



Expanding Foundations

2024 Annual Report



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Transforming Horizons





CHIEF EXECUTIVE OFFICER MESSAGE

REFLECTING ON A YEAR OF CHALLENGES AND PROGRESS

As we close the books on this fiscal year, it's clear that we've faced a range of significant challenges. Irregular sales awards due to unpredictable market conditions have tested our resilience and strategy. Yet, as we look back, it's important to recognize not just the obstacles, but also the notable strides we've made in product innovation, productivity, and new market expansion. These efforts are akin to the sacrifices made during rigorous training or dieting —painful in the short term but crucial for long-term success.

Imagine embarking on a demanding fitness regimen, one that pushes your limits and requires discipline. At the outset, the scale may not reflect the sweat and effort invested. The muscles ache, and the results seem distant. But with each passing day, despite the slow progress, you're building a stronger foundation. This period of hardship and sacrifice is essential for achieving the transformation you seek.

This fiscal year has been our training ground. The market conditions have been tough, and our sales figures haven't met expectations. It's as if we've been running uphill against a strong headwind. Every strategy we've employed to address these market challenges has felt like an extra mile on a grueling run. However, while immediate results haven't been as visible, the real progress lies in the groundwork we've laid for future success.



Diane Reko
Chief Executive Officer



EXPANSION INTO NEW MARKETS: THE STRATEGIC DIVERSIFICATION

One part of our transformation effort has been our expansion into new markets. Entering unfamiliar territories can be likened to exploring new fitness techniques. Initially, there might be uncertainty and a steep learning curve, but these efforts diversify our capabilities and open new avenues for growth. Just as diversifying your workout routine can prevent plateaus and spur new progress, entering new markets broadens our reach and potential.

We've carefully selected new markets that align with our strengths and strategic vision. This move is part of a broader strategy to reduce our dependency on current market conditions and tap into emerging opportunities. While we're still in the early stages of this expansion, the groundwork we've laid will be critical as these markets mature and contribute to our revenue streams. The initial investments and learning processes are akin to the initial challenges faced when trying a new exercise routine—challenging but necessary for future success.

PRODUCT INNOVATION: THE NEW TRAINING REGIMEN

One of our key achievements this year has been our focus on product innovation. Just as a new training regimen is tailored to target specific weaknesses and build strength, our product development efforts have been designed to address market demands and future trends. As an example, we have entered into a joint venture within our partner's industry, an area where we have had no previous involvement. Our partner chose Reko as the designer and creator of unique automation which will improve both productivity and safety. The prototype has been designed and built and is currently in the on-site testing phase.

We've invested time and resources into refining our offerings and incorporating cutting-edge technology. These advancements are akin to the carefully calculated changes in diet and exercise that gradually build endurance and strength.

For instance, our latest product innovation, designed and prototyped amidst these challenging times, has received positive feedback for its enhanced features and anticipated user experience. This represents our commitment to staying ahead of the curve and meeting evolving customer needs. While the market response is yet to be determined, this innovation positions us strongly to solve a persistent customer problem. Just as a rigorous fitness regime eventually yields visible results, our product innovations are set to bear fruit in the coming quarters.



PRODUCTIVITY IMPROVEMENTS: THE STRENGTH BUILDING PHASE

In tandem with product development, we've focused on enhancing productivity across our operations. Think of this as the strength-building phase of our fitness journey. Improving productivity often involves refining processes, investing in new tools, and optimizing team workflows. It's the behind-the-scenes work that isn't always immediately noticeable but is crucial for long-term gains.

This year, we've streamlined our internal processes, adopted more efficient technologies, and restructured teams to better align with our strategic goals. These changes are like the incremental weightlifting that builds muscle strength—each small improvement contributes to our overall capacity and efficiency. By making these enhancements now, we are better prepared to scale our operations and respond to market demands swiftly when conditions turn favourable.

LOOKING AHEAD: THE EXPECTED RESULTS

As we reflect on this fiscal year, it's important to remember that our efforts, though not immediately rewarding, have set the stage for future improvement. The sacrifices and hard work we've invested in product innovation, productivity enhancements, and market expansion are similar to the rigorous training that yields results in the long run. While the scale might not show dramatic changes today, the strength and endurance we're building will become evident as market conditions shift.

The coming year holds promise. The foundation we've established through our innovations and strategic moves will enable us to capitalize on opportunities as they arise. Just as a committed fitness regimen eventually leads to a healthier, stronger self, our ongoing efforts will lead to improved performance and growth.

In closing, let's embrace the lessons of this year and carry forward the determination and resilience we've developed. The road has been challenging, but our commitment to progress and excellence will drive us toward a more successful future. Together, we've laid the groundwork for a stronger, more competitive position in the market. Let's look forward with confidence and continue to build on the progress we've made.

I would like to extend my heartfelt thanks to our dedicated employees, whose hard work and commitment have been instrumental in our achievements. To our shareholders, customers, vendors, advisors, and fellow board members your trust and support are invaluable, and we are committed to delivering sustained value and performance.





Reaching New Heights





Strengthening
our Core

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of operations and financial position ("MD&A") and should be read in conjunction with the audited consolidated financial statements for the year ended July 31, 2024 and the audited consolidated financial statements and MD&A for the years ended July 31, 2023 and July 31, 2022 included in our 2023 Annual Report to Shareholders. The audited consolidated financial statements for the years ended July 31, 2024 and July 31, 2023 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). Reko's Chief Executive Officer and Chief Financial Officer have signed a statement outlining management's responsibility for financial information in the annual consolidated financial statements and MD&A. The statement, which can be found on page 27, also explains the roles of the Audit Committee and Board of Directors in respect of that financial information. When we use the terms "we", "us", "our", "Reko", or "Company", we are referring to Reko International Group Inc. and its subsidiaries.

This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. We use words such as "anticipate," "plan", "may", "will", "should", "expect", "believe", "estimate" and similar expressions to identify forward-looking information and statements. Such forward-looking information and statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be relevant and appropriate in the circumstances. Readers are cautioned not to place undue reliance on forward-looking information and statements, as there can be no assurance that the assumptions, plans, intentions or expectations upon which such statements are based will occur. Forward-looking information and statements are subject to known and unknown risks, uncertainties, assumptions and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed, implied or anticipated by such information and statements. These risks are described in the Company's MD&A and, from time to time, in other reports and filings made by the Company with securities regulators.

While the Company believes that the expectations expressed by such forward-looking information and statements are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors, which could cause actual results or events to differ materially from those indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company disclaims any obligations to update publicly or otherwise revise any such factors of any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

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

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

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

This MD&A is current to October 10, 2024

OVERVIEW

Reko International Group Inc. is a diversified, technology-driven manufacturing organization. Our mission is to be a pillar and protector of the North American manufacturing industry. We provide support to manufacturers and producers as their “go-to” supplier in automation equipment and machining services so that they can be more successful.

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 and into a number of sectors including aerospace, rail, power generation, offsite construction, infrastructure and capital equipment.

For the transportation and power generation 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 plastic punch and weld assembly equipment; 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.

Our operations are carried out in three manufacturing plants located on adjacent parcels of land in Lakeshore, Ontario - a suburb of the City of Windsor in Southwestern Ontario.



SUMMARY OF RESULTS

Fiscal 2024 was challenging, with underperformance in top-line sales due to ongoing instability in the automotive sector. This volatility affected key customer awards and led to underutilized capacity in certain areas of our operations. Our relatively fixed cost structure made it difficult to consistently manage these sales variations effectively. Additionally, fixed-price projects that kicked off late in the fourth quarter of Fiscal 2023 proved more complex than expected, putting further pressure on margins compared to the previous year.

Delays in executing our more selective go-to-market strategy were partially driven by uncertainty surrounding upcoming elections in Canada and the United States, as well as broader economic conditions. Efforts to shift a portion of our operating capacity toward non-automotive sectors have also been slower to generate meaningful results than expected. However, the time and resources invested thus far are anticipated to positively impact financial performance in the coming fiscal year.

In addition to challenging operating results, and due to shifting strategic priorities and evolving market conditions, the Company has derecognized certain deferred tax assets as it is not more likely than not that they will be realized before expiry. These derecognized assets may be reinstated in future periods when greater certainty around their realizability is achieved.

Our balance sheet remains strong, with no new debt added during this fiscal year, low leverage, and good liquidity. This positions us to navigate near-term challenges while pursuing long-term sustainable growth.





Amplifying
our Strengths

RECONCILIATION OF NON-IFRS ACCOUNTING STANDARDS MEASURES

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

	2024	2023
Sales	\$ 44,277	\$ 46,751
Less: Materials	10,532	10,577
Sub-contracting	3,620	4,033
Earned revenue	\$ 30,125	\$ 32,141

RESULTS OF OPERATIONS

SALES

Sales for the year ended July 31, 2024 decreased by 5.3%, or \$2,474, to \$44,277 compared to the prior year. The reduction in sales was primarily attributed to lower volumes in certain sectors and delays in program kickoffs primarily in the automotive sector.

The Company remains focused on stabilizing sales through targeted initiatives while also actively pursuing growth in alternative sectors including offsite construction and infrastructure where rising demand coupled with Reko's capabilities presents significant opportunity for long-term success and market expansion.

Foreign exchange fluctuations continue to affect sales and are an inherent risk when doing business in other currencies. Overall, the fluctuation and increase in foreign exchange for the U.S. dollar sales had a positive impact in the fiscal year.

EARNED REVENUE

Earned revenue is a non-standard IFRS measurement. The Company's explanation of how it measures earned revenue is noted previously. Earned revenue effectively measures that portion of total revenue available to cover the Company's labour expenses and compensation for employees, fixed and operating costs, and to earn a profit and is considered to be an effective measurement of performance.

For 2024, earned revenue decreased by 6.3%, or \$2,016, to \$30,125 compared to earned revenue of \$32,141 in 2023 driven by unfavourable sales performance when compared to the prior year.

GROSS PROFIT

Gross profit for fiscal 2024 decreased \$2,236 to \$4,851 or 11.0% of sales, compared to 15.2% of sales in 2023. The gross margin was impacted by a decline in sales volume during the second half of the year while fixed labor costs remained relatively constant. Certain fixed-price automotive projects encountered unforeseen challenges, leading to lower-than-expected margins. Moreover, persistent pressures stemming from a tight skilled labour market have driven up labour costs including recruitment expenses, while efficiency losses during new employee training continue to impact overall profitability.

To improve margins, the Company has refined its estimating and project management processes to better anticipate and mitigate unforeseen risks on fixed-price projects. In addition, automation and process improvements are being explored to alleviate pressure on labour costs. The Company is also continuing to streamline recruitment and training programs to enhance workforce efficiency and reduce the time required for new hires to reach full productivity.

SELLING AND ADMINISTRATION

Selling and administration expenses during 2024 decreased to \$5,758, or 13.0% of sales, compared to \$5,831, or 12.5% of sales during 2023. Net labour related costs including variable compensation and commissions is favourable to fiscal 2023 by \$359, partly offset by investments made in non-recurring business development and marketing costs not applicable in the prior year.

EARNINGS OVERVIEW

In line with our updated business strategy, we have recorded an adjustment to the value of our deferred tax assets by \$4,282 which resulted in a tax effected provision of \$3,160, or a loss of (\$0.55) per share, primarily related to our Tooling division which was closed in 2022. The anticipated realization of these assets, initially planned through various strategic initiatives including potential acquisitions, has been delayed due to shifts in our strategy and evolving market conditions. We will recognize the benefits of these tax assets once their realization becomes more certain.

Fourth quarter net loss was (\$3,459), or (\$0.62) per share, compared to \$80, or \$0.01 per share, in the final quarter of fiscal 2023. Fourth quarter loss, before the tax effected impact of the adjustment to deferred tax assets, was a loss of (\$0.07) per share.

Net income, including the tax effected impact of the adjustment to deferred tax assets, for the year ended July 31, 2024 was (\$3,894), or (\$0.70) per share, compared to net income of \$1,322, or \$0.23 per share, for the year ended July 31, 2023.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided from operations was \$3,244, compared to \$4,474 in the prior year, largely reflecting a decrease in net income and increase in non-cash working capital primarily from accounts receivable which fluctuates based on customer terms, project specific milestones and status of projects as at the reporting date and a decline in work-in-progress which is driven by lower sales volumes in the second half of fiscal 2024.

The Company met its financial covenants at all times during the year. The Company's financial covenants are calculated on a trailing twelve-month basis. Continued customer delays or other market disruptions, combined with prior year results, may affect compliance at certain measurement dates during the next fiscal year. However, the Company expects to remain cash positive, requiring no draws against the revolver throughout that period.

During the year the Company entered into an amended credit agreement which converted a mortgage payable of \$2,925 from a demand facility to a non-revolving committed real estate facility.

CAPITAL ASSETS AND INVESTMENT SPENDING

For the year ended July 31, 2024, the Company invested \$2,227 in capital assets.

CASH RESOURCES/WORKING CAPITAL REQUIREMENTS

As at July 31, 2024, Reko had cash on hand of \$11,434 compared to \$12,139 at July 31, 2023 and \$7,599 at April 30, 2024.

Reko has a \$20,000 demand revolving facility available. However, based on our current lender defined margining capabilities, our borrowings are limited to \$14,006, all of which was unused and available at the end of the year.

The Company also has an equipment facility available up to a maximum of \$1,500 to finance investments in machinery and equipment. There were no borrowings against this facility as at year end.

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	\$ 10,959	\$ 1,565	\$ 2,978	\$ 2,368	\$ 4,048
Lease liabilities	29	9	18	2	-
Total contractual obligations	\$ 10,988	\$ 1,574	\$ 2,996	\$ 2,370	\$ 4,048

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

The Company does not maintain any off-balance sheet financing.

SHARE CAPITAL

The Company had 5,563,413 common shares outstanding at July 31, 2024. A total of 295,500 options are outstanding as at year end.

Outstanding share data

DESIGNATION OF SECURITY	NUMBER OUTSTANDING	MAXIMUM NUMBER ISSUABLE IF CONVERTIBLE, EXERCISABLE OR EXCHANGEABLE FOR COMMON SHARES
Common Shares	5,563,413	
Stock options exercisable	206,500	
Total (maximum) number of common shares		5,769,913

Driving Innovation



QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the fourth quarter of fiscal 2024, ended July 31, 2024. The information has been derived from the Company's unaudited condensed consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained elsewhere in the Annual Report for the year ended July 31, 2024, 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.

F2023		Oct/22	Jan/23	Apr/23	Jul/23
Sales		\$ 13,796	\$ 11,666	\$ 10,307	\$ 10,982
Net income		704	483	55	80
Earnings per share:	Basic	0.13	0.08	0.01	0.01
	Diluted	0.12	0.08	0.01	0.01
F2024		Oct/23	Jan/24	Apr/24	Jul/24
Sales		\$ 13,703	\$ 11,948	\$ 9,606	\$ 9,019
Net income (loss)		312	102	(849)	(3,459)
Earnings per share:	Basic	0.05	0.02	(0.15)	(0.62)
	Diluted	0.05	0.02	(0.15)	(0.59)

INDUSTRY TRENDS AND RISKS

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

The following additional risk factors, as well as the other information contained in this MD&A, for the year ended July 31, 2024 or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements related to the Company.

OPERATIONAL RISK

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 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 artificial intelligence, the Internet of Things, integration of additive manufacturing capabilities into our processes and the transition to electric and autonomous vehicles. If there is a movement away from the use of specific technologies that the Company is focused on developing or someone applies these technologies more quickly or effectively, our costs may not be fully recovered. In addition, if other technologies in which our investment is not as great, or our expertise is not as fully developed emerge as the industry-leading technologies, we may be placed at a competitive disadvantage, which could have a material adverse effect on our profitability and financial condition. Management pays particular attention to the emergence of new technologies and updates our investments in these emerging technologies accordingly.

DIVERSIFICATION OF OUR SALES

While we have diversified our customer base in recent years, and continue to attempt to further diversify, we may experience varying degrees of success. The inability to successfully increase our sales to non-traditional customers or the speed upon which we can successfully do so could have an adverse effect on our profitability and financial condition.

CHALLENGES SUCCESSFULLY COMPETING AGAINST SUPPLIERS WITH OPERATIONS IN DEVELOPING MARKETS

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

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

The global automotive industry is cyclical and largely tied to general economic conditions. As our customers revisit their business models and make design changes to existing models and new vehicle introductions, the market for factory

automation may decline. Management believes that their diversification strategy, focused on reducing reliance on the automotive industry, will help moderate the impact of potential declines.

CHANGES IN CONSUMER DEMAND FOR SPECIFIC VEHICLES INCLUDING ELECTRIC VEHICLES

The global automotive industry is cyclical and consumer demand for automobiles is sensitive to changes in economic and political conditions, including interest rates, energy prices, employment levels, and international conflicts, including acts of terrorism. Automotive production and, more importantly for Reko, the frequency of automotive model changes, is affected by consumer demand and may be impacted by macro-economic factors.

The market for electric vehicles (“EV”) remains volatile with anticipated short-term softening of demand. While a small proportion of Reko’s overall sales are derived from programs directly tied to EV production, prolonged softening may affect vehicle production volumes. This, in turn, may influence the financial stability of our Tier customers, subsequently affecting the timing of new contract awards, project margins and the financial terms offered.

As a result of these and other factors, some of our customers are currently experiencing, and/or may experience in the future, reduced OEM demand for the parts and subassemblies that they supply due to lower consumer demand. Continued lower consumer demand could lead to model and project delays and cancellations by our customers.

RELIANCE ON KEY PERSONNEL AND SUCCESSFULLY RECRUITING TALENT IN CRITICAL AREAS

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

SHORTAGE OF SKILLED LABOUR IN THE MANUFACTURING SECTOR

The manufacturing sector is currently facing a significant shortage of skilled labour which has intensified competition for qualified workers, necessitating strategic investments in recruitment and retention efforts which have also adversely impacted the cost of labour. Reko is increasingly focused on upskilling, reskilling and other initiatives to bridge the skills gap and ensure that our operations remain efficient and competitive.

THE SECURITY OF OUR INFORMATION TECHNOLOGY (IT) SYSTEM

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

FINANCIAL AND CAPITAL MANAGEMENT RISK

CONTINUED UNCERTAIN ECONOMIC CONDITIONS

Geopolitical tensions following Russia's invasion of the Ukraine and the escalating war between Israel and Hamas in Gaza could lead to prolonged market disruptions, volatility in commodity prices and other supply chain interruptions. Given that the majority of the markets we supply to and purchase from are primarily North American based, we currently believe our exposure to this conflict to be insignificant. However, the duration of and extent of such conflicts remain unpredictable.

ELECTION IMPACT ON CAPITAL DECISION MAKING

The upcoming U.S. and Canadian elections introduce a level of uncertainty into the business environment, particularly concerning our customers' capital allocation and strategic direction. The unpredictability surrounding post-election policies and initiatives could lead to delays in investments across key sectors and markets we serve. Additionally, the elections have the potential to induce market instability and broader economic volatility, which could adversely impact our financial performance and operational stability.

PRICING PRESSURES AND PRESSURES TO ABSORB ADDITIONAL COSTS

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

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

FOREIGN EXCHANGE AND OTHER FINANCIAL INSTRUMENTS

Reko is exposed to the impacts of changes in the foreign exchange rate between Canadian and United States (“US”) dollars. More specifically, between 60% and 70% of the Company’s sales and 20% of its costs are incurred in US dollars. In addition, the Company maintains certain working capital balances in US funds.

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

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

FISCAL PERIOD	TOTAL U.S. EXPOSURE BEFORE HEDGING PROGRAM	FORWARD FOREIGN EXCHANGE CONTRACTS BOOKED	NET EXPOSURE TO THE U.S. DOLLAR
Q4 - 2024	\$ 5,010	\$ 6,000	\$ (990)
Q3 - 2024	\$ 8,158	\$ 6,000	\$ 2,158
Q2 - 2024	\$ 9,847	\$ 7,000	\$ 2,847
Q1 - 2024	\$ 10,250	\$ 11,500	\$ (1,250)

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

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

	FOR THE THREE MONTHS ENDED JULY 31				FOR THE YEAR ENDED JULY 31			
	2024		2023		2024		2023	
	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE	ACTUAL	REKO EFFECTIVE RATE
US Dollar equals Canadian Dollar	1.3689	1.3390	1.3359	1.3513	1.3587	1.3498	1.3415	1.3425

The Company's FFECs represent agreements with an intermediary to trade a specific amount of US dollars for Canadian dollars at a specific rate on a specific date. Currently, the date is between one (1) and six (6) months after the date on which the FFEC is booked. The specific rate entered into is not necessarily indicative of what either the intermediary or Reko believes the foreign exchange rate will be on the date the settlement of the trade occurs, rather it is a rate set by the intermediary which Reko can either accept or reject. At the end of fiscal 2024, there were no forward contracts held compared to \$1,000 at the end of fiscal 2023.

Additionally, the Company uses structured FX options that provide the right but not the obligation to exchange \$USD for \$CAD at predetermined rates on specified future dates. At July 31, 2024 the Company held options up to \$6,000 at rates between 1.3650 and 1.3925.

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

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

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



NORMAL COURSE ISSUER BID

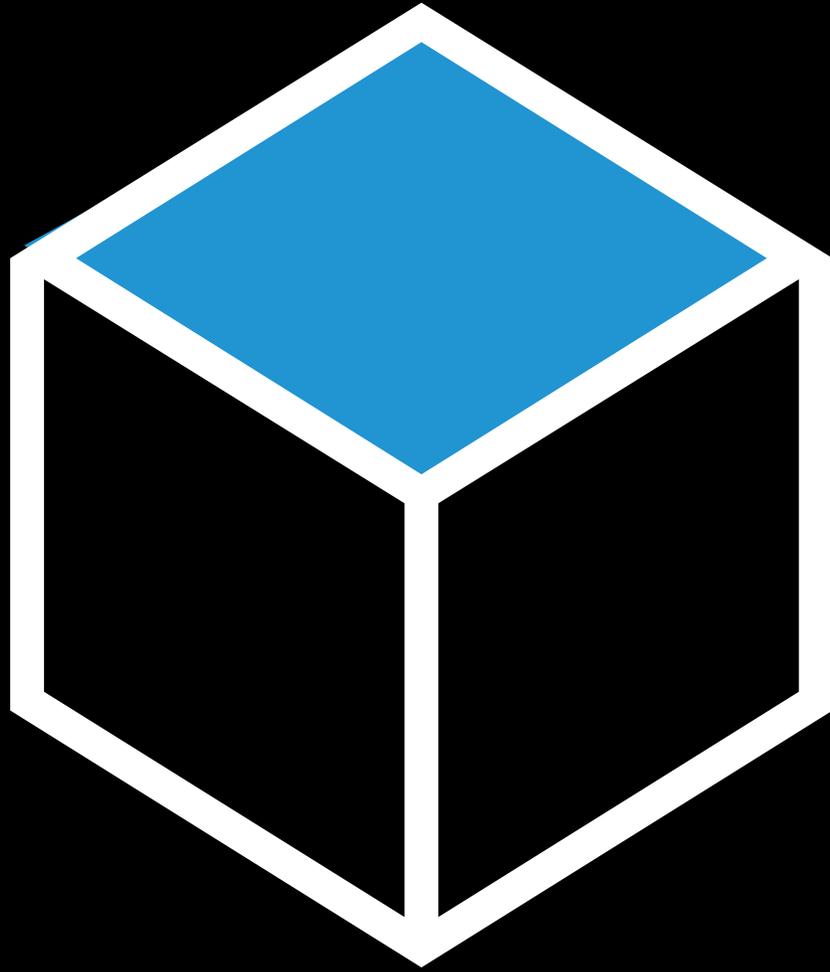
On January 5, 2023, the Company announced the approval of a normal course issuer bid to purchase up to 286,420 of its outstanding common shares on the TSX Venture Exchange during the twelve-month period which expired on January 8, 2024. A total of 215,700 shares were purchased under this bid, of which 155,300 was purchased during fiscal 2024.

On January 5, 2024, the Company announced the approval of another normal course issuer bid to purchase up to 278,170 of its outstanding common shares on the TSX Venture Exchange during the twelve-month period commenced on January 9, 2024 and ending on January 8, 2025.

The 278,170 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.

No shares were purchased under this bid during the quarter ended July 31, 2024.





Platform for Growth

2024 Financial Statements



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>Evaluation of the estimated costs at completion for revenue recognition</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"> • Tested how management determined the estimated costs at completion for revenue recognition which included the following: <ul style="list-style-type: none"> • For a sample of revenue transactions: <ul style="list-style-type: none"> ○ Agreed key contractual terms to signed contracts, including contract amendments and correspondence with customers. ○ Agreed the costs of labour incurred to date to supporting payroll records and timesheets for a selection of cost items. ○ Agreed the costs of material to supporting documents for a selection of cost items. ○ 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"> • 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; • 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 • Considering supporting documents obtained from interviewing project managers. ○ Performed look-back procedures for a selection of contracts completed during the year to compare the originally estimated costs to actual costs.

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>	2024		2023	
ASSETS				
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
		30,103		32,356
Capital assets (Note 7)				
		25,855		28,137
Deferred income taxes (Note 4)				
		-		2,295
	\$	55,958	\$	62,788
LIABILITIES				
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
		4,804		9,065
Long-term debt and lease liabilities (Note 8)				
		9,394		7,816
Deferred income tax (Note 4)				
		379		-
		14,577		16,881
SHAREHOLDERS' EQUITY				
Share capital (Note 9)				
		16,235		16,436
Contributed surplus (Note 10)				
		839		1,270
Retained earnings				
		24,307		28,201
		41,381		45,907
	\$	55,958	\$	62,788

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
Balance at July 31, 2022	\$ 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
Balance at July 31, 2023	\$ 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)
Balance at July 31, 2024	\$ 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>	2024		2023
Sales	\$ 44,277	\$	46,751
Costs and expenses			
Cost of sales	35,450		35,746
Depreciation	3,976		3,918
	39,426		39,664
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)
	313		119
(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>	2024	2023
OPERATING ACTIVITIES		
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
	3,735	5,757
Net change in non-cash working capital (Note 14)	(217)	(1,059)
Interest paid	(274)	(224)
CASH PROVIDED BY OPERATING ACTIVITIES	3,244	4,474
FINANCING ACTIVITIES		
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)
CASH USED IN FINANCING ACTIVITIES	(2,135)	(3,262)
INVESTING ACTIVITIES		
Investment in capital assets	(2,227)	(3,437)
Proceeds on sale of capital assets	413	341
CASH USED IN INVESTING ACTIVITIES	(1,814)	(3,096)
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:

CLASSIFICATION	CLASSIFICATION UNDER IFRS 9
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)
Net debt	\$ (475)	\$ (76)
Shareholders' equity	\$ 41,381	\$ 45,907
Ratio	(0.01)	(0.00)

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
Cost						
Balance at July 31, 2022	\$ 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)
Balance at July 31, 2023	\$ 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)
Balance at July 31, 2024	\$ 661	\$ 14,922	\$ 61,218	\$ 869	\$ 234	\$ 77,904

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CONSTRUCTION	TOTAL
Depreciation						
Balance at July 31, 2022	\$ -	\$ 5,887	\$40,879	\$ 466	\$ -	\$ 47,232
Depreciation for the year	-	433	3,439	46	-	3,918
Disposals	-	-	(1,052)	-	-	(1,052)
Balance at July 31, 2023	\$ -	\$ 6,320	\$43,266	\$ 512	\$ -	\$ 50,098
Depreciation for the year	-	452	3,475	49	-	3,976
Disposals	-	-	(2,025)	-	-	(2,025)
Balance at July 31, 2024	\$ -	\$ 6,772	\$44,716	\$ 561	\$ -	\$ 52,049
Carrying value						
Balance at July 31, 2023	\$ 661	\$ 8,599	\$17,830	\$ 347	\$ 700	\$ 28,137
Balance at July 31, 2024	\$ 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
	10,959	12,063
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
Balance of obligation	\$ 10,959

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
	5,769,913

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	
Basic earnings per share:				
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
Diluted earnings per share:				
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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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)

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Toll Free: 1-888-290-1175

(within North America)

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