



# GROW



2019 ANNUAL REPORT

# Creating **GROWTH**

Our passion is to continue to build  
an innovative business of tomorrow





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# GROW

Smartly



They say that “Timing is everything”. I agree that this is especially true when you consider delivering a strong tennis serve or being in the right location to catch a baseball hit by a powerful batter. But the ability to do that on a single occasion does not a successful tennis player nor successful catcher make.

Success involves so much more, like understanding foundational principles of the game; innovative strategies; building a strong body and good old-fashioned hard work!

There is no doubt that our Reko team excels in the foundational principles of our industries. With many years of experience in design, machining, assembly and support, we understand the best conventional strategies to apply to a given problem and when we should be exploring alternate or new technologies instead. The true value of this knowledge and experience cannot be understated, particularly when it is diminishing rapidly in our customer base’s workforce. Although the media may portray all new technologies as immediately disruptive to traditional methods, the reality is that many new technologies do not yet achieve quality requirements or are not yet cost efficient for many applications.

Our Reko team is no stranger to innovation, though! We have adapted equipment in order to achieve increased demand from our customers. We have designed and built tooling to meet a unique customer need. With partial funding from the federal government under its Women’s Entrepreneurship Strategy, we have completed designs and are currently building equipment to demonstrate our innovation and capabilities for non-automotive automation customers. We also received our ISO 13485 certification this year to confirm our ability to participate in the medical device and similar markets.

Reko International Group’s innovative capabilities works because of its “strong body”. With a group of creative and committed employees, it’s possible to consider new solutions and “get the job done” as required. Unlike some tech start-ups, we aren’t stretched for cash and have both a strong balance sheet and the ability and a history of investing in research and development. We reduced our total debt by \$6.2 million this past fiscal year, made purchases of 118,300 shares at a cost of \$398,694 under our Normal Course Issuer Bids, and with \$4.1 million in cash at July 31, 2019 we can weather any economic downturn that may be around the corner, or take advantage of good investment opportunities.

For an athlete, a strong body is the result of hard work, disciplined eating and training. For Reko, the combination of our team members, suppliers, lenders and board of directors creates the right inputs. Our processes and innovation are like the training that keeps our “body” strong and our products and services in demand. We work hard to please our customers- just ask those who we’ve saved from crisis in the past year! It’s one thing to give your customer great quality product and service according to an agreed upon schedule, and quite another level of hard work to work around the clock through a weekend to help a customer avert an unexpected problem.

Like a successful athlete, Reko International Group has the strong body, understanding of foundational principles, innovative strategies and drive. Timing may not be everything, but we work at getting better at it every day, and like a successful athlete, the preparation for the next opportunity to “serve an ace” or “catch that fly ball” will ensure that we are ready not only to serve our customers, but to grow as the need for our special skills becomes even more in demand.

“Diane Reko”  
Diane Reko  
Chief Executive Officer

# GROW

## Successfully



**DIANE REKO**  
Chief Executive Officer



**DAVE ROMANELLO**  
Director, Tooling Division



**PETER GOBEL**  
Director, Concorde Precision Manufacturing



**CATERINA (CATIA) LONGO** CPA  
Chief Financial Officer



**ERNIE STAJDUHAR**  
Director, Technology



**MARK READ**

Director, Reko Automation



**GENNARO PIGNANELLI**

Engineering Manager



**LAUREN BRUMMELL**

Director, Corporate Human Resources



**GENE SCHILLING**

Director, Business Development

# GROW

Solutions >>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of operations and financial position ("MD&A") and should be read in conjunction with the audited consolidated financial statements for the year ended July 31, 2019 and the audited consolidated financial statements and MD&A for the years ended July 31, 2018 and July 31, 2017 included in our 2018 Annual Report to Shareholders. The audited consolidated financial statements for the years ended July 31, 2019 and July 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Reko's Chief Executive Officer and Chief Financial Officer have signed a statement outlining management's responsibility for financial information in the annual consolidated financial statements and MD&A. The statement, which can be found on page 24, also explains the roles of the Audit Committee and Board of Directors in respect of that financial information. When we use the terms "we", "us", "our", "Reko", or "Company", we are referring to Reko International Group Inc. and its subsidiaries.

This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. We use words such as "anticipate", "plan", "may", "will", "should", "expect", "believe", "estimate" and similar expressions to identify forward-looking information and statements. Such forward-looking information and statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be relevant and appropriate in the circumstances. Readers are cautioned not to place undue reliance on forward-looking information and statements, as there can be no assurance that the assumptions, plans, intentions or expectations upon which such statements are based will occur. Forward-looking information and statements are subject to known and unknown risks, uncertainties, assumptions and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed, implied or anticipated by such information and statements. These risks are described in the Company's MD&A and, from time to time, in other reports and filings made by the Company with securities regulators. While the Company believes that the expectations expressed by such forward-looking information and statements are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors, which could cause actual results or events to differ materially from those, indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company disclaims any obligations to update publicly or otherwise revise any such factors of any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding Reko International Group Inc., including copies of our continuous disclosure materials, is available on our website at [www.rekointl.com](http://www.rekointl.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).

In this MD&A, reference is made to earned revenue, which is not a measure of financial performance under IFRS. The Company calculates earned revenue as sales less materials, sub-contracting and inventory adjustments. The Company included information concerning this measure because it is used by management as a measure of performance, and management believes it is used by certain investors and analysts as a measure of the Company's financial performance. This measure is not necessarily comparable to a similarly titled measure used by other companies.

All amounts in this MD&A are expressed in 000's of Canadian dollars, except per share amounts and where otherwise indicated.

This MD&A is current to October 2, 2019.



## OVERVIEW

Reko International Group Inc. is a diversified, technology-driven manufacturing organization. Our touchstone philosophy is “Strengthening Communities By Advancing Manufacturing” which epitomizes our commitment to using our distinctive blend of technology and skills to improve the lives of our team members, our customers, our shareholders, as well as our local and global communities.

Reko designs and manufactures a variety of engineered products and services for original equipment manufacturers (“OEMs”) and their Tier suppliers. These products include design and construction of unique specialty machines and lean cell factory automation solutions and robotics integration; high precision, custom machining of very large critical components and assemblies; and plastic injection and compression acoustic molds. While many of our customers are in the automotive market, the Company has diversified beyond automotive and into a number of sectors.

For the transportation and oil and gas industries, the Company machines customer supplied metal castings to customer indicated specifications. For the automotive industry, the Company conceptualizes, designs and builds innovative solutions to manufacturing challenges, including specialty machines for gas tank assembly lines; unique material handling applications; work cell solutions, as well as compression molds and plastic injection molds. Across our target industries, Reko is known for outstanding quality and customer focus and for an unwavering commitment to exceeding customer expectations and deliverables while striving for constant improvement across all our chosen metrics.

Our design and manufacturing operations are carried on in three manufacturing plants located on adjacent parcels of land in Lakeshore, Ontario - a suburb of the City of Windsor in Southwestern Ontario. This includes a new state of the art automation facility which was opened in April 2018.

## SUMMARY OF RESULTS

Overall, Reko International Group Inc. reported a strong fiscal year end. Sales revenue grew over last year, with an improvement in gross profits. The Company also continued its strong commitment to market diversification and product innovation.

## RECONCILIATION OF NON-IFRS MEASURES

The reconciliation of earned revenue to sales in accordance with IFRS is provided in the following table:

	2019	2018
Sales	\$ 47,989	\$ 42,272
Less: Material	12,650	10,829
Subcontracting	2,876	2,899
Inventory adjustments	100	(64)
	\$ 32,363	\$ 28,608



## RESULTS OF OPERATIONS

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### **REVENUES**

Revenues for the year ended July 31, 2019 increased by 13.5%, or \$5,717, to \$47,989 compared to the prior year. The increase was primarily driven by the expansion of manufacturing capacity in automation, partly offset by lower volumes in certain sectors.

### **EARNED REVENUE**

Earned revenue is not a standard IFRS measurement. The Company's explanation of how it measures earned revenue is noted previously. Earned revenue effectively measures that portion of total revenue available to pay for the Company's employees, fixed and operating costs, and to earn a profit. The Company believes that earned revenue is an effective measurement of how its performing. For 2019, earned revenue increased by 13.1%, or \$3,755, to \$32,363 compared to 2018. The increase is largely due to the overall increase in revenues.

### **GROSS PROFIT**

Gross profit for 2019 increased \$1,461 to \$8,181, or 17% of sales, compared to 15.9% of sales in 2018. The increase in gross profit was mostly driven by the increase in sales and earned revenue, in addition to a slight decrease in overall cost of sales as a percentage of sales. The gross profit increase was partially offset by an increase in depreciation resulting from capital investment.

### **SELLING AND ADMINISTRATION**

Selling and administration expenses ("SG&A") during 2019 increased by 11.5% to \$5,271, or 11% of sales, compared to \$4,729, or 11.2% of sales during 2018. The increase in SG&A was a result of an increase in wages, benefits, and related costs of the additional positions required due to expansion initiatives, which was partially offset by a decrease in office expenses.

### **EARNINGS OVERVIEW**

Net income for the year ended July 31, 2019 was \$1,577, or \$0.25 per share, compared to net income of \$2,035, or \$0.32 per share, for the year ended July 31, 2018. Foreign exchange fluctuations impacted earnings. While some fluctuations had a favourable effect to overall revenues, cost of foreign currency purchases, as well as revaluation of balance sheet amounts did, at times, have a negative overall effect on the Company's bottom line.



## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations increased from \$4,024 in the prior year to \$6,765 in the current year. The increase is primarily a result of an increase in the net change of non-cash working capital items.

### FINANCIAL COVENANTS

The Company met its financial covenants at all times during the year.

The Company believes it has sufficient operating room with respect to its financial covenants for the next fiscal year and does not anticipate being in breach of any of its financial covenants during this period.

### CAPITAL ASSETS AND INVESTMENT SPENDING

For the year ended July 31, 2019, the Company invested \$1,822 in capital assets (maintenance CAPEX spending).

### CASH RESOURCES/WORKING CAPITAL REQUIREMENTS

As at July 31, 2019, Reko had cash on hand of \$5,448 compared to \$6,565 at July 31, 2018 and \$1,756 at April 30, 2019.

Reko has a \$20,000 revolver available. However, based on our current lender defined margining capabilities, our borrowings are limited to \$18,194, all of which was unused and available at the end of the year.

### CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET FINANCING

CONTRACTUAL OBLIGATIONS	TOTAL	PAYMENTS DUE BY PERIOD			
		LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	AFTER 5 YEARS
Long-term debt	\$ 3,352	\$ 123	\$ 261	\$ 2,968	\$ --
Long term debt subject to demand provisions	6,935	691*	696*	2,760*	2,788*
Operating leases	44	10	17	17	--
<b>Total contractual obligations</b>	<b>\$ 10,331</b>	<b>\$ 824</b>	<b>\$ 974</b>	<b>\$ 5,745</b>	<b>\$ 2,788</b>

Except as disclosed elsewhere in this MD&A, there have been no material changes with respect to the contractual obligations of the Company during the year.

Amounts denoted by an asterisk (\*) are 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 within the next twelve months and it is anticipated that principal and interest payments on these facilities will be made as scheduled throughout the term of the loans. These scheduled payments are reflected in the table above.

Reko does not maintain any off-balance sheet financing.

## SHARE CAPITAL

The Company had 6,351,620 common shares outstanding at July 31, 2019. During the year, 30,000 shares were issued as a result of a purchase under the Company's stock option plan.

## OUTSTANDING SHARE DATA

DESIGNATION OF SECURITY	NUMBER OUTSTANDING	MAXIMUM NUMBER ISSUABLE IF CONVERTIBLE, EXERCISABLE OR EXCHANGEABLE FOR COMMON SHARES		
Common Shares	6,351,620			
Stock options outstanding	462,000			
Stock options exercisable	58,500			
Total (maximum) number of common shares				6,872,120
Earnings per share: Basic	0.03	0.04	0.10	0.08
Diluted	0.03	0.04	0.09	0.07



## QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the fourth quarter of fiscal 2019, ended July 31, 2019. The information has been derived from the Company's unaudited condensed consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained elsewhere in this Annual Report and include all adjustments necessary for a fair presentation of the information presented. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

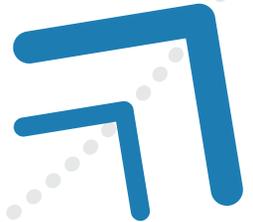
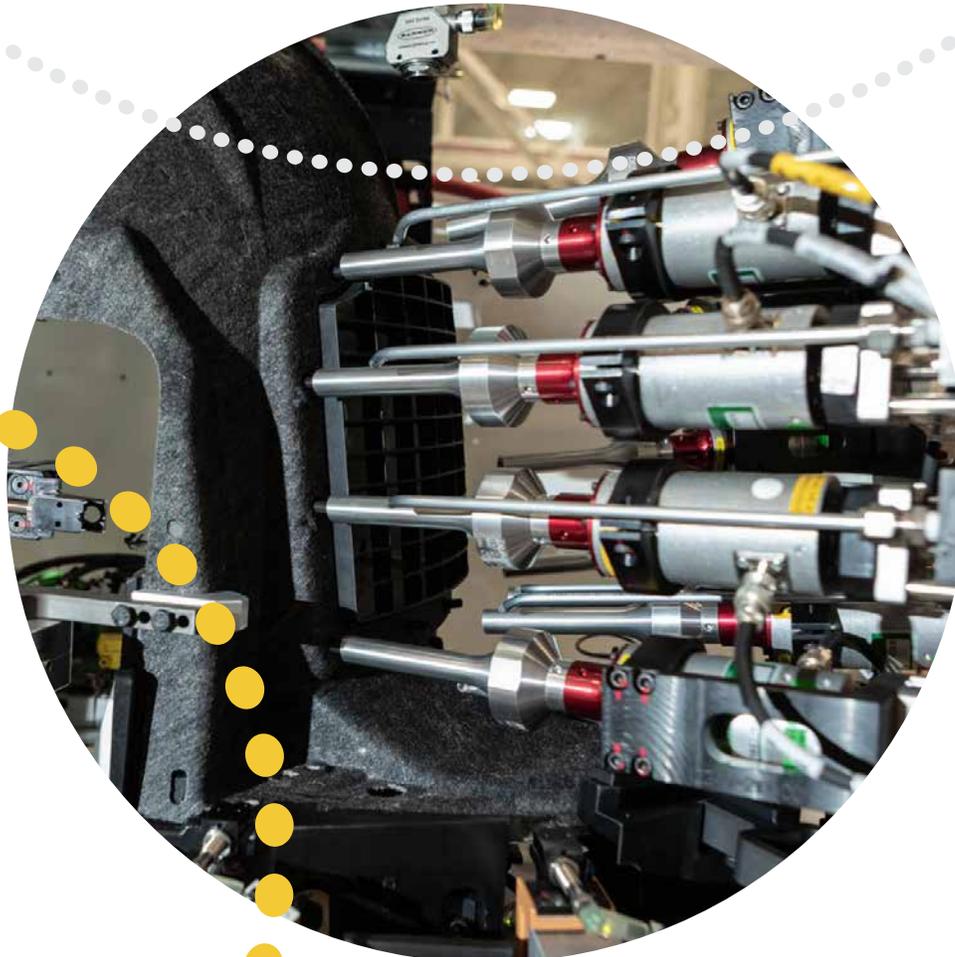
<b>F2018</b>	<b>OCT/17</b>	<b>JAN/18</b>	<b>APR/18</b>	<b>JULY/18</b>
Sales	\$ 8,761	\$ 11,529	\$ 11,776	\$ 10,206
Net income	255	420	647	713
Earnings per share: Basic	0.04	0.07	0.10	0.11
Diluted	0.04	0.06	0.10	0.11
<b>F2019</b>	<b>OCT/18</b>	<b>JAN/19</b>	<b>APR/19</b>	<b>JULY/19</b>
Sales	\$ 11,438	\$ 11,615	\$ 14,277	\$ 10,659
Net income	170	272	609	526
Earnings per share: Basic	0.03	0.04	0.10	0.08
Diluted	0.03	0.04	0.09	0.07



## INDUSTRY TRENDS AND RISKS

While the Company has increased the level of diversification across industries, sales volumes still have a significant dependence upon the levels of new model releases for cars and light trucks by OEMs and on the construction, expansion or retooling of production facilities and our ability to secure tooling and automation programs from them through their Tier suppliers. New model releases in the automotive sector can be impacted by many factors, including general economic and political conditions, interest rates, energy and fuel prices, labour relations issues, regulatory requirements, infrastructure, legislative changes, environmental emissions and safety considerations. The Company's sales levels are also impacted by demand levels in the transportation and oil and gas sectors. Demand in these areas can be affected by many factors, including general economic and political conditions, interest rates, energy and fuel prices, regulatory requirements, transportation infrastructure and safety issues.

The following additional risk factors, as well as the other information contained in this MD&A, for the year ended July 31, 2019 or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements related to the Company.



## OPERATIONAL RISK

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### ***CURRENT OUTSOURCING AND IN-SOURCING TRENDS***

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During periods of weakened demand, our customers traditionally revisit outsourcing decisions as a method of maintaining their employment levels. Then, during periods of strong demand, they return to previous levels of outsourcing. As a result of this and other factors, our demand levels will swing with general economic activity related to the industries we serve. Depending on how the current economic climate impacts particular customers, Reko may experience reductions in outsourced work orders.

### ***A SHIFT AWAY FROM TECHNOLOGIES IN WHICH THE COMPANY IS INVESTING***

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Like our OEM and Tier 1 and 2 customers, we continue to invest in technologies and innovations, which the Company believes are critical to long-term growth. Our ability to anticipate changes in technology and to successfully develop and introduce new and enhanced products on a timely basis using such technologies will be a significant factor in our ability to remain competitive. Current technological shifts in the industry would include the application of the Internet of Things, integration of additive manufacturing capabilities into our processes and the transition to electric and autonomous vehicles. If there is a movement away from the use of specific technologies that the Company is focused on developing or someone applies these technologies more quickly or effectively, our costs may not be fully recovered. In addition, if other technologies in which our investment is not as great, or our expertise is not as fully developed emerge as the industry-leading technologies, we may be placed at a competitive disadvantage, which could have a material adverse effect on our profitability and financial condition. Management pays particular attention to the emergence of new technologies and updates our investments in these emerging technologies accordingly.

### ***DIVERSIFICATION OF OUR SALES***

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Although we supply factory automation, molds, gauges, and fixtures to all of the leading automobile manufacturers, a significant portion of our sales are to the Detroit 3. In addition, although we supply machined locomotive crankcases to each of the leading locomotive manufacturers, a majority of our sales continues to be with one locomotive OEM. While we have diversified our customer base in recent years, and continue to attempt to further diversify, we may experience varying degrees of success. Inability to successfully grow our sales to non-traditional customers could have an adverse effect on our profitability and financial condition.

### ***CHALLENGES SUCCESSFULLY COMPETING AGAINST SUPPLIERS WITH OPERATIONS IN DEVELOPING MARKETS***

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Many of our customers have sought and will likely continue to seek to take advantage of lower operating costs in Mexico, China, India, Southeast Asia, and other developing markets. We continue to investigate opportunities to expand our manufacturing sources, with a view to taking advantage of these lower cost countries. However, we cannot guarantee that we will be able to fully realize such opportunities. The inability to quickly adjust our manufacturing sources to take advantage of opportunities in these markets could harm our ability to compete with competitors and suppliers operating in or from such markets, which could have an adverse effect on our profitability and financial condition.

### ***A MOVEMENT TOWARDS MORE ISOLATIONIST TRADE POLICIES BY COUNTRIES INTO WHICH WE EXPORT GOODS***

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There is a shift in the political climate occurring throughout a number of jurisdictions (but particularly in the United States) towards a more restrictive trade policy environment and the renegotiation of the North American Free Trade Agreement ("NAFTA") and the impact of its replacement with the United States Mexico Canada Agreement ("USMCA") is still being evaluated. Given that a sizeable majority of our sales relate to goods which are exported, a shift in the scope and terms of NAFTA, the implementation of Buy American policies and ongoing tariffs in steel and aluminum could have a significant adverse impact on our sales and profitability. Management continues to pursue both geographical and industry diversification of our sales to mitigate these risks.

### ***THE CONSEQUENCES OF THE AUTOMOTIVE INDUSTRY'S DEPENDENCE ON CONSUMER SPENDING AND GENERAL ECONOMIC CONDITIONS***

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The global automotive industry is cyclical and largely tied to general economic conditions. As our customers revisit their business models and make design changes to existing models and new vehicle introductions, the market for tooling and factory automation may decline. However, management feels that the existence of multiple product lines in our automotive focused divisions should serve to moderate the impact of any such declines.

### ***THE FINANCIAL VIABILITY OF OUR SUPPLY BASE***

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While our exposure to individual entities in our supply chain is limited, we are still exposed to multiple relatively small niche market players whose declining financial viability may present challenges for securing the necessary inputs to our manufacturing process. Management continues to monitor the strength of our supply base and restricts the development of single source suppliers for any significant inputs into our production process.

### ***CHANGES IN CONSUMER DEMAND FOR SPECIFIC VEHICLES***

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The global automotive industry is cyclical and consumer demand for automobiles is sensitive to changes in economic and political conditions, including interest rates, energy prices, employment levels, and international conflicts, including acts of terrorism. Automotive production and, more importantly for Reko, the frequency of automotive model changes, is affected by consumer demand and may be impacted by macro-economic factors. As a result of these and other factors, some of our customers are currently experiencing, and/or may experience in the future, reduced consumer demand for all or a portion of their vehicles, leading to reduced product offerings.

### ***RELIANCE ON KEY PERSONNEL AND SUCCESSFULLY RECRUITING TALENT IN CRITICAL AREAS***

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The success of Reko is dependent on many people including our design engineers, control engineers, machinists, and our management team. The experience and talents of these individuals is a significant factor in the Company's continued growth and success. While the Company continues to develop appropriate succession plans for these positions, the loss of one or more of these individuals without adequate replacement, or the inability to recruit appropriate talent in a competitive labour market, could have a material adverse effect on the Company's operations and business prospects. Management has implemented several innovative recruitment and retention strategies to effectively reduce the risks in this area.

### ***THE SECURITY OF OUR INFORMATION TECHNOLOGY (IT) SYSTEM***

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While the Company has established (and continues to monitor and enhance) security controls and has appropriate employee training in order to protect the Company's IT systems, there is no guarantee that these measures will be effective in preventing unauthorized access or cyberattacks. A significant failure or breach of the Company's IT systems could cause disruption to manufacturing processes; loss, destruction or inappropriate use of data; or result in the theft of intellectual property or confidential information of the Company or its key customers. While the Company carries what it considers to be an adequate amount of cybersecurity insurance coverage and continuously monitors its system, the consequences of these events could have a material adverse effect on the Company, its profitability, and financial condition.

## FINANCIAL AND CAPITAL MANAGEMENT RISK

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### **CONTINUED UNCERTAIN ECONOMIC CONDITIONS**

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While some of the world regions are experiencing significant economic growth and have fully recovered from the 2008-2009 global recession, uncertainty remains about the strength of growth prospects in some regions, while still other jurisdictions continue to experience economic downturns. A rise in economic uncertainty or a deterioration of the global economy could have a material adverse effect on our profitability and financial condition.

### **PRICING PRESSURES AND PRESSURE TO ABSORB ADDITIONAL COSTS**

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We face significant pricing pressure, as well as pressure to absorb costs related to tooling and machine design and program management, as well as other items previously paid for directly by automobile manufacturers and non-automotive OEMs (such as support in remote production facility locations). These pressures are expected to continue. The continuation or intensification of these pricing pressures and pressure to absorb additional costs and assume additional design, engineering, and management responsibilities could have an adverse effect on our profitability and financial condition.

### **CONTINUED SUPPORT OF OUR LENDERS**

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The Company operates in a capital-intensive business, has significant financing requirements placed on it by its customers, and our financial resources are, in many cases, less than the financial resources of our customer base. While there can be no assurance that if and when the Company seeks additional equity or debt financing, it will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms (or to obtain these resources at all), the Company continues to enjoy strong banking relationships and support from major charter banks. Any additional equity financing to raise new capital may result in dilution to existing shareholders.

### **SIGNIFICANT LONG-TERM FLUCTUATIONS IN RELATIVE CURRENCY VALUES**

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Although our financial results are reported in Canadian dollars, significant portions of our sales are realized in US dollars. Movements in the US dollar against the Canadian dollar affect our profitability. As a result of the purchase of appropriate amounts of forward exchange contracts, foreign currency transactions are not fully impacted by movements in exchange rates. Due to this program, our accounting risk (i.e. the risk associated with our foreign exchange balances on our balance sheet at any point in time) is reduced. This program does not necessarily reduce our economic risk (i.e. the risk associated with our foreign exchange balances and potential balances regardless of whether those balances and potential balances are on our balance sheet at any one particular time). Despite these measures, significant long-term fluctuations in relative currency values could have an adverse effect on our profitability and financial condition and any sustained change could adversely impact our competitiveness.

### **THE POSSIBILITY OF IMPAIRMENT CHARGES IN THE FUTURE**

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Annually or whenever indicators of impairment exist, we must test our capital assets, future income taxes, and any other long-lived assets for impairment. The bankruptcy of a significant customer could be an indicator of impairment. In addition, to the extent that forward-looking assumptions regarding the impact of improvement plans on current operations, outsourcing, and other new business opportunities are not met, impairment charges could occur.

### **OUR INABILITY TO UTILIZE TAX LOSSES**

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Prior to 2011, we incurred tax losses in both Canada and the United States, which we may not be able to fully or partially offset against future income in those countries. The losses which arose in Canada during this period have now largely been applied to taxable income generated through operations. In the case of the United States, we may not be able to utilize these losses if we do not generate profits in the United States.

### **POTENTIAL VOLATILITY OF REKO'S SHARE PRICES**

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The market price of the Company's common shares has been, and will likely continue to be, subject to fluctuations in response to a variety of factors, many of which are beyond the Company's control. These fluctuations may be exaggerated if the trading volume of the common shares remains low. In addition, due to the evolving nature of its business, the market price of the common shares may fall dramatically in response to a variety of factors, including quarter-to-quarter variations in operating profits, announcements of technological or competitive developments by the Company or its competitors, large short-term fluctuations in foreign exchange rates, acquisitions or entry into strategic alliances by the Company or its competitors, the industry or its customer's industry, and general market and economic conditions.

### **INTEREST OF THE MAJORITY AND MINORITY SHAREHOLDERS MAY BE IN CONFLICT WITH THE INTERESTS OF THE COMPANY**

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As of the date of this MD&A, The Reko Family Corporation and individuals related to it, own directly or indirectly 63.57% of the outstanding shares of the Company. Given the number of shares held, the Reko Family Corporation will be able to elect or remove the directors of the Company and to exercise control in certain respects over the Company's affairs.



## REGULATORY RISK

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### ***SIGNIFICANT CHANGES IN LAW, GOVERNMENT REGULATIONS, OR ACCOUNTING REGULATIONS***

A significant change in the current regulatory environment in our principal markets could impact future profitability. Specifically, our profitability could be adversely impacted by significant changes in the tariffs and duties imposed on our products or on our inputs. In addition, we could be affected by changes in tax or other laws, which impose additional costs on automobile manufacturers or consumers, or more stringent or inconsistent fuel economy requirements on manufacturers of sport-utility vehicles, light trucks, and other vehicles from which we derive some of our sales.

We are subject to a wide range of environmental laws and regulations relating to air emissions, wastewater discharge, waste management, and storage of hazardous substances as well as to requirements related to investigation and clean-up of any environmental contamination as defined by these regulations. These environmental laws and regulations are complex, change frequently, and, in Canada, have tended to become more stringent and expensive over time. Therefore, we may not have been, and in the future may not be, in complete compliance with all such laws and regulations, and we may incur material costs or liabilities as a result of such laws and regulations significantly in excess of amounts we have reserved.



## FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS

Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and United States (“US”) dollars. More specifically, approximately 85% of the Company’s sales and 20% of its costs are incurred in US dollars. In addition, the Company maintains certain working capital balances in US funds.

In order to minimize our exposure to the impacts of changes in the foreign exchange rate, the Company maintains a forward foreign exchange programme (“FFEC Programme”). Reko’s Programme is based on maintaining our net exposure to the US dollar (total US exposure less forward foreign exchange contracts) between positive and negative \$5,000. This Programme is designed to minimize the Company’s exposure to foreign exchange risks over the mid-term. During periods of rapid fluctuation in the foreign exchange rate between the Canadian dollar and the US dollar, regardless of our net exposure to the US dollar, the Company can generate significant gains or losses, which may materially impact financial results. These significant gains or losses are entirely related to mark-to-market accounting rules and represent the product of our net exposure to the US dollar and the change during any given month of the value of the US dollar in relation to the Canadian dollar.

During each of the last four quarters, the Company’s month-end exposure to the US dollar has been:

FISCAL PERIOD	TOTAL U.S. EXPOSURE BEFORE HEDGING PROGRAMME	FORWARD FOREIGN EXCHANGE CONTRACTS BOOKED	NET EXPOSURE TO THE US DOLLAR
Q4 – 2019	\$ 11,639	\$ 7,000	\$ 4,639
Q3 – 2019	\$ 13,897	\$ 10,000	\$ 3,897
Q2 – 2019	\$ 13,210	\$ 13,000	\$ 210
Q1 - 2019	\$ 12,203	\$ 10,000	\$ 2,203

As a result of the Company’s purchase of forward foreign exchange contracts (“FFECs”), the Company is subject to changes in foreign exchange rates that may not be consistent with changes in the current quoted foreign exchange rates. More specifically, the Company’s foreign exchange risk is split such that its net exposure to the US dollar, as detailed above, is subject to change in market foreign exchange rates on a monthly basis and the remainder of its US dollar exposure is subject to foreign exchange risks based on the specific foreign exchange rate contained in its FFECs.

The table below presents a comparison between actual foreign exchange rates and Reko’s effective rate on its booked FFECs.

	FOR THE THREE MONTHS ENDED JULY 31,				FOR THE YEAR ENDED JULY 31,			
	2019		2018		2019		2018	
	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE
US Dollar equals Canadian Dollar	1.3309	1.3275	1.3027	1.2846	1.3234	1.3150	1.2731	1.2745

The Company's FFECs represent agreements with an intermediary to trade a specific amount of US dollars for Canadian dollars at a specific rate on a specific date. Currently, the date is between one (1) and six (6) months after the date on which the FFEC is booked. The specific rate entered into is not necessarily indicative of what either the intermediary or Reko believes the foreign exchange rate will be on the date the settlement of the trade occurs, rather it is a rate set by the intermediary which Reko can either accept or reject.

At the end of the year, we held FFECs of \$7,000 compared to \$10,000 at the end of the prior year. During fiscal 2019, on average, we held FFECs of \$9,917, as compared with the \$10,167 held during the prior year.

The following table outlines the level of FFECs presently maintained and the average effective rate of these contracts:

FISCAL PERIOD	CONTRACT VALUE BOOKED (000'S)	EFFECTIVE AVERAGE RATE
Q4 – 2019	\$ 7,000	1.3220

The Company notes that at current levels of FFECs and US dollar denominated assets and liabilities, an increase in the value of the US dollar against the Canadian dollar results in the Company recording gains and an increase in the value of the Canadian dollar against the US dollar results in financial losses for the Company.

Foreign currency transactions are recorded at rates in effect at the time of the transaction. Forward exchange contracts are recorded at month-end at their fair value, with unrealized holding gains and losses recorded in foreign exchange gain (loss).

Additional information with respect to financial instruments is provided in Note 3 and Note 5 to Reko's audited consolidated financial statements, which by this reference are hereby incorporated herein.

## NORMAL COURSE ISSUER BID

On December 28, 2018, the Company announced the extension of the normal course issuer bid. Under the plan, the Company may purchase on the TSX Venture Exchange up to a total of 321,971 of its common shares during the twelve-month period which commenced December 31, 2018. The 321,971 common shares represent approximately 5% of the total common shares outstanding. The price that the Company will pay for any such shares will be the market price at the time of acquisition and all shares acquired under the bid will be cancelled by the Company.

As of July 31, 2019, the Company purchased 118,300 shares under the provision of the current normal course issuer bid.



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Value



2019 CONSOLIDATED FINANCIAL STATEMENTS

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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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

"Caterina (Catia) Longo"

Caterina (Catia) Longo, CPA  
Chief Financial Officer

October 2, 2019

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Markets >>





## INDEPENDENT AUDITOR'S REPORT

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To the Shareholders of Reko International Group Inc.

### OUR OPINION

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In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Reko International Group Inc. and its subsidiaries (together, the Company) as at July 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at July 31, 2019 and 2018;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### BASIS FOR OPINION

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We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

## **OTHER INFORMATION**

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Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

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Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Dale Zorgdrager.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

London, Ontario

October 2, 2019

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PricewaterhouseCoopers LLP  
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

## CONSOLIDATED BALANCE SHEET

As at July 31 (in 000's)	2019	2018
<b>ASSETS (Notes 9 and 10)</b>		
Current		
Cash	\$ 5,448	\$ 6,565
Accounts receivable	12,522	11,978
Non-hedging financial derivatives (Note 5)	25	--
Work-in-progress (Note 6)	8,605	10,163
Prepaid expenses and other current assets	1,286	1,319
Embedded derivative (Note 8)	24	48
	<b>27,910</b>	30,073
Grant receivable (Note 18)	237	436
Capital assets (Note 7)	29,340	31,259
Deferred income taxes (Note 4)	2,864	3,271
	<b>\$ 60,351</b>	\$ 65,039
<b>LIABILITIES</b>		
Current		
Bank indebtedness (Note 9)	\$ --	\$ 4,815
Accounts payable and accrued liabilities (Note 19)	3,417	3,228
Non-hedging financial derivatives (Note 5)	--	27
Unearned revenue on work-in-progress (Note 6)	255	336
Current portion of unearned revenue	47	102
Current portion of long-term debt (Note 10)	741	1,169
Long-term debt subject to demand provisions (Note 10)	6,244	6,868
	<b>10,704</b>	16,545
Long-term debt (Note 10)	3,229	3,315
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	18,531	18,824
Contributed surplus (Note 12)	1,820	1,865
Retained earnings	26,067	24,490
	<b>46,418</b>	45,179
	<b>\$ 60,351</b>	\$ 65,039

Contingencies and commitments (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

<i>(in 000's)</i>	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
Balance at July 31, 2017	\$ 8,803	\$ 1,856	\$ 22,455	\$ --	\$ 43,114
Net share-based transactions	21	9	--	--	30
Net income	--	--	2,035	--	2,035
<b>Balance at July 31, 2018</b>	<b>\$ 18,824</b>	<b>\$ 1,865</b>	<b>\$ 24,490</b>	<b>\$ --</b>	<b>\$ 45,179</b>
Net share-based transactions (Note 11)	(293)	(45)	--	--	(338)
Net income	--	--	1,577	--	1,577
<b>Balance at July 31, 2019</b>	<b>\$ 18,531</b>	<b>\$ 1,820</b>	<b>\$ 26,067</b>	<b>\$ --</b>	<b>\$ 46,418</b>

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

## CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year Ended July 31 <i>(in 000's, except for per share data)</i>	2019	2018
Sales	\$ 47,989	\$ 42,272
Costs and expenses		
Cost of sales	36,078	32,288
Depreciation	3,730	3,264
	39,808	35,552
Gross profit	8,181	6,720
Selling and administrative (Note 15)	5,271	4,729
Income before the following items	2,910	1,991
Foreign exchange loss (gain)	444	(189)
Other income	(78)	(280)
Loss on sale of capital assets	11	3
Interest on long-term debt	415	204
Interest on other interest-bearing obligations	59	23
	851	(239)
Income before income taxes	2,059	2,230
Income tax provision (Note 4)		
Current	--	--
Deferred (Note 4)	482	195
	482	195
Net income and comprehensive income	\$ 1,577	\$ 2,035
Earnings per common share (Note 13)		
Basic	\$ 0.25	\$ 0.32
Diluted	\$ 0.23	\$ 0.31

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended July 31 (in 000's)	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net income for the year	\$ 1,577	\$ 2,035
Adjustments for:		
Depreciation	3,730	3,264
Income tax provision	482	195
Interest expense	474	227
Unrealized foreign exchange (gain) loss	(28)	(13)
Change in non-hedging financial derivatives	(52)	776
Loss on sale of capital assets	11	3
Change in fair value of embedded derivative	24	2
Stock-based compensation	(45)	9
	<b>6,173</b>	6,498
Net change in non-cash working capital (Note 17)	<b>1,025</b>	(2,228)
Interest paid	(433)	(246)
	<b>6,765</b>	4,024
<b>FINANCING ACTIVITIES</b>		
Net proceeds of bank indebtedness	(4,815)	3,197
Proceeds from (repurchase) issuance of capital stock	(293)	21
Change in grant receivable	199	-
Proceeds from long-term debt including amounts subject to demand provisions	--	10,377
Payments on long-term debt	(1,151)	(4,295)
	<b>(6,060)</b>	9,300
<b>INVESTING ACTIVITIES</b>		
Investment in capital assets	(1,822)	(11,499)
	<b>(1,822)</b>	(11,499)
Net change in cash	<b>(1,117)</b>	1,825
Cash, beginning of year	<b>6,565</b>	4,740
Cash, end of year	\$ <b>5,448</b>	\$ 6,565

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*(in 000's, except for per share data)*

### **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 in 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 for Reko International Group Inc. is 469 Silver Creek Industrial Drive, Lakeshore, Ontario, Canada.

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

The consolidated financial statements were authorized for issue by the Board of Directors on October 2, 2019.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). 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.

### CONSOLIDATION

The consolidated financial statements represent the accounts of Reko and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when Reko 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. All significant intercompany balances and transactions have been eliminated.

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’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. All subsidiaries, including those in the United States, have a functional currency of 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, 2019, Reko reported a foreign exchange loss of \$444 (2018 – gain of \$189).

## FINANCIAL INSTRUMENTS

Reko 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 Reko'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. The following table outlines the classification of financial instruments under IAS 39 and the revised classification on the adoption of IFRS 9:

CLASSIFICATION	ORIGINAL CLASSIFICATION UNDER IAS 39	NEW CLASSIFICATION UNDER IFRS 9
Cash	FVTPL	FVTPL
Non-hedging financial derivatives	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Embedded derivative	FVTPL	FVTPL
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt subject to demand provisions	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

### 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.

### AMORTIZED COST FINANCIAL ASSETS

Financial assets at amortized cost are non-derivative financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transactions costs, and subsequently at amortized cost.

### OTHER FINANCIAL LIABILITIES

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured 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.

## **IMPAIRMENT OF FINANCIAL ASSETS**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. With the exception of FVOCI equity instruments, if, in a subsequent period, the amount of the impairment loss decreases, and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statements of income and comprehensive income.

The Company uses an expected credit loss (“ECL”) model. The new impairment model applies to financial assets measured at amortized cost and contract assets.

The Company is using the simplified approach to recognize lifetime expected credit losses for its trade receivables and contract assets that are within the scope of IFRS 15 and that do not have a significant financing component.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the asset.

## **EFFECTIVE INTEREST METHOD**

Reko 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 Reko 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**

Reko enters into contracts with customers to design and manufacture a variety of engineered products and services. These contracts are entered into with a customer when the Company can identify each parties' rights and the contract has commercial substance, where the parties have approved the contract in accordance with customary Company business practices, both parties are committed to their obligations and payment terms are identifiable and collectible. Contracts are typically priced based on estimated expected costs plus a margin approach.

The Company recognizes revenue over time as performance obligations are satisfied. Revenue is recognized based on the extent of progress towards completion of performance obligations. Reko generally determines the progress of performance obligations based on the proportionate share of accumulated costs to date compared to the total expected costs. The Company considers all jobs, which have completed all aspects of engineering and design to have progressed to the point where total expected costs can be reasonably estimated. Historically, this occurs somewhere between 15% and 25%, depending on the complexity of the job. Revenues, including estimated reasonable profits, are then recorded proportionately as costs are incurred.

The Company has elected to use the practical expedient provided under IFRS 15 for unsatisfied or partially unsatisfied performance obligations of contracts that have an expected duration of one year or less. Any projected loss is recognized immediately.

### **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.

### **CONSIDERATION GIVEN TO CUSTOMERS**

Cash consideration given by Reko 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.

### **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, Reko'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 under the ECL model.

### **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.

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**

Reko 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	10 - 50 years
Machinery and equipment	3 - 30 years
Leasehold improvements	5 - 25 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 Reko'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, with the exception 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.

## **CHANGES IN ACCOUNTING POLICIES**

The Company has adopted the following new standards, along with any consequential amendments, effective August 1, 2018. These changes were made in accordance with applicable transitional provisions.

### **A) IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS**

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to supersede IAS 18, Revenue. The core principle of IFRS 15 is for companies to recognize revenue in accordance with the transfer of goods and services to customers in amounts that reflect the consideration to which the Company is entitled in exchange for those goods and services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

- **Step 1:** Identify the contract(s) with a customer.
- **Step 2:** Identify the performance obligations in the contract.
- **Step 3:** Determine the transaction price.
- **Step 4:** Allocate the transaction price to the performance obligation in the contract.
- **Step 5:** Recognize revenue when (or as) the entity satisfies a performance obligation.

Management evaluated each of the five steps in the new revenue recognition model for the Company's revenue streams. Through its evaluation, management determined that the new revenue guidance would not have a significant impact on the Company's consolidated statement balance sheet or the consolidated statement of income in comparison to the previous revenue guidance under IAS 18. The new standard does result in changes to the nature and quantity of annual disclosures with respect to revenue recognition. Management has implemented the Company's revised revenue policies, reporting processes and related controls.

The Company adopted IFRS 15 effective August 1, 2018 using the modified retrospective approach. The Company did not record an adjustment to opening retained earnings as the impact was insignificant.

## B) IFRS 9 FINANCIAL INSTRUMENTS

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued IFRS 9, *Financial Instruments*, to supersede IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for: 1) classification and measurement of financial assets and financial liabilities; 2) impairment for financial assets; and 3) general hedge accounting.

IFRS 9 contains three principal classifications categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale. In addition, IFRS 9 significantly amends other standards dealing with financial instruments such as IFRS 7, *Financial Instruments: Disclosures*.

Management evaluated the changes introduced by IFRS 9 and, concluded that the new financial instruments guidance does not have a significant impact on the Company's consolidated balance sheet or the consolidated income statements. The new standard will impact the nature and quantity of annual disclosures. Management has implemented the Company's revised policies, reporting processes and related controls.

The Company adopted this guidance effective August 1, 2018. This adoption did not result in an adjustment to opening retained earnings.

### **NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

As of the date of these consolidated 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 Reko.

All 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, amendments and interpretations may have been issued but are not expected to have a material impact on the Company's financial statements.

## A) 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).

Management has evaluated all the changes introduced by IFRS 16 and determined that the new lease guidance did not have a significant impact to the Company's consolidated statement of financial position and consolidated statement of earnings. The new standard will impact the nature and quantity of annual disclosures. Management has implemented the Company's revised policies, reporting processes and related controls.

The Company will adopt this guidance effective August 1, 2019 using the modified retrospective approach, which will result in an increase to capital assets and long-term debt of \$39.

## 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.

	2019		2018	
	REVENUES	CAPITAL ASSETS	REVENUE	CAPITAL ASSETS
Canada	\$ 47,867	\$ 29,340	\$ 41,543	\$ 31,259
United States	122	--	729	--
	\$ 47,989	\$ 29,340	\$ 42,272	\$ 31,259

## 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**

Reko 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 as followed:

### **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 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	2019
Financial assets at FVTPL				
Cash	\$ 5,448	\$ --	--	\$ 5,448
Non-hedging financial derivatives	--	25	--	25
Embedded derivative	--	24	--	24
	\$ 5,448	\$ 49	\$ --	\$ 5,497

	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

### **NON-HEDGING FINANCIAL DERIVATIVES**

Reko'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 Reko 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**

Reko's long-term debt of CDN\$6,167 and USD\$ 2,866 (currently valued at CDN\$3,778) 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 July 31, 2019, the fair value of the Company's long-term debt is CDN\$6,043 and USD\$2,763 (currently valued at CDN\$3,656). At July 31, 2018, the fair value of the Company's long term debt was \$5,827 CDN and \$2,300 USD.

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 Reko'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.

Reko'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. Reko, 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**

Reko'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, 2019, sales to the Company's three largest customers (inclusive of all divisions of the same parent company) represented 22.96%, 15.15% and 11.68%, respectively, of total sales. These same customers represent approximately 23.69%, 12.17% and 18.39% of total accounts receivable, respectively as at July 31, 2019.

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. Reko'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 Reko'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 Reko may have a secured claim. The Company does not require collateral in respect of accounts receivable. In addition, Reko 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.

Reko'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 Reko 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, Reko 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, 2019, the Company has cash on hand of \$5,448 in addition to available undrawn lines of credit of approximately \$20,000; however, under its current margining provisions with its lender, the maximum it can draw on its available lines of credit is limited to \$18,194.

A portion of the debt noted above (CDN\$2,815 and USD\$2,866) 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.

Reko 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**

Reko 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, 2019, 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	\$ 7,000	1.3220

Based on the Company's foreign currency exposures, as at July 31, 2019, 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**

Reko 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, 2019, \$343 of Reko'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, 2019, an assumed 0.5 percentage point increase in interest rates on the first day of the year would have decreased net income by \$2, 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. Reko'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 Reko 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, 2019 and July 31, 2018, the above capital management criteria can be illustrated as follows:

	2019	2018
Net debt		
Bank indebtedness	\$ --	\$ 4,815
Current portion of long-term debt	741	1,169
Long term debt subject to demand provisions	6,244	6,868
Long-term debt	3,229	3,315
Less: cash	(5,448)	(6,565)
<b>Net debt</b>	<b>\$ 4,766</b>	<b>\$ 9,602</b>
<b>Shareholders' equity</b>	<b>\$ 46,418</b>	<b>\$ 45,181</b>
<b>Ratio</b>	<b>0.10</b>	<b>0.21</b>

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:

	2019	2018
Deferred income tax asset		
SR & ED tax credits	\$ 5,065	\$ 4,795
Non-capital losses	44	37
Capital assets	248	1,410
Other	161	164
Deferred income tax asset	\$ 5,518	\$ 6,406
Deferred income tax liability		
Tax impact of SR & ED tax credits	\$ 1,297	\$ 1,275
Unbilled contract revenue	1,334	1,837
Other	23	23
Deferred income tax liability	\$ 2,654	\$ 3,135
Net income deferred tax asset	\$ 2,864	\$ 3,271

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:

	2019	2018
Combined Federal and Provincial rate	26.5%	26.5%
Manufacturing and processing deduction	(0.5%)	(0.5%)
Permanent and other differences including SR & ED	(2.6%)	(17.3%)
Effective rate	23.4%	8.7%

The details of taxable losses by jurisdiction are as follows:

	2019	2018
Canada, which begin to expire, at the earliest, in 2031	\$ 178	\$ 178
United States, which expire between 2022 and 2032	12,423	12,081

## 5. NON-HEDGING FINANCIAL DERIVATIVES

Reko utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at July 31, 2019, the Company had entered into foreign exchange contracts to sell an aggregate amount of \$7,000 (USD). These contracts mitigate the Company's expected exposure to US dollar denominated net assets and mature at the latest at December 12, 2019 at an average exchange rate of \$1.3220 Canadian. The mark-to-market value on these financial instruments as at July 31, 2019 was an unrealized gain of \$25, which has been recorded in net income for the year.

<i>As at July 31, 2019</i>	<b>MATURITY</b>	<b>NOTIONAL VALUE</b>	<b>AVERAGE RATE</b>	<b>NOTIONAL USD EQUIVALENT</b>	<b>CARRYING &amp; FAIR VALUE LIABILITY (ASSET)</b>
Sell USD/ Buy CAD	0-6 months	\$ 7,025	1.3220	\$ 7,000	\$ (25)

<i>As at July 31, 2018</i>	<b>MATURITY</b>	<b>NOTIONAL VALUE</b>	<b>AVERAGE RATE</b>	<b>NOTIONAL USD EQUIVALENT</b>	<b>CARRYING &amp; FAIR VALUE LIABILITY (ASSET)</b>
Sell USD/ Buy CAD	0-6 months	\$ 9,973	1.2951	\$ 10,000	\$ 27

## 6. WORK-IN-PROGRESS AND UNEARNED REVENUE ON WORK-IN-PROGRESS

A reconciliation of the beginning and ending carrying amounts of work-in-progress and unearned revenue on work-in-progress is as follows:

	<b>2019</b>		<b>2018</b>	
	<b>WORK-IN-PROGRESS</b>	<b>UNEARNED REVENUE ON WORK-IN PROGRESS</b>	<b>WORK-IN-PROGRESS</b>	<b>UNEARNED REVENUE ON WORK-IN PROGRESS</b>
<i>For the year ended July 31,</i>				
Balance outstanding – beginning of year	\$ 10,163	\$ (336)	\$ 13,011	\$ (8)
Revenue earned in the year	47,989	--	42,272	328
Billings in the year	(49,547)	81	(45,120)	--
Balance outstanding – end of year	\$ 8,605	\$ (255)	\$ 10,163	\$ (336)

## 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, 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)
<b>Balance at July 31, 2018</b>	<b>\$ 661</b>	<b>\$ 13,650</b>	<b>\$ 50,193</b>	<b>\$ 587</b>	<b>\$ 2,211</b>	<b>\$ 67,302</b>
<b>Additions</b>	<b>--</b>	<b>134</b>	<b>--</b>	<b>--</b>	<b>1,688</b>	<b>1,822</b>
<b>Transfers</b>	<b>--</b>	<b>313</b>	<b>3,176</b>	<b>224</b>	<b>(3,713)</b>	<b>--</b>
<b>Disposals</b>	<b>--</b>	<b>--</b>	<b>(63)</b>	<b>--</b>	<b>--</b>	<b>(63)</b>
<b>Balance at July 31, 2019</b>	<b>\$ 661</b>	<b>\$ 14,097</b>	<b>\$ 53,306</b>	<b>\$ 811</b>	<b>\$ 186</b>	<b>\$ 69,061</b>

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Amortization and impairment losses						
Balance at July 31, 2017	\$ --	\$ 3,774	\$ 28,939	\$ 207	\$ --	\$ 32,920
Additions	--	326	2,894	43	--	3,263
Transfers	--	--	--	--	--	--
Disposals	--	--	(140)	--	--	(140)
<b>Balance at July 31, 2018</b>	<b>\$ --</b>	<b>\$ 4,100</b>	<b>\$ 31,693</b>	<b>\$ 250</b>	<b>\$ --</b>	<b>\$ 36,043</b>
<b>Additions</b>	<b>--</b>	<b>470</b>	<b>3,214</b>	<b>46</b>	<b>--</b>	<b>3,730</b>
<b>Transfers</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Disposals</b>	<b>--</b>	<b>--</b>	<b>(52)</b>	<b>--</b>	<b>--</b>	<b>(52)</b>
<b>Balance at July 31, 2019</b>	<b>\$ --</b>	<b>\$ 4,570</b>	<b>\$ 34,855</b>	<b>\$ 296</b>	<b>\$ --</b>	<b>\$ 39,721</b>
Carrying value						
Balance at July 31, 2018	\$ 661	\$ 9,550	\$ 18,500	\$ 337	\$ 2,211	\$ 31,259
<b>Balance at July 31, 2019</b>	<b>\$ 661</b>	<b>\$ 9,527</b>	<b>\$ 18,451</b>	<b>\$ 515</b>	<b>\$ 186</b>	<b>\$ 29,340</b>

## 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:

	2019	2018
Embedded derivative, beginning of year	\$ 48	\$ 50
Fair value change, during the year	(24)	(2)
Embedded derivative, end of year	\$ 24	\$ 48

## 9. BANK INDEBTEDNESS

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:

	2019	2018
Bank overdraft – bearing interest at 5.25% (2018 – 5.25%)	\$ --	\$ 49
Canadian dollar bankers' acceptances – bearing interest at 2.30% (2018 – 3.57%) due in less than 30 days	--	1,500
U.S. dollar LIBORs – bearing interest at 3.65% (2018 – 3.83%), due in less than 30 days	--	2,500
Foreign exchange on U.S. dollar LIBOR	--	766
	\$ --	\$ 4,815

The bank indebtedness is secured by a general assignment of receivables and work-in-progress together with a second collateral mortgage of \$85,000 on all land and buildings. At July 31, 2019, the Company's available operating lines of credit of \$18,194 (2018 - \$18,584) was fully available based on lender defined margining capabilities.

## 10. LONG-TERM DEBT

The long-term debt is comprised of:

	2019	2018
Mortgage payable – 3.97% (2018 – 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	\$ 3,352	\$ 3,471
Mortgage payable – 4.42% (2018 – 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	2,815	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% (2018 – 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	3,778	3,925
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 receivables and work-in-progress, together with a collateral mortgage, subject to demand provisions	342	1,045
	<b>10,287</b>	11,391
Deduct - unamortized finance fees	73	39
- principal portion included in current liabilities	6,985	8,037
Long-term portion	<b>\$ 3,229</b>	\$ 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. At July 31, 2019, \$814 is due within the next twelve months under normal repayment terms and an additional \$6,244 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	\$ 814
2 years	476
3 years	481
4 years	3,315
5 years	2,413
Thereafter	2,788
<b>Balance of obligation</b>	<b>\$ 10,287</b>

## 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	6,351,620	\$ 18,531

Share capital transactions during the year were as follows:

As at July 31	2019		2018	
	SHARES	AMOUNT	SHARES	AMOUNT
Outstanding, beginning of year	6,439,920	\$ 18,824	6,434,920	\$ 18,803
Transactions during year	(88,300)	(293)	5,000	21
Outstanding, end of year	6,351,620	\$ 18,531	6,439,920	\$ 18,824

During the year, 30,000 shares were issued as a result of a purchase under the Company's stock option plan for proceeds of \$104. A charge of \$69 was applied to contributed surplus from this transaction. In addition, the Company repurchased 118,300 shares during the year for consideration of \$397.

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, 2019 were exercised:

Common shares outstanding at July 31, 2019	6,351,620
Stock options (Note 14)	307,500
	6,659,120

## 12. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2019	2018
Balance, beginning of year	\$ 1,865	\$ 1,856
Amounts in respect of exercised stock options	(69)	--
Amounts in respect of the stock-based compensation	24	9
Balance, end of year	\$ 1,820	\$ 1,865

### 13. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2019 was based on the net income attributable to common shareholders of \$1,577 (2018: \$2,035) and a weighted average number of common shares outstanding of 6,432,387 calculated as follows:

	2019	2018
<b>Basic earnings per share:</b>		
Net income	\$ 1,577	\$ 2,035
Average number of common shares outstanding during the year	6,432,387	6,437,660
Basic earnings per share	\$ 0.25	\$ 0.32
<b>Diluted earnings per share:</b>		
Net earnings available to common shareholders	\$ 1,577	\$ 2,035
Average number of common shares outstanding during the year	6,432,387	6,437,660
'In the money' stock options outstanding during the year	307,500	286,000
	6,739,887	6,723,660
Diluted earnings per share	\$ 0.23	\$ 0.31

### 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 120,000 options to employees (2018 – 15,000). During the year, 30,000 options (2018 – 5,000) from a previous award were exercised by employees.

As at July 31, 2019, the following options and warrants were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY
252,000	\$ 2.00	2020
90,000	\$ 3.90	2022
5,000	\$ 3.41	2023
115,000	\$ 2.90	2024

The weighted average of the options is as follows:

<i>As at July 31</i>	2019		2018	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	401,000	\$ 2.47	414,000	\$ 2.41
Issued during the year	120,000	2.90	15,000	3.60
Exercised during the year	(30,000)	1.15	(5,000)	1.15
Cancelled during the year	(29,000)	3.62	(23,000)	2.00
Outstanding at end of year	462,000	\$ 2.60	401,000	\$ 2.47
Exercisable at the end of the year	58,500	\$ 2.93	30,000	\$ 1.15

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:

	2019	2018
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	45.26%	51.39%
Risk free rate of return	0.32%	0.61%
Expected forfeiture rate	98.0%	87.20%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ 24	\$ --

## 15. OPERATING LEASES – LEASES AS LESSEE

The Company has non-cancellable operating lease rentals that are payable as follows:

<i>As at July 31</i>	2019	2018
Less than one year	\$ 10	\$ 10
Between one and five years	34	40
More than five years	--	4
	\$ 44	\$ 54

During the year ended July 31, 2019, \$10 (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 (2018 - \$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:

	2019	2018
Salaries and cash bonuses	\$ 693	\$ 670
Short-term employment benefits	24	28
Post-employment benefits	3	5
	\$ 720	\$ 703

### **KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS**

Directors of the Company control 3.73% of the voting shares of the Company (2018 -3.5%). Individuals related to a director own, directly or indirectly, 64.72% of the voting shares of the Company (2018 - 59.9%).

## 17. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital is comprised of:

	2019	2018
Accounts receivable	\$ (544)	\$ (4,660)
Work-in-progress	1,558	2,856
Prepaid expenses and other current assets	33	(1,051)
Accounts payable and accrued liabilities	114	336
Unearned revenue	(55)	(37)
Unearned revenue on work-in-progress	(81)	328
	\$ 1,025	\$ (2,228)

## 18. GOVERNMENT GRANTS

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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, 2019, the Company had received \$300 (2018 - \$300) in cash funding from SWODF and accrued an additional amount receivable of \$537 (2018 -\$796) on total eligible expenditures of \$11,370. 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. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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<i>As at July 31</i>	<b>2019</b>	<b>2018</b>
Accounts payable	\$ 1,766	\$ 1,830
Accrued liabilities	1,651	1,396
	<b>\$ 3,417</b>	<b>\$ 3,226</b>

## 20. CONTINGENCIES & COMMITMENTS

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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.

## 21. COMPARATIVE FIGURES

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Certain comparable figures have been reclassified to conform to the current year's financial statement presentation.

## SUMMARY OF INCOME (LOSS)

Year Ended July 31 (in 000's, except for per share data)	2019	2018	2017	2016	2015
Sales	\$ 47,989	\$ 42,272	\$ 42,967	\$ 50,599	\$ 48,296
Costs and expenses					
Cost of sales	36,078	32,288	32,402	32,026	33,737
Depreciation	3,730	3,264	3,089	2,954	2,508
	<b>39,808</b>	<b>35,552</b>	<b>35,491</b>	<b>34,980</b>	<b>36,245</b>
Gross profit	<b>8,181</b>	6,720	7,476	15,619	12,051
Selling and administrative	<b>5,271</b>	4,729	3,972	4,626	6,349
Income before the following items	<b>2,910</b>	1,991	3,504	10,993	5,702
Foreign exchange (gain)/ loss	444	(189)	154	456	664
Other income	(78)	(280)	(192)	(160)	(158)
Loss (gain) on sale of capital assets	11	3	(15)	39	(25)
Interest on long-term debt	415	204	297	390	367
Interest on other interest-bearing obligations	59	23	12	124	521
	<b>851</b>	<b>(239)</b>	<b>256</b>	<b>849</b>	<b>1,369</b>
Income before income taxes	<b>2,059</b>	2,230	3,248	10,144	4,333
Income taxes (recovered)					
Current	--	--	--	--	32
Deferred	482	195	703	2,543	174
	<b>482</b>	<b>195</b>	<b>703</b>	<b>2,543</b>	<b>206</b>
Net income and comprehensive income	\$ <b>1,577</b>	\$ 2,035	\$ 2,545	\$ 7,601	\$ 4,127
Earnings per common share					
Basic	\$ <b>0.25</b>	\$ 0.32	\$ 0.40	\$ 1.18	\$ 0.64

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

Year Ended July 31	2019	2018	2017	2016	2015
Costs and expenses					
Cost of sales	75.2%	76.4%	75.4%	63.3%	69.9%
Depreciation and amortization	7.8%	7.7%	7.2%	5.8%	5.2%
Selling and administration		11.2%	9.2%	9.1%	13.1%
	<b>11.0%</b>				
	<b>94.0%</b>	95.3%	91.8%	78.2%	88.2%
Gross margin	<b>17.0%</b>	15.9%	17.4%	30.9%	25.0%
Return on sales	<b>3.3%</b>	4.8%	5.9%	15.0%	8.5%
Effective tax rate	<b>23.4%</b>	8.7%	25.2%	25.1%	4.8%

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## DIRECTORS AND OFFICERS

### **Diane Reko**

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

### **Caterina (Catia) Longo, CPA**

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

### **Diane Reko**

Chief Executive Officer

469 Silver Creek Industrial Drive  
Lakeshore, Ontario N8N 4W2

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Fax: (519) 727-4315  
irelations@rekointl.com

## 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 5, 2019 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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## CORPORATE DIRECTORY

### **Corporate Office**

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## AUDITORS

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London, Ontario

## BANKERS

Bank of Montreal  
Windsor, Ontario

Toronto Dominion Bank  
Windsor, Ontario

Comerica Bank  
Detroit, Michigan

## COUNSEL

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