



# Platform for Growth

2024 Financial Statements







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# Setting Standards



# MANAGEMENT’S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

Management is responsible for the consolidated financial statements and believes that they fairly present the Company’s financial condition and results of operation in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting 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

“Kim Marks”  
**Kim Marks, CPA, CA**  
Chief Financial Officer

October 10, 2024

# Uncovering Possibilities





## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Reko International Group Inc.

### OUR OPINION

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, 2024 and 2023, 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 Accounting Standards).

### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at July 31, 2024 and 2023;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of (loss) income and comprehensive (loss) 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 material accounting policies and other explanatory information.

### BASIS FOR OPINION

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.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended July 31, 2024. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p><b>Evaluation of the estimated costs at completion for revenue recognition</b></p> <p><i>Refer to note 1 - Basis of preparation and significant accounting policies and note 6 - Work-in-progress and unearned revenue on work-in-progress to the consolidated financial statements.</i></p> <p>For the year ended July 31, 2024, the company recognized revenue of \$44.3 million. Revenue is recognized over time as performance obligations are satisfied based on the extent of progress towards completion of the performance obligations. Management generally determined the progress of performance obligations based on the proportionate share of accumulated costs to date compared to the total expected costs (the cost input method). Revenue is recognized proportionately as costs are incurred.</p> <p>Due to the nature of the work required to be performed on each performance obligation, management's estimation of costs at completion is complex and requires significant judgment. The significant assumptions used by management in estimating the costs at completion included costs of material and costs of labour and additional costs from delays or penalties.</p> <p>We considered this a key audit matter due to the significant judgment and assumptions used by management to estimate the costs at completion for revenue recognition. This in turn resulted in significant audit effort and subjectivity in performing procedures</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> <li>• Tested how management determined the estimated costs at completion for revenue recognition which included the following: <ul style="list-style-type: none"> <li>• For a sample of revenue transactions: <ul style="list-style-type: none"> <li>○ Agreed key contractual terms to signed contracts, including contract amendments and correspondence with customers.</li> <li>○ Agreed the costs of labour incurred to date to supporting payroll records and timesheets for a selection of cost items.</li> <li>○ Agreed the costs of material to supporting documents for a selection of cost items.</li> <li>○ Evaluated the reasonableness of significant assumptions related to estimating the costs at completion including costs of material and costs of labour and the additional costs from delays or penalties by: <ul style="list-style-type: none"> <li>• Testing the estimated costs to complete by comparing the costs of labour and material initially budgeted for the contracts, to the actual costs of labour and material incurred;</li> <li>• Interviewing project managers to evaluate (i) progress to date; (ii) deviation between initial and revised costs of material and costs of labour at completion; and (iii) impact of any delays and penalties applicable; and</li> <li>• Considering supporting documents obtained from interviewing project managers.</li> </ul> </li> </ul> </li> <li>○ Performed look-back procedures for a selection of contracts completed during the year to compare the originally estimated costs to actual costs.</li> </ul> </li> </ul>

## **OTHER INFORMATION**

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**

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

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**

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

**(Signed) "PricewaterhouseCoopers LLP"**

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Ontario

October 10, 2024





# CONSOLIDATED BALANCE SHEETS

<i>As at July 31 (in 000's)</i>	<b>2024</b>		<b>2023</b>	
<b>ASSETS</b>				
Current				
Cash	\$	11,434	\$	12,139
Accounts receivable		12,286		8,658
Non-hedging financial derivatives (Note 5)		-		143
Work-in-progress (Note 6)		5,561		10,230
Prepaid expenses and other current assets		822		1,186
		<b>30,103</b>		<b>32,356</b>
Capital assets (Note 7)				
		25,855		28,137
Deferred income taxes (Note 4)				
		-		2,295
	\$	<b>55,958</b>	\$	<b>62,788</b>
<b>LIABILITIES</b>				
Current				
Accounts payable and accrued liabilities (Note 15)	\$	2,895	\$	4,163
Unearned revenue on work-in-progress (Note 6)		301		655
Non-hedging financial derivatives (Note 5)		43		-
Current portion of long-term debt and lease liabilities (Note 8)		1,565		1,448
Long-term debt subject to demand provisions (Note 8)		-		2,799
		<b>4,804</b>		<b>9,065</b>
Long-term debt and lease liabilities (Note 8)				
		9,394		7,816
Deferred income tax (Note 4)				
		379		-
		<b>14,577</b>		<b>16,881</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital (Note 9)		16,235		16,436
Contributed surplus (Note 10)		839		1,270
Retained earnings		24,307		28,201
		<b>41,381</b>		<b>45,907</b>
	\$	<b>55,958</b>	\$	<b>62,788</b>

Contingencies and commitments (Note 16)

On behalf of the Board	"Diane Reko" Diane Reko Director	"Andrew J. Szonyi" Andrew J. Szonyi Director
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*The accompanying notes are an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(in 000's)</i>	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	TOTAL EQUITY
<b>Balance at July 31, 2022</b>	\$ 16,332	\$ 1,769	\$ 28,311	\$ 46,412
Share based compensation (Notes 9 and 10)	104	69	-	173
Share repurchases (Note 9)	-	(568)	-	(568)
Dividends	-	-	(1,432)	(1,432)
Net income	-	-	1,322	1,322
<b>Balance at July 31, 2023</b>	\$ 16,436	\$ 1,270	\$ 28,201	\$ 45,907
Share based compensation (Notes 9 and 10)	9	(13)	-	(4)
Share repurchases (Note 9)	(210)	(418)	-	(628)
Net loss	-	-	(3,894)	(3,894)
<b>Balance at July 31, 2024</b>	\$ 16,235	\$ 839	\$ 24,307	\$ 41,381

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

# CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME

<i>Year Ended July 31 (in 000's, except for per share data)</i>	<b>2024</b>	<b>2023</b>
Sales	\$ 44,277	\$ 46,751
Costs and expenses		
Cost of sales	35,450	35,746
Depreciation	3,976	3,918
	<b>39,426</b>	<b>39,664</b>
Gross profit	4,851	7,087
Selling and administrative	5,758	5,831
(Loss) income before the following items	(907)	1,256
Foreign exchange gain	(130)	(62)
Other expense (income)	49	(108)
Loss on sale of capital assets	120	65
Interest on long-term debt and lease liabilities	479	462
Interest income, net	(205)	(238)
	<b>313</b>	<b>119</b>
(Loss) income before income taxes	(1,220)	1,137
Income tax provision (Note 4)		
Deferred expense (recovery)	2,674	(185)
Net (loss) income and comprehensive (loss) income	\$ (3,894)	\$ 1,322
Earnings (loss) per common share (Note 11)		
Basic	\$ (0.70)	\$ 0.23
Diluted	(0.67)	0.22

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Year Ended July 31 (in 000's)</i>	<b>2024</b>	<b>2023</b>
<b>OPERATING ACTIVITIES</b>		
Net (loss) income for the year	\$ (3,894)	\$ 1,322
Adjustments for:		
Depreciation	3,976	3,918
Income tax provision	2,674	(185)
Interest expense, net	274	224
Change in non-hedging financial derivatives	186	(117)
Unrealized foreign exchange loss	403	357
Stock-based compensation	(4)	173
Loss on sale of capital assets	120	65
	<b>3,735</b>	<b>5,757</b>
Net change in non-cash working capital (Note 14)	(217)	(1,059)
Interest paid	(274)	(224)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,244</b>	<b>4,474</b>
<b>FINANCING ACTIVITIES</b>		
Payment of dividends	-	(1,432)
Cost of repurchase of capital stock	(628)	(568)
Proceeds from long-term debt and lease liabilities	-	2,427
Repayments of long-term debt and lease liabilities	(1,507)	(3,689)
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(2,135)</b>	<b>(3,262)</b>
<b>INVESTING ACTIVITIES</b>		
Investment in capital assets	(2,227)	(3,437)
Proceeds on sale of capital assets	413	341
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,814)</b>	<b>(3,096)</b>
Net change in cash	(705)	(1,884)
Cash, beginning of year	12,139	14,023
Cash, end of year	\$ 11,434	\$ 12,139

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 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.

The consolidated financial statements were authorized for issue by the Board of Directors on October 10, 2024.

## 1. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

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

These 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.

Reko's subsidiaries are as follows:

SUBSIDIARY	LOCATION	PERCENTAGE OWNERSHIP	CONSOLIDATION
Concorde Precision Machining Inc.	Ontario	100%	Full
Reko Automation 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

### **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.

### **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 remeasured depending 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 IFRS 9:

<b>CLASSIFICATION</b>	<b>CLASSIFICATION UNDER IFRS 9</b>
Cash	FVTPL
Non-hedging financial derivatives	FVTPL
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt subject to demand provisions	Amortized cost
Long-term debt	Amortized cost

### **FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FVTPL**

Financial assets designated as fair value through profit or loss ("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 transaction 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.

The Company uses an expected credit loss (“ECL”) model. This 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 Accounting Standards 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, assessing the recoverability of 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 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 cost input method). Due to the nature of the work required to be performed on each performance obligation, management's estimation of costs at completion is complex and requires significant judgement. The significant assumptions used by management in estimating the costs at completion included costs of material and costs of labour and additional costs from delays and penalties, and such costs, if probable, are included in estimated costs at completion. 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. 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. 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.

**LEASE LIABILITY PAYMENTS**

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. 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 is reasonably certain to terminate. Right-of-use assets are measured at cost and are 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.

**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.

**RIGHT OF USE ASSETS**

Leases for which the Company assumes substantially all of the risks and rewards of ownership are classified as a right-of-use asset. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

## **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 and equipment under construction 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.

## ***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 calculated 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 (LOSS)***

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 Loss and Comprehensive Loss. Comprehensive income (loss) is composed of net income (loss) 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 (LOSS) 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.

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

As of the date of these consolidated financial statements, there are no new standards, amendments or 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 would have been 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.

## **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.

	2024		2023	
	REVENUES	CAPITAL ASSETS	REVENUES	CAPITAL ASSETS
Canada	\$ 44,264	\$ 25,855	\$ 46,738	\$ 28,137
United States	13	-	13	-
	\$ 44,277	\$ 25,855	\$ 46,751	\$ 28,137

## **3. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, accounts receivable, non-hedging financial derivatives, accounts payable, 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	2024
Cash	\$ 11,434	\$ -	\$ -	\$ 11,434
Non-hedging financial derivatives	-	(43)	-	(43)
	\$ 11,434	\$ (43)	\$ -	\$ 11,391

  

	LEVEL 1	LEVEL 2	LEVEL 3	2023
Cash	\$ 12,139	\$ -	\$ -	\$ 12,139
Non-hedging financial derivatives	-	143	-	143
	\$ 12,139	\$ 143	\$ -	\$ 12,282

#### 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.

#### LONG-TERM DEBT

Reko's long-term debt of CDN \$2,964 and USD \$2,115 (currently valued at CDN \$2,925) 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.

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 Audit 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 50.9% of the Company's revenue is attributable to the automotive industry. Annually, between 60% and 70% of the Company's revenue is derived from customers who pay in United States dollars.

For the year ended July 31, 2024, sales to the Company's three largest customers (inclusive of all divisions of the same parent company) represented 21.1%, 18.6% and 16.0%, respectively, of total sales. These same customers represent approximately 25.9%, 30.2% and 11.9%, of total accounts receivable, respectively as at July 31, 2024.

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. 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 demand revolving facility ("revolver") subject to a lender defined borrowing base calculation that is secured against the assets of the Company and its subsidiaries. Interest is payable on the drawn portion of the revolver at Prime Rate +0.25% per annum on amounts drawn in \$CDN and US Base Rate +0.25% per annum for borrowings in \$USD. As at July 31, 2024, the Company has cash on hand of \$11,434 in addition to the amounts available under the borrowing base in the amount of \$14,006.

On July 31, 2024, the Company entered into an amended credit agreement which includes certain financial covenants and availability of a Master Equipment Finance Facility up to a maximum of \$1,500 with interest determined at market rates as at the time of borrowing. There were no borrowings against this facility as at year end.

### **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 and structured foreign exchange options to mitigate its currency risk, all with a maturity of less than one year from the reporting date.

### **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's interest rate risk primarily arises from its floating rate debt, in particular its bank indebtedness. At July 31, 2024, none of Reko's total debt portfolio is subject to movements in floating interest rates.

#### 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, 2024 and July 31, 2023, the above capital management criteria can be illustrated as follows:

	2024	2023
Net debt		
Current portion of long-term debt and lease liabilities	\$ 1,565	\$ 1,448
Long-term debt subject to demand provisions	-	2,799
Long-term debt and lease liabilities	9,394	7,816
Less: cash	(11,434)	(12,139)
<b>Net debt</b>	<b>\$ (475)</b>	<b>\$ (76)</b>
<b>Shareholders' equity</b>	<b>\$ 41,381</b>	<b>\$ 45,907</b>
<b>Ratio</b>	<b>(0.01)</b>	<b>(0.00)</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) fixed charge coverage ratio – calculated as EBITDA less cash taxes, distributions, cash for permitted acquisitions, and non-financed capital expenditures (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.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is a non-GAAP measure but can be used as an indicator of the overall profitability of a company.

#### 4. INCOME TAXES

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

	2024	2023
Deferred income tax asset		
SR & ED tax credits	\$ 1,708	\$ 6,012
Non-capital losses	218	134
Other	149	91
Deferred income tax asset	\$ 2,075	\$ 6,237
Deferred income tax liability		
Tax impact of SR & ED tax credits	\$ 293	\$ 1,422
Unbilled contract revenue	1,590	1,704
Capital assets	571	816
Deferred income tax liability	\$ 2,454	\$ 3,942
Net deferred tax (liability) asset	\$ (379)	\$ 2,295

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

Based on the Company's assessment of future taxable income and the timing of reversal of temporary differences, the Company has determined that \$4,282 of deferred tax assets are not more likely than not to be realized. Should the actual taxable income differ from the estimate, the valuation allowance may be adjusted in future periods.

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

	2024	2023
Combined Federal and Provincial rate	26.5%	26.5%
Manufacturing and processing deduction	(0.5%)	(0.5%)
SR & ED tax credits	0.0%	(11.3%)
Permanent and other differences	(66.6%)	(31.0%)
Tax impact of unrecognized SR&ED credits	(91.2%)	-
Impact of unrecognized deferred tax assets	351.0%	-
Effective rate	219.2%	(16.3%)

The details of taxable losses by jurisdiction are as follows:

	2024	2023
Canada, which begin to expire, at the earliest, in 2031	\$ 822	\$ 506
United States, which expire between 2025 and 2035	\$ 11,665	\$ 11,160

The deferred income tax asset attributable to the taxable losses in the United States is not recognized.

## 5. NON-HEDGING FINANCIAL DERIVATIVES

The company utilizes financial instruments, including forward contracts and foreign exchange options, to manage its exposure to foreign exchange risk. Under the terms of the FX options, a floor and a ceiling exchange rate are predetermined. If the spot rate falls below the floor, the Company will sell the notional amount at the floor rate. If the spot rate exceeds the ceiling, the Company will be required to sell double the notional amount. If the spot rate remains between the floor and ceiling, the option expires worthless, allowing the Company to sell at the prevailing spot rate at its discretion.

The mark-to-market value on these financial instruments as at July 31, 2024 was an unrealized loss of \$43 (2023- unrealized gain of \$143), which has been recorded in net income for the year.

<i>As at July 31, 2024</i>	CURRENCY	NOTIONAL USD EQUIVALENT	FLOOR RATE	CEILING RATE	FORWARD RATE	CONTINGENT NOTIONAL USD	FAIR VALUE ASSET (LIABILITY)	MATURITY
FORWARDS	Sell USD / Buy CAD	-	-	-	-	-	-	-
OPTIONS	Sell USD / Buy CAD	\$3,000	1.3650	1.3925	NA	\$6,000	(\$43)	0 – 3 months

<i>As at July 31, 2023</i>	CURRENCY	NOTIONAL USD EQUIVALENT	FLOOR RATE	CEILING RATE	FORWARD RATE	CONTINGENT NOTIONAL USD	FAIR VALUE ASSET	MATURITY
FORWARDS	Sell USD / Buy CAD	\$1,000	NA	NA	1.3500 -1.3650	NA	\$102	0 – 3 months
OPTIONS	Sell USD / Buy CAD	\$3,500	1.3000	1.3850	NA	\$7,000	\$41	0 – 6 months

## 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:

<i>For the year ended July 31,</i>	2024		2023	
	WORK-IN-PROGRESS	UNEARNED REVENUE ON WORK-IN-PROGRESS	WORK-IN-PROGRESS	UNEARNED REVENUE ON WORK-IN-PROGRESS
Balance outstanding - beginning of year	\$ 10,230	\$ (655)	\$ 9,222	\$ (693)
Revenue earned in the year	44,277	354	46,751	38
Billings in the year	(48,946)	-	(45,743)	-
Balance outstanding - end of year	\$ 5,561	\$ (301)	\$ 10,230	\$ (655)

## 7. CAPITAL ASSETS

Capital assets are comprised of:

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
<b>Cost</b>						
<b>Balance at July 31, 2022</b>	\$ 661	\$ 14,591	\$ 58,697	\$ 844	\$ 1,463	\$ 76,256
Additions	-	328	246	-	2,863	3,437
Transfers	-	-	3,611	15	(3,626)	-
Disposals	-	-	(1,458)	-	-	(1,458)
<b>Balance at July 31, 2023</b>	\$ 661	\$ 14,919	\$ 61,096	\$ 859	\$ 700	\$ 78,235
Additions	-	3	-	-	2,224	2,227
Transfers	-	-	2,680	10	(2,690)	-
Disposals	-	-	(2,558)	-	-	(2,558)
<b>Balance at July 31, 2024</b>	\$ 661	\$ 14,922	\$ 61,218	\$ 869	\$ 234	\$ 77,904

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
<b>Depreciation</b>						
<b>Balance at July 31, 2022</b>	\$ -	\$ 5,887	\$40,879	\$ 466	\$ -	\$ 47,232
Depreciation for the year	-	433	3,439	46	-	3,918
Disposals	-	-	(1,052)	-	-	(1,052)
<b>Balance at July 31, 2023</b>	\$ -	\$ 6,320	\$43,266	\$ 512	\$ -	\$ 50,098
Depreciation for the year	-	452	3,475	49	-	3,976
Disposals	-	-	(2,025)	-	-	(2,025)
<b>Balance at July 31, 2024</b>	\$ -	\$ 6,772	\$44,716	\$ 561	\$ -	\$ 52,049
<b>Carrying value</b>						
<b>Balance at July 31, 2023</b>	\$ 661	\$ 8,599	\$17,830	\$ 347	\$ 700	\$ 28,137
<b>Balance at July 31, 2024</b>	\$ 661	\$ 8,150	\$16,502	\$ 308	\$ 234	\$ 25,855

Included in the net book value of machinery and equipment is \$4,885 (2023 - \$5,767) of right of use assets.

## 8. LONG-TERM DEBT AND LEASE LIABILITIES

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

	2024	2023
Mortgage payable – 5.63% (2023 – 5.63%), repayable \$26 monthly including interest, matures April 2038, secured by certain land and building and an assignment of rents on the subject property	\$ 2,964	\$ 3,104
Mortgage payable – 3.06% plus a credit spread (2023 – 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, matures August 2038, secured by certain land, buildings, and a general security agreement	2,925	2,997
Equipment lease – 2.78%, repayable \$23 USD monthly including interest, due in full January 2027, and secured by the equipment	891	1,198
Equipment lease – 3.99%, repayable \$19 USD monthly including interest, due in full April 2027, and secured by the equipment	826	1,068
Equipment lease – 5.23%, repayable \$18 USD monthly including interest, due in full June 2029, and secured by the equipment	1,180	1,323
Equipment lease – 5.82%, repayable \$30 USD monthly including interest, due in full June 2030, and secured by the equipment	2,173	2,373
	<b>10,959</b>	<b>12,063</b>
Deduct - unamortized finance fees	-	-
- principal portion included in current liabilities	1,565	4,247
Long-term portion	\$ 9,394	\$ 7,816

Repayments on committed facilities are scheduled as follows:

YEAR	
Next 12 months	\$ 1,565
2 years	1,643
3 years	1,335
4 years	999
5 years	1,369
Thereafter	4,048
<b>Balance of obligation</b>	<b>\$ 10,959</b>

## 9. 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	5,563,413	\$ 16,235

Share capital transactions during the year were as follows:

<i>As at July 31</i>	2024		2023	
	SHARES	AMOUNT	SHARES	AMOUNT
Outstanding, beginning of year	5,687,013	\$ 16,436	5,780,350	\$ 16,332
Transactions during year	(123,600)	(201)	(93,337)	104
Outstanding, end of year	5,563,413	\$ 16,235	5,687,013	\$ 16,436

During the year, the Company repurchased 155,300 shares for consideration of \$775. Total stock options of 31,700 were exercised during the fiscal year for consideration of \$158.

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, 2024 were exercised:

Common shares outstanding at July 31, 2024	5,563,413
Stock options (Note 12)	206,500
	<b>5,769,913</b>

## 10. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2024	2023
Balance, beginning of year	\$ 1,270	\$ 1,769
Amounts in respect of exercised stock options	(66)	(35)
Amounts in respect of the share-based compensation	53	104
Amounts in respect of share repurchases	(418)	(568)
Balance, end of year	\$ 839	\$ 1,270

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2024 was based on the net loss attributable to common shareholders of (\$3,894) (2023 – net income of \$1,322) and a weighted average number of common shares outstanding of 5,594,488 calculated as follows:

	2024		2023	
<b>Basic earnings per share:</b>				
Net (loss) income	\$	(3,894)	\$	1,322
Average number of common shares outstanding during the year		5,594,488		5,720,069
Basic earnings per share	\$	(0.70)	\$	0.23
<b>Diluted earnings per share:</b>				
Net (loss) income attributable to common shareholders	\$	(3,894)	\$	1,322
Average number of common shares outstanding during the year		5,594,488		5,720,069
'In the money' stock options outstanding during the year		206,500		220,800
		5,800,988		5,940,869
Diluted earnings per share	\$	(0.67)	\$	0.22

## 12. 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.

During the year, the Company granted an additional 110,000 options to employees and directors (2023 – 70,000). During the year, 31,700 options (2023 – 21,500) were exercised by employees and directors.

As at July 31, 2024, the following options were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY
105,500	\$ 2.80	2026
10,000	\$ 4.59	2027
10,000	\$ 4.90	2027
60,000	\$ 4.65	2028
70,000	\$ 4.80	2029
25,000	\$ 4.70	2029
15,000	\$ 4.55	2029

The weighted average of the options is as follows:

<i>As at July 31</i>	2024		2023	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	256,800	\$ 3.41	230,800	\$ 3.12
Expired during the year	(39,600)	2.90	-	-
Issued during the year	110,000	4.74	70,000	4.65
Exercised during the year	(31,700)	2.90	(21,500)	3.14
Cancelled during the year	-	-	(22,500)	4.57
Outstanding at end of year	295,500	\$ 4.03	256,800	\$ 3.41
Exercisable at the end of the year	206,500	\$ 3.73	220,800	\$ 3.21

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:

	2024	2023
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60-month historical average	30.34%	31.80%
Risk free rate of return	1.44%	1.62%
Expected forfeiture rate	0%	0%
Total compensation cost recognized in income for stock-based employee compensation awards	\$ 53	\$ 104

### 13. 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 up to a maximum of 2.5% of base salary. Company contributions under the plan will match 100% of the employee contributions. During the year, the Company expensed contributions of \$355 (2023 – \$425) to the defined contribution plan in 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.

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 of:

	2024	2023
Salaries and cash bonuses	\$ 1,065	\$ 990
Short-term employment benefits	43	33
Post-employment benefits	22	25
	\$ 1,130	\$ 1,048

#### KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS

Directors of the Company control 5.30% of the voting shares of the Company (2023 – 4.90%). Individuals related to a director own, directly or indirectly, 69.31% of the voting shares of the Company (2023 – 67.80%).

#### 14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2024	2023
Accounts receivable	\$ (3,628)	\$ 2,971
Work-in-progress	4,669	(1,008)
Prepaid expenses and other current assets	364	(329)
Accounts payable and accrued liabilities	(1,268)	(2,655)
Unearned revenue on work-in-progress	(354)	(38)
	\$ (217)	\$ (1,059)

#### 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

<i>As at July 31</i>	2024	2023
Accounts payable	\$ 846	\$ 1,996
Accrued liabilities	2,049	2,167
	\$ 2,895	\$ 4,163

#### 16. CONTINGENCIES & COMMITMENTS

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

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

## SUMMARY OF INCOME

Year Ended July 31 (in 000's, except for per share data)	2024	2023	2022	2021	2020
Sales	\$44,277	\$ 46,751	\$ 53,884	\$ 39,196	\$ 40,226
Costs and expenses					
Cost of sales	35,450	35,746	41,788	31,251	32,116
Depreciation	3,976	3,918	3,370	3,120	3,668
	39,426	39,664	45,158	34,371	35,784
Gross profit	4,851	7,087	8,726	4,825	4,442
Selling and administrative	5,758	5,831	6,399	5,405	5,096
(Loss) income before the following items	(907)	1,256	2,327	(580)	(654)
Foreign exchange (gain) loss	(130)	(62)	(325)	797	169
Other expense (income)	49	(108)	(346)	(2,526)	(2,518)
Loss on sale of capital assets	120	65	35	75	95
Interest on long-term debt and leases	479	462	382	349	368
Interest income, net	(205)	(238)	(28)	(10)	15
	313	119	(282)	(1,315)	(1,871)
(Loss) income before income taxes	(1,220)	1,137	2,609	735	1,217
Income tax provision					
Deferred expense (recovery)	2,674	(185)	488	(129)	454
	2,674	(185)	488	(129)	454
Net (loss) income and comprehensive (loss) income	\$ (3,894)	\$ 1,322	\$ 2,121	\$ 864	\$ 763
Earnings per common share					
Basic	\$ (0.70)	\$ 0.23	\$ 0.36	\$ 0.14	\$ 0.12

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

Year Ended July 31	2024	2023	2022	2021	2020
Costs and expenses					
Cost of sales	80.1%	76.5%	77.6%	79.7%	79.8%
Depreciation	9.0%	8.4%	6.3%	7.9%	9.1%
Selling and administrative	13.0%	12.5%	11.9%	13.8%	12.7%
	102.0%	97.4%	95.8%	101.4%	101.6%
Gross profit	11.0%	15.2%	16.2%	12.3%	11.1%
Return on sales	-8.8%	2.8%	3.9%	2.2%	1.9%
Effective tax rate	219.18%	-16.3%	18.5%	-17.6%	37.3%



## DIRECTORS AND OFFICERS

### **Diane Reko**

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

### **Kim Marks, CPA, CA**

Chief Financial Officer and an Officer

### **Peter Gobel**

President, Concorde Precision Machining Inc.  
and an Officer

### **Greg Yzerman**

President, Reko Automation Group Inc.  
and an Officer

**Dr. Andrew J. Szonyi, Ph.D., PEng., MBA, GPLLM**  
Lead Independent Director, Chair of the Audit  
Committee and member of the Compensation  
Committee (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)

### **Roy Verstraete**

Director, Chair of the Compensation  
Committee and member of the  
Audit Committee

## INVESTOR RELATIONS CONTACT

### **Diane Reko**

Chief Executive Officer

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Lakeshore, Ontario N8N 4W2

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[irelations@rekointl.com](mailto:irelations@rekointl.com)

## ANNUAL MEETING

December 5, 2024

2:00 p.m. Eastern Time (US and Canada)

### **Reko International Group Inc**

469 Silver Creek Industrial Drive  
Lakeshore, Ontario N8N 4W2

## LISTING

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

Tel: (587) 885-0960

Toll Free: 1-888-290-1175

(within North America)

## CORPORATE DIRECTORY

### **Corporate Office**

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Windsor, Ontario

**Comerica Bank**  
Detroit, Michigan

## COUNSEL

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