

Reko International Group Inc.

Interim Condensed Consolidated Financial Statements *(unaudited)*

For the three months ended October 31, 2022 and 2021

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Reko International Group Inc. for the three months ended October 31, 2022 have been prepared by Management and approved by the Board of Directors on December 1, 2022. The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

REKO INTERNATIONAL GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

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

	October 31, 2022	July 31, 2022
ASSETS		
Current		
Cash	\$ 11,281	\$ 14,023
Accounts receivable	12,516	11,629
Non-hedging financial derivatives	--	26
Work-in-progress	12,526	9,222
Prepaid expenses and other current assets	951	857
	37,274	35,757
Capital assets (Note 4)	28,140	29,024
Deferred income taxes	1,922	2,110
	\$ 67,336	\$ 66,891
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 6,003	\$ 6,818
Unearned revenue on work-in-progress	1,113	693
Non-hedging financial derivatives (Note 3)	236	--
Current portion of long-term debt (Note 5)	6,571	4,360
Long-term debt subject to demand provisions (Note 5)	3,033	5,129
	16,956	17,000
Long-term debt (Note 5)	3,476	3,479
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	16,073	16,332
Contributed surplus (Note 7)	1,816	1,769
Retained earnings	29,015	28,311
	46,904	46,412
	\$ 67,336	\$ 66,891

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

REKO INTERNATIONAL GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in 000's, except for per share amounts)

	Share capital	Contributed surplus	Retained earnings	Total equity
Balance at July 31, 2021	\$ 17,418	\$ 1,944	\$ 27,694	\$ 47,056
Common shares repurchased and cancelled	--	--	--	--
Share-based payments	140	(92)	--	48
Net income	--	--	493	493
Balance at October 31, 2021	\$ 17,558	\$ 1,852	\$ 28,187	\$ 47,597
Balance at July 31, 2022	\$ 16,332	\$ 1,769	\$ 28,311	\$ 46,412
Net share-based transactions	(259)	47	--	(212)
Dividends	--	--	--	--
Net income	--	--	704	704
Balance at October 31, 2022	\$ 16,073	\$ 1,816	\$ 29,015	\$ 46,904

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

REKO INTERNATIONAL GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in 000's, except for per share amounts)

	For the three months ended	
	October 31, 2022	October 31, 2021
Sales	\$ 13,796	\$ 12,106
Costs and expenses		
Cost of sales	10,596	9,488
Depreciation	973	783
	11,569	10,271
Gross profit	2,227	1,835
Selling and administrative	1,572	1,225
Income (loss) before other items	655	610
Foreign exchange (gain) loss	(274)	(72)
Other income	(25)	(124)
Loss (gain) on sale of capital assets	--	(16)
Interest on long-term debt	118	91
Interest on other interest-bearing obligations	(55)	(5)
	(236)	(126)
Income (loss) before income taxes	891	736
Deferred income tax provision (recovery)	187	243
Net income and comprehensive income	\$ 704	\$ 493
Earnings per common share (Note 8)		
Basic	\$ 0.12	\$ 0.08
Diluted	\$ 0.12	\$ 0.08

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

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

	For the three months ended October 31, 2022	For the three months ended October 31, 2021
OPERATING ACTIVITIES		
Net income for the period	\$ 704	\$ 493
Adjustments for:		
Depreciation	973	783
Income tax expense	187	243
Interest expense	63	86
Change in non-hedging financial derivatives	262	(238)
Unrealized foreign exchange loss (gain)	452	(15)
Share-based compensation	50	186
Loss on sale of capital assets	--	(16)
	2,691	1,522
Net change in non-cash working capital	(4,680)	(1,222)
Interest paid	(63)	(86)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(2,052)	214
FINANCING ACTIVITIES		
Net cost of repurchase of capital stock	(262)	(137)
Repayments of long-term debt	(341)	(119)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(603)	(256)
INVESTING ACTIVITIES		
Investment in capital assets	(87)	(600)
Proceeds from sale of capital assets	--	54
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(87)	(546)
Net change in cash	(2,742)	(588)
Cash, beginning of period	14,023	6,209
Cash, end of period	\$ 11,281	\$ 5,621

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Reko International Group Inc. (the "Company" or "Reko") is a diversified, technology-driven manufacturing organization located in Southwestern Ontario with areas of expertise including robotic factory automation solutions and precision machining of large, critical parts. The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate or exist in the Province of Ontario in Canada and the State of Michigan in the United States.

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

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

Statement of compliance

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on Dec 1, 2022.

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

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended July 31, 2022, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies adopted are consistent with the accounting policies and methods as those used in the Company's audited consolidated annual financial statements for the year ended July 31, 2022 except as noted below.

Basis of measurement

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

Basis of consolidation

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

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

The Company's subsidiaries are as follows:

Subsidiary	Location	Percentage ownership	Consolidation
------------	----------	----------------------	---------------

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Concorde Precision Machining Inc.	Ontario	100%	Full
Reko Manufacturing Group Inc.	Ontario	100%	Full
Reko International Holdings Inc.	Michigan	100%	Full
Reko International Services Inc.	Michigan	100%	Full
Concorde USA LLC	Michigan	100%	Full

Leases

An agreement is a lease if the agreement conveys the right to obtain substantially all of the economic benefit from the use of the identified asset and the right to direct the use of the identified asset.

The Company leases certain property, plant and equipment as right-of-use assets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Assets and liabilities arising from a lease are initially measured on a present value basis, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease liabilities include the present value of fixed and variable payments, residual value guarantees, exercise of purchase options if reasonably certain to be exercised and any penalties for terminating the lease if reasonably certain to terminate. Right-of-use assets are measured at cost comprised of the amount of the initial measurement of the lease liability plus any lease payments made before the lease commencement date, any initial direct costs and restoration costs. Lease payments are allocated between finance charges and a reduction of the outstanding lease obligation. If the underlying right-of-use asset transfers to the lessee at the end of the lease term or the lessee is reasonably certain to exercise a purchase option, the depreciation shall be the useful life of the right-of-use asset in accordance with the Company's depreciation methods and rates based on the class of the right-of-use asset. Otherwise, the right-of-use assets are depreciated over the shorter of the useful life of the asset and the lease term on a straight-line basis.

For any contracts with a short-term or if the present value of the right-of-use asset has a low-value, the Company will expense the lease payments as incurred and no right-of-use asset will be recorded.

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.

	Three months ended October 31, 2022	
	Revenues	Capital assets
Canada	\$ 13,796	\$ 28,140
United States	--	--
	\$ 13,796	\$ 28,140

	Three months ended October 31, 2021	
	Revenues	Capital assets
Canada	\$ 11,430	\$ 26,920
United States	676	--
	\$ 12,106	\$ 26,920

3. FINANCIAL INSTRUMENTS

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Fair Value

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

Accounts receivable, accounts payable and accrued liabilities

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

Fair value hierarchy

The following table provides an analysis of cash, non-hedging financial derivatives and long-term debt that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	October 31, 2022
Financial assets (liabilities) at FVTPL				
Cash	\$ 11,281	\$ --	\$ --	\$ 11,281
Non-hedging financial derivatives	--	--	--	--
	\$ 11,281	\$ --	\$ --	\$ 11,281
				July 31, 2022
Financial assets (liabilities) at FVTPL				
Cash	\$ 14,023	\$ --	\$ --	\$ 14,023
Non-hedging financial derivative	--	26	--	26
	\$ 14,023	\$ 26	\$ --	\$ 14,049

Non-hedging financial derivatives

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Long-term debt

The Company's long-term debt of CDN \$5,549 and USD \$2,378 (currently valued at CDN \$3,238) 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.

NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. During the period, the Company had entered into foreign exchange forward contracts. As at October 31, 2022, the Company holds options to buy and sell USD with maturities ranging from 0-6 months and at various exercise prices. The mark to market value of those options is included below.

As at October 31, 2022	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value liability
Sell USD / Buy CAD forwards	0 – 6 months	\$ 4,764	1.3460	\$ 5,000	\$(236)
As at July 31, 2022	Maturity	Notional value	Average rate	Notional USD equivalent	Carrying & fair value liability
Sell USD / Buy CAD forwards	0 – 6 months	\$ 3,026	1.2920	\$ 3,000	\$26

4. 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, 2021	\$ 661	\$ 14,530	\$ 53,532	\$ 844	\$ 2,055	\$ 71,622
Additions	--	29	--	--	5,335	5,364
Transfers	--	32	1,658	--	(1,690)	--
Disposals	--	--	(730)	--	--	(730)
Balance at July 31, 2022	\$ 661	\$ 14,591	\$ 54,460	\$ 844	\$ 5,700	\$ 76,256
Additions	--	--	--	--	87	87
Transfers	--	--	127	--	(127)	--
Disposals	--	--	--	--	--	--
Balance at October 31, 2022	\$ 661	\$ 14,591	\$ 54,587	\$ 844	\$ 5,660	\$ 76,343
Amortization and impairment losses						
Balance at July 31, 2021	\$ --	\$ 5,462	\$ 38,597	\$ 422	\$ --	\$ 44,481

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Amortization for the year	--	425	2,901	44	--	3,370
Disposals	--	--	(619)	--	--	(619)
Balance at July 31, 2022	\$ --	\$ 5,887	\$ 40,879	\$ 466	\$ --	\$ 47,232
Amortization for the year	--	106	854	11	--	971
Disposals	--	--	--	--	--	--
Balance at October 31, 2022	\$ --	\$ 5,993	\$ 41,733	\$ 477	\$ --	\$ 48,203
Carrying value						
Balance at July 31, 2022	\$ 661	\$ 8,704	\$ 13,581	\$ 378	\$ 5,700	\$ 29,024
Balance at October 31, 2022	\$ 661	\$ 8,598	\$ 12,854	\$ 367	\$ 5,660	\$ 28,140

Included in the net book value of machinery and equipment are right of use assets of \$4,239.

5. LONG-TERM DEBT

The long-term debt and lease liabilities are comprised of:

	October 31, 2022	July 31, 2022
Mortgage payable – 2.04% (July 31, 2022 – 2.04%), repayable \$23 monthly including interest, due in full April 2023, secured by certain land and building and an assignment of rents on the subject property	\$ 3,214	\$ 3,252
Mortgage payable – 4.31% (July 31, 2022 – 4.31%), repayable \$21 monthly including interest, due in full August 2023, secured by certain land and building and general security agreement, subject to demand provisions	2,335	2,372
Mortgage payable – 3.06% plus a credit spread (July 31, 2022 – 3.06%), which may vary over the life of facility to a maximum of 275, currently at 175 for an all-in rate of 5.00%, repayable USD \$14 monthly plus interest, due in full August 2025, secured by certain land, buildings, and a general security agreement, subject to demand provisions	3,238	3,097
Equipment lease – 2.78%, repayable US \$23 monthly including interest, due in full January 2027, and secured by the equipment	1,494	1,488
Equipment lease – 3.99%, repayable \$19 USD monthly including interest, due in full April 2027, and secured by the equipment	1,305	1,292
Equipment lease – 5.23%, repayable \$18 USD monthly including interest, due in full June 2029, and secured by the equipment	1,506	1,484
	13,092	12,985
Deduct - unamortized finance fees	12	17
- principal portion included in current liabilities	9,604	9,489
Long-term portion	\$ 3,476	\$ 3,479

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Notwithstanding the fact that certain facilities listed above are subject to demand provisions and are classified as current liabilities as a result, the Company expects to repay the principal over the entire scheduled term of the loans and these payments are outlined below. At October 31, 2022, \$6,573 is due within the next twelve months under normal repayment terms and an additional \$3,033 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	\$ 6,573
2 years	1,054
3 years	3,708
4 years	906
5 years	418
Thereafter	433
Balance of obligation	\$ 13,092

6. 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	5,728,413	\$ 16,073

Share capital transactions during the period were as follows:

	October 31, 2022		July 31, 2022	
	Shares	Amount	Shares	Amount
Outstanding, beginning of period	5,780,350	\$ 16,332	6,003,850	\$ 17,418
Stock options exercised during the period	2,500	11	--	--
Repurchase of shares during the period	(54,437)	(270)	(223,500)	(1,086)
Outstanding, end of period	5,728,413	\$ 16,073	5,780,350	\$ 16,332

During the three-month period, the Company repurchased and cancelled 54,437 common shares under the normal course issuer bid for a net cost of \$270.

The following table presents the maximum number of shares that would be outstanding if all the dilutive “in the money” instruments outstanding, as at October 31, 2022 were exercised:

Common shares outstanding at October 31, 2022	5,728,413
---	-----------

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Stock options	236,800
	5,965,213

7. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	October 31, 2022	July 31, 2022
Balance, beginning of period	\$ 1,769	\$ 1,944
Amounts in respect of exercised stock options	(3)	(121)
Amounts in respect of the stock-based compensation	50	(54)
Balance, end of period	\$ 1,816	\$ 1,769

8. EARNINGS PER SHARE

The calculation of basic earnings per share at October 31, 2022 was based on the net profit attributable to common shareholders of \$704 and a weighted average number of common shares outstanding of 5,763,038 calculated as follows:

	October 31, 2022	October 31, 2021
Basic earnings per share:		
Net income for the three-month period	\$ 704	\$ 493
Average number of common shares outstanding during the period	5,763,038	6,012,717
Basic earnings per share	\$ 0.12	\$ 0.08
Diluted earnings per share:		
Net income for the three-month period	\$ 704	\$ 493
Average number of common shares outstanding during the period	5,763,038	6,012,717
'In the money' stock options outstanding during the period	236,800	243,080
	5,999,838	6,255,797
Diluted earnings per share	\$ 0.12	\$ 0.08

9. STOCK-BASED COMPENSATION

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

As at October 31, 2022, the following options were outstanding:

Number of Options	Exercise price	Expiry
71,300	\$ 2.90	2024
10,000	\$ 3.50	2025
114,500	\$ 2.80	2026
10,000	\$ 4.59	2027
20,000	\$ 4.90	2027
70,000	\$ 4.65	2028

The weighted average of the options is as follows:

	October 31, 2022		October 31, 2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the period	230,800	\$ 3.12	342,900	\$ 3.14
Expired during the period	--	--	--	--
Issued during the period	70,000	\$ 4.65	10,000	\$ 4.59
Exercised during the period	(2,500)	\$ 2.90	(55,600)	\$ 3.03
Cancelled during the period	(2,500)	\$ 2.90	(2,500)	\$ 2.90
Outstanding at the end of the period	295,800	\$ 3.49	294,800	\$ 3.21
Exercisable at the end of the period	236,800	\$ 3.18	243,080	\$ 3.25

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

	October 31, 2022	October 31, 2021
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	31.27%	36.64%
Risk free rate of return	1.35%	0.26%
Expected forfeiture rate	0%	0%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ 50	\$ 17

10. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

In addition to their salaries, the Company also provides non-cash benefits to its executive officers and contributes to a post-employment defined contribution benefit plan on their behalf. In accordance with the terms of the plan, executive officers are entitled to receive up to a maximum of 2.5% of base salary. Company contributions under the plan will match 100% of the employee contributions. During the period, the Company expensed contributions of \$76 to the defined contribution plan in

REKO INTERNATIONAL GROUP INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Canada for all employees, including key management personnel. The above contribution plans are identical to the contribution plans provided to all Canadian employees of the Company of key management personnel.

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

Key management personnel compensation comprised:

	October 31, 2022	October 31, 2021
Salaries and cash bonuses	\$ 174	\$ 198
Short-term employment benefits	8	4
Post-employment benefits	3	8
	\$ 186	\$ 210

Key management personnel and director transactions

Directors of the Company control 4.8% of the voting shares of the Company. Relatives of a director own, directly or indirectly, 67.62% of the voting shares of the Company.

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 unaudited interim condensed consolidated financial statements for the period ended October 31, 2022 and the audited consolidated financial statements and MD&A for the year ended July 31, 2022 included in our 2022 Annual Report to Shareholders. The unaudited interim condensed consolidated financial statements for the period ended October 31, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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. is available on our website at www.rekointl.com or through the SEDAR website at 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 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 similarly titled measures 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 December 1, 2022.

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; and high precision, custom machining of very large critical components and assemblies. While many of our customers are in the automotive market, the Company has diversified beyond automotive 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; and work cell solutions. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

RECONCILIATION OF NON-IFRS MEASURES

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

	Three months ended	
	October 31, 2022	October 31, 2021
Sales	\$ 13,796	\$ 12,106
Less: Materials	4,084	3,675
Sub-contracting	1,519	1,298
Inventory adjustments	--	(53)
	\$ 8,193	\$ 7,186

RESULTS OF OPERATIONS

Sales

Sales for the three months ended October 31, 2022 increased \$1,690, or 14%, to \$13,796, compared to \$12,106 in the same period in the prior year. The increase in sales was largely related to persistent efforts by the sales and estimating teams, which resulted in a steady flow of work. Increased pricing to help relieve some supply chain costs helped the top line, as did an increase in the average foreign exchange rate.

Earned revenue

Earned revenue is a non-IFRS measure. The Company's explanation of how it measures earned revenue is located in the previous section. Earned revenue effectively measures that portion of our total revenue available to the Company to pay its workers, pay for its fixed and operating costs and earn a profit. The Company believes that earned revenue is a more effective measurement of how the Company is performing.

For the three months ended October 31, 2022, earned revenue increased by 14%, to \$8,193 compared to \$7,186 in the same period in the prior year.

Gross profit

The gross profit for the three months ended October 31, 2022 totaled \$2,227, compared to \$1,835 in the same period in the prior year. Gross profit as a percentage of sales of 16.1% for the three months was an improvement in margin compared to 15.2% during the same period in the prior year. All levels within the organization are focused on project performance; this regular attention has contributed positively to an improvement in overall efficiency, allowing team members to react quickly to operational inefficiencies. Navigating a very tough cost environment continues to be a daily challenge.

Selling, general and administration

Selling, general and administrative expenses ("SG&A") for the three months ended October 31, 2022 totaled \$1,572 compared to \$1,225 for the same period in fiscal 2022. An increase in recruiting costs to fill some positions contributed to the increase in SG&A. Retaining skilled labour is also crucial, particularly during these times when finding skilled labour can be challenging. The company invested in its workforce by offering wage increases and the opportunity to earn a performance bonus.

Earnings overview

MANAGEMENT'S DISCUSSION AND ANALYSIS

The net income for the three months ended October 31, 2022 was \$704, or \$0.12 per share, compared to \$493, or \$0.08 per share, in the same period of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow used by operations for the period was \$2,052 as compared to cash flow provided by operations of \$214 in the same period of the previous year. The decrease in cash flow provided by operations is primarily a result of decrease in net change of non-cash working capital, driven by an increase in receivables and work-in-process, and a decrease in payables.

Financial covenants

The Company continues to meet its financial covenants, including the first quarter of fiscal 2023.

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 three months ended October 31, 2022, the Company invested \$87 in capital assets.

Cash resources/working capital requirements

As at October 31, 2022, Reko had cash on hand of \$11,281, compared to \$14,023 at July 31, 2022, and compared to \$5,621 at October 31, 2021.

At October 31, 2022 the Company did not have any outstanding bank indebtedness.

Reko has a \$20,000 revolver available. At October 31, 2022, the Company's available operating lines of credit of \$19,397 was fully available based on lender defined margining capabilities.

Contractual obligations and off-balance sheet financing

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt	\$ 7,519	\$ 4,033	\$ 1,729	\$ 1,324	\$ 433
Long-term debt subject to demand provisions *	5,573*	2,540	3,033	--	--
Lease liabilities	20	10	10	--	--
Total contractual obligations	\$ 13,112	\$ 6,583	\$ 4,772	\$ 1,324	\$ 433

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share capital

The Company had 5,728,413 common shares outstanding at October 31, 2022.

Outstanding share data

Designation of security	Number outstanding	Maximum number issuable if convertible, exercisable or exchangeable for common shares
Common Shares	5,728,413	
Stock options issued	295,800	
Stock options exercisable	236,800	
Total (maximum) number of common shares		6,024,213

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 vehicles by OEMs and on the construction, expansion or retooling of production facilities and our ability to secure automation programs as a result of these activities 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, safety considerations and changing technologies. 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 economic, industry and risk factors discussed in our Annual Report, each in respect of the year ended July 31, 2022, remain substantially unchanged in respect of the three months ended October 31, 2022, however, the most significant of these are repeated below.

Current outsourcing and in-sourcing trends

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

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 continually monitors the emergence of new technologies and updates our investments in these emerging technologies accordingly.

Diversification of our sales

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Continued support of our lenders

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. 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). However, the Company maintains a strong relationship with a number of key lenders and keeps them apprised of, not only financial results, but also future plans and challenges. In the event that debt financing was not available at some future date, additional equity financings may result in dilution to existing shareholders.

Significant long-term fluctuations in relative currency values

Although, our financial results are reported in Canadian dollars, significant portions of our sales are realized in U.S. dollars. Movements in the U.S. 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 all 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.

FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS

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

To minimize our exposure to the impacts of changes in the foreign exchange rate, the Company maintains a forward foreign exchange contract purchasing programme ("FFEC Programme"). Reko's Programme is based on maintaining our approximate net exposure to the U.S. dollar (total U.S. 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 U.S. dollar, regardless of our net exposure to the U.S. 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 U.S. dollar and the change during any given month of the value of the U.S. dollar in relation to the Canadian dollar.

During each of the last four quarters, the Company's quarter-end exposure to the U.S. dollar has been:

Fiscal Period	Total U.S. exposure before hedging programme	Forward foreign exchange contracts booked	Net exposure to the U.S. dollar
Q1 - 2023	\$ 13,358	\$ 10,000	\$ 3,358
Q4 - 2022	\$ 12,225	\$ 8,000	\$ 4,225
Q3 - 2022	\$ 13,166	\$ 10,000	\$ 3,166
Q2 - 2022	\$ 14,961	\$ 6,000	\$ 8,961

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 U.S. dollar, as detailed above, is subject to changes in market foreign exchange rates on a monthly basis and the remainder of its U.S. 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.

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 October 31			
	2022		2021	
	Actual	Reko effective rate	Actual	Reko effective rate
U.S. Dollar equals Canadian Dollar	1.3266	1.3195	1.2578	1.2673

The Company's FFECs represent agreements with an intermediary to trade a specific amount of U.S. 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.

During the first quarter, the Company recorded a pre-tax gain of approximately \$274 related to the fair value of its U.S. dollar exposures. At the end of the quarter, we held FFECs of \$5,000 compared to \$2,000 at the end of the quarter in 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
Q1 - 2023	\$ 5,000	1.3460

Additionally, the Company entered into a few different options to purchase USD and sell CAD. These options have varying exercise rates.

The Company notes that at current levels of FFECs and U.S. dollar denominated assets and liabilities, an increase in the value of the U.S. dollar against the Canadian dollar results in the Company recording gains and an increase in the value of the Canadian dollar against the U.S. dollar results in recording 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).

QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the first quarter of fiscal 2023, ended October 31, 2022. The information has been derived from the Company's unaudited consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited

MANAGEMENT'S DISCUSSION AND ANALYSIS

consolidated financial statements contained elsewhere in the Annual Report for the year ended July 31, 2022, 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.

	Jan/21	Apr/21	July/21	Oct/21
Sales	\$ 10,982	\$ 12,413	\$ 8,957	\$ 12,106
Net income	468	801	491	493
Earnings per share: Basic	0.07	0.13	0.08	0.08
Diluted	0.07	0.13	0.08	0.08
	Jan/22	Apr/22	July/22	Oct/22
Sales	\$ 13,419	\$ 13,357	\$ 15,002	\$ 13,796
Net income	872	92	664	704
Earnings per share: Basic	0.15	0.02	0.11	0.12
Diluted	0.14	0.02	0.11	0.12

NORMAL COURSE ISSUER BID

On December 28, 2021, 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 300,837 of its common shares during the twelve-month period which commenced December 31, 2021. The 300,837 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.

During the quarter ended October 31, 2022, Reko purchased and subsequently cancelled 54,437 shares under the provision of the normal course issuer bid. All shares available under this current bid have now been repurchased and cancelled.