, 2024	September 30, 2023
ASSETS		
Current Assets		
Cash	\$ 218,845	\$ 232,233
Accounts receivable (Note 4)	290,159	286,993
Prepaid expenses and other	137,089	32,465
Contract assets (Note 9)	<u>40,140</u>	<u>11,141</u>
	686,233	562,832
Deposits	11,105	11,105
Equipment (Note 6)	53,963	64,849
Right-of-use asset (Note 11)	<u>219,893</u>	<u>399,805</u>
	<u>\$ 971,194</u>	<u>\$ 1,038,591</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 856,898	\$ 666,734
Amounts payable to related parties (Note 5)	681,152	530,602
Contract liabilities (Note 9)	446,209	176,781
Current portion of lease liability (Note 11)	263,572	211,926
Current portion of long-term debt (Note 10)	<u>-</u>	<u>70,000</u>
	2,247,831	2,163,164
Lease liability (Note 11)	<u>-</u>	<u>193,282</u>
	2,247,831	1,887,913
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 12)	2,272,335	2,272,335
Share-based compensation reserve	423,162	397,968
Deficit	<u>(3,972,134)</u>	<u>(3,519,625)</u>
	<u>(1,276,637)</u>	<u>(849,322)</u>
	<u>\$ 971,194</u>	<u>\$ 1,038,591</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 Statements of Operations and Comprehensive Loss
For the Three and Nine Months Ended June 30, 2024

(Expressed in Canadian Dollars)

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Nine Months Ended June 30, 2024	Nine Months Ended June 30, 2023
Revenue	<u>\$ 1,554,874</u>	<u>\$ 836,396</u>	<u>\$ 2,424,371</u>	<u>\$ 1,991,926</u>
Expenses				
Subcontracts	944,824	403,372	1,329,958	1,073,099
Salaries and benefits	143,518	146,571	430,927	460,385
General and administrative	152,510	125,763	426,904	444,952
Materials and supplies	218,573	114,752	341,994	250,652
Depreciation	63,599	64,291	190,798	192,872
Share-based compensation	8,398	29,947	25,194	89,842
Finance costs (Note 13)	6,387	15,636	21,362	43,083
Bad debt	117,398	4,778	117,398	4,778
	<u>1,655,207</u>	<u>905,110</u>	<u>2,884,535</u>	<u>2,559,663</u>
Net loss before other income (expense)	<u>\$ (100,333)</u>	<u>\$ (68,714)</u>	<u>\$ (460,164)</u>	<u>\$ (567,737)</u>
Other income (expense)				
Impairment of amounts due from related parties (Note 5)	(19,503)	(4,292)	(36,999)	(61,799)
Gain on settlement of liabilities	-	-	-	9,244
Other income	42,000	-	44,654	24
	<u>22,497</u>	<u>(4,292)</u>	<u>7,655</u>	<u>(52,531)</u>
Net loss and comprehensive loss	<u>\$ (77,836)</u>	<u>\$ (73,006)</u>	<u>\$ (452,509)</u>	<u>\$ (620,268)</u>
Loss per common share – basic and diluted (Note 14)	<u>\$ (0.00)</u>	<u>\$ (0.00)</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>49,635,635</u>	<u>49,635,635</u>	<u>49,635,635</u>

See accompanying notes to the interim condensed consolidated financial statements

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statements of Changes in Deficiency

For the Nine Months Ended June 30, 2024

(Expressed in Canadian Dollars)

	Share Capital		Share-Based	Deficit	Total
	Shares	Amount	Compensation Reserve		
Balance, September 30, 2023	49,635,635	\$ 2,272,335	\$ 397,968	\$(3,519,625)	\$ (849,322)
Share-based compensation (Note 12)	-	-	25,194	-	25,194
Net loss and comprehensive loss	-	-	-	(452,509)	(452,509)
Balance, June 30, 2024	<u>49,635,635</u>	<u>\$ 2,272,335</u>	<u>\$ 423,162</u>	<u>\$(3,972,134)</u>	<u>\$ (1,276,637)</u>

	Share Capital		Share-Based	Deficit	Total
	Shares	Amount	Compensation Reserve		
Balance, September 30, 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 and comprehensive loss	-	-	-	(620,268)	(620,268)
Balance, June 30, 2023	<u>49,635,635</u>	<u>\$ 2,272,335</u>	<u>\$ 408,584</u>	<u>\$(3,463,720)</u>	<u>\$ (782,801)</u>

See accompanying notes to the interim condensed consolidated financial statements

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended June 30, 2024

(Expressed in Canadian Dollars)

	June 30, 2024	June 30, 2023
Cash Provided by (Used in):		
Operating Activities		
Net loss	\$ (452,509)	\$ (620,268)
Items not involving cash:		
Share-based compensation (Note 12)	25,194	89,842
Bad debt	117,398	4,778
Depreciation	190,798	192,872
Impairment of amounts due from related parties (Note 5)	36,999	61,799
Accretion expense	18,380	29,577
Net change in non-cash working capital balances (Note 15)	<u>355,955</u>	<u>39,241</u>
	<u>292,215</u>	<u>(202,159)</u>
Investing Activities		
Advances to related parties (Note 5)	(36,999)	(61,799)
Purchase of equipment (Note 6)	<u>-</u>	<u>(2,624)</u>
	<u>(36,999)</u>	<u>(64,423)</u>
Financing Activities		
Repayment of long-term debt (Note 10)	(70,000)	-
Repayments to related party	-	(48,000)
Repayment of lease liability	(180,224)	(154,811)
Interest paid on lease liability	<u>(18,380)</u>	<u>(29,577)</u>
	<u>(268,604)</u>	<u>(232,388)</u>
Decrease in cash	(13,388)	(498,970)
Cash, beginning of period	<u>232,233</u>	<u>675,598</u>
Cash, end of period	<u>\$ 218,845</u>	<u>\$ 176,628</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, 2024

(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. During the three and nine months ended June 30, 2024, the Company incurred a net loss of \$77,836 and \$452,509, respectively (2023 – \$73,006 and \$620,268, respectively), and during the nine months ended June 30, 2024, had cash flow from operations of \$292,215 (2023 – cash used in operations of \$202,159). As at June 30, 2024, the Company had a working capital deficiency of \$1,561,598 (September 30, 2023 - \$1,131,799) and an accumulated deficit of \$3,972,134 (September 30, 2023 - \$3,519,625). The Company’s ability to continue as a going concern is dependent on continued support from related parties and generating a profit from operations.

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 years ended September 30, 2023 and 2022.

The Board of Directors approved these interim condensed financial statements for issuance on August 26, 2024.

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, 2024

(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.

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.

RECO INTERNATIONAL GROUP INC.

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Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2024

(Expressed in Canadian Dollars)

2. Basis of Presentation (Continued)

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

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 Material Accounting Policies

The Company adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from October 1, 2023. The amendment requires the disclosure of 'material', rather than 'significant', accounting policies. The amendment did not result in any changes to the accounting policies themselves. The material accounting policies applied by the Company in these interim condensed financial statements are the same as those applied by the Company in its audited financial statements for the years ended September 30, 2023 and 2022.

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 interim condensed consolidated financial statements of such pronouncements. Pronouncements that are not applicable or are not expected to have a significant impact on the Company's interim condensed consolidated 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 consolidated statements 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 arrangement 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, 2024.

4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>June 30, 2024</u>	<u>September 30, 2023</u>
Trade accounts receivable	\$ 434,218	\$ 329,968
Goods and service tax receivable	13,646	5,152
Allowance for doubtful accounts	<u>(157,705)</u>	<u>(48,127)</u>
	<u>\$ 290,159</u>	<u>\$ 286,993</u>

The Company recorded bad debt expense of \$117,398 during the three and nine months ended June 30, 2024 (2023 - \$4,778).

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2024

(Expressed in Canadian Dollars)

5. Related Party Balances and Related Party Transactions

- a) During the three and nine months ended June 30, 2024, the Company advanced \$19,503 and \$36,999, respectively, (2023 - \$4,292 and \$61,799, respectively) 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, 2024, the Company recorded an allowance for impairment of \$19,503 and \$36,999, respectively (2023 - \$4,292 and \$61,799), on amounts advanced due to the uncertainty of repayment (Note 16(d)).
- b) As at June 30, 2024, amounts payable to related parties includes:
- \$642,378 for advances from a company controlled by the CEO and director of the Company (September 30, 2023 - \$490,328), these amounts are unsecured, bear no interest and have no specific terms of repayment;
 - \$4,500 for consulting fees owed to the Interim Chief Financial Officer ("CFO") (September 30, 2023 - \$6,000); and
 - \$33,900 and \$374 for 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 - \$33,900 and \$374, respectively).
- c) During the three and nine months ended June 30, 2024, the Company made repayments of \$Nil (2023 - \$Nil and \$48,000) to a company controlled by the CEO and director of the Company.
- d) During the three and nine months ended June 30, 2024 and 2023, 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	June 30, 2024	June 30, 2023
Consulting fees	\$ 4,132	\$ (2,075)
Management fees	\$ 71,650	\$ 40,500
Share-based compensation	\$ 6,813	\$ 20,441
Nine months ended	June 30, 2024	June 30, 2023
Salaries and other short-term employee benefits	\$ -	\$ 7,863
Consulting fees	\$ 12,328	\$ 12,325
Management fee	\$ 187,050	\$ 121,500
Share-based compensation	\$ 20,440	\$ 61,321

RECO INTERNATIONAL GROUP INC.

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Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2024

(Expressed in Canadian Dollars)

6. Equipment

	Cost						Balance at June 30, 2024		
	Balance at September 30, 2022		Additions	Disposals	Balance at September 30, 2023			Additions	Disposals
Equipment	\$ 575,118	\$ -	\$ -	\$ 575,118	\$ -	\$ -	\$ 575,118		
Office furniture	87,214	-	-	87,214	-	-	87,214		
Computer equipment	72,688	3,907	-	76,595	-	-	76,595		
Vehicles	170,973	-	-	170,973	-	-	170,973		
	<u>\$ 905,993</u>	<u>\$ 3,907</u>	<u>\$ -</u>	<u>\$ 909,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 909,900</u>		

	Accumulated Depreciation						Balance at June 30, 2024		
	Balance at September 30, 2022		Additions	Disposals	Balance at September 30, 2023			Additions	Disposals
Equipment	\$ 511,148	\$ 12,794	\$ -	\$ 523,942	\$ 7,676	\$ -	\$ 531,618		
Office furniture	84,148	613	-	84,761	368	-	85,129		
Computer equipment	70,130	1,947	-	72,077	1,583	-	73,660		
Vehicles	161,993	2,278	-	164,271	1,259	-	165,530		
	<u>\$ 827,419</u>	<u>\$ 17,632</u>	<u>\$ -</u>	<u>\$ 845,051</u>	<u>\$ 10,886</u>	<u>\$ -</u>	<u>\$ 855,937</u>		

	Net Book Value	
	Balance at June 30, 2024	Balance at September 30, 2023
	Equipment	\$ 43,500
Office furniture	2,085	2,453
Computer equipment	2,935	4,518
Vehicles	5,443	6,702
	<u>\$ 53,963</u>	<u>\$ 64,849</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. The Company has not drawn on the line of credit as at June 30, 2024 or September 30, 2023.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2024

(Expressed in Canadian Dollars)

8. Accounts Payable and Accrued Liabilities

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

	June 30, 2024	September 30, 2023
Trade payables	\$ 755,515	\$ 551,947
Accrued liabilities	<u>101,383</u>	<u>114,787</u>
	<u>\$ 856,898</u>	<u>\$ 666,734</u>

9. Contract Liabilities and Major Customers

During the three and nine months ended June 30, 2024, revenues from three (3) customers of the Company (2023 – one (1) customer) represented approximately \$1,238,000 and \$1,921,000, respectively, (2023 – \$654,000 and \$1,385,000, respectively), or approximately 80% and 79%, respectively, (2023 – 78% and 70%, respectively) of the Company's total revenues.

As at June 30, 2024, the Company has six (6) construction contracts (September 30, 2023 – six (6) construction contracts) in progress and the following is financial information for the contracts in progress:

	Nine months ended June 30, 2024	Year ended September 30, 2023
Balance, beginning of period	\$ 165,640	\$ 387,913
Add – amounts billed during the period	2,273,976	1,714,352
Deduct – amounts recognized in revenue	<u>(2,033,547)</u>	<u>(1,936,625)</u>
Balance, end of period	<u>\$ 406,069</u>	<u>\$ 165,640</u>
	June 30, 2024	September 30, 2023
Deferred (accrued) revenue	<u>446,209</u>	<u>176,781</u>
Contract assets	\$ (40,140)	\$ (11,141)
Contract liabilities	<u>446,209</u>	<u>176,781</u>
	<u>\$ 406,069</u>	<u>\$ 165,640</u>

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

RECO INTERNATIONAL GROUP INC.

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Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2024

(Expressed in Canadian Dollars)

10. Long-term Debt

	June 30, 2024	September 30, 2023
CEBA loan, interest free, no principal payments until January 2024. After January 18, 2024, any unpaid balance is payable over 2-year term at interest of 5% per annum.	\$ -	\$ 70,000
Less – Current portion	<u>-</u>	<u>(70,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company received an \$100,000 COVID-19 relief line of credit from the Canada Small Business Financing Program as support for businesses. On December 13, 2023 and January 2, 2024, the Company repaid \$30,000 and \$40,000, respectively, on the CEBA loan. As the repayments were made before the loan forgiveness deadline, the remaining \$30,000 of the CEBA loan was forgiven by the lender.

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:

	Nine months ended June 30, 2024	Year ended September 30, 2023
Right-of-Use Asset		
Balance, start of year	\$ 399,805	\$ 639,689
Less – depreciation	<u>(179,912)</u>	<u>(239,884)</u>
Balance, end of year	<u>\$ 219,893</u>	<u>\$ 399,805</u>
Lease Liability		
Balance, start of year	\$ 443,796	\$ 655,722
Less - lease payments	<u>(198,604)</u>	<u>(249,575)</u>
Add - finance costs	<u>18,380</u>	<u>37,649</u>
Balance, end of year	<u>\$ 263,572</u>	<u>\$ 443,796</u>
Less - current portion	<u>(263,572)</u>	<u>(250,514)</u>
	<u>\$ -</u>	<u>\$ 193,282</u>

Lease commitments for the years ended June 30 – undiscounted cash flow:

2025	\$ 272,484
Total lease commitment	272,484
Future finance costs	<u>(8,912)</u>
	<u>\$ 263,572</u>

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(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2024

(Expressed in Canadian Dollars)

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:

	<u>Number of Common Shares</u>	<u>Amount</u>
Balance, September 30, 2022 and 2023 and June 30, 2024	<u>49,635,635</u>	<u>\$ 2,272,335</u>

Share-Based Compensation Plan

Under the Company's Share-based Compensation Plan, options to purchase common shares of the Company may be granted to directors, officers, key employees and consultants of the Company. These options entitle the holder to purchase one common share at a subscription price that shall not be less than that which may be acceptable to any stock exchange on which the Company's shares are traded. Options expire between two and five years after being issued or ninety days after an employee ceases employment with the Company. The Board of Directors has the discretion to extend the expiration period on cessation of employment. The terms and vesting period of each option is at the discretion of the Board of Directors.

The maximum number of common shares authorized for issuance by the Board of Directors under the plan is limited to 20% of the total issued and outstanding common shares of the Company.

The activity related to stock options is as follows:

	<u>Number of Options</u>	<u>Exercise Price</u>
Balance, September 30, 2022	9,300,000	\$ 0.05
Options cancelled	(966,667)	0.05
Options forfeited	<u>(333,333)</u>	<u>0.05</u>
Balance, September 30, 2023	<u>8,000,000</u>	<u>\$ 0.05</u>
Options expired	<u>(2,700,000)</u>	<u>0.05</u>
Balance, June 30, 2024	<u>5,300,000</u>	<u>\$ 0.05</u>

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Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2024

(Expressed in Canadian Dollars)

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

The following table summarizes information on stock options outstanding and exercisable at June 30, 2024:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Expiry date</u>
\$ 0.05	5,300,000	3,533,333	July 3, 2027

As at June 30, 2024, the weighted average life remaining of the total number of outstanding stock options was 3.01 years and the weighted average life remaining of exercisable stock options was 3.01 years.

13. Finance Costs

The components of finance costs are as follows for the three and nine months ended June 30, 2024 and 2023:

Three months ended	June 30, 2024	June 30, 2023
Interest expense	\$ 1,250	\$ 6,638
Interest on lease liability	<u>5,137</u>	<u>8,998</u>
	<u>\$ 6,387</u>	<u>\$ 15,636</u>
Nine months ended	June 30, 2024	June 30, 2023
Interest expense	\$ 2,982	\$ 13,507
Interest on lease liability	<u>18,380</u>	<u>29,576</u>
	<u>\$ 21,362</u>	<u>\$ 43,083</u>

14. Loss Per Share

The basic loss per share is based on the weighted average number of common shares outstanding for the three and nine months ended June 30, 2024 of 49,635,635 (2023 – 49,635,635). The diluted loss per share is calculated using the weighted average number of common shares of 49,635,635 (2023 – 49,635,635) and does not include the stock options, which were anti-dilutive.

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15. Non-Cash Working Capital Balances

The net change in non-cash working capital balances for the nine months ended June 30, 2024 and 2023 consists of:

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Accounts receivable	\$ (120,564)	\$ 619,295
Prepaid expenses	(104,624)	2,564
Deposit	-	8,975
Accounts payable and accrued liabilities	190,164	(378,700)
Amounts payable to related parties	150,550	(38,475)
Contract assets	(28,999)	-
Contract liabilities	<u>269,428</u>	<u>(174,418)</u>
	<u>\$ 355,955</u>	<u>\$ 39,241</u>

16. Supplemental Cash Flow Information**Three months ended**

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Interest paid	<u>\$ 1,250</u>	<u>\$ 6,638</u>

Nine months ended

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Interest paid	<u>\$ 2,982</u>	<u>\$ 13,507</u>

17. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, amounts payable to related parties, long-term debt, and lease liability.

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 susceptible to interest rate cash flow risk on its bank indebtedness that bears interest at a variable rate and fair value risk on its long-term debt that bear interest at a fixed rate.

As at June 30, 2024 and September 30, 2023, the Company had no bank indebtedness, which is carried at a variable interest rate. Accordingly, management does not believe this risk is significant.

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17. Financial Instruments (Continued)

Financial risk management (Continued)

Credit risk

The Company's exposure to credit risk relates to cash and accounts receivable and 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 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, 2024, the Company has \$343,357 (September 30, 2023 - \$218,011) of accounts receivable that are past due (over 90 days). An expected credit loss of \$117,398 was recorded for accounts receivable during the three and nine months ended June 30, 2024 (2023 - \$4,778). As at June 30, 2024, approximately 69% (September 30, 2023 - 83%) of trade accounts receivable are due from two (2) customers (September 30, 2023 - five (5) customers). Trade accounts receivable aging details are as follows:

	<u>June 30, 2024</u>	<u>September 30, 2023</u>
Current	\$ -	\$ 101,387
31 - 90 days	90,861	10,570
Over 90 days	<u>343,357</u>	<u>218,011</u>
	<u>434,218</u>	<u>329,968</u>
Allowance for doubtful accounts	<u>(157,705)</u>	<u>(48,127)</u>
	<u>\$ 276,513</u>	<u>\$ 281,841</u>

- c) The Company recognized an allowance for impairment on amounts due from related parties (Note 5(a)). As at June 30, 2024, the cumulative allowance for impairment on amounts due from related parties is \$323,957 (September 30, 2023 - \$286,958).

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, 2024, the Company's cash totalled \$218,845 (September 30, 2023 - \$232,233), trade accounts receivable totalled \$290,159 (September 30, 2023 - \$286,993) and the Company had a working capital deficiency of \$1,561,598 (September 30, 2023 - \$1,131,799). The Company's accounts payable and accrued liabilities of \$856,898 (September 30, 2023 - \$666,734) have a contractual maturity in the next 12 months and the amounts payable to related parties of \$681,152 (September 30, 2023 - \$530,602) is composed of \$38,774 (September 30, 2023 - \$40,274) which has a contractual maturity in the next 12 months and \$642,378 (September 30, 2023 - \$490,328) due on demand with no formal terms of repayment. The contractual maturity of the Company's lease liability is disclosed in Note 11.

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17. Financial Instruments (Continued)

Fair value

The fair value of cash, 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 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, 2024 and September 30, 2023, the Company does not have any financial instruments measured at fair value.

18. 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, 2024 and September 30, 2023, no amounts have been recorded and none are required to be disclosed in the interim condensed consolidated financial statements with respect to contingencies.

19. Capital Management

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include sustaining continuing operations. As at June 30, 2024, the Company includes shareholders' deficiency of \$1,276,637 (September 30, 2023 – \$849,322) and amounts payable to related parties of \$642,378 (September 30, 2023 - \$490,328) 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.

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20. **Comparative Figures**

The financial statements for the prior year have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect the prior year earnings.