

FORM 51-102F1

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") as of August 26, 2024 should be read in conjunction with Reco International Group Inc.'s (the "Company") annual audited consolidated financial statements for the years ended September 30, 2023 and 2022 (the "Annual Financial Statements") and the unaudited interim condensed consolidated financial statements for the three and nine months ended June 30, 2024 (the "Interim Financial Statements"), and accompanying notes thereto. All dollar amounts are expressed in Canadian funds unless otherwise stated.

International Financial Reporting Standards ("IFRS")

The Annual Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB"). The Interim Financial Statements are prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting as issued by the IASB and accordingly certain financial information and disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. The disclosure in the Interim Financial Statements are incremental to the disclosure included in the Annual Financial Statements.

The Company's external auditors, Kenway Mack Slusarchuk Stewart LLP, have not performed a review of the Interim Financial Statements.

Core Business

The Company was incorporated under the Alberta Business Corporations Act on October 12, 1999 and is in the business of commercial and residential construction and millwork operating in British Columbia.

Overall Performance

The Company's revenue increased during the three months ended June 30, 2024 to \$1,554,874 as compared to \$836,396 in the same period in 2023. During the nine month period ended June 30, 2024, the Company's revenue increased to \$2,424,371 as compared to \$1,991,926 in the same period in 2023. Total expenses increased in both the three and nine months ended June 30, 2024 as compared to the same periods in 2023. Overall, there was a net loss of \$77,836 during the three months ended June 30, 2024 as compared to a net loss of \$73,006 during the same period in 2023 and a net loss of \$452,509 for the nine months ended June 30, 2024 as compared to a net loss of \$620,268 during the same period in 2023. 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)

	2023 \$	2022 \$	2021 \$
Revenue	3,049,231	2,602,702	1,530,799
Expenses	3,659,806	3,310,549	2,034,459
Other Income (Expense)	(65,598)	(97,385)	12,000
Income Tax Recovery	Nil	Nil	Nil
Net Loss	(676,173)	(805,232)	(491,660)
Loss per Share	(0.01)	(0.02)	(0.02)
Fully Diluted Loss per Share	(0.01)	(0.02)	(0.02)
Total Assets	1,038,591	2,424,585	640,527
Total Long-term Liabilities	193,282	513,796	70,000

Selected Quarterly Information (in accordance with IFRS)

Three and nine months ended June 30,	Three months		Nine months	
	2024 \$	2023 \$	2024 \$	2023 \$
Revenue	1,554,874	836,396	2,424,371	1,991,926
Net and comprehensive loss	(77,836)	(73,006)	(452,509)	(620,268)
Net loss per share (basic and diluted)	(0.00)	(0.00)	(0.01)	(0.01)
Cash provided by operating activities	224,471	(203,149)	292,215	(202,159)
Cash used in investing activities	(19,503)	(4,292)	(36,999)	(64,423)
Cash used in financing activities	(68,229)	14,245	(268,604)	(232,388)
Total assets	971,194	1,030,023	971,194	1,030,023
Working capital deficiency	(1,561,598)	(1,058,348)	(1,561,598)	(1,058,348)
Total non-current liabilities	-	263,572	-	263,572
Weighted average number of common shares outstanding	49,635,635	49,635,635	49,635,635	49,635,635

Discussion of Operations and Financial Condition

Revenues

Revenue increased by 85.9% during the three months ended June 30, 2024 to \$1,554,874 as compared to \$836,396 during the three months ended June 30, 2023. Revenue increased 21.7% during the nine months ended June 30, 2024 to \$2,424,371 as compared to \$1,991,926 during the nine months ended June 30, 2023.

The changes in revenue are due to normal variation in project activities between periods together with progress made on a construction project with a major customer and the start of a new project for the supply of cabinetry and interior doors with a new customer during the three months ended June 30, 2024.

Subcontract and Material Costs

Subcontract expenses increased by 134.2% and 23.9%, respectively, during the three and nine months ended June 30, 2024 to \$944,824 and \$1,329,958, respectively, as compared to \$403,372 and \$1,073,099, respectively, during the three and nine months ended June 30, 2023. This represents 60.8% and 54.9%, respectively, of total revenues during the three and nine months ended June 30, 2024 as compared to 48.2% and 53.9%, respectively, of total revenues during the three and nine months ended June 30, 2023.

Materials and supplies expenses increased by 90.5% and 36.4% during the three and nine months ended June 30, 2024 to \$218,573 and \$341,994, respectively, as compared to \$114,752 and \$250,652, respectively, during the same periods in 2023. This represents 14.1% of total revenues during the three and nine months ended June 30, 2024 as compared to 13.7% and 12.6% of total revenues during the three and nine months ended June 30, 2023.

Changes in subcontract and material costs are largely due to:

- the Company relying more on subcontractors for renovation and construction services in 2024 as it reduced its number of employees;
- the type and stage of the projects during the respective periods; the initial stage of a construction project requires more subcontracting work to prepare the space, while later in the construction project the costs shift more towards material and supplies expenses which are needed for the installation, decoration and finishings; and
- during the three months ended June 30, 2024, the company started a new project for the supply of cabinetry and interior doors which has only incurred material and supply costs.

General and administrative

General and administrative expenses increased by 21.3% during the three months ended June 30, 2024 to \$152,510 as compared to \$125,763 during the three months ended June 30, 2023 and decreased by 4.1% during the nine months ended June 30, 2024 to \$426,904 as compared to \$444,952 during the nine months ended June 30, 2023.

The increase during the three months ended June 30, 2024, was largely due to an increase in management fees of \$27,900. During the nine months ended June 30, 2024, the increase in management fees of \$55,800 was offset by consulting fees incurred during the nine months ended June 30, 2023 related to the Company's modular housing initiative and which did not recur in the same period in 2024.

Salaries and benefits

Salaries and benefits decreased by approximately 2.1% and 6.4%, respectively, to \$143,518 and \$430,927, respectively, during the three and nine months ended June 30, 2024 as compared to \$146,571 and \$460,385, respectively, during the same periods in 2023.

The decrease was due to normal staff turnover together with the Company hiring fewer employees to replace leaving staff and relying more on subcontractors.

Share-based compensation

Share-based compensation in the three and nine months ended June 30, 2024 was \$8,398 and \$25,194, respectively (2023 - \$29,947 and \$89,842, respectively). In July 2022, 6,300,000 stock options were granted with an exercise price of \$0.05 and an expiry date of July 3, 2027. The stock options vest one third on grant and one third on each of the first and second anniversary of the grant date.

Depreciation

Depreciation was relatively consistent during the three and nine months ended June 30, 2024 at \$63,599 and \$190,798, respectively, as compared to \$64,291 and \$192,872, respectively, during the same periods in 2023. There were no significant additions to equipment or the right-of-use asset between these periods.

Finance costs

Finance costs decreased by 54.9% and 45.4%, respectively, during the three and nine months ended June 30, 2024 to \$6,387 and \$21,362, respectively (2023 - \$15,636 and \$43,083, respectively). The decrease was primarily related to the reduction in the lease liability.

Impairment of amounts due from related parties

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), 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 and recorded an allowance for impairment for the full amount advanced due to the uncertainty of repayment.

Other income

Other income during the three and nine months ended June 30, 2024 was \$42,000 and \$44,654, respectively (2023 - \$Nil and \$24, respectively). During the three months ended June 30, 2024, the Company recorded \$42,000 of rental income from the rental of certain equipment.

Total assets

Total assets decreased by 5.7% to \$971,194 as at June 30, 2024 as compared to \$1,030,023 as at June 30, 2023. This decrease was primarily due to the continued depreciation of the right-of-use asset and partially offset by an increase in prepaid expense and other, from a deposit paid to a vendor on a new project for the supply of cabinetry and interior doors.

Non-current liabilities

Non-current liabilities decreased to \$Nil as at June 30, 2024 as compared to \$263,572 as at June 30, 2023. This decrease was due to payments on the lease liability.

Summary of Quarterly Results (in accordance with IFRS)

	Jun. 30, 2024	Mar. 31, 2024	Dec. 31, 2023	Sep. 30, 2023	Jun. 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sep. 30, 2022
Revenue	\$ 1,554,874	\$ 441,795	\$ 427,702	\$ 1,057,305	\$ 836,396	\$ 907,662	\$ 247,868	\$ 843,441
Expenses	\$ 1,655,207	\$ 592,685	\$ 636,643	\$ 1,100,143	\$ 905,110	\$ 1,057,243	\$ 597,310	\$ 1,281,687
Other income (expense)	\$ 22,497	\$ (5,528)	\$ (9,314)	\$ (13,067)	\$ (4,292)	\$ (33,998)	\$ (14,241)	\$ (97,385)
Income taxes	\$ Nil							
Net loss	\$ (77,836)	\$ (156,418)	\$ (218,255)	\$ (55,905)	\$ (73,006)	\$ (183,579)	\$ (363,683)	\$ (535,631)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)

Revenue and expenses vary from quarter to quarter based on project activity which tends to generally increase in the summer and winter months and is affected by the number of projects in progress, the receipt of necessary permits, the successful completion of required inspections, and progress to completion, which may not be consistent. During Q4 2022, the Company recognized \$97,391 in impairment of amounts due from related companies which has been included in other income (expense). Throughout fiscal 2023, the Company recognized a total of \$74,866 in impairment of amounts due from related companies which has been included in other income (expense). During the three and nine months ended June 30, 2024, the Company recognized \$19,503 and \$36,999, respectively, in impairment of amounts due from related companies which has been included in other income (expense). During Q3 2024, the Company recognized other income of \$42,000 from the rental of certain equipment.

Liquidity and Capital Resources

As at June 30, 2024, the Company's cash totaled \$218,845 (September 30, 2023 –\$232,223) and the Company had a working capital deficiency of \$1,561,598 (September 30, 2023 – \$1,131,799). Changes in cash flows included:

- Cash generated in operating activities during the nine months ended June 30, 2024 was \$292,215 (2023 – cash used in operating activities of \$202,159). The increase was primarily due to an improvement in the net loss and changes in non-cash operating working capital.
- Cash used in investing activities during the nine months ended June 30, 2024 was \$36,999 (2023 - \$64,423). The decrease was due to a reduction in loans made to related parties and the purchase of equipment during the nine months ended June 30, 2023 which did not recur in the same period in 2024.
- Cash used in financing activities for the nine months ended June 30, 2024 was \$268,604 (2023 – \$232,388). The reasons for the decrease were mainly due to repayments to related

parties during the nine months ended June 30, 2023 which did not recur in the same period in 2024 and was partially offset by the repayment of the long-term debt during the nine months ended June 30, 2024 and increase in principal repayments on the lease liability as the liability continues to be paid down over the lease term.

The Interim Financial Statements have been prepared on a going concern basis which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are material uncertainties that may cast significant doubt on the validity of this assumption. 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.

The Company has improved its revenues and net loss during the three and nine months ended June 30, 2024, as compared to the same periods in 2023, and expects it will have sufficient financial resources to continue operations and execute on its business improvement plan to continue the improvement in its financial performance in the future.

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

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

2025	<u>\$ 272,484</u>
Total lease commitment	<u>\$ 272,484</u>

The Company has available a line of credit of \$100,000 bearing interest at prime plus 3.5%, secured by a general security agreement and is due on demand. As at June 30, 2024 and September 30, 2023, the Company has drawn on \$Nil of the line of credit.

The Company received an \$100,000 COVID-19 relief line of credit from the Canada Small Business Financing Program as support for businesses in the prior years. Since \$30,000 of the loan amount will be forgiven if the Company repays the loan before the original repayment deadline of December 31, 2023, the Company has recognized \$30,000 as government assistance (\$10,000 in 2021 and \$20,000 in 2020). On September 14, 2023, the Government extended the repayment deadline to January 18, 2024.

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 January 18, 2024, an aggregate of \$30,000 was forgiven by the lender on the CEBA loan.

Transactions with Related Parties

During the three and nine months ended June 30, 2024, the Company advanced \$9,226 and \$17,993, respectively, to Reco Central Alberta Inc. (2023 - \$2,528 and \$30,536, respectively) a

company that has common management and directors with the Company and \$10,277 and \$19,006, respectively, to Reco Southern Alberta Inc. (2023 - \$1,764 and \$31,263, respectively), a company that has common management and directors with the Company. The advances were to provide working capital to these companies and consisted of unsecured advances that bear no interest and have no specific terms of repayment. During the three and nine months ended June 30, 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.

As at June 30, 2024, amounts payable to related parties consists of:

- a) \$642,378 for advances from H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company (September 30, 2023 - \$490,328). Amounts are unsecured, bear no interest and have no specific terms of repayment;
- b) \$4,500 for consulting fees owed to William Harper, the interim Chief Financial Officer of the Company (September 30, 2023 - \$6,000); and
- c) \$33,900 for consulting fees owed to 1972888 Alberta Ltd., a company controlled by a close family member of Hubert Lau, a director of the Company (September 30, 2023 - \$33,900), and \$374 for consulting fees owed to Joshua Lau, a close family member of Hubert Lau, a director of the Company (September 30, 2023 - \$374).

During the three and nine months ended June 30, 2024, the Company made repayments of \$Nil (2023 - \$Nil and \$48,000, respectively) to H.Z. Construction Management Ltd.

Key management during the three and nine months ended June 30, 2024 includes senior executives of the Company, Hugh Zhen the Chief Executive Officer (the “CEO”) and William Harper the Interim Chief Financial Officer (the “CFO”), the directors of the Company, Hugh Zhen, Hubert Lau, James Smith, David Malicki, and Lyn Jones and companies controlled by them. The compensation expense of key management and their close family members are as follows:

Three months ended	June 30, 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

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, 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.

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.

The credit risk for cash is mitigated with the Company holding cash with major financial institutions.

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, 2022</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>

During the three and nine months ended June 30, 2024, the Company recognized an allowance for impairment on amounts due from related parties of \$19,503 and \$36,999, respectively (2023 - \$4,292 and \$61,799, respectively). As at June 30, 2024, the cumulative allowance for impairment on amounts due from related parties is \$323,957 (September 30, 2023 - \$286,958). See “Transactions with Related Parties” section above for additional details.

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 maturities of the Company's lease liability is disclosed above in the Liquidity and Capital Resources section.

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.

Off – Balance Sheet Arrangements

As at June 30, 2024, the Company has not entered into any off-balance sheet arrangements.

Share Structure

As at June 30, 2024 and the date of this MD&A, the Company has 49,635,635 common shares and 5,300,000 stock options issued and outstanding and fully diluted share capital of 54,935,635.

IFRS 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 the Interim Financial Statements are consistent with those applied by the Company in its Annual Financial Statements.

New Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB and the Company is currently evaluating the potential impacts on the 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.

Forward Looking Information

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

Additional Information

Additional information on the Company can be found on SEDAR+ at www.sedarplus.ca.

Shareholder communications information may be obtained here:

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

Email: hugh@recodeco.com

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

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