

## FORM 51-102F1

### Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") as of January 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 "Financial Statements"), and accompanying notes thereto. 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.

### 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 saw its revenue increase during the year ended September 30, 2023 to \$3,049,231 as compared to \$2,602,702 in 2022. Total expenses increased in the year ended September 30, 2023 to \$3,659,806 as compared to \$3,310,549 in 2022. Total other expenses decreased to \$65,598 during the year ended September 30, 2023, as compared to \$97,385 during 2022. Overall, there was a net loss of \$676,173 during the year ended September 30, 2023 as compared to \$805,232 during 2022. The Company is actively seeking more opportunities to provide construction services in the greater Vancouver area as well as across Canada.

### Selected Annual Information (in accordance with IFRS)

	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

## **Discussion of Annual Operations and Financial Condition**

### Revenues

Revenue increased by 17.2% during the year ended September 30, 2023 to \$3,049,231 as compared to \$2,602,702 during 2022. The increase was primarily due to significant progress made on a new project with a major customer together with other new projects started during 2023 and partially offset by a decrease in revenue from a project with another major customer which completed in 2022.

### Subcontracts and Material and Supplies

Subcontracts expenses increased by 87.4% during the year ended September 30, 2023 to \$1,687,724, as compared to \$900,542 during 2022. This represents 55.3% of total revenues during the year ended September 30, 2023, as compared to 34.6% of total revenues during 2022.

Materials and supplies expenses decreased by 44.0% during the year ended September 30, 2023 to \$342,890, as compared to \$612,043 during 2022. This represents 11.2% of total revenues during the year ended September 30, 2023, as compared to 23.5% of total revenues during 2022.

The increase in subcontracts was partially due to the Company relying more on subcontractors for renovation and construction services in 2023 as it reduced its number of employees. In addition, changes in subcontracts and material and supplies expenses are related to the stage of the projects during the respective fiscal years. The initial stage of a project requires more subcontracting work to prepare the space, while later in the project the costs shift more towards material and supplies expenses which are needed for the installation, decoration and finishings. During 2022, the Company was in the final phase of a project with a major customer and in 2023 the Company was in the initial phase of a new project with a another major customer.

### General and administrative

General and administrative expenses decreased by 19.5% during the year ended September 30, 2023 to \$586,596, as compared to \$728,852 during 2022.

The decrease in general and administrative expenses is primarily due to management fees of \$120,126 paid to the former Chief Financial Officer and a director of the Company during 2022.

### Salaries and benefits

Salaries and benefits decreased by 14.2% during the year ended September 30, 2023 to \$628,914, as compared to \$732,736 during 2022. 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 year ended September 30, 2023 was \$79,226 (2022 - \$109,807). In July 2022, 6,300,000 stock options were granted with an exercise price of \$0.05 and an expiry date of July 3, 2027. The stock options vest one third on grant and one third on each of the first and second anniversary of the grant date.

### Depreciation

Depreciation increased by 52.3% during the year ended September 30, 2023 to \$257,516 (2022 - \$169,101). The increase was due to the extension of the Company's office premises lease effective June 1, 2022 and the associated increase in the right-of-use asset due to the increased monthly lease payments pursuant to the modified lease agreement.

### Finance costs

Finance costs increased by 45.0% during the year ended September 30, 2023 to \$51,063 (2022 - \$35,218). The increase was due to the extension of the Company's office premises lease effective June 1, 2022 and the associated increase in the lease liability due to the increased monthly lease payments pursuant to the modified lease agreement and was partially offset by a decrease in other interest charges on overdue amounts, which the Company settled during 2023.

### Bad debt

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, 2023, the Company has \$172,840 (2022 - \$297,129) of accounts receivable that are past due (over 90 days). An expected credit loss of \$25,877 was recorded for accounts receivable during the year ended September 30, 2023 (2022 - \$22,250).

### Impairment of amounts due from related parties

During the year ended September 30, 2023, the Company advanced \$74,866 (2022 - \$41,800), as unsecured advances, to companies that have common management and directors with the Company (see Transactions with Related Parties section below for more details) and recorded an allowance for impairment for the full amount advanced due to the uncertainty of repayment.

### Gain on settlement of liabilities

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

### Total assets

Total assets decreased by 57.2% to \$1,038,591 as at September 30, 2023, as compared to \$2,424,585 as at September 30, 2022. This decrease was primarily due to decreases in accounts receivable and cash as well as continued depreciation of the right-of-use asset.

## Non-current liabilities

Non-current liabilities decreased by 62.4% to \$193,282 as at September 30, 2023 as compared to \$513,796 as at September 30, 2022. This decrease was mainly due to payments on the lease liability and a change in classification of the CEBA loan from long-term to short-term, as it is due on January 18, 2024.

## **Summary of Quarterly Results (in accordance with IFRS)**

	<b>Sep. 30, 2023</b>	<b>Jun. 30, 2023</b>	<b>Mar. 31, 2023</b>	<b>Dec. 31, 2022</b>	<b>Sep. 30, 2022</b>	<b>Jun. 30, 2022</b>	<b>Mar. 31, 2022</b>	<b>Dec. 31, 2021</b>
Revenue	\$ 1,057,305	\$ 836,396	\$ 907,662	\$ 247,868	\$ 843,441	\$ 525,194	\$ 450,258	\$ 783,809
Expenses	\$ 1,100,143	\$ 905,110	\$ 1,057,243	\$ 597,310	\$ 1,281,687	\$ 980,522	\$ 540,641	\$ 507,699
Other income (expense)	\$ (13,067)	\$ (4,292)	\$ (33,998)	\$ (14,241)	\$ (97,385)	\$ Nil	\$ Nil	\$ Nil
Income taxes	\$ Nil							
Net income (loss)	\$ (55,905)	\$ (73,006)	\$ (183,579)	\$ (363,683)	\$ (535,631)	\$ (455,328)	\$ (90,383)	\$ 276,110
Basic and diluted earnings (loss) per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ 0.00

Revenue and expenses vary from quarter to quarter based on project activity which tends to generally increase in the summer and winter months and is affected by the number of projects in progress, the receipt of necessary permits, the successful completion of required inspections, and progress to completion, which may not be consistent. During 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).

## **Discussion of Fourth Quarter Operations and Financial Condition**

### Revenues

Revenue increased by 25.4% during the three months ended September 30, 2023 to \$1,057,305 as compared to \$843,441 during the same period in 2022. The increase was primarily due to significant progress made on a new project with a major customer together with other new projects in the three months ended September 30, 2023 and partially offset by a decrease in revenue from another major customer as a project completed in the three months ended September 30, 2022.

### Subcontracts and Material and Supplies

Subcontracts expenses increased by 55.0% during the three months ended September 30, 2023 to \$614,625, as compared to \$396,543 during the same period in 2022. This represents 58.1% of total revenues during the three months ended September 30, 2023, as compared to 47.0% of total revenues during the same period in 2022.

Materials and supplies expenses decreased by 47.7% during the three months ended September 30, 2023 to \$92,238, as compared to \$176,352 during the same period in 2022. This represents 8.7% of total revenues during the three months ended September 30, 2023, as compared to 20.9% of total revenues during the same period in 2022.

The increase in subcontracts was partially due to the Company relying more on subcontractors for renovation and construction services in the three months ended September 30, 2023 as it reduced its number of employees. In addition, changes in subcontracts and material and supplies expenses are related to the stage of the projects during the respective fiscal years. The initial stage of a project requires more subcontracting work to prepare the space, while later in the project the costs shift more towards material and supplies expenses which are needed for the installation, decoration and finishings. The change between the three months ended September 30, 2023 and 2022 were also partially related to normal fluctuations in the life cycle of the Company's ongoing projects.

### General and administrative

General and administrative expenses decreased by 47.9% during the three months ended September 30, 2023 to \$126,211, as compared to \$242,160 during the same period in 2022. The decrease was primarily due to consulting fees incurred during the three months ended September 30, 2022 related to the Company's modular housing initiative and which did not recur in the same period in 2023.

### Salaries and benefits

Salaries and benefits decreased by 25.6% during the three months ended September 30, 2023 to \$183,962, as compared to \$247,247 during the same period in 2022. 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 months ended September 30, 2023 was a credit of \$10,616 (2022 - \$109,807). 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. The credit during the three months ended September 30, 2023 was due to forfeitures of stock options arising from the termination of certain consultants.

### Depreciation

Depreciation was relatively consistent during the three months ended September 30, 2023 at \$64,644, as compared to \$65,295 during the same period in 2022. There were no significant additions to equipment or the right-of-use asset between these periods.

### Finance costs

Finance costs decreased by 63.8% during the three months ended September 30, 2023 to \$7,980 (2022 - \$22,033). The decrease was primarily in other interest charges on overdue amounts incurred during the three months ended September 30, 2022, which did not recur as the Company settled the amounts during 2023.

### Bad debt

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. An expected credit loss of \$21,099 was recorded for accounts receivable during the three months ended September 30, 2023, as compared to \$22,250 during the same period in 2022.

### Impairment of amounts due from related parties

During the three months ended September 30, 2023, the Company advanced \$13,067 (2022 - \$12,463), as unsecured advances, to companies that have common management and directors with the Company (see Transactions with Related Parties section below for more details) and recorded an allowance for impairment for the full amount advanced due to the uncertainty of repayment.

## **Liquidity and Capital Resources**

As at September 30, 2023, the Company's cash totaled \$232,223 and bank indebtedness totaled \$Nil (September 30, 2022 – cash of \$750,107 and bank indebtedness of \$74,509) and the Company had a working capital deficiency of \$1,131,799 (September 30, 2022 – \$476,922). Cash used in operating activities during the year ended September 30, 2023 was \$67,017 (2022 – \$64,510). Cash used in investing activities during the year ended September 30, 2023 was \$78,773 (2022 - \$41,800). Cash used in financing activities for the year ended September 30, 2023 was \$297,575 (2022 – cash provided by financing activities of \$855,196). There was no significant change in cash used in operating activities during the year ended September 30, 2023 as compared to 2022. The increase in cash used in investing activities is due to additional loans made to related parties and the purchase of equipment during the year ended September 30, 2023 as compared to 2022.

The reason for the cash used in financing activities in the year ended September 30, 2023 as compared to cash generated from financing activities in 2022 was mainly due to proceeds of \$1,167,218 from a private placement and \$216,433 in advances from related parties during 2022, which were not required in 2023.

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. During the year ended September 30, 2023, the Company incurred a net loss of \$676,173 (2022 - \$805,232) and had negative cash flow from operations of \$67,017 (2022 - \$64,510). As at September 30, 2023, the Company had a working capital deficiency of \$1,131,799 (2022 - \$476,922) and an accumulated deficit of \$3,519,625 (2022 - \$2,843,452). 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 net loss during the year ended September 30, 2023, as compared to 2022, and expects it will have sufficient financial resources to continue operations and execute on its business improvement plan in order to realize continued improvement in its net loss in the future.

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

Lease Commitments years ended September 30 – undiscounted cash flow:

2024	\$ 272,918
2025	<u>198,170</u>
Total lease commitment	<u>\$ 471,088</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, 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 year ended September 30, 2023, the Company advanced \$37,755 to Reco Central Alberta Inc. (2022 - \$14,342) a company that has common management and directors with the Company and \$37,111 to Reco Southern Alberta Inc. (2022 - \$27,458), 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 year ended September 30, 2023, the Company recorded an allowance for impairment of \$74,866 (2022 - \$97,391), on the amounts advanced due to the uncertainty of repayment.

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

- a) \$490,328 for advances from H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company (2022 - \$538,328);
- b) \$6,000 for consulting fees owed to William Harper, the interim Chief Financial Officer of the Company (2022 - \$7,500); and
- c) \$33,900 for consulting fees owed to 1972888 Alberta Ltd., a company controlled by a close family member of Hubert Lau, a director of the Company (2022 - \$111,923), and \$374 for consulting fees owed to Joshua Lau, a close family member of Hubert Lau, a director of the Company (2022 - \$12,669).

During the year ended September 30, 2023, the Company received advances of \$Nil (2022 - \$216,433) and made repayments of \$48,000 (2022 - \$115,000) to H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company. The advances and repayments were to provide working capital to the Company and all amounts are unsecured, bear no interest and have no specific terms of repayment.

During the year ended September 30, 2022, the Company made repayments of \$249,795 to Q.Q.S. Construction Consulting Ltd., a company controlled by Quin Quang Sie, the former CFO and director of the Company.

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

	<u>2023</u>	<u>2022</u>
Salaries and other short-term employee benefits	\$ 7,863	\$ 20,143
Consulting fees	\$ 42,274	\$ 141,817
Management fee	\$ 162,000	\$ 216,376
Share-based compensation	\$ 68,134	\$ 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, accounts receivable, bank indebtedness, 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 September 30, 2023, the Company had \$Nil (2022 - \$74,509) of 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 that arises from the possibility that the third party does not satisfy its contractual obligations. The carrying amounts of financial assets represent the maximum credit exposure.

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

The 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, 2023, the Company has \$172,840 (2022 - \$297,129) of accounts receivable that are past due (over 90 days). An expected credit loss of \$25,877 was recorded for accounts receivable during the year ended September 30, 2023 (2022 - \$22,250). As at September 30, 2023, approximately 83% (2022 - 73%) of trade accounts receivable are from five (5) customers (2022 – two (2) customers).

Trade accounts receivable aging details are as follows:

	<u>2023</u>	<u>2022</u>
Current	\$ 106,538	\$ 279,079
31 – 90 days	7,615	318,059
Over 90 days	<u>172,840</u>	<u>297,129</u>
	<u>\$ 286,993</u>	<u>\$ 894,267</u>

The Company recognized an allowance for impairment on amounts due from related parties of \$74,866 during the year ended September 30, 2023 (2022 - \$97,391). As at September 30, 2023, the cumulative allowance for impairment on amounts due from related parties is \$286,958 (2022 - \$212,092).

#### Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. As at September 30, 2023, the Company's cash totalled \$232,233 and bank indebtedness totalled \$Nil (2022 – cash of \$750,107 and bank indebtedness of \$74,509), trade accounts receivable totalled \$286,993 (2022 - \$894,267) and the Company had a working capital deficiency of \$1,131,799 (2022 - \$476,922). The Company's bank indebtedness and accounts payable and accrued liabilities of \$666,734 (2022 - \$892,905) have a contractual maturity in the next 12 months and the amounts payable to related parties of \$530,602 (2022 - \$670,420) is composed of \$40,274 (2022 - \$132,092) which has a contractual maturity in the next 12 months and \$490,328 (2022 - \$538,328) due on demand with no formal terms of repayment. The contractual maturity of the Company's long-term debt and lease liability are disclosed above in the Liquidity and Capital Resources section.

## Fair value

The fair value of cash, accounts receivables, bank indebtedness, accounts payable and accrued liabilities and amounts payable to related parties approximate their carrying amounts due to the short-term nature of the financial instruments. The fair value of the lease liability and long-term debt approximates their carrying amounts since their terms approximate market terms.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at September 30, 2023 and 2022, the Company does not have any financial instruments measured at fair value.

## **Off – Balance Sheet Arrangements**

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

## **Share Structure**

As at September 30, 2023 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.

On December 6, 2023, 2,700,000 stock options with an exercise price of \$0.05 per common share expired unexercised.

## **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 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 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, 2023.

### Amendments to IAS 8: Accounting Policies, Changes 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.

## **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](http://www.sedarplus.ca).

Shareholder communications information may be obtained here:

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

Email: [hugh@recodeco.com](mailto: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.