

## FORM 51-102F1

### Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") as of January 21, 2025 should be read in conjunction with Reco International Group Inc.'s (the "Company") annual audited consolidated financial statements for the years ended September 30, 2024 and 2023 (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, Kenway Mack Slusarchuk Stewart 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, 2024 to \$3,967,083 as compared to \$3,049,231 in 2023. Total expenses increased in the year ended September 30, 2024 to \$4,407,915 as compared to \$3,659,806 in 2023. Total other income was \$1,453 during the year ended September 30, 2024, as compared to other expense of \$65,598 during 2023. Overall, there was a net loss of \$439,379 during the year ended September 30, 2024 as compared to \$676,173 during 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)

	2024	2023	2022
	\$	\$	\$
Revenue	3,967,083	3,049,231	2,602,702
Expenses	4,407,915	3,659,806	3,310,549
Other Income (Expense)	1,453	(65,598)	(97,385)
Income Tax Recovery	Nil	Nil	Nil
Net Loss	(439,379)	(676,173)	(805,232)
Loss per Share	(0.01)	(0.01)	(0.02)
Fully Diluted Loss per Share	(0.01)	(0.01)	(0.02)
Total Assets	1,264,488	1,038,591	2,424,585
Total Long-term Liabilities	-	193,282	513,796

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

### Revenues

Revenue increased by 30.1% during the year ended September 30, 2024 to \$3,967,083 as compared to \$3,049,231 during 2023.

The increase in revenue is 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 2024

### Subcontracts and Material and Supplies

Subcontracts expenses increased by 23.7% during the year ended September 30, 2024 to \$2,087,292, as compared to \$1,687,724 during 2023. This represents 52.6% of total revenues during the year ended September 30, 2024, as compared to 55.4% of total revenues during 2023.

Materials and supplies expenses increased by 110.74% during the year ended September 30, 2024 to \$722,602, as compared to \$342,890 during 2023. This represents 18.2% of total revenues during the year ended September 30, 2024, as compared to 11.3% of total revenues during 2023.

Changes in subcontract and materials and supplies 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 2024, the company started a new project for the supply of cabinetry and interior doors which has only incurred material and supply costs so far.

### Salaries and benefits

Salaries and benefits decreased by 6.2% during the year ended September 30, 2024 to \$589,984, as compared to \$628,914 during 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.

### General and administrative

General and administrative expenses were relatively consistent during the year ended September 30, 2024, at \$586,511 as compared to \$586,596 during 2023.

### Depreciation

Depreciation was relatively consistent during 2024 at \$254,398, as compared to \$257,516 during 2023, a decrease of 1.2%. There were no significant additions to equipment or the right-of-use asset between these periods.

### 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, 2024, the Company had total accounts receivable of \$1,022,333 (2023 - \$329,968), of which \$348,361 is past due over 90 days (2023 - \$218,011), and has taken an allowance of \$156,854 against the total accounts receivable balance (2023 - \$48,127). An expected credit loss of \$116,548 was recorded for accounts receivable during the year ended September 30, 2024 (2023 - \$25,877).

### Finance costs

Finance costs decreased by 50.3% during the year ended September 30, 2024 to \$25,386 (2023 - \$51,063). The decrease was primarily related to the reduction in the lease liability.

### Share-based compensation

Share-based compensation in the year ended September 30, 2024 was \$25,194 (2023 - \$79,226). 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.

### Impairment of amounts due from related parties

During the year ended September 30, 2024, the Company advanced \$52,201 (2023 - \$74,866), 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 increased by 21.8% to \$1,264,488 as at September 30, 2024, as compared to \$1,038,591 as at September 30, 2023. This increase was primarily due to an increase in accounts receivable and partially offset by the continued depreciation of the right-of-use asset.

### Non-current liabilities

Non-current liabilities decreased to \$Nil as at September 30, 2024 as compared to \$193,282 as at September 30, 2023. This decrease was mainly due to the continued paydown on the lease liability, which expires on May 31, 2025 (see Liquidity and Capital Resources section below for more details).

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

	Sep. 30, 2024	Jun. 30, 2024	Mar. 31, 2024	Dec. 31, 2023	Sep. 30, 2023	Jun. 30, 2023	Mar. 31, 2023	Dec. 31, 2022
Revenue	\$ 1,542,712	\$ 1,554,874	\$ 441,795	\$ 427,702	\$ 1,057,305	\$ 836,396	\$ 907,662	\$ 247,868
Expenses	\$ 1,523,380	\$ 1,655,207	\$ 592,685	\$ 636,643	\$ 1,100,143	\$ 905,110	\$ 1,057,243	\$ 597,310
Other income (expense)	\$ (6,202)	\$ 22,497	\$ (5,528)	\$ (9,314)	\$ (13,067)	\$ (4,292)	\$ (33,998)	\$ (14,241)
Income taxes	\$ Nil							
Net income (loss)	\$ 13,130	\$ (77,836)	\$ (156,418)	\$ (218,255)	\$ (55,905)	\$ (73,006)	\$ (183,579)	\$ (363,683)
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (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. 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 2024, the Company recognized \$52,201 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. During Q4 2024, the Company recognized other income of \$9,000 from the rental of certain equipment.

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

### Revenues

Revenue increased by 45.9% during the three months ended September 30, 2024 to \$1,542,712 as compared to \$1,057,305 during the same period in 2023.

The increase in revenue is primarily due to progress made on construction projects and the new project for the supply of cabinetry and interior doors.

### Subcontracts and Material and Supplies

Subcontracts expenses increased by 23.2% during the three months ended September 30, 2024 to \$757,334, as compared to \$614,625 during the same period in 2023. This represents 49.1% of total revenues during the three months ended September 30, 2024, as compared to 58.1% of total revenues during the same period in 2023.

Materials and supplies expenses increased by 312.6% during the three months ended September 30, 2024 to \$380,608, as compared to \$92,238 during the same period in 2023. This represents 24.7% of total revenues during the three months ended September 30, 2024, as compared to 8.7% of total revenues during the same period in 2023.

Changes in subcontract and materials and supplies costs are largely due to:

- 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 September 30, 2024, the company made progress on a major new project for the supply of cabinetry and interior doors which has only incurred material and supply costs to date.

### Salaries and benefits

Salaries and benefits decreased by 13.5% during the three months ended September 30, 2024 to \$159,057, as compared to \$183,962 during the same period in 2023.

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

### General and administrative

General and administrative expenses increased by 26.5% during the three months ended September 30, 2024 to \$159,607, as compared to \$126,211 during the same period in 2023.

The increase is primarily due to an increase in management fees during the three months ended September 30, 2024.

## Depreciation

Depreciation was relatively consistent during the three months ended September 30, 2024 at \$63,600, as compared to \$64,644 during the same period in 2023. There were no significant additions to equipment or the right-of-use asset between these periods.

## 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. Bad debt expense was insignificant during the three months ended September 30, 2024. An expected credit loss of \$21,099 was recorded for accounts receivable during the three months ended September 30, 2023.

## Finance costs

Finance costs decreased by 49.6% during the three months ended September 30, 2024 to \$4,024 (2023 - \$7,980). The decrease was primarily related to the reduction in the lease liability.

## Share-based compensation

Share-based compensation in the three months ended September 30, 2024 was \$Nil as compared to a credit of \$10,616 during the same period in 2023. No further stock options were granted or vested during the three months ended September 30, 2024. The credit during the three months ended September 30, 2023 was due to forfeitures of stock options arising from the termination of certain consultants.

## Impairment of amounts due from related parties

During the three months ended September 30, 2024, the Company advanced \$15,202 (2023 - \$13,067), 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, 2024, the Company's cash totaled \$134,384 (2023 - \$232,233), there was no bank indebtedness, and the Company had a working capital deficiency of \$1,487,661 (2023 - \$1,131,799).

- Cash provided by operating activities during 2024 was \$300,063 (2023 - cash used in operating activities of \$67,017). The increase was primarily due to an improvement in the net loss and comprehensive loss in 2024, as compared to 2023, together with changes in non-cash working capital.
- Cash used in investing activities during 2024 was \$54,994 (2023 - \$78,773). The decrease is due to fewer advances to related parties in 2024, as compared to 2023. Purchases of equipment were not significant in 2024 and 2023.
- Cash used in financing activities for 2024 was \$342,918 (2023 - \$297,575). The increase in cash used was due to the \$70,000 repayment of the CEBA loan in 2024 together with ongoing repayment of the lease liability. The increase was partially offset by a repayment

of \$48,000 to a related party in 2023, which did not recur in 2024.

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, 2024, the Company incurred a net loss of \$439,379 (2023 - \$676,173) and had positive (2023 – negative) cash flow from operations of \$300,063 (2023 - \$67,017). As at September 30, 2024, the Company had a working capital deficiency of \$1,487,661 (2023 - \$1,131,799) and an accumulated deficit of \$3,959,004 (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 net loss during 2024, as compared to 2023, and reported positive cash flow from operations of \$300,063 during 2024. The Company expects it will have sufficient access to 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 for the year ended September 30 – undiscounted cash flow:

2025	<u>\$ 198,170</u>
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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, 2024, the Company has drawn on \$Nil of the line of credit.

The Company had 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, on January 18, 2024, an aggregate of \$30,000 was forgiven by the lender.

### **Transactions with Related Parties**

During the year ended September 30, 2024, the Company advanced \$24,555 to Reco Central Alberta Inc. (2023 - \$37,755) a company that has common management and directors with the Company and \$27,646 to Reco Southern Alberta Inc. (2023 - \$37,111), 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, 2024, the Company recorded an allowance for impairment of \$52,201 (2023 - \$74,866), on the amounts advanced due to the uncertainty of repayment.

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

- a) \$715,528 for advances from and management fees owed to H.Z. Construction Management Ltd., a company controlled by Hugh Zhen, the CEO and director of the Company (2023 -

\$490,328). Amounts are unsecured, bear no interest and have no specific terms of repayment;

- b) \$9,583 for consulting fees owed to William Harper, the interim Chief Financial Officer of the Company (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 (2023 - \$33,900), and \$374 for consulting fees owed to Joshua Lau, a close family member of Hubert Lau, a director of the Company (2023 - \$374).

During the year ended September 30, 2024, the Company made repayments on advances of \$Nil (2023 - \$48,000) to H.Z. Construction Management Ltd.

Key management during the year ended September 30, 2024, includes senior executives of the Company, Hugh Zhen (the “CEO”) and William Harper (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>2024</u>	<u>2023</u>
Salaries and other short-term employee benefits	\$ -	\$ 7,863
Consulting fees	\$ 17,858	\$ 42,274
Management fee	\$ 258,700	\$ 162,000
Share-based compensation	\$ 20,440	\$ 68,134

## **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 September 30, 2024 and 2023, the Company had no bank indebtedness. 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, 2024, the Company has \$348,046 (2023 - \$218,011) of accounts receivable that are past due (over 90 days). An expected credit loss of \$116,548 was recorded for accounts receivable during the year ended September 30, 2024 (2023 - \$25,877). As at September 30, 2024, approximately 100% (2023 - 83%) of trade accounts receivable are from four (4) customers (2023 - five (5) customers). Trade accounts receivable aging details are as follows:

	<u>2024</u>	<u>2023</u>
Current	\$ 199,813	\$ 101,387
31 – 90 days	474,474	10,570
Over 90 days	<u>348,046</u>	<u>218,011</u>
	<u>1,022,333</u>	<u>329,968</u>
Allowance for doubtful accounts	<u>(156,854)</u>	<u>(48,127)</u>
	<u>\$ 865,479</u>	<u>\$ 281,841</u>

The Company recognized an allowance for impairment on amounts due from related parties of \$52,201 during the year ended September 30, 2024 (2023 - \$74,866). As at September 30, 2024, the cumulative allowance for impairment on amounts due from related parties is \$339,159 (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 September 30, 2024, the Company's cash totalled \$134,384 (2023 - \$232,233), accounts receivable totalled \$883,110 (2023 - \$286,993) and the Company had a working capital deficiency of \$1,487,661 (2023 - \$1,131,799). The Company's accounts payable and accrued liabilities of \$1,010,787 (2023 - \$666,734) have a contractual maturity in the next 12 months and the amounts payable to related parties of \$759,385 (2023 - \$530,602) is composed of \$43,857 (2023 - \$40,274) which has a contractual maturity in the next 12 months and \$715,528 (2023 - \$490,328) due on demand with no formal terms of repayment. The contractual maturity of the Company's lease liability are 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 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 September 30, 2024 and 2023, the Company does not have any financial instruments measured at fair value.

### **Off – Balance Sheet Arrangements**

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

## **Share Structure**

As at September 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 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.

## **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.