

Reko International Group Inc.

Interim Condensed Consolidated Financial Statements *(unaudited)*

For the three months ended October 31, 2019 and 2018

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Reko International Group Inc. for the three months ended October 31, 2019 have been prepared by Management and approved by the Board of Directors on December 5, 2019. The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

REKO INTERNATIONAL GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(in 000's, except for per share amounts)

	October 31, 2019	July 31, 2019
ASSETS		
Current		
Cash	\$ 6,098	\$ 5,448
Accounts receivable	10,962	12,522
Non-hedging financial derivatives (Note 5)	9	25
Work-in-progress	8,762	8,605
Prepaid expenses and other current assets	1,477	1,286
Embedded derivative (Note 7)	18	24
	27,326	27,910
Grants receivable (Note 15)	271	237
Capital assets (Note 6)	29,350	29,340
Deferred income taxes	3,014	2,864
	\$ 59,961	\$ 60,351
LIABILITIES		
Current		
Bank indebtedness (Note 8)	\$ --	\$ --
Accounts payable and accrued liabilities	3,430	3,417
Unearned revenue on work-in-progress	67	255
Current portion of unearned revenue	33	47
Current portion of long-term debt (Note 9)	564	741
Long-term debt subject to demand provisions (Note 9)	6,126	6,244
	10,220	10,704
Long-term debt (Note 9)	3,198	3,229
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	18,505	18,531
Contributed surplus	1,831	1,820
Retained earnings	26,207	26,067
	46,543	46,418
	\$ 59,961	\$ 60,351

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

REKO INTERNATIONAL GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at July 31, 2018	\$ 18,824	\$ 1,865	\$ 24,492	\$ --	\$ 45,181
Share-based payments	104	(62)	--	--	42
Net income	--	--	170	--	170
Balance at October 31, 2018	\$ 18,928	\$ 1,803	\$ 24,662	\$ --	\$ 45,393
Balance at July 31, 2019	\$ 18,531	\$ 1,820	\$ 26,067	\$ --	\$ 46,418
Share-based payments	(26)	11	--	--	(15)
Net income	--	--	140	--	140
Balance at October 31, 2019	\$ 18,505	\$ 1,831	\$ 26,207	\$ --	\$ 46,543

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

REKO INTERNATIONAL GROUP INC.**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

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

	For the three months ended	
	October 31, 2019	October 31, 2018
Sales	\$ 9,350	\$ 11,438
Costs and expenses		
Cost of sales	6,898	8,750
Depreciation	934	896
	7,832	9,646
Gross profit	1,518	1,792
Selling and administrative	1,237	1,308
Income before other items	281	484
Foreign exchange loss	160	125
Other income	(12)	(26)
(Gain) loss on sale of capital assets	--	(2)
Interest on long-term debt	98	105
Interest on other interest-bearing obligations	6	40
	252	242
Income before income taxes	28	242
Deferred income tax (recovery) provision	(112)	72
Net income and comprehensive income	\$ 140	\$ 170
Earnings per common share (Note 12)		
Basic	\$ 0.02	\$ 0.03
Diluted	\$ 0.02	\$ 0.03

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

REKO INTERNATIONAL GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in 000's, except for per share amounts)

	For the three months ended October 31, 2019	For the three months ended October 31, 2018
OPERATING ACTIVITIES		
Net income for the period	\$ 140	\$ 170
Adjustments for:		
Depreciation	934	896
Income tax expense	(112)	72
Interest expense	104	145
Change in value of embedded derivative	6	6
Change in non-hedging financial derivatives	16	--
Unrealized foreign exchange loss	27	80
Share-based compensation	11	104
Gain on sale of capital assets	--	(2)
	1,126	1,471
Net change in non-cash working capital	985	1,084
Interest paid	(63)	(147)
CASH PROVIDED BY OPERATING ACTIVITIES	2,048	2,408
FINANCING ACTIVITIES		
Proceeds from bank indebtedness	--	(4,815)
Proceeds from issuance of capital stock	(26)	69
Change in grant receivable	(34)	--
Payments on long-term debt	(394)	(214)
CASH USED IN FINANCING ACTIVITIES	(454)	(4,960)
INVESTING ACTIVITIES		
Investment in capital assets	(944)	(569)
CASH USED IN INVESTING ACTIVITIES	(944)	(569)
Net change in cash	650	(3,121)
Cash, beginning of period	5,448	6,565
Cash, end of period	\$ 6,098	\$ 3,444

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Reko International Group Inc. (the "Company" or "Reko") is a diversified, technology-driven manufacturing organization located in Southwestern Ontario with areas of expertise including robotic factory automation solutions, precision machining of large, critical parts, and plastic injection and low compression acoustic tooling. 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.

Reko is listed on the TSX Venture Exchange under the symbol REKO. The Company's shares are traded in Canadian dollars. The registered head office is located at 469 Silver Creek Industrial Drive, Lakeshore, Ontario, Canada.

All amounts are in thousands and in Canadian dollars, unless otherwise noted.

Statement of compliance

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on December 5, 2019.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended July 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies adopted are consistent with the accounting policies and methods as those used in the Company's audited consolidated annual financial statements for the year ended July 31, 2019 except as noted below.

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.

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

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

Leases

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in the relevant index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

2. CHANGES IN ACCOUNTING POLICIES

IFRS 16 Leases

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2019, the IASB issued IFRS 16, Leases, to supersede IAS 17, Leases. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets).

The Company has adopted IFRS 16 with an effective date of August 1, 2019 using the modified retrospective approach. This adoption has resulted in an increase to capital assets of \$39.

The main changes to lease accounting as a result of IFRS 16 includes:

REKO INTERNATIONAL GROUP INC.**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

- The definition of a lease has changed under the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- Under IFRS 16, the lessee recognizes a right-of-use asset and a lease liability upon lease commencement for leases with a lease term of greater than one year. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Subsequent measurement is determined based on the nature of the underlying asset. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the implied lease rate. If the implied lease rate cannot be determined, the lessee uses its incremental borrowing rate. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company.
- IFRS 16 provides detailed guidance on determining the lease term when the company has an option to extend the lease.
- The new standard includes extensive disclosure requirements that differ from previous requirements.

On transition to IFRS 16, for leases previously classified as finance leases under IAS 17, the Company elected to apply the practical expedient whereby the Company is not required to reassess whether a contract is, or contains, a lease at the date of initial application. As such, the Company applied IFRS 16 only to contracts that were previously identified as leases.

The Company also adopted the recognition exemptions permitted for short-term leases and leases for which the underlying asset has a low value, as well as the following practical expedients permitted on initial adoption, under the standard:

- Applying a single discount rate to a portfolio of leases with similar characteristics;
- Using the Company's previous assessment of impairment under IAS 37 "Provisions, Contingent Liabilities and contingent Assets" for onerous contracts instead of re-assessing the right-of-use asset for impairment on August 1, 2019;
- Accounting for leases with a remaining term of less than 12 months as at August 1, 2019 as short-term leases;
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

3. 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.

Three months ended October 31, 2019		
	Revenues	Capital assets
Canada	\$ 9,348	\$ 29,350
United States	2	--
	\$ 9,350	\$ 29,350

Three months ended October 31, 2018		
	Revenues	Capital assets
Canada	\$ 11,438	\$ 30,932
United States	--	--
	\$ 11,438	\$ 30,932

4. 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.

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

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.

Fair value hierarchy

The following table provides an analysis of cash, non-hedging financial derivatives, embedded derivatives 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	October 31, 2019
Financial assets at FVTPL				
Cash	\$ 6,098	\$ --	\$ --	\$ 6,098
Non-hedging financial derivative	--	9	--	9
Embedded derivative	--	18	--	18
	\$ 6,098	\$ 27	\$ --	\$ 6,125

	Level 1	Level 2	Level 3	July 31, 2019
Financial assets at FVTPL				
Cash	\$ 5,448	\$ --	\$ --	\$ 5,448
Non-hedging financial derivative	--	25	--	25
Embedded derivative	--	24	--	24
	\$ 5,448	\$ 49	\$ --	\$ 5,497

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.

REKO INTERNATIONAL GROUP INC.**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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 CDN \$6,099 and USD \$2,828 (currently valued at CDN \$3,695) is subject to fixed interest rates. The Company's long-term debt is valued based on discounting the future cash outflows associated with the long-term debt. 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. At October 31, 2019, the fair value of the Company's long-term debt is CDN \$5,208 and USD \$2,321 (currently valued at CDN \$3,068). At October 31, 2018, Company's long-term debt was CDN \$5,774 and USD \$2,275.

5. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at October 31, 2019, the Company had entered into foreign exchange contracts to sell an aggregate amount of \$4,000 (USD). These contracts mitigate the Company's expected exposure to U.S. dollar denominated net assets and mature at, the latest, January 15, 2020, at an average exchange rate of \$1.3156 Canadian. The mark-to-market value on these financial instruments as at October 31, 2019 was an unrealized gain of \$9, which has been recorded in net income for the period.

As at October 31, 2019	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value asset
Sell USD / Buy CAD	0 – 6 months	\$ 4,009	1.3156	\$ 4,000	\$ 9
As at July 31, 2019	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value asset
Sell USD / Buy CAD	0 – 6 months	\$ 7,025	1.3220	\$ 7,000	\$ 25

6. 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, 2018	\$ 661	\$ 13,650	\$ 50,193	\$ 587	\$ 2,211	\$ 67,302
Additions	--	134	--	--	1,688	1,822
Transfers	--	313	3,176	224	(3,713)	--
Disposals	--	--	(63)	--	--	(63)
Balance at July 31, 2019	\$ 661	\$ 14,097	\$ 53,306	\$ 811	\$ 186	\$ 69,061
Additions	--	--	39	--	905	944
Transfers	--	--	126	33	(159)	--
Disposals	--	--	--	--	--	--

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Balance at October 31, 2019	\$ 661	\$ 14,097	\$ 53,471	\$ 844	\$ 932	\$ 70,005
	Land	Buildings	Machinery and equipment	Leasehold improvements	Equipment under construction	Total
Amortization and impairment losses						
Balance at July 31, 2018	\$ --	\$ 4,100	\$ 31,693	\$ 250	\$ --	\$ 36,043
Amortization for the year	--	470	3,214	46	--	3,730
Transfer	--	--	--	--	--	--
Disposals	--	--	(52)	--	--	(52)
Balance at July 31, 2019	\$ --	\$ 4,570	\$ 34,855	\$ 296	\$ --	\$ 39,721
Amortization for the year	--	118	801	15	--	934
Transfers	--	--	--	--	--	--
Disposals	--	--	--	--	--	--
Balance at October 31, 2019	\$ --	\$ 4,688	\$ 35,656	\$ 311	\$ --	\$ 40,655
Carrying value						
Balance at July 31, 2019	\$ 661	\$ 9,527	\$ 18,451	\$ 515	\$ 186	\$ 29,340
Balance at October 31, 2019	\$ 661	\$ 9,409	\$ 17,815	\$ 533	\$ 932	\$ 29,350
Net book value of right of use assets as at August 1, 2019	--	--	\$39	--	--	\$39
Net book value of right of use assets as at October 31, 2019	--	--	\$36	--	--	\$36

7. 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.

The embedded derivative is comprised of:

	October 31, 2019	July 31, 2019
Embedded derivative, beginning of year	\$ 24	\$ 48
Fair value change, during the period	(6)	(24)
Embedded derivative, end of period	\$ 18	\$ 24

8. BANK INDEBTEDNESS

The bank indebtedness is payable over various maturities, not exceeding 30 days, with interest at various amounts ranging from LIBOR plus 175 basis points to bank prime plus 50 basis points, as follows:

	October 31, 2019	July 31, 2019
Bank overdraft – bearing interest at 5.25%	\$ --	\$ --
Canadian dollar bankers' acceptance bearing interest at 2.30% due in less than 30 days	--	--
U.S. dollar LIBOR bearing interest at 3.63% due in less than 30 days	--	--

REKO INTERNATIONAL GROUP INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in 000's, except for per share amounts)

Foreign exchange on U.S. dollar LIBOR	--	--
	\$ --	\$ --

The 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 October 31, 2019, the Company's available operating lines of credit of \$16,429 was fully available based on lender defined margining capabilities.

9. LONG-TERM DEBT

The long-term debt is comprised of:

	October 31, 2019	July 31, 2019
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	\$ 3,322	\$ 3,352
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	2,777	2,815
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 USD \$14 monthly plus interest, due in full August 2025, secured by certain land, buildings and a general security agreement, subject to demand provisions	3,695	3,778
Loan payable – US dollar LIBOR (USD \$800) plus applicable margin from 175 to 250 basis points, USD \$45 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	163	342
	9,957	10,287
Deduct - unamortized finance fees	69	73
- principal portion included in current liabilities	6,690	6,985
Long-term portion	\$ 3,198	\$ 3,229

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. At October 31, 2019, \$633 is due within the next twelve months under normal repayment terms and an additional \$6,126 is not expected to be due in the next year but is subject to demand provisions.

Total bank credit facilities are as follows:

Year	Bank Credit Facilities
Next 12 months	\$ 633
2 years	476
3 years	480
4 years	3,280

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5 years	2,375
Thereafter	2,713
Balance of obligation	\$ 9,957

10. 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	6,344,550	\$ 18,505

Share capital transactions during the period were as follows:

	October 31, 2019		July 31, 2019	
	Shares	Amount	Shares	Amount
Outstanding, beginning of year	6,351,620	\$ 18,531	6,439,920	\$ 18,824
Transactions during the period	(7,070)	(26)	(88,300)	(293)
Outstanding, end of period	6,344,550	\$ 18,505	6,351,620	\$ 18,531

The following table presents the maximum number of shares that would be outstanding if all the dilutive “in the money” instruments outstanding, as at October 31, 2019 were exercised:

Common shares outstanding at October 31, 2019	6,344,550
Stock options	309,870
	6,654,420

11. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	October 31, 2019	July 31, 2019
Balance, beginning of period	\$ 1,820	\$ 1,865
Amounts in respect of exercised stock options	--	(69)
Amounts in respect of the stock-based compensation	11	24
Balance, end of period	\$ 1,831	\$ 1,820

12. EARNINGS PER SHARE

The calculation of basic earnings per share at October 31, 2019 was based on the net income attributable to common shareholders of \$140 and a weighted average number of common shares outstanding of 6,349,263 calculated as follows:

	October 31, 2019	October 31, 2018
Basic earnings per share:		
Net income for the three-month period	\$ 140	\$ 170
Average number of common shares outstanding during the period	6,349,263	6,448,492
Basic earnings per share	\$ 0.02	\$ 0.03

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Diluted earnings per share:

Net earnings available to common shareholders	\$ 140	\$ 170
Average number of common shares outstanding during the period	6,349,263	6,448,492
'In the money' stock options outstanding during the period	309,870	173,492
	6,659,133	6,621,984
Diluted earnings per share	\$ 0.02	\$ 0.03

13. 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 after grant and 40% in the third year after the grant. Options given to outside directors vest immediately and can be exercised immediately.

As at October 31, 2019, the following options were outstanding:

Number of Options	Exercise price	Expiry
252,000	\$ 2.00	2020
90,000	\$ 3.90	2022
5,000	\$ 3.41	2023
112,900	\$ 2.90	2024
10,000	\$ 3.50	2025

The weighted average of the options is as follows:

	October 31, 2019		October 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the period	462,000	\$ 2.60	401,000	\$ 2.47
Expired during the period	--	--	--	--
Issued during the period	10,000	\$ 3.50	--	--
Exercised during the period	(630)	\$ 2.90	(30,000)	\$ 1.15
Cancelled during the period	(1,470)	\$ 2.90	--	--
Outstanding at the end of the period	469,900	\$ 2.63	371,000	\$ 2.58
Exercisable at the end of the period	60,870	\$ 2.95	76,500	\$ 3.88

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:

	October 31, 2019	October 31, 2018
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	42.0%	46.34%

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

Risk free rate of return	0.37%	0.81%
Expected forfeiture rate	100.0%	90.0%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ --	\$ 7

14. 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 are entitled to receive a \$1 contribution to the Company's Group RRSP annually, once they have completed 5 years of service to the Company (or as otherwise, negotiated). During the period, the Company expensed contributions of less than \$1 to the defined contribution plan in Canada. The above contribution plans are identical to the contribution plans provided to all Canadian employees of the Company of key management personnel.

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

Key management personnel compensation comprised:

	October 31, 2019	October 31, 2018
Salaries and cash bonuses	\$ 159	\$ 189
Short-term employment benefits	6	7
Post-employment benefits	--	1
	\$ 165	\$ 197

Key management personnel and director transactions

Directors of the Company control 3.7% of the voting shares of the Company. Relatives of a director own, directly or indirectly, 64.7% of the voting shares of the Company.

15. GOVERNMENT GRANT

Effective August 1, 2017, the Company entered into a contract with the Ontario Ministry of Economic Growth and Development to receive funding of \$300 per year for five successive years 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 primarily 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 October 31, 2019, the Company has received \$600 in cash funding from SWODF and accrued an additional amount receivable of \$571 on total eligible expenditures of \$11,707. The current portion of \$300 is included in accounts receivable with the remainder of \$271 being disclosed as long-term grant receivable at October 31, 2019. 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.