

RECO INTERNATIONAL GROUP INC.
(Unaudited)
Interim Condensed Consolidated Financial Statements
For the Three and Nine Months Ended
June 30, 2025
(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, 2025

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Interim Condensed Consolidated Statements of Financial Position

June 30, 2025

(Expressed in Canadian Dollars)

	June 30, 2025	September 30, 2024
ASSETS		
Current Assets		
Cash	\$ 16,749	\$ 134,384
Accounts receivable (Note 4)	352,147	883,110
Prepaid expenses and other	16,357	22,840
Contract assets (Note 9)	<u>202,000</u>	<u>-</u>
	587,253	1,040,334
Deposits	35,710	11,105
Equipment (Note 6)	45,678	53,127
Right-of-use asset (Note 10)	<u>311,444</u>	<u>159,922</u>
	<u>\$ 980,085</u>	<u>\$ 1,264,448</u>
LIABILITIES		
Current Liabilities		
Bank indebtedness (Note 7)	\$ 33,949	\$ -
Accounts payable and accrued liabilities (Note 8)	1,259,460	1,010,787
Amounts payable to related parties (Note 5)	954,752	759,385
Contract liabilities (Note 9)	616,845	564,541
Current portion of lease liability (Note 10)	<u>161,532</u>	<u>193,282</u>
	3,026,538	2,527,995
Lease liability (Note 10)	<u>152,608</u>	<u>-</u>
	3,179,146	2,527,995
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 11)	2,272,335	2,272,335
Share-based compensation reserve	423,162	423,162
Deficit	<u>(4,894,558)</u>	<u>(3,959,004)</u>
	<u>(2,199,061)</u>	<u>(1,263,507)</u>
	<u>\$ 980,085</u>	<u>\$ 1,264,448</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, 2025

(Expressed in Canadian Dollars)

	Three Months Ended June 30, 2025	Three Months Ended June 30, 2024	Nine Months Ended June 30, 2025	Nine Months Ended June 30, 2024
Revenue	<u>\$ 948,686</u>	<u>\$ 1,554,874</u>	<u>\$ 2,252,656</u>	<u>\$ 2,424,371</u>
Expenses				
Subcontracts	778,634	944,824	1,565,859	1,329,958
Materials and supplies	126,515	218,573	422,717	341,994
Salaries and benefits	147,089	143,518	461,890	430,927
General and administrative	180,549	152,510	517,407	426,904
Depreciation	71,305	63,599	197,515	190,798
Bad debt recovery	-	117,398	(8,810)	117,398
Finance costs (Note 12)	6,846	6,387	11,953	21,362
Share-based compensation	-	8,398	-	25,194
	<u>1,310,938</u>	<u>1,655,207</u>	<u>3,168,531</u>	<u>2,884,535</u>
Net loss before other income (expense)	<u>\$ (362,252)</u>	<u>\$ (100,333)</u>	<u>\$ (915,875)</u>	<u>\$ (460,164)</u>
Other income (expense)				
Impairment of amounts due from related parties (Note 5)	(13,953)	(19,503)	(28,586)	(36,999)
Other income	-	42,000	8,907	44,654
	<u>(13,953)</u>	<u>22,497</u>	<u>(19,679)</u>	<u>7,655</u>
Net loss and comprehensive loss	<u>\$ (376,205)</u>	<u>\$ (77,836)</u>	<u>\$ (935,554)</u>	<u>\$ (452,509)</u>
Loss per common share – basic and diluted (Note 13)	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding – basic and diluted (Note 13)	<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, 2025

(Expressed in Canadian Dollars)

	Share Capital		Share-Based Compensation Reserve	Deficit	Total
	Shares	Amount			
Balance, September 30, 2024	49,635,635	\$ 2,272,335	\$ 423,162	\$(3,959,004)	\$ (1,263,507)
Net loss and comprehensive loss	-	-	-	(935,554)	(935,554)
Balance, June 30, 2025	<u>49,635,635</u>	<u>\$ 2,272,335</u>	<u>\$ 423,162</u>	<u>\$(4,894,558)</u>	<u>\$ (2,199,061)</u>

	Share Capital		Share-Based Compensation Reserve	Deficit	Total
	Shares	Amount			
Balance, September 30, 2023	49,635,635	\$ 2,272,335	\$ 397,968	\$(3,519,625)	\$ (849,322)
Share-based compensation (Note 11)	-	-	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>

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, 2025

(Expressed in Canadian Dollars)

	June 30, 2025	June 30, 2024
Cash Provided by (Used in):		
Operating Activities		
Net loss	\$ (935,554)	\$ (452,509)
Items not involving cash:		
Share-based compensation (Note 11)	-	25,194
Bad debt expense (recovery)	(8,810)	117,398
Depreciation	197,515	190,798
Impairment of amounts due from related parties (Note 5)	28,586	36,999
Accretion expense	9,836	18,380
Net change in non-cash working capital balances (Note 14)	<u>815,995</u>	<u>355,955</u>
	<u>107,568</u>	<u>292,215</u>
Investing Activity		
Advances to related parties (Note 5)	(28,586)	(36,999)
Purchase of equipment (Note 6)	<u>(1,831)</u>	<u>-</u>
	<u>(30,417)</u>	<u>(36,999)</u>
Financing Activities		
Repayment of long-term debt	-	(70,000)
Repayment of lease liability	(218,899)	(180,224)
Interest paid on lease liability	<u>(9,836)</u>	<u>(18,380)</u>
	<u>(228,735)</u>	<u>(268,604)</u>
Decrease in cash	(151,584)	(13,388)
Cash, beginning of period	<u>134,384</u>	<u>232,233</u>
Cash (bank indebtedness), end of period	<u>\$ (17,200)</u>	<u>\$ 218,845</u>
Cash is composed of:		
Cash	\$ 16,749	\$ 218,845
Bank indebtedness	<u>(33,949)</u>	<u>-</u>
	<u>\$ (17,200)</u>	<u>\$ 218,845</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, 2025

(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 #145, 11920 Forge Place, Richmond, British Columbia, V7A 4V9.

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, 2025, the Company incurred a net loss of \$376,205 and \$935,554, respectively (2024 – \$77,836 and \$452,509, respectively). During the nine months ended June 30, 2025, the Company had cash flow from operations of \$107,568 (2024 - \$292,215). As at June 30, 2025, the Company had a working capital deficiency of \$2,439,285 (September 30, 2024 - \$1,487,661) and an accumulated deficit of \$4,894,558 (September 30, 2024 - \$3,959,004). 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 audited consolidated financial statements for the years ended September 30, 2024 and 2023.

The Board of Directors approved these interim condensed financial statements for issuance on August 26, 2025.

b) Basis of Measurement

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

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

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

c) Functional Currency

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

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.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

2. Basis of Presentation (Continued)

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

Lease Liability

The incremental borrowing rate is based on estimates made by management taking into consideration economic environment, terms and underlying risk inherent to the asset. The carrying balance of the right-of-use asset, lease obligation and interest expense may vary due to changes in market conditions.

Share-based Compensation

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

3. Summary of Material Accounting Policies

The material accounting policies applied by the Company in these interim condensed consolidated financial statements are the same as those applied by the Company in its audited consolidated financial statements for the years ended September 30, 2024 and 2023.

Accounting Standards Issued but not yet Effective

There are new accounting standards and amendments to accounting standards effective for annual reporting periods beginning after October 1, 2024, and earlier application is permitted. The Company is currently evaluating the potential impact and has not early adopted any of the forthcoming new or amended accounting standards in preparing these interim condensed consolidated financial statements.

4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>June 30, 2025</u>	<u>September 30, 2024</u>
Trade accounts receivable	\$ 496,184	\$ 1,022,333
Allowance for doubtful accounts	<u>(148,045)</u>	<u>(156,854)</u>
	348,139	865,479
Sales taxes receivable	<u>4,008</u>	<u>17,631</u>
	<u>\$ 352,147</u>	<u>\$ 883,110</u>

The Company recorded a recovery of bad debt expense during the three and nine months ended June 30, 2025 of \$Nil and \$8,810, respectively (2024 – bad debt expense of \$117,398).

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

5. Related Party Balances and Related Party Transactions

- a) During the three and nine months ended June 30, 2025, the Company advanced \$13,953 and \$28,586, respectively, (2024 - \$19,503 and \$36,999, 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, 2025 and 2024, the Company recorded a corresponding allowance for impairment on the amounts advanced, due to the uncertainty of repayment (Note 16(c)).
- b) As at June 30, 2025, amounts payable to related parties includes:
- \$917,478 for advances from a company controlled by the CEO and director of the Company (September 30, 2024 - \$715,528), these amounts are unsecured, bear no interest and have no specific terms of repayment.
 - \$3,000 for consulting fees owed to the Interim Chief Financial Officer ("CFO") (September 30, 2024 - \$9,583); 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, 2024 - \$33,900 and \$374, respectively).
- c) During the three and nine months ended June 30, 2025 and 2024, key management includes senior executives and directors of the Company. The compensation expense of key management and their close family members are as follows:

	June 30, 2025	June 30, 2024
Three months ended		
Consulting fees	\$ 3,098	\$ 4,132
Management fees	\$ 71,650	\$ 71,650
Share-based compensation	\$ -	\$ 6,813
Nine months ended		
Consulting fees	\$ 10,541	\$ 12,328
Management fee	\$ 214,950	\$ 187,050
Share-based compensation	\$ -	\$ 20,440

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

6. Equipment

	Cost						Balance at June 30, 2025		
	Balance at September 30, 2023		Additions	Disposals	Balance at September 30, 2024			Additions	Disposals
Equipment	\$ 575,118	\$ -	\$ -	\$ 575,118	\$ 1,831	\$ -	\$ 576,949		
Office furniture	87,214	-	-	87,214	-	-	87,214		
Computer equipment	76,595	2,793	-	79,388	-	-	79,388		
Vehicles	170,973	-	-	170,973	-	-	170,973		
	<u>\$ 909,900</u>	<u>\$ 2,793</u>	<u>\$ -</u>	<u>\$ 912,693</u>	<u>\$ 1,831</u>	<u>\$ -</u>	<u>\$ 914,524</u>		

	Accumulated Depreciation						Balance at June 30, 2025		
	Balance at September 30, 2023		Additions	Disposals	Balance at September 30, 2024			Additions	Disposals
Equipment	\$ 523,942	\$ 10,235	\$ -	\$ 534,177	\$ 6,291	\$ -	\$ 540,468		
Office furniture	84,761	491	-	85,252	294	-	85,546		
Computer equipment	72,077	2,110	-	74,187	1,695	-	75,882		
Vehicles	164,271	1,679	-	165,950	1,000	-	166,950		
	<u>\$ 845,051</u>	<u>\$ 14,515</u>	<u>\$ -</u>	<u>\$ 859,566</u>	<u>\$ 9,280</u>	<u>\$ -</u>	<u>\$ 868,846</u>		

	Net Book Value	
	Balance at June 30, 2025	Balance at September 30, 2024
	Equipment	\$ 36,481
Office furniture	1,668	1,962
Computer equipment	3,506	5,201
Vehicles	4,023	5,023
	<u>\$ 45,678</u>	<u>\$ 53,127</u>

7. Bank Indebtedness

Up to March 31, 2025, the Company had an available line of credit of \$100,000 bearing interest at prime plus 3.5%, secured by a general security agreement and which was due on demand.

Effective March 31, 2025, the Company renewed the available line of credit of \$100,000. Upon renewal, the line of credit bore interest at prime plus 4.0%, was due on demand, and was secured by a general security agreement and an unconditional personal guarantee by the CEO and director of the Company.

Effective June 4, 2025, the Company amended the line of credit to increase the credit limit to \$250,000. The amended line of credit bears interest at prime plus 3.5%, is due on demand and is secured by a general security agreement and an unconditional personal guarantee by the CEO and director of the Company.

As at June 30, 2025, the Company has drawn \$33,949 (September 30, 2024 - \$Nil) on the line of credit.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

8. Accounts Payable and Accrued Liabilities

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

	June 30, 2025	September 30, 2024
Trade payables	\$ 1,168,994	\$ 878,918
Accrued liabilities	82,982	104,802
Sales taxes payable	7,484	27,067
	<u>\$ 1,259,460</u>	<u>\$ 1,010,787</u>

9. Contract Liabilities and Major Customers

During the three months ended June 30, 2025, revenues from two (2) customers of the Company (2024 – three (3) customers) represented approximately \$719,000 (2024 - \$1,238,000), or 76% (2024 – 80%), of the Company's total revenues.

During the nine months ended June 30, 2025, revenues from three (3) customers of the Company (2024 – three (3) customers) represented approximately \$1,617,000 (2024 - \$1,921,000), or 72% (2024 – 79%), of the Company's total revenues.

As at June 30, 2025, the Company has seven (7) construction contracts (September 30, 2024 – four (4) construction contracts) in progress and the following is financial information for the contracts in progress:

	Nine months ended June 30, 2025	Year ended September 30, 2024
Balance, beginning of period	\$ 564,541	\$ 165,640
Add – amounts billed during the period	1,417,857	2,930,126
Deduct – amounts recognized in revenue	<u>(1,567,553)</u>	<u>(2,531,125)</u>
Balance, end of period	<u>\$ 414,845</u>	<u>\$ 564,541</u>
	Nine months ended June 30, 2025	Year ended September 30, 2024
Deferred (accrued) revenue		
Contract assets	\$ (202,000)	\$ -
Contract liabilities	<u>616,845</u>	<u>-</u>
	<u>\$ 414,845</u>	<u>\$ -</u>

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

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

10. 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 expired on May 31, 2025. The associated lease liability and right-of-use asset were calculated using an incremental borrowing rate of 6.7%.

On May 2, 2025, the Company entered into a lease for a new office premises. The lease has a term of two (2) years and expires on May 14, 2027. The lease liability and right-of-use asset have been calculated using an incremental borrowing rate of 8.45% and are summarized below:

	Nine months ended June 30, 2025	Year ended September 30, 2024
Right-of-use Asset		
Balance, start of period	\$ 159,922	\$ 399,805
Addition	339,757	-
Less – depreciation	<u>(188,235)</u>	<u>(239,883)</u>
Balance, end of period	<u>\$ 311,444</u>	<u>\$ 159,922</u>
Lease Liability		
Balance, start of period	\$ 193,282	\$ 443,796
Addition	339,757	-
Less - lease payments	(228,482)	(272,918)
Add - finance costs	<u>9,583</u>	<u>22,404</u>
Balance, end of period	<u>\$ 314,140</u>	<u>\$ 193,282</u>
Less - current portion	<u>(161,532)</u>	<u>(193,282)</u>
	<u>\$ 152,608</u>	<u>\$ -</u>

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

2026	\$ 183,040
2027	157,410
Future finance costs	<u>(26,310)</u>
	<u>\$ 314,140</u>

11. 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.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

11. Share Capital (Continued)

Issued and outstanding:

	<u>Number of Common Shares</u>	<u>Amount</u>
Balance, September 30, 2023 and 2024 and June 30, 2025	<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, 2023	8,000,000	\$ 0.05
Options expired	<u>(2,700,000)</u>	<u>0.05</u>
Balance, September 30, 2024 and June 30, 2025	<u>5,300,000</u>	<u>\$ 0.05</u>

The following table summarizes information on stock options outstanding and exercisable at June 30, 2025:

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

As at June 30, 2025, the weighted average life remaining of the total number of outstanding and exercisable stock options was 2.01 years.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

12. Finance Costs

The components of finance costs are as follows for the three and nine months ended June 30, 2025 and 2024:

Three months ended	June 30, 2025	June 30, 2024
Interest expense	\$ 1,739	\$ 1,250
Interest on lease liability	<u>5,107</u>	<u>5,137</u>
	<u>\$ 6,846</u>	<u>\$ 6,387</u>
Nine months ended	June 30, 2025	June 30, 2024
Interest expense	\$ 2,370	\$ 2,982
Interest on lease liability	<u>9,583</u>	<u>18,380</u>
	<u>\$ 11,953</u>	<u>\$ 21,362</u>

13. 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, 2025 of 49,635,635 (2024 – 49,635,635). The diluted loss per share is calculated using the weighted average number of common shares of 49,635,635 (2024 – 49,635,635) and does not include the stock options which were anti-dilutive.

14. Non-Cash Working Capital Balances

The net change in non-cash working capital balances for the nine months ended June 30, 2025 and 2024 consists of:

	June 30, 2025	June 30, 2024
Accounts receivable	\$ 539,773	\$ (120,564)
Prepaid expenses	6,483	(104,624)
Deposits	(24,605)	-
Accounts payable and accrued liabilities	248,673	190,164
Amounts payable to related parties	195,367	150,550
Contract assets	(202,000)	(28,999)
Contract liabilities	<u>52,304</u>	<u>269,428</u>
	<u>\$ 815,995</u>	<u>\$ 355,955</u>

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

15. Supplemental Cash Flow Information

Three months ended	June 30, 2025	June 30, 2024
Interest paid	<u>\$ 1,739</u>	<u>\$ 1,250</u>
Nine months ended	June 30, 2025	June 30, 2024
Interest paid	<u>\$ 2,370</u>	<u>\$ 2,982</u>

16. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, amounts payable to related parties 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.

As at June 30, 2025, the Company had bank indebtedness of \$33,949 (September 30, 2024 - \$Nil) which is carried at a variable interest rate. Management believes the interest rate risk is not 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.

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

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

16. Financial Instruments (Continued)

Financial risk management (Continued)

Credit risk (Continued)

- 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, 2025, the Company has \$246,052 (September 30, 2024 - \$348,046) of accounts receivable that are past due (over 90 days). A recovery of expected credit losses of \$Nil and \$8,810 was recorded for accounts receivable during the three and nine months ended June 30, 2025, respectively (2024 – expected credit losses of \$117,398). As at June 30, 2025, approximately 84% (September 30, 2024 - 100%) of trade accounts receivable are from three (3) customers (September 30, 2024 – four (4) customers). Trade accounts receivable aging details are as follows:

	<u>June 30, 2025</u>	<u>September 30, 2024</u>
Current	\$ 145,870	\$ 199,813
31 - 90 days	104,262	474,474
Over 90 days	<u>246,052</u>	<u>348,046</u>
	496,184	1,022,333
Allowance for doubtful accounts	<u>(148,045)</u>	<u>(156,854)</u>
	<u>\$ 348,139</u>	<u>\$ 865,479</u>

- c) The Company recognized an allowance for impairment on amounts due from related parties (Note 5) of \$13,953 and \$28,586 during the three and nine months ended June 30, 2025, respectively (2024 - \$19,503 and \$36,999, respectively). As at June 30, 2025, the cumulative allowance for impairment on amounts due from related parties is \$367,745 (September 30, 2024 - \$339,159).

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, 2025, the Company's cash totalled \$16,749 (September 30, 2024 – \$134,384), accounts receivable totalled \$352,147 (September 30, 2024 - \$883,110) and the Company had a working capital deficiency of \$2,439,285 (September 30, 2024 - \$1,487,661). The Company's bank indebtedness of \$33,949 (September 30, 2024 - \$Nil) is due on demand (Note 7). Accounts payable and accrued liabilities of \$1,259,460 (September 30, 2024 - \$1,010,787) have a contractual maturity in the next 12 months and the amounts payable to related parties of \$954,752 (September 30, 2024 - \$759,385) is composed of \$37,274 (September 30, 2024 - \$43,857) which has a contractual maturity in the next 12 months and \$917,478 (September 30, 2024 - \$715,528) due on demand with no formal terms of repayment. The contractual maturity of the Company's lease liability is disclosed in Note 10.

RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2025

(Expressed in Canadian Dollars)

16. Financial Instruments (Continued)

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 approximates its carrying amount since its 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, 2025 and September 30, 2024, the Company does not have any financial instruments measured at fair value.

17. Contingency

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, 2025 and September 30, 2024, no amounts have been recorded and none are required to be disclosed in the interim condensed consolidated financial statements with respect to contingencies.

18. Capital Management

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include sustaining continuing operations. The Company includes shareholders' deficiency of \$2,199,061 (September 30, 2024 – \$1,263,507) and certain amounts payable to related parties of \$917,478 (September 30, 2024 - \$715,528) 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.