

Leading the future



REKO
INTERNATIONAL GROUP INC.

2018 CONSOLIDATED
FINANCIAL STATEMENTS



MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Reko International Group Inc., reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the shareholders' auditors, PricewaterhouseCoopers LLP, and their report is presented herein.

"Diane Reko"

Diane Reko, B.Comm
Chief Executive Officer

October 19, 2018

"Marilyn Crowley"

Marilyn Crowley, CPA, CA
Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

October 19, 2018



To the Shareholders of Reko International Group Inc.

We have audited the accompanying consolidated financial statements of Reko International Group Inc. and its subsidiaries, which comprise the consolidated balance sheets as at July 31, 2018 and July 31, 2017 and August 1, 2016 and the consolidated statements of income and comprehensive income, changes in equity, and cash flows for the years ended July 31, 2018 and July 31, 2017, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Reko International Group Inc. and its subsidiaries as at July 31, 2018 and July 31, 2017 and August 1, 2016 and their financial performance and their cash flows for the years ended July 31, 2018 and July 31, 2017 in accordance with International Financial Reporting Standards.

"PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

CONSOLIDATED BALANCE SHEET

As at July 31

(in 000's, except for per share amounts)

	JULY 2018	JULY 2017 RECLASSIFIED NOTE 19	AUGUST 1, 2016 RECLASSIFIED NOTE 19
ASSETS (NOTES 9 AND 10)			
Current			
Cash	\$ 6,565	\$ 4,740	\$ 5,225
Accounts receivable	11,978	7,318	12,964
Non-hedging financial derivatives (Note 5)	--	749	--
Work-in-progress (Note 6)	10,163	13,019	9,613
Prepaid expenses and other current assets	1,319	704	454
	30,025	26,530	28,256
Grants receivable (Note 18)	436	--	--
Capital assets (Note 7)	31,259	23,027	23,417
Embedded derivative (Note 8)	48	50	50
Deferred income taxes (Note 4)	3,271	3,466	4,054
	\$ 65,039	\$ 53,073	\$ 55,777
LIABILITIES			
Current			
Bank indebtedness (Note 9)	\$ 4,815	\$ 1,618	\$ --
Accounts payable and accrued liabilities	3,226	2,890	4,292
Provisions payable	--	--	175
Non-hedging financial derivatives (Note 5)	27	--	82
Unearned revenue on work-in-progress (Note 6)	336	8	557
Current portion of unearned revenue	102	120	120
Current portion of long-term debt (Note 10)	1,169	4,288	2,427
Long-term debt subject to demand provisions (Note 10)	6,868	996	2,468
	16,543	9,920	10,121
Long-term debt (Note 10)	3,315	--	3,666
Unearned revenue	--	38	94
SHAREHOLDERS' EQUITY			
Share capital (Note 11)	18,824	18,803	18,819
Contributed surplus (Note 12)	1,865	1,856	1,876
Retained earnings	24,492	22,456	21,201
	45,181	43,115	41,896
	\$ 65,039	\$ 53,073	\$ 55,777

Contingencies (Note 20)

On behalf of the Board

"Diane Reko"
Diane Reko
Director

"Andrew J. Szonyi"
Andrew J. Szonyi
Director

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at July 31

(in 000's, except for per share amounts)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
Balance at July 31, 2016	\$ 18,819	\$ 1,876	\$ 21,201	\$ --	\$ 41,896
Share-based payments	(16)	(20)	--	--	(36)
Net income	--	--	2,545	--	2,545
Dividends paid	--	--	(1,290)	--	(1,290)
Balance at July 31, 2017	\$ 18,803	\$ 1,856	\$ 22,456	\$ --	\$ 43,115
Balance at July 31, 2017	\$ 18,803	\$ 1,856	\$ 22,456	\$ --	\$ 43,115
Share-based payments	21	9	--	--	30
Net income	--	--	2,035	--	2,035
Balance at July 31, 2018	\$ 18,824	\$ 1,865	\$ 24,492	\$ --	\$ 45,181

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

As at July 31

(in 000's, except for per share amounts)

	2018	2017
Sales	\$ 42,272	\$ 42,967
Costs and expenses		
Cost of sales	32,288	32,402
Depreciation	3,264	3,089
	35,552	35,491
Gross profit	6,720	7,476
Selling and administrative (Note 15)	4,729	3,972
Income before the following items	1,991	3,504
Foreign exchange (gain)/ loss	(189)	154
Other income	(280)	(192)
Loss (gain) on sale of capital assets	3	(15)
Interest on long-term debt	204	297
Interest on other interest-bearing obligations	23	12
	(239)	256
Income before income taxes	2,230	3,248
Deferred income tax provision (Note 4)	195	703
Net income and comprehensive income	\$ 2,035	\$ 2,545
Earnings per common share (Note 13)		
Basic	\$ 0.32	\$ 0.40
Diluted	\$ 0.31	\$ 0.37

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

As at July 31

(in 000's, except for per share amounts)

	2018	2017
OPERATING ACTIVITIES		
Net income for the year	\$ 2,035	\$ 2,545
Adjustments for:		
Depreciation	3,264	3,089
Income tax provision	195	703
Interest expense	227	309
Loss (gain) on sale of capital assets	3	(15)
Change in fair value of embedded derivative	2	--
Stock compensation	9	--
	5,735	6,631
Net change in non-cash working capital (Note 17)	(1,452)	(1,023)
Interest paid	(246)	(313)
CASH PROVIDED BY OPERATING ACTIVITIES	4,037	5,295
FINANCING ACTIVITIES		
Net proceeds of bank indebtedness	3,197	1,618
Proceeds from (repurchase) issuance of capital stock	21	(16)
Payment of cash dividend	--	(1,289)
Proceeds from long-term debt including amounts subject to demand provisions	10,377	--
Unrealized foreign exchange (gain) loss	(13)	(132)
Payments on long-term debt	(4,295)	(3,277)
CASH PROVIDED BY FINANCING ACTIVITIES	9,287	(3,096)
INVESTING ACTIVITIES		
Investment in capital assets	(11,499)	(2,699)
Proceeds on sale of capital assets	--	15
CASH USED IN INVESTING ACTIVITIES	(11,499)	(2,684)
Net change in cash	1,825	(485)
Cash, beginning of year	4,740	5,225
Cash, end of year	\$ 6,565	\$ 4,740

The accompanying notes are an integral part of these consolidated financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate or exist in the Province of Ontario in Canada and the State of Michigan in the United States. The registered head office is located at 469 Silver Creek Industrial Drive, Lakeshore, Ontario, Canada.

The Company's revenue is generated from the sale of large custom machining, factory automation and manufacturing molds, primarily for the automotive sector.

STATEMENT OF COMPLIANCE

The policies applied in these consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors on October 3, 2018.

BASIS OF MEASUREMENT

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value.

BASIS OF CONSOLIDATION

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The Company's subsidiaries are as follows:

SUBSIDIARY	LOCATION	PERCENTAGE OWNERSHIP	CONSOLIDATION
Concorde Precision Machining Inc.	Ontario	100%	Full
Reko Manufacturing Group Inc.	Ontario	100%	Full
Reko International Holdings, Inc.	Michigan	100%	Full
Reko International Sales, Inc.	Michigan	100%	Full
Concorde USA LLC	Michigan	100%	Full

FOREIGN CURRENCY TRANSLATION

The reporting currency of the reporting entity is Canadian dollars. Transactions in foreign currencies are translated at the foreign exchange rate in effect at the date of the transaction. The Company translates monetary assets and liabilities denominated in foreign currencies at the exchange rate as at the balance sheet date. Foreign exchange differences arising on translation are recognized in profit or loss. Revenues and expenses are translated at rates prevailing on the date of the transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates at the dates the fair value was determined. For the year ended July 31, 2018, the Company reported a foreign exchange gain of \$189 (2017 – loss of \$154).

The financial statements of US subsidiaries, whose functional currency has been determined to be Canadian dollars, are translated such that monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the year. Translation gains or losses are included in income.

FINANCIAL INSTRUMENTS

The Company utilizes financial instruments in the management of its foreign currency exposure by economically hedging its foreign exchange exposure on anticipated net cash inflows in US dollars through the use of US dollar denominated debt and forward foreign exchange contracts. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial assets and financial liabilities are initially recognized at fair value. Subsequent to initial recognition, financial instruments are stated at fair value and their remeasurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

CLASSIFICATION

Cash	Fair value through profit or loss ("FVTPL")
Non-hedging financial derivatives	FVTPL
Accounts receivable	Loans and receivables
Embedded derivative	FVTPL
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt subject to demand provisions	Other financial liabilities
Long-term debt	Other financial liabilities

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FVTPL

Financial assets designated as FVTPL are financial assets typically held for trading or that are designated as FVTPL. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in non-operating items. Financial liabilities designated as FVTPL are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through profit or loss. These are accounted for in the same manner as FVTPL assets.

HELD-TO-MATURITY

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. The Company has not designated any financial assets as held to maturity.

AVAILABLE-FOR-SALE

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to earnings. Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method. The Company does not have any non-derivative financial assets classified as available for sale.

LOANS AND RECEIVABLES

Loans and receivables are accounted for at amortized cost using the effective interest method.

OTHER FINANCIAL LIABILITIES

Other financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

TRANSACTION COSTS

Transaction costs related to FVTPL financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other financial liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

EFFECTIVE INTEREST METHOD

The Company uses the effective interest method to recognize interest income or expense, which includes transaction costs or fees, premiums or discounts, earned or incurred for financial instruments.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of the financial asset are transferred.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

USE OF SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are made on the assumption the Company will continue as a going concern and are based on information available at the time of preparation. Estimates may be revised where the circumstances on which they are based change or where new information becomes available.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

The Company has applied judgment in its use of the going concern assumption, identifying cash generating units, identifying indicators for impairment of long-lived assets and deferred taxes and assessing the Company's functional currency. In the absence of standards or interpretations applicable to a specific transaction, management uses its judgment to define and apply accounting policies that provide relevant and reliable information in the context of the preparation of the financial statements.

Estimates are used when estimating the useful lives of long-lived assets for the purposes of quantifying amortization, when accounting for or measuring such items as allowance for uncollectible accounts, allowances for provisions on loss contracts, realizable value of tax losses and other tax credits, assessing the percent complete of work-in progress, certain fair value measures including those related to share based payments and financial instruments, and when testing long-lived assets for impairment. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

REVENUE RECOGNITION

The Company deals primarily in contracts with a period of completion over several months. Revenue is recognized based on the percentage of completion method, provided the contract has progressed to the point where total costs can be reasonably estimated. The Company considers all jobs, which have completed all aspects of engineering and design to have progressed to the point where total costs can be reasonably estimated. Historically, this occurs somewhere between 15% and 25%, depending on the complexity of the job. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately.

OPERATING LEASE PAYMENTS

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss as an integral part of the total lease expense.

FINANCE LEASE PAYMENTS

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

CASH

Cash includes cash on hand and balances with maturities less than 90 days.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at their cost less allowances for doubtful accounts. The allowance for doubtful accounts is determined by taking into consideration the age of receivables, the Company's prior experience with the customer including their ability to pay and/or an assessment of the current economic conditions. Accounts receivable and allowance for doubtful accounts are written off when the balance is no longer considered to be collectible.

WORK-IN-PROGRESS

Work-in-progress includes unbilled contract revenue and inventory. Tooling inventory is valued at the lower of cost and net realizable value, less any amounts billed to the customer. Cost includes the cost of materials, direct labour applied to the product and specifically identified manufacturing overhead. The results reported under the percentage of completion method are based on management's estimates. Actual results could differ from these estimates.

CAPITAL ASSETS AND DEPRECIATION

OWNED ASSETS

Capital assets are stated at cost less accumulated depreciation and impairment losses (see impairment loss accounting policy). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognized for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain capital assets that had been revalued to fair value on August 1, 2010, the date of transition to IFRSs, are measured on the basis of deemed cost, being their fair value at the transition date.

When parts of capital assets have different useful lives, those components are accounted for as separate items of capital assets.

LEASED ASSETS

Leases for which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. The capital assets acquired by way of a finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (see impairment loss accounting policy).

SUBSEQUENT COSTS

The Company recognizes in the carrying amount of a capital asset the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in profit or loss as an expense as incurred.

DEPRECIATION

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each capital asset. Land is not depreciated. The estimated useful lives are as follows:

Buildings	15 – 25 years
Building roofs	15 years
Heating, ventilation and cooling	10 years
Machinery and equipment	5 – 20 years
Controls	10 years
Tooling	5 years
Leasehold improvements	10 – 20 years
Equipment under capital lease	10 – 20 years

The residual value and estimated useful life is reassessed annually.

GOVERNMENT GRANTS

Grants from the government are recognized at their fair value where there is reasonable assurance that the grant will be received and that the Company will comply with all the attached conditions. Government grants relating to the purchase of property, plant and equipment are deducted from the cost of the related capital asset.

BORROWING COSTS

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortized cost.

UNEARNED REVENUE ON WORK-IN-PROGRESS

In situations where the customer is billed more than the Company has recognized as revenue for an individual project on the reporting date, the invoiced amount in excess of the revenue recognized is recorded as unearned revenue on work-in-progress.

INCOME TAXES

Income tax on the profit or loss from the periods presented comprises any current (if applicable) and deferred income tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in comprehensive income, in which case it is recognized in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, if any after application of available losses and deductions, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit; and, differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date that are expected to apply when the deferred tax is realized/settled.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

SHARE CAPITAL

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

COMPREHENSIVE INCOME

Other comprehensive income is the change in the Company's net assets that result from translations, events and circumstances from sources other than the Company's shareholders. When it occurs, other comprehensive income is presented below net income on the Consolidated Statements of Income and Comprehensive Income. Comprehensive income is composed of net income and other comprehensive income.

Accumulated other comprehensive income is a separate component of shareholders' equity which includes the accumulated balances of all components of other comprehensive income which are recognized in comprehensive income but excluded from net income.

EARNINGS PER SHARE

Basic earnings per share is calculated on net income using the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated on the weighted average number of common shares that would have been outstanding during the year had all "in the money" stock options outstanding been exercised and converted into common shares using the treasury method.

IMPAIRMENT LOSSES

The carrying amounts of the Company's long-lived non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

REVERSALS OF IMPAIRMENT LOSSES

An impairment loss, for other than a held-to-maturity security, investment in an equity instrument classified as available-for-sale and in respect of goodwill, is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

DEFINED CONTRIBUTION EMPLOYEE BENEFIT PLANS

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss as incurred.

PROVISIONS

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

STOCK BASED COMPENSATION

The share option programme allows certain Company employees to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The Company measures the fair value of stock options at the grant date and spreads the expense over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured using the Black-Scholes option-pricing model. This model requires the input of a number of assumptions, including expected dividend yields, expected stock volatility, expected forfeiture rates, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on market conditions generally outside the Company's control. If other assumptions are used, stock-based compensation expense could be significantly impacted. As stock options are exercised, the proceeds received on exercise, in addition to the portion of the contributed surplus balance related to those stock options, is credited to share capital and contributed surplus is reduced accordingly.

CONSIDERATION GIVEN TO CUSTOMERS

Cash consideration given by the Company to a customer, such as cash discounts and rebates, are presumed to be a reduction of the selling prices of the Company's products or services and are, therefore, accounted for as a reduction of revenue when recognized in the statement of income.

New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published, but are not yet effective, and have not been adopted early by the Company.

The Company anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 FINANCIAL INSTRUMENTS AND IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

IFRS 9 was a previously issued new standard to partially replace IAS 39 Financial Instruments: Recognition and Measurement. Originally it was to be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, but the IASB has changed the mandatory effective date and included additional disclosures about its initial adoption. The mandatory effective date of IFRS 9 has been changed to annual periods beginning on or after January 1, 2018. Disclosures that illustrate the effect of adopting IFRS 9 have been added to IFRS 7. The amendments to IFRS 7 have been incorporated into Appendix C of IFRS 9. This standard will be applied by the Company beginning in its next fiscal year which ends July 31, 2019 and is not expected to have a significant impact on the financial statements of the Company.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 is the culmination of a joint project between the IASB and the Financial Accounting Standards Board, the accounting standard setter in the U.S., to create a single revenue standard. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard moves away from a revenue recognition model based on an earnings process to an approach that is based on transfer of control of a good or service to a customer. Additionally, the new standard requires disclosures as to the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The mandatory effective date of IFRS 15 is annual periods beginning on or after January 1, 2018 and accordingly will be implemented for the year ended July 31, 2019. The Company does not anticipate that this new standard will have a significant impact on the financial statements of the Company.

IFRS 16 LEASES

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company is assessing the potential impact of IFRS 16.

2. GEOGRAPHIC INFORMATION

The following information reflects the geographic breakdown of revenues and capital assets based on the physical location of the Company's operations. The Company does not track revenues based on ship to locations.

	2018	
	REVENUES	CAPITAL ASSETS
Canada	\$ 41,543	\$ 31,259
United States	729	--
	\$ 42,272	\$ 31,259

	2017	
	REVENUES	CAPITAL ASSETS
Canada	\$ 41,469	\$ 23,027
United States	1,498	--
	\$ 42,967	\$ 23,027

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, non-hedging financial derivatives, embedded derivative, bank indebtedness, accounts payable and accrued liabilities and long-term debt.

FAIR VALUE

The Company has determined the estimated fair value of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

ACCOUNTS RECEIVABLE, BANK INDEBTEDNESS, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Due to the short period of maturity of the instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

CATEGORIES OF METHOD OF FAIR VALUING CASH, NON-HEDGING FINANCIAL DERIVATIVES, EMBEDDED DERIVATIVE, AND LONG-TERM DEBT INCLUDING LONG TERM DEBT SUBJECT TO DEMAND PROVISIONS

The following table provides an analysis of cash, non-hedging financial derivatives, embedded derivative and long-term debt that are measured subsequent to initial recognition 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 (unobservable inputs).

	LEVEL 1	LEVEL 2	LEVEL 3	2018
Financial assets at FVTPL				
Cash	\$ 6,565	\$ --	\$ --	\$ 6,565
Embedded derivative	--	48	--	48
	\$ 6,565	\$ 48	\$ --	\$ 6,613
Financial liabilities at FVTPL				
Non-hedging financial derivatives	\$ --	\$ 27	\$ --	\$ 27
	\$ --	\$ 27	\$ --	\$ 27

	LEVEL 1	LEVEL 2	LEVEL 3	2017
Financial assets at FVTPL				
Cash	\$ 4,740	\$ --	\$ --	\$ 4,740
Non-hedging financial derivatives	--	749	--	749
Embedded derivative	--	50	--	50
	\$ 4,740	\$ 799	\$ --	\$ 5,539

NON-HEDGING FINANCIAL DERIVATIVES

The Company's non-hedging financial derivatives are the Company's future forward exchange contracts and are subject to fluctuations in foreign exchange rates between the Canadian and US dollar. The Company's non-hedging financial derivatives are valued based on discounting the future cash outflows associated with the contract based on the closing foreign exchange rate between the Canadian and US dollar.

EMBEDDED DERIVATIVE

The Company's embedded derivative relates to a provision in a long-term supply agreement with a customer. The provision provides that at the end of each six-month period in the five-year contract, the average foreign exchange rate between US dollars and Canadian dollars, during that period, shall be at least \$1.09. In the event, the average foreign exchange rate is less than \$1.09 the customer equalizes the Company based on an average foreign exchange rate of \$1.09. The Company's embedded derivative is valued based on valuation models for Asian puts and the closing foreign exchange rate between the Canadian and US dollar.

LONG-TERM DEBT

The Company's long-term debt of \$6,421 CDN and \$3,004 USD (currently valued at \$3,925 CDN) is subject to fixed interest rates. At July 31, 2018, the fair value of the Company's long-term debt is \$5,827 CDN and \$2,300 USD (currently valued at \$3,004 CDN) and is calculated based on discounting the future cash outflows associated with the long-term debt. At July 31, 2017, the fair value of the Company's long term debt was \$5,284. The discount rate is based on the incremental premium above market rates for Government of Canada securities of similar duration. In each period thereafter, the incremental premium is held constant while the Government of Canada security is based on the then current market value to derive the discount rate.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated authority of risk management to the Audit Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and foreign exchange contracts.

ACCOUNTS RECEIVABLE

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which the customers operate, has less of an influence on credit risk. Approximately 72% of the Company's revenue is attributable to the automotive industry. Annually, between 80% and 90% of the Company's revenue is derived from customers who pay in United States dollars.

For the year ended July 31, 2018, sales to the Company's three largest customers (inclusive of all divisions of the same parent company) represented 22.3%, 15.9% and 8.0%, respectively, of total sales. These same customers represent approximately 21.7%, 13.2% and 8.9% of total accounts receivable, respectively as at July 31, 2018.

The Audit Committee has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review generally also includes application for accounts receivable insurance, and in some cases bank references. Open amount limits are established for each customer; actual open amounts are reported monthly to the Audit Committee and any accounts of concern are reviewed at least quarterly by the Audit Committee. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Goods are sold subject to available financial liens, so that in the event of non-payment the Company may have a secured claim. The Company does not require collateral in respect of accounts receivable. In addition, the Company maintains, to the extent available, industry standard accounts receivable insurance programs to reduce its exposure to credit risk.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable, non-hedging financial instruments and unbilled contract revenue.

Cash and non-hedging financial instruments are subject to counterparty credit risk. The Company mitigates this credit risk by dealing with counterparties who are major financial institutions that the Company anticipates will be able to satisfy its obligations with the Company.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of at least 150 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of that ability, the Company maintains a \$20,000 line of credit facility that is secured against the Company's accounts receivable and work-in-process. Interest is payable on the drawn portion of the line-of-credit at the rate of LIBOR or Banker's Acceptance rates plus an applicable margin ranging from 175 to 250 basis points. As at July 31, 2018, the Company has cash on hand of \$6,565 in addition to available undrawn lines of credit of approximately \$13,769; however, under its current margining provisions with its lender, the maximum it can draw on its available lines of credit is limited to \$18,584.

A portion of the debt noted above (\$2,950 CDN and \$3,004 USD) is subject to demand provisions in that the lender is contractually entitled to require payment of the outstanding balance "on demand". The Company is in receipt of correspondence from the lender indicating that there is no expectation that the balances will be called and that it is anticipated that principal and interest payments on these facilities will be made as scheduled throughout the term of the loans.

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit Committee.

CURRENCY RISK

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the parent Company, the Canadian dollar. The Company's goal is to maintain foreign currency future contracts that are within \$5,000 of its total accounting foreign currency exposure. The Company uses forward foreign exchange contracts to mitigate its currency risk, all with a maturity of less than one year from the reporting date.

At July 31, 2018, the Company had outstanding foreign exchange contracts, representing commitments to buy and sell foreign currencies. US dollar contracts represent the significant commitments as follows:

	US DOLLAR AMOUNT	WEIGHTED AVERAGE RATE
Sell US dollars for delivery in 2019 under forward exchange contracts	\$ 10,000	1.2951

Based on the Company's foreign currency exposures, as at July 31, 2018, a change in the US dollar/ Canadian dollar foreign exchange rate to reflect a 100 basis point strengthening of the US dollar would have increased net income by \$20. We caution that this sensitivity is based on an assumed net US dollar denominated asset or liability balance at a point in time. Our net US dollar denominated asset or liability position changes on a daily basis, sometimes materially.

INTEREST RATE RISK

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities. The Company uses LIBORs, bankers' acceptances and its line-of-credit to reduce the exposure to interest rate changes.

The Company's interest rate risk primarily arises from its floating rate debt, in particular its bank indebtedness. At July 31, 2018, \$1,045 of the Company's total debt portfolio is subject to movements in floating interest rates.

Based on the value of interest-bearing financial instruments, subject to movements in floating interest rates, as at July 31, 2018, an assumed 0.5 percentage point increase in interest rates on the first day of the year would have decreased net income by \$5, with an equal but opposite effect for an assumed 0.5 percentage point decrease.

OTHER MARKET PRICE RISK

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

CAPITAL MANAGEMENT

The Board's policy is to ensure sufficient liquidity to pursue its organic growth strategy, while at the same time taking a conservative approach to financial leverage and management of financial risk. The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion. The Company currently funds these requirements out of its internally generated cash flows and when internally generated cash flow is insufficient, its revolving bank credit facility.

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to shareholders' equity, which it aims to maintain at less than 1:1. As at July 31, 2018 and July 31, 2017, the above capital management criteria can be illustrated as follows:

	2018	2017 RECLASSIFIED
Net debt		
Bank indebtedness	\$ 4,815	\$ 1,618
Current portion of long-term debt	1,169	4,288
Long term debt subject to demand provisions	6,868	996
Long-term debt	3,315	--
Less: cash	(6,565)	(4,740)
Net debt	\$ 9,602	\$ 2,162
Shareholders' equity	\$ 45,181	\$ 43,115
Ratio	0.21	0.05

From time to time, the Company purchases its own shares on the market; the timing of these purchases depends on market prices.

There were no changes in the Company's approach to capital management during the year.

As part of the Company's existing debt agreements, three financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis, by management, to ensure compliance with the agreements. The quarterly covenants are: i) debt to equity ratio – calculated as total debt, excluding deferred income taxes divided by shareholders' equity minus minority interest, if any; ii) current ratio – calculated as current assets divided current liabilities and (iii) debt service coverage ratio – calculated as EBITDA less cash taxes (for previous 52 weeks) divided by interest expense plus repayments of long-term debt (based on upcoming 52 weeks).

The Company was in compliance with these covenants at all times during the year.

4. INCOME TAXES

Significant components of the Company's deferred income taxes are as follows:

	2018	2017
Deferred tax asset		
SR & ED tax credits	\$ 4,795	\$ 4,529
Non-capital losses	37	27
Capital assets	1,410	1,068
Other	164	131
Deferred tax asset	\$ 6,406	\$ 5,755
Deferred tax liability		
Tax impact of SR & ED tax credits	\$ 1,275	\$ 1,213
Unbilled contract revenue	1,837	860
Other	23	216
Deferred tax liability	\$ 3,135	\$ 2,289
Net deferred tax asset	\$ 3,271	\$ 3,466

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which these temporary differences and loss carry forwards are deductible. Management considers the scheduled reversal of future tax liabilities, the character of future income tax assets and available tax planning strategies in making this assessment.

The provision for income taxes reflects an effective tax rate, which differs from the combined Federal and Provincial rate for the following reasons:

	2018	2017
Combined Federal and Provincial rate	26.5%	26.5%
Manufacturing and processing deduction	(0.5%)	(0.5%)
Increase in net realizable value	0.0%	0.0%
Permanent and other differences including SR & ED	(17.3)%	(4.4%)
Effective rate	8.7%	21.6%

The details of taxable losses by jurisdiction are as follows:

	2018	2017
Canada, which begin to expire, at the earliest, in 2031	\$ 178	\$ 107
United States, which expire between 2022 and 2032	12,081	\$ 11,807

5. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at July 31, 2018, the Company had entered into foreign exchange contracts to sell an aggregate amount of \$10,000 (USD). These contracts mitigate the Company's expected exposure to US dollar denominated net assets and mature at the latest at January 17, 2019 at an average exchange rate of \$1.2951 Canadian. The mark-to-market value on these financial instruments as at July 31, 2018 was an unrealized loss of \$27, which has been recorded in net income for the year.

AS AT JULY 31, 2018	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE LIABILITY
Sell USD / Buy CAD	0 – 6 months	\$ 9,973	1.2951	\$ 10,000	\$ 27

AS AT JULY 31, 2017	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE ASSET
Sell USD / Buy CAD	0 - 6 months	\$ 11,749	1.3121	\$ 11,000	\$ 749

6. WORK-IN-PROGRESS

Work-in-progress is comprised of:

	2018	2017
Work-in-progress incurred plus profits less provision for future losses	\$ 33,747	\$ 22,319
Less: progress billings	(23,920)	(9,308)
	\$ 9,827	\$ 13,011

Recognized and included in the financial statements as:

	2018	2017
Work-in-progress	\$ 10,163	\$ 13,019
Unearned revenue on work-in-progress	(336)	(8)
	\$ 9,827	\$ 13,011

7. CAPITAL ASSETS

Capital assets are comprised of:

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Cost or deemed cost						
Balance at July 31, 2016	\$ 661	\$ 8,406	\$ 48,305	\$ 587	\$ 407	\$ 58,366
Additions	--	41	--	--	2,658	2,699
Transfers	--	--	2,281	--	(2,281)	--
Disposals	--	--	(5,118)	--	--	(5,118)
Balance at July 31, 2017	\$ 661	\$ 8,447	\$ 45,468	\$ 587	\$ 784	\$ 55,947
Additions	--	--	--	--	11,499	11,499
Transfers	--	5,203	4,869	--	(10,072)	--
Disposals	--	--	(144)	--	--	(144)
Balance at July 31, 2018	\$ 661	\$ 13,650	\$ 50,193	\$ 587	\$ 2,211	\$ 67,302

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Amortization and impairment losses						
Balance at July 31, 2016	\$ --	\$ 3,503	\$ 31,283	\$ 163	\$ --	\$ 34,949
Amortization for the year	--	271	2,774	44	--	3,089
Transfer	--	--	--	--	--	--
Disposals	--	--	(5,118)	--	--	(5,118)
Balance at July 31, 2017	\$ --	\$ 3,774	\$ 28,939	\$ 207	\$ --	\$ 32,920
Amortization for the year	--	326	2,894	43	--	3,263
Transfers	--	--	--	--	--	--
Disposals	--	--	(140)	--	--	(140)
Balance at July 31, 2018	\$ --	\$ 4,100	\$ 31,693	\$ 250	\$ --	\$ 36,043
Carrying value						
Balance at July 31, 2017	\$ 661	\$ 4,673	\$ 16,529	\$ 380	\$ 784	\$ 23,027
Balance at July 31, 2018	\$ 661	\$ 9,550	\$ 18,500	\$ 337	\$ 2,211	\$ 31,259

8. EMBEDDED DERIVATIVE

During the first quarter of 2015, the Company entered into a long-term supply agreement with one of its customers. One of the terms of that agreement included an embedded derivative, establishing a foreign exchange rate floor of \$1.09 on sales by the Company to the customer. This floor is measured every six months during the term of the agreement and is based on the average foreign exchange rate during the period under measurement.

Embedded derivative is comprised of:

	2018	2017
Embedded derivative, beginning of year	\$ 50	\$ 50
Additions during the year	--	--
Fair value change, during the year	2	--
Embedded derivative, end of year	\$ 48	\$ 50

9. BANK INDEBTEDNESS

At July 31, 2018, the bank indebtedness is repayable within 30 days and was required due to a shortfall in its US cash position as a result of the timing of Canadian dollar cash inflows and settlement of forward foreign exchange contracts and timing of collection of US denominated accounts receivables.

	2018	2017
Bank overdraft – bearing interest at 5.25% (2017- N/A)	\$ 49	\$ --
Canadian dollar bankers' acceptances – bearing interest at 3.57% (2017- N/A) due in less than 30 days	1,500	--
U.S. dollar LIBORs – bearing interest at 3.831% (2017 – 2.978%), due in less than 30 days	2,500	1,300
Foreign exchange on U.S. dollar LIBORs	766	318
	\$ 4,815	\$ 1,618

The available bank indebtedness is secured by a general assignment of book debts and work-in-progress together with a second collateral mortgage of \$85,000 on all land and buildings. At July 31, 2018, the Company's available operating lines of credit of \$20,000 were limited to \$18,584, due to lender defined margining capabilities.

10. LONG-TERM DEBT

The long-term debt is comprised of:

	2018	2017 RECLASSIFIED
Mortgage payable – 3.97%, repayable \$21 monthly including interest, due in full April 2023, secured by certain land and building and an assignment of rents on the subject property	\$ 3,471	\$ --
Mortgage payable – 4.42%, repayable \$21 monthly including interest, due in full August 2023, secured by certain land and building and general security agreement, subject to demand provisions	2,950	--
Mortgage payable – 3.06% plus a credit spread, which may vary over the life of facility to a maximum of 275, currently at 175 for an all-in rate of 4.81%, repayable \$14 USD monthly plus interest, due in full August 2025, secured by certain land, buildings and a general security agreement, subject to demand provisions	3,925	--
Mortgage payable – 6%, repayable \$62 monthly including interest, due in full January 2018, secured by land, buildings and certain machinery, and a second position on a general assignment of book debts and work-in-progress	--	3,482
Loan payable – U.S. Base Rate plus 275 basis points (\$114 USD), \$18 monthly plus interest, due in full in October 2018, secured by equipment	--	141
Loan payable – 6.50% repayable \$20 monthly including interest due in full August 2017 secured by equipment	--	1
Loan payable – US dollar LIBOR (\$ 800 USD) plus applicable margin from 175 to 250 basis points, \$45 USD monthly plus interest, due in full in March 2020, secured by general assignment of book debts and work-in-progress, together with a collateral mortgage, subject to demand provisions	1,045	1,668
	11,391	5,292
Deduct – unamortized finance fees	39	8
principal portion included in current liabilities	8,037	5,284
Long-term portion	\$ 3,315	\$ --

Notwithstanding the fact that certain facilities listed above are subject to demand provisions and are classified as current liabilities as a result, the Company expects to repay the principal over the entire scheduled term of the loans and these payments are outlined below.

Total bank credit facilities are as follows:

YEAR	BANK CREDIT FACILITIES
Next 12 months	\$ 1,169
2 years	806
3 years	472
4 years	476
5 years	5,523
Thereafter	2,945
Balance of obligation	\$ 11,391

11. SHARE CAPITAL

Share capital is comprised of:

	AUTHORIZED	ISSUED SHARES	AMOUNT
Class A preference shares	Unlimited	Nil	--
Class B preference shares	Unlimited	Nil	--
Common shares – no par value	Unlimited	6,439,920	\$ 18,824

	SHARES	AMOUNT
Outstanding, July 31, 2016	6,439,920	\$ 18,819
Transactions during the year	(5,000)	(16)
Outstanding, July 31, 2017	6,434,920	\$ 18,803
Transactions during the year as highlighted below	5,000	21
Outstanding, July 31, 2018	6,439,920	\$ 18,824

During the year, 5,000 shares were issued as a result of a purchase under the Company's stock option plan for proceeds of \$6. A charge of \$21 was applied to contributed surplus from this transaction.

The following table presents the maximum number of shares that would be outstanding if all the dilutive "in the money" instruments outstanding, as at July 31, 2018 were exercised:

Common shares outstanding at July 31, 2018	6,439,920
Stock options (Note 14)	286,000
	6,725,920

12. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2018	2017
Balance, beginning of year	\$ 1,856	\$ 1,876
Amounts charged to contributed surplus in respect of exercised stock options	--	(20)
Amounts charged to contributed surplus in respect of the stock based compensation	9	--
Balance, end of year	\$ 1,865	\$ 1,856

13. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2018 was based on the net income attributable to common shareholders of \$2,035 (2017: \$2,545) and a weighted average number of common shares outstanding of 6,439,920 calculated as follows:

	2018	2017
Basic earnings per share:		
Net income	\$ 2,035	\$ 2,545
Average number of common shares outstanding during the year	6,437,660	6,442,194
Basic earnings per share	\$ 0.32	\$ 0.40

Diluted earnings per share:

Net earnings available to common shareholders	\$ 2,035	\$ 2,545
Average number of common shares outstanding during the year	6,437,660	6,442,194
'In the money' stock options outstanding during the year	166,027	361,500
	6,603,687	6,803,694
Diluted earnings per share	\$ 0.31	\$ 0.37

14. STOCK BASED COMPENSATION

The Company has established a stock option plan for directors, officers, and key employees. The terms of the plan state that the aggregate number of shares, which may be issued and sold, will not exceed 10% of the issued and outstanding common shares of the Company on a non-diluted basis. The issue price of the shares shall be determined at the time of grant based on the closing market price of the shares on the specified date of issue. Options shall be granted for a period of five years. At the directors' discretion, the vesting progression is 30% in the year of grant, 30% in the second year, and 40% in the third year. Options given to outside directors vest immediately and can be exercised immediately.

During the year, the Company granted an additional 15,000 options to employees. During the year, 5,000 options from a previous award were exercised by an employee.

As at July 31, 2018, the following options and warrants were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY
30,000	\$ 1.15	2019
256,000	\$ 2.00	2020
100,000	\$ 3.90	2022
10,000	\$ 3.70	2024
5,000	\$ 3.41	2024

The weighted average of the options is as follows:

	2018		2017	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the beginning of the year	414,000	\$ 2.41	326,000	\$ 1.15
Expired during the year	--	--	--	--
Issued during the year	15,000	3.60	105,000	3.90
Exercised during the year	(5,000)	1.15	(5,000)	1.15
Cancelled during the year	(23,000)	2.00	(12,000)	2.00
Outstanding at the end of the year	401,000	\$ 2.47	414,000	\$ 2.41
Exercisable at the end of the year	30,000	\$ 1.15	87,500	\$ 2.80

The description of the method and significant assumptions used during the year to estimate the fair values of options, including the weighted average information, is as follows:

	2018	2017
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	51.39%	52.01%
Risk free rate of return	0.61%	0.81%
Expected forfeiture rate	87.20%	83.30%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ 9	\$ --

15. OPERATING LEASES – LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	2018	2017
Less than one year	\$ 10	\$ 10
Between one and five years	40	12
More than five years	4	--
	\$ 54	\$ 22

During the year ended July 31, 2018, \$10 was expensed with respect to operating leases.

16. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

In addition to their salaries, the Company also provides non-cash benefits to its executive officers and contributes to a post-employment defined contribution benefit plan on their behalf. In accordance with the terms of the plan, executive officers living in Canada are entitled to receive a \$1 contribution to the pension plan annually, once they have completed 5 years of service to the Company. During the year, the Company expensed contributions of \$5 to the defined contribution plan in Canada. The above contribution plans are identical to the contribution plans provided to all employees of the Company.

Executive officers are also eligible, as are all employees, to participate in the Company's share option programme.

Key management personnel and directors compensation comprised:

	2018	2017
Salaries and cash bonuses	\$ 670	\$ 614
Short-term employment benefits	28	26
Post-employment benefits	5	3
	\$ 703	\$ 643

KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS

Directors of the Company control 3.5% of the voting shares of the Company. Individuals related to a director own, directly or indirectly, 59.9% of the voting shares of the Company.

17. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital (exclusive of assets held for sale and inclusive of unearned revenue) is comprised of:

	2018	2017
Accounts receivable	\$ (4,660)	\$ 5,646
Non-hedging financial derivatives	776	(831)
Work-in-progress	2,856	(3,406)
Prepaid expenses and other current assets	(1,051)	(250)
Accounts payable and accrued liabilities	336	(1,402)
Provisions	--	(175)
Unearned revenue	(37)	(56)
Unearned revenue on work-in-progress	328	(549)
	\$ (1,452)	\$ (1,023)

18. GOVERNMENT GRANTS

Effective August 1, 2017, the Company entered into a contract with the Ontario Ministry of Economic Growth and Development to receive funding in the amount of \$1.5 million under the Southwestern Ontario Development Fund (SWODF). The contract provides a non-repayable grant in the amount of 10% of approved capital expenditures incurred in connection with the expansion of the Company's manufacturing capabilities during the period from May 1, 2017 through July 31, 2021 and is contingent upon the Company meeting agreed upon job creation targets. The funding relates to capital acquisitions and as a result, related assets are recorded net of the applicable grant amount - with the net amount being amortized over the useful life of each individual asset.

At July 31, 2018, the Company had received \$300 in cash funding from SWODF and accrued an additional amount receivable of \$796 on total eligible expenditures of \$10,962. The current portion of this amount is included in prepaids and other current assets and the balance is reflected in long term grants receivable. Grant amounts will be paid in accordance with the funding contract over the period of the agreement as long as job creation targets and certain reporting and other obligations are fulfilled on an annual basis.

19. RECLASSIFICATION OF CERTAIN BALANCES FROM PREVIOUSLY ISSUED FINANCIAL STATEMENTS

At July 31, 2017, the Company included the balance of principal payments not due within twelve months of the financial statement date on certain long term debt subject to demand provisions as a long term liability. Pursuant to IAS1, such balances should be included in current liabilities.

As a result of this change in classification, at July 31, 2017, \$996 previously disclosed as long term has been included in current liabilities and as at August 1, 2016, \$2,468 which was reflected as long term has been reallocated to current liabilities.

20. CONTINGENCIES & COMMITMENTS

The Company, in the course of its operations, is subject to lawsuits, contingencies, environmental and other claims.

Provisions are made in instances where it is probable that a net outflow of cash will occur. The Company has no reason to believe that the ultimate outcome of these matters would have significant impact on its financial position, cash flows or results of operations.

SUMMARY OF INCOME (LOSS)

As at July 31

(in 000's, except for per share amounts)

	2018	2017	2016	2015	2014
Sales	\$ 42,272	\$ 42,967	\$ 50,599	\$ 48,296	\$ 38,894
Cost and expenses					
Cost of sales	32,288	32,402	32,026	33,737	29,101
Depreciation and amortization	3,264	3,089	2,954	2,508	2,670
	35,552	35,491	34,980	36,245	31,771
Gross profit	6,720	7,476	15,619	12,051	7,123
Selling and administrative	4,729	3,972	4,626	6,349	4,730
Income before the following	1,991	3,504	10,993	5,702	2,393
(Gain) loss on sale of capital assets	3	(15)	39	(25)	(160)
Income – other	(280)	(192)	(160)	(158)	(398)
Unrealized foreign exchange (gain) loss	(189)	154	456	664	547
Interest on long-term debt	204	297	390	367	379
Interest expense, net	23	12	124	521	497
	(239)	256	849	1,369	865
Income before income taxes	2,230	3,248	10,144	4,333	1,528
Income taxes (recovered)					
Current	--	--	--	32	--
Deferred	195	703	2,543	174	(770)
	195	703	2,543	206	(770)
Net income (loss) for the year	\$ 2,035	\$ 2,545	\$ 7,601	\$ 4,127	\$ 2,298
Basic income (loss) per common share	\$ 0.32	\$ 0.40	\$ 1.18	\$ 0.64	\$ 0.36

STATISTICAL DATA COSTS AND EXPENSES AS A PERCENT OF SALES BASED ON CONTINUING OPERATIONS

	2018	2017	2016	2015	2014
Costs and expenses					
Cost of sales	76.4%	75.4%	63.3%	69.9%	74.8%
Depreciation and amortization	7.7%	7.2%	5.8%	5.2%	6.9%
Selling and administration	11.2%	9.2%	9.1%	13.1%	12.2%
	95.3%	91.8%	78.2%	88.2%	93.9%
Gross margin	15.9%	17.4%	30.9%	25.0%	18.3%
Return on sales	4.8%	5.9%	15.0%	8.5%	3.3%
Effective tax rate	8.7%	25.2%	25.1%	4.8%	(50.4%)

DIRECTORS AND OFFICERS

Diane Reko

Chair of the Board of Directors, Chief Executive Officer, and a Director and an Officer

Marilyn Crowley, CPA, CA

Chief Financial Officer and an Officer

Dr. Andrew J. Szonyi, Ph.D., P.Eng., MBA, GPLLM

Lead Independent Director and Chair of the Audit and Compensation Committees (President, Andrew J. Szonyi & Associates, Toronto, Ontario)

John Sartz

Director and a member of the Audit and Compensation Committees (President, Viking Capital Corporation, Toronto, Ontario)

Maria Thompson

Director and a member of the Audit and Compensation Committees (Venture Partner, Arsenal, Winter Park, Florida)

INVESTOR RELATIONS CONTACT

Marilyn Crowley

Chief Financial Officer

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ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the Fogolar Furlan Club, 1800 North Service Road (E.C. Row), Windsor, ON N8W 1Y3 on December 6, 2018 at 3:00 p.m.

LISTING

The Common Shares of the Company are listed on the TSX Venture Exchange (symbol: REKO)

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