Management's Discussion and Analysis
For the Six months ended January 31, 2024

August 1, 2023 – January 31, 2024

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A. Introduction

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Rektron Group Group Inc. ("Rektron", the "Company", or the "Group") constitutes the management's review of factors that affected the Company's financial performance for the Six-month period ended on January 31, 2024 in comparison with data from the same period last year. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations, and should be read in conjunction with the condensed interim unaudited financial statements for the Six-month period ended on January 31, 2024 and with the IFRS Consolidated Annual Report of Rektron AQ Limited for the year ended on July 31, 2023. The Company's condensed interim unaudited financial statements for the six-month period ended on January 31, 2024 are prepared in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board ("IFRS") including comparative figures. Results are reported in US dollars.

B. Forward-Looking Statements

This report contains statements that are to be considered forward-looking statements. Such statements relate to future events or future economic performance of the Company and involve risks, uncertainties and other known and unknown factors that may appreciably affect the results, performance or achievements against this or implications Rektron statements. Actual events or results could differ. Forward-looking statements include words or phrases such as "anticipates", "believes", "plans" or other words or phrases suggesting future outcomes of the infringement. Rektron disclaims any intention and undertakes no obligation to update such statements unless otherwise required by law.

C. Description of Business

Rektron is the holding company and parent company of DL Hudson Ltd. ("DL Hudson"). DL Hudson is the trading arm of a group of companies, of which there are several subsidiaries that support the Group's global commodity trading operations. The holding company structure serves in managing the primary shareholder interests and ensuring efficient execution at the operational level. The business strategy of DL Hudson, headquartered in London, entails creating sustainable growth over the bottom-line through sustainable trading practices, adding value to clients whilst maintaining longstanding relations with both suppliers and clients. The core strength of the business lies in the adroitness and experience of the team, extensive geographical and product diversification, trading and logistical expertise, supported by robust financial and risk management. The team at Rektron and its subsidiaries are a syncretic group of energy and metals traders, City of London and Wall Street bankers as well as experienced experts in various fields of finance and operations. The trading expertise includes principal energy and metals products, particularly ferrous and nonferrous metals, ETCs, Recycled metals and crude and Euro VI compliant refined oil products. The Company transacts across all compliant markets.

The Company has presence in 10 countries and is organized in 2 business divisions:

1. METALS DIVISION

The metals division trades non-ferrous products (aluminium, copper, lead, nickel and zinc), Recycled metals (recycled copper, aluminium, lead and nickel) in particular as well as Primary and Recycled ferrous products. Additionally, the Company has a bulk product portfolio (concentrates, manganese, etc.). Trades are executed through the headquarters in London or through the local teams. The company is particularly strong in Asia and Europe.

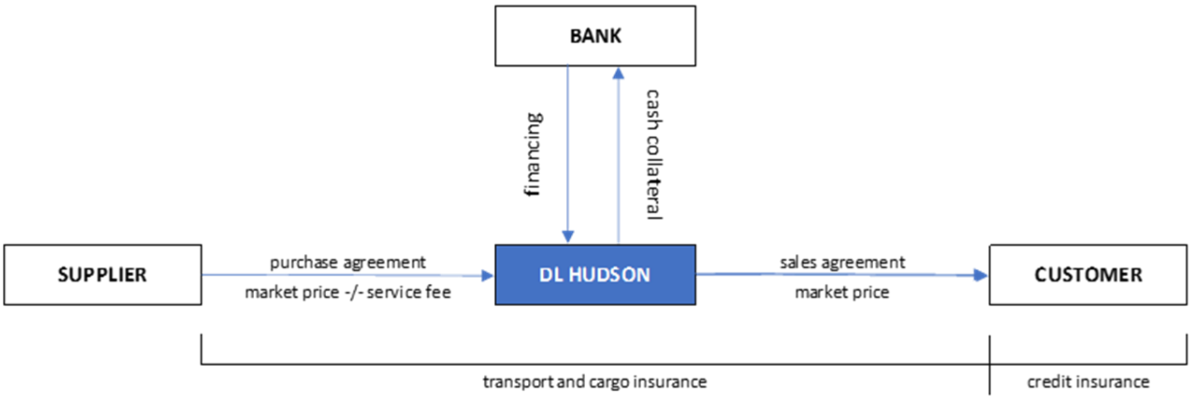
2. OIL DIVISION

The company is particularly operating in niche markets for EURO VI compliant fuel oil. This division is preparing itself for further expansion in the field of crude oil trading.

D. Business Model

1. General model

The following diagram outlines the business model demonstrating the operational steps and profit generation.



The process starts with our trader matching supply and demand for a specific product of a particular grade and quantity with a counterparty. In other words, when demand is established, the trader simultaneously locks in the supply side. As part of DL Hudson's risk policy, the traders are required to ensure both sides of the transaction are firm and secured.

The prices of commodities are denominated by market prices on exchanges such as the London Metal Exchange, Intercontinental Exchange or daily publication such as Platts. That means that the commodities can always be traded based on the quoted prices on these exchanges or publications. The prices quoted by suppliers are based on the printed prices on the exchanges or publications. These prices are usually on a per metric ton or per barrel basis. The supplier will quote DL Hudson the printed exchange price plus or minus a premium or discount along with the Incoterms. DL Hudson then adds its margin (service fee) based on the price and Incoterms offered to the buyer. For example, if DL Hudson conducts the transport and logistics, it takes the quoted price plus or minus the premium or discount, adds the transport cost calculated on a per metric or per barrel, hedging and finance cost and sells to the customer at a price accounting for the aforementioned costs.

The transport, logistics and storage (if applicable) are provided by the Group's network of third party providers.

Before DL Hudson commits to a trade, the Group requires its traders to prepare a detailed proposal that outlines the supplier, the buyer, underlying product and its specification, quantity, purchase price, purchase Incoterms, buyer incoterms, shipping and logistics costs (if required), hedge costs (if required), delivery dates, purchase date, breakdown of the pricing formula, finance cost, etc. Each proposal is supported by a pre-calculation that shows the expected margin to be made on the deal. This proposal is presented to the CEO, CIO and CFO of DL Hudson. Upon approval the trade is executed.

The trader then confirms the trade with the counterparties, and the trade details are sent to the operations team of the Group.

The operations team then liaises with the counterparties' back office to draft the sales contract and purchase contracts. These contracts are then reviewed by our in-house legal team and are sent to the management team for signoffs. Then, the margin (or service fee) is locked in. All contracts are prepared on the basis of Incoterms 2020 so that the transfer of risk in relation to the underlying material is clearly defined.

Upon signing of the contracts, the supplier sends an invoice. This invoice is presented to the bank (or similar finance institution) with whom DL Hudson has working capital facilities. These working capital facilities are based on frame-work contracts that are in place with the finance providers and these outline the type of transaction that can be placed along with the security(ies) required by the bank. The bank finances 100% of the purchase value, either by cash or by means of a Letter of Credit and takes the underlying material as a security. The bank also often requires a cash collateral of 10% to 20% by DL Hudson. Reference is made to section D.3. of this document to a further elaboration.

The Group has transport and cargo insurances in place and in accordance with the above-mentioned framework agreements where the bank or financial institution is assigned as loss payee on the policy.

Once the material is delivered to the customer, DL Hudson sends an invoice. At this stage, the covenants of the Letter of Credit applies and can be drawn down upon or in case of credit offered to the customer, it becomes a receivable. In case of an outstanding receivable, the bank and/or financing institution requires a credit insurance to be in place that covers the exposure. These banks and/or financing institutions are assigned to the policy as loss payee.

For that purpose, the CFO of DL Hudson in collaboration with the CEO and the traders of DL Hudson are in touch with credit insurance companies on a quarterly basis to ensure that adequate insurance policies and limits against customers are in place. Before a trade proposal is approved, the credit limit from the credit insurer is checked by DL Hudson's back office.

The operations team prepares the purchase and sales contracts, handle the purchase and sales invoices, negotiate the Letters of Credit, deal with the banks/financing institutions, take care of logistics, shipping in collaboration with agents or employees on the ground and are in charge of payment collections.

2. Services

DL Hudson is able to charge the above mentioned service fee as it provides services to its partners in the following fields:

Working capital

Through the instruments that are elaborated in section D.3. of this document, the Company is able to provide working capital to the supply chain of commodities. Suppliers could receive payment at an earlier stage in the supply chain and Customers could be provided extended payment terms on the sales invoices of DL Hudson. These solutions are subject to sufficient coverage from credit insurances and approval from our financing providers (i.e. banks, factoring companies, funds).

For example:

By purchasing at the port of discharge, the supplier does not need to finance the transport, customs, taxes, delivery and manage the logistics for the goods to be delivered to the end user. This is an advantage for the supplier as it indirectly provides them with working capital. This additional working capital enables the supplier to increase its activities.

When selling to the customer, the Group is able to deliver the materials at various points in the supply chain including delivery at the production or storage location of the customer (based on Incoterms 2020 as published by the International Chamber of Commerce and available on http://www.lccwbo.org). In addition, the Group can provide payment terms of up to 90 days. This gives the customer time to process the materials and even provide payment terms to their customer. That financial capacity gives the Group's customer the ability to increase its business activity.

Logistics solutions

The Group provides logistics solutions, by arranging the transport of the materials by sea and/or by land (DL Hudson has not yet transported materials by air) as well as storage and dispatch from storage facilities. These solutions are provided through third-party service providers such as forwarders, shipping and storage companies. Although the physical operation is outsourced, it does require time, coordination and meticulous management to monitor these operations. The operations team is instrumental in ensuring that the processes and paperwork are in order, as minor errors could have a cost. This activity is not only performed, but also financed by the Group. The Group collaborates with renowned parties that are well regarded in the industry.

Risk management

Risk management means the mitigation of price risks and currency risks. With regards to price risk, commodities are subject to frequent price fluctuations as they are exchange traded (such as the London Metal Exchange for Metals or Intercontinental Exchange for Energy) or their reliance on daily pricing mechanisms that are published in daily updates such as Platts. The Group has margin lines with brokers that execute futures and derivatives on behalf of DL Hudson to mitigate price risk. To be able to perform this activity, the Group tries to employ a specialized, qualified and dedicated trading team. Furthermore, not all companies qualify to have these lines or are not granted sufficient margin lines to transact in larger physical trades.

With regards to currency risk, the commodity prices are denominated in US Dollars. Suppliers that have operating costs in a different currency have an exposure to the fluctuation of the exchange rate between this local currency and the US Dollar. The same can apply to the buyer who may require the products to be sold to them in their local currency. The Group uses its brokerage lines to hedge these risks by trading currency, futures or derivatives.

Global network

Not all suppliers have access to customers in other countries or regions. The Group employs traders, which have relations with suppliers and customers across the globe. The trading business relies heavily on personal relationships that are developed over the years. The Group employs nine traders that are based in London UK, Geneva Switzerland, Dubai United Arab Emirates, Singapore, Thailand and China. These traders have international contacts and travel frequently to ensure that these relationships are maintained. These parties are in regular contact with our traders to understand the supply and demand along with the trends in the market they operate in. This regular contact with the suppliers and buyers provides the traders insight into the needs of the buyers and suppliers, which often evolve into opportunities to trade with them. The Group also has contacts with independent agents that offer deals to the traders. These agents are usually compensated on a commission basis for deals that are successfully completed and payment fully collected.

Some customers impose a registration, which means that the supplier is acceptable to selling to and/or buying from them, and large suppliers have a similar process to ensure that the buyers are competent and able to buy from them. These registrations are based on their internal criteria but with large companies, this process is onerous and time-consuming. A common criterion required by some customers is the ability of the Group to perform shipments and their financial strength. As mentioned, registration processes, particularly with major companies are lengthy and many companies do not qualify. This is perceived as an entry barrier in the market. The Group has registrations with various companies that are well regarded in both the energy commodities as the metals hemisphere.

3. Working Capital

The Company utilizes a variety of facilities that are made available by various banks and similar institutions. These facilities include letter of credit lines, transactional lines, bill of lading financing, receivables financing and warrants purchase financing.

- **Letter of Credit Lines**: Letter of credit lines are usually utilised for the energy trading business where a buyer would be required to issue a documentary letter of credit to DL Hudson. The financing institution would, in turn, use this letter of credit from the client to issue a letter of credit to DL Hudson's supplier. This is generally termed as a back-to-back letter of credit transaction. Furthermore, there are two types of letters of credit : stand-by letters of credit and documentary letters of credit. Stand-by letters of credit are a bank's unconditional commitment to pay, while documentary letters of credit are conditional on the approval of cargo documents, inspection reports, etc. In our energy business, we only operate with documentary letter of credit, as that ensures that all documents are in order and inspected which massively reduces the risk of releasing payment for products that may not meet the specifications required.
- **Transactional Lines**: In transactional lines, the financier assumes the direct risk of DL Hudson's buyer. In particular, when the buyer is a large, reputed company, or state-owned or has a good credit rating, the financier would issue a letter of credit to DL Hudson's supplier without any security from the buyer. The contract between the reputed buyer and DL Hudson is sufficient for the financing party.
- **Bill of Lading Financing**: This is usually a working capital solution for metals trading. DL Hudson generally pays the supplier for the product at the loading port, and, against payment, the supplier provides DL Hudson the cargo documents including the bill of lading document, which is a document that describes what is being shipped, how much of it there is and where it is going. DL Hudson then transports the product to the destination port which could take 15 to 60 days depending on the location. In the case of bill of lading financing, the financing institution provides funds against the bill of lading document saving DL Hudson for waiting for the voyage to be complete to receive the payment from the buyer.
- **Receivables Financing**: This is generally used for the metals business. DL Hudson provides credit to a maximum of 90 days. The credit is contingent on getting insurance coverage on the buyer, and if insurance limits are provided, DL Hudson would sell to clients on credit. A receivables financier would provide cash against these credit insured receivables.
- **Warrant Purchase Financing**: Metals traded on the London Metals Exchange ("**LME**") are traded as warrants. DL Hudson, through its brokers, buys warrants at certain geographical locations. These warrants are then converted to warehouse receipts at which point DL Hudson is in control of the physical product while the title of the product is still held by the financier as security. The --metals are then shipped to the end buyer. A warrant financier would finance the purchase of the warrant to the point where they are converted to warehouse receipts, the transport and until it arrives at the destination warehouse. The buyer would then pay for the goods for the financier to authorize the release of the product to them.

Often, the banks or financial institutions that provide these facilities require 10-20% cash collateral. In general the facilities are structured through frame work agreements in which specific transactions are pre-approved, but require a validation on a case-by-case basis in order to ensure that the latest information on the industry and the particular parties involved in the presented transaction will not lead to any complications in the transaction. The Group also has a network of relationships that include financing institutions that do not provide framework agreements, but could finance deal on a case-by-case basis.

E. Highlights

The Group has shown strong growth in the first six months of its financial year 2024 as revenues increased by 50.0% compared to first six months of financial year 2023, leading to an increase in Gross Profit of USD 4.7 million. This growth is mainly attributed in a higher volume of traded commodities and mainly metals. The Gross Profit decreased to 1.2% compared to 1.3% in 2023. This change is mainly the effect of a different product mix.

Compared to July 31, 2023, the group equity increased from USD 108 million to USD 116.9 million, and the solvency rate decreased from 43% to 41%. This is the result of the increase in self-liquidating debt that is related to the increased trading activity.

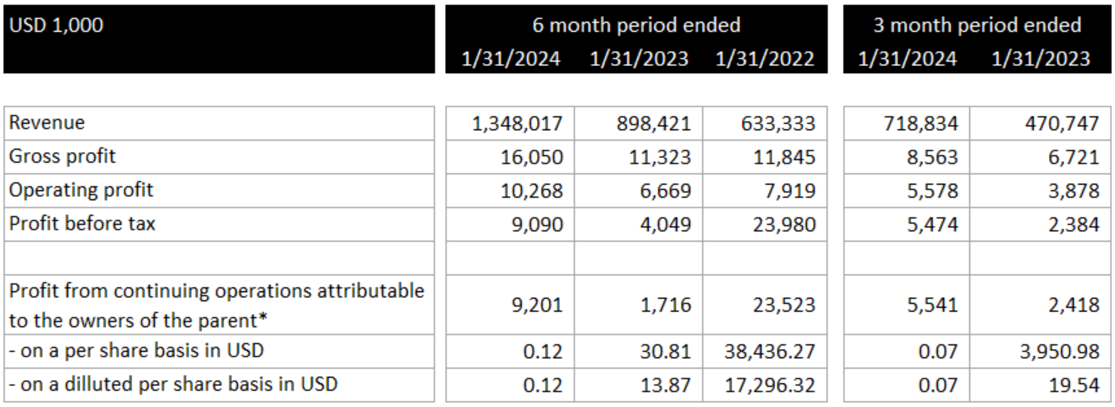
Earned profits are utilized in the operation, leading to an increase in working capital from USD 72.5 million to USD 81.9 million and a stable cash position of USD 9.1 million.

No exceptional events occurred during the reporting period.

The Group is preparing an initial public offering on a recognized Securities Exchange in Canada in the first half of the calendar year 2024. For this purpose, the Shareholders incorporated Rektron Group Inc. (“RGI”) on March 22, 2023, as a British Columbia company. The shareholders re-organized their holdings in 2023 and completed a Share Exchange Agreement whereby all the shares of Rektron AQ Ltd. were exchanged for shares in RGI. Prior to the transaction Rektron had over USD 20 million in paid up capital and over USD 90 million in shareholder equity. The capital raised as part of the IPO will be in the form of a new share issuance and will be used for the operational growth of the business.

F. Selected Quarterly Information

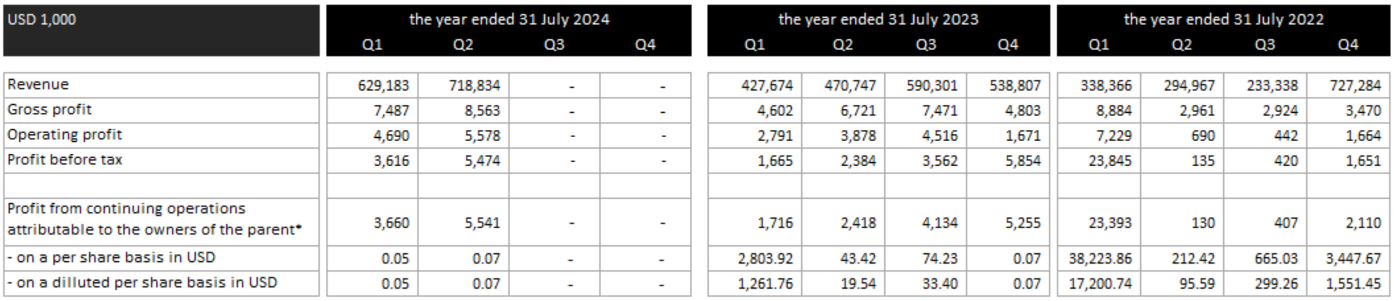
Comparison results of Operations for the six-month period



USD 1,000	6 month period ended			3 month period ended	
	1/31/2024	1/31/2023	1/31/2022	1/31/2024	1/31/2023
Revenue	1,348,017	898,421	633,333	718,834	470,747
Gross profit	16,050	11,323	11,845	8,563	6,721
Operating profit	10,268	6,669	7,919	5,578	3,878
Profit before tax	9,090	4,049	23,980	5,474	2,384
Profit from continuing operations attributable to the owners of the parent*	9,201	1,716	23,523	5,541	2,418
- on a per share basis in USD	0.12	30.81	38,436.27	0.07	3,950.98
- on a dilluted per share basis in USD	0.12	13.87	17,296.32	0.07	19.54

*profit from continuing operations attributable to the owners of the parent is equal to profit attributable to the owners of the parent.

Comparison results of Operations for the three-month period



USD 1,000	the year ended 31 July 2024				the year ended 31 July 2023				the year ended 31 July 2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	629,183	718,834	-	-	427,674	470,747	590,301	538,807	338,366	294,967	233,338	727,284
Gross profit	7,487	8,563	-	-	4,602	6,721	7,471	4,803	8,884	2,961	2,924	3,470
Operating profit	4,690	5,578	-	-	2,791	3,878	4,516	1,671	7,229	690	442	1,664
Profit before tax	3,616	5,474	-	-	1,665	2,384	3,562	5,854	23,845	135	420	1,651
Profit from continuing operations attributable to the owners of the parent*	3,660	5,541	-	-	1,716	2,418	4,134	5,255	23,393	130	407	2,110
- on a per share basis in USD	0.05	0.07	-	-	2,803.92	43.42	74.23	0.07	38,223.86	212.42	665.03	3,447.67
- on a dilluted per share basis in USD	0.05	0.07	-	-	1,261.76	19.54	33.40	0.07	17,200.74	95.59	299.26	1,551.45

*profit from continuing operations attributable to the owners of the parent is equal to profit attributable to the owners of the parent.

Following the decent growth of the financial year 2023, the Company further increased its revenues by 50.0% compared to first six months of 2023, leading to an increase in Gross Profit of USD 4.7 million. This growth is mainly attributed in a higher volume of traded commodities and mainly metals. The Gross Profit decreased to 1.2% compared to 1.3% in 2023. This is caused by difference in product mix.

The variance in earnings per share (hereinafter “eps”) for the period ending Jan 31, 2024 vs prior quarters is a direct result of the issuance of 74,169,060 shares as a result of the Share Exchange Agreement versus the number of shares outstanding prior to the reverse takeover transaction.

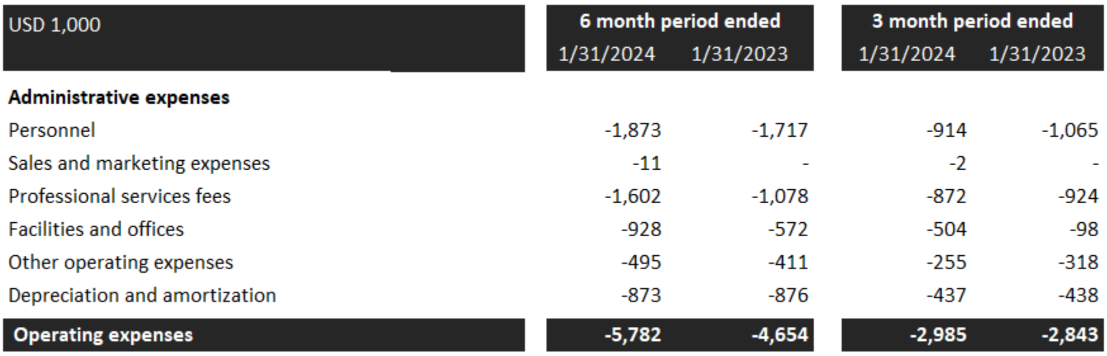
The following details show the changes in total shares resulting in the variances in eps.

The warrants that were outstanding in the financial years 2022 and 2021 were exercised in the financial year 2023. For this effect and in preparation for the IPO on the Canadian Securities Exchange, the following transactions took place during the financial year:

- On the 5 January 2023, 55.080 new shares of GBP 1.00 were issued against Other Reserves, that were later converted in to USD at a rate of 1.2008.
- Subsequently, the shares were revalued to USD 0.002 each, leading to a total number of shares outstanding of 33,070,032.
- On 4 May 2023 40,792,928 shares were issued (in relation to the exercise of the warrants) against Other Reserves at an amount of USD 0.002 each, leading to a total number of outstanding shares of 74,168,960 of USD 0.002 each (total USD 148 thousand).

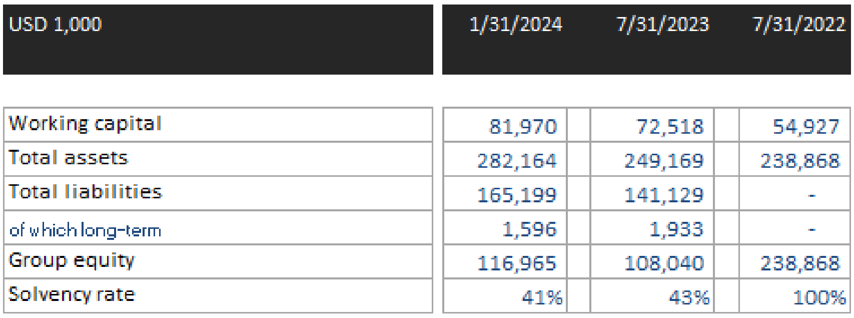
Operating costs have increased by USD 1.1 million for the six months ended January 31, 2024 vs the same period prior year mainly due to performance related compensation and the expansion of our teams in order to support this growth and sustain further growth as well. Due to the higher headcount, also facility and offices expenses increased. Nonetheless, Operating Profit increased for the same six month period by USD 3.6 million and the Profit After tax increased by USD 5.0 million.

The breakdown of Operating Costs is as follows:



USD 1,000	6 month period ended		3 month period ended	
	1/31/2024	1/31/2023	1/31/2024	1/31/2023
Administrative expenses				
Personnel	-1,873	-1,717	-914	-1,065
Sales and marketing expenses	-11	-	-2	-
Professional services fees	-1,602	-1,078	-872	-924
Facilities and offices	-928	-572	-504	-98
Other operating expenses	-495	-411	-255	-318
Depreciation and amortization	-873	-876	-437	-438
Operating expenses	**-5,782**	**-4,654**	**-2,985**	**-2,843**

Statement of Financial Position

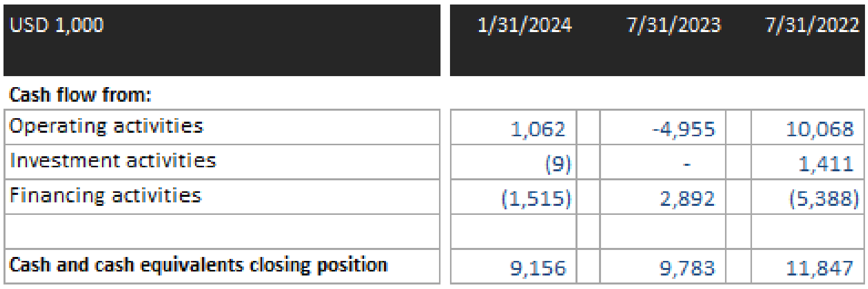


USD 1,000	1/31/2024	7/31/2023	7/31/2022
Working capital	81,970	72,518	54,927
Total assets	282,164	249,169	238,868
Total liabilities	165,199	141,129	-
of which long-term	1,596	1,933	-
Group equity	116,965	108,040	238,868
Solvency rate	41%	43%	100%

- The net working capital increased from USD 72.5 million to 81.9 million as the profit that was generated over the financial year 2024 is retained and used in the operations, leading to the increases in revenues and profitability.
- The increase in assets is attributed to the retained earnings and higher receivables due to higher turnover.
- Apart from the regular tax positions and accruals, the liability position comprises of short-term liabilities only that are directly related to the trading activities. These short-term liabilities are self-liquidating and have increased as well in line with the increase in Total assets.

Group equity increased due to the retained profits. As the self-liquidating debt increased, the solvency rate decreased to 41%.

Liquidity



USD 1,000	1/31/2024	7/31/2023	7/31/2022
Cash flow from:			
Operating activities	1,062	-4,955	10,068
Investment activities	(9)	-	1,411
Financing activities	(1,515)	2,892	(5,388)
Cash and cash equivalents closing position	9,156	9,783	11,847

- The cash position as at January 31, 2024 is stable compared to July 31, 2023.
- Cash flow from operating activities is lower than the cash outflow from financing activities as the company has utilized its cash (including retained profits from prior periods) in the increased trading activities.
- Financing activities show a marginally high out flow of cash due to paid interest whilst not all the related receivables are not converted yet into cash inflow. Note that there are no overdue receivables.

The cash position amounts to USD 9.2 million and the Net Working Capital position amounts to USD 81.9 million. The group only utilizes self-liquidating working capital facilities and borrows no funds. That means that the Net Working Capital is capital available for the Group to finance its deals with in accordance with the Business Model and through the structures described in section D.

At balance sheet date, the Company has the following uncommitted working capital finance lines in place. These lines comprise of framework agreements with reputable banks and similar institutions that can accept transactions on a deal-by-deal basis, but are not obliged to do so. This type of financing is perceived as “self-liquidating”: these facilities finance the purchase of commodities at a point in the supply chain of commodities and these are repaid through the payment from the customer. Securities taken by the financing institutions comprise of the underlying material, transport and credit insurances only to the extent that it is related to the transaction itself.

The available lines did not change compared to July 31, 2023.

Type of Working capital financing	Uncommitted lines in USD 1 Million	Annualized interest rate
Letters of Credit	180	Libor + 2 to 4%
Transactional Lines	100	Libor + 2 to 4%
Receivables financing	48	Libor +4%
Warrant purchasing	50	Libor+2%
Total uncommitted working capital lines	**378**	

Following the business model described in section D., the purchase and sale of commodities is performed simultaneously. That means that the Company does not speculate. The financial institutions involved in financing these transactions follow the supply chain of each particular trade. That means that the period that is required to store pre-sold material is included in the financing set-up. As a condition from our financiers, the financing of the credit terms provided to the customers is subject to sufficient credit insurance cover.

With the uncommitted working capital lines and the Net Working Capital available, the Company has sufficient capacity to maintain and grow its existing business. In order to grow further growth, the Company is continuously in discussions with banks and financial institutions to expand the working capital lines.

In terms of trends or fluctuations in the business, the Company has shown consistent growth year over year. There is no seasonal impact apparent from quarter to quarter. Our business evolves around spot opportunities and is subject to variations in underlying commodities and the size of transactions. As the working capital lines are utilized on a trade by trade basis, the funding basis automatically adapts to fluctuations in the business. Increases in commodity prices lead to a higher utilization of these facilities, but generally the financing institutions adapt.

The Group is not hindered by legal or practical restrictions to transfer cash from Subsidiaries to another Group Company.

G. Financial and Capital Management

The Company is mainly financed by its shareholders and the financing structure is optimized through self-liquidating working capital lines that enable the company to grow its operations. As of July 31, 2023 the Company had 74,169,060 Shares outstanding. The shareholders attributed a Paid-up Capital of USD 21.4 million and has established Retained Earnings of USD 89.2 million.

The Company is preparing for an Initial Public Offering on the Canadian Securities Exchange that is planned in the second quarter of the calendar year 2024. A successful placement will not only lead to additional cash availability to the company (the IPO will be done by means of a share issuance), but it will strengthen the Company's profile that will enable further growth.

With regards to working capital lines and solutions, the Company is continuously exploring and discussing with potential partners in order to expand and improve the current portfolio to enable further growth of the Company.

H. Risk Disclosures

The presentation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates impacted by the following risks:

1. Fluctuation in currency Exchange rates

The Company finds its suppliers and customers across the globe, while operations and operating costs are spread across several different countries and currencies. Fluctuation in exchange rates, in particular, movements in Euro and Sterling against the Dollar, may have a material impact on the Company's financial results. Note that our business is mainly executed on a dollar basis on the purchasing, selling as well as the financing side. If currency is not naturally hedged through back-to-back deals, the exposure is hedged through adequate instruments.

2. Financing, cash flows and Liquidity

The trading activities are dependent on trade financing lines and working capital facilities availability. We have significant uncommitted facilities with several parties. These financing lines are uncommitted by nature and, therefore, no guarantee can be given that trades presented to these banks will be funded. However, all presented deals thus far are financed by the banks and other third parties. Furthermore, difficulty could arise if the Company makes losses on the utilization of options to manage the risks in the portfolio, which results in reduced levels of liquidity. The daily management of cash flows and liquidity is essential to the operation of the business so it can meet repayment obligations. Hence, using different financing lines (and potentially tri-partite agreements between the company, derivatives broker and the financial institution) and daily monitoring of the positions, the group is able to mitigate the risk.

3. Price volatility

The market prices for the various commodities are volatile and cannot be influenced neither controlled. Inventories are therefore subject to valuation changes, which may have a material impact on the Company´s financial results. However, the Company enters into back-to-back deals in which serves as a natural hedge that “locks” the market price, so that the Company is not exposed to price fluctuations. In cases where the Company is not covered by this natural hedge, the price risk is mitigated by applying adequate financial instruments.

4. Country risks, political, community and fiscal intervention

The Company’s operations and projects span numerous countries, some of which have more complex, less stable political or social climates and consequently higher country risk. Political risks include changes in laws, taxes or royalties, expropriation of assets, currency restrictions or renegotiation of, or changes to, mining leases and permits. Similarly, communities in certain regions may oppose mining activities for various reasons. Any of these factors could have an adverse impact on the Company’s profitability in a certain geographic region or at certain operations. However, so far the Company has not experienced those problems.

5. Credit Risk

The Issuer is exposed to the credit risk of its customers in the ordinary course of the business. Generally, the customers are otherwise considered creditworthy or provide the Issuer security to satisfy credit concerns. However, the Issuer cannot predict to what extent its business would be impacted by deteriorating conditions in the economy, including possible declines in its customers’ creditworthiness. It is possible that customer payment defaults, if significant, could adversely affect its earnings and cash flows. The Issuer currently has multiple credit insurances with renowned and minimum A-rated insurance companies to cover credit receivables which is used to mitigate this risk. The Issuer constantly monitors the utilization of these limits and headroom to enable them to trade with its customers.

6. Climate Change and Emissions

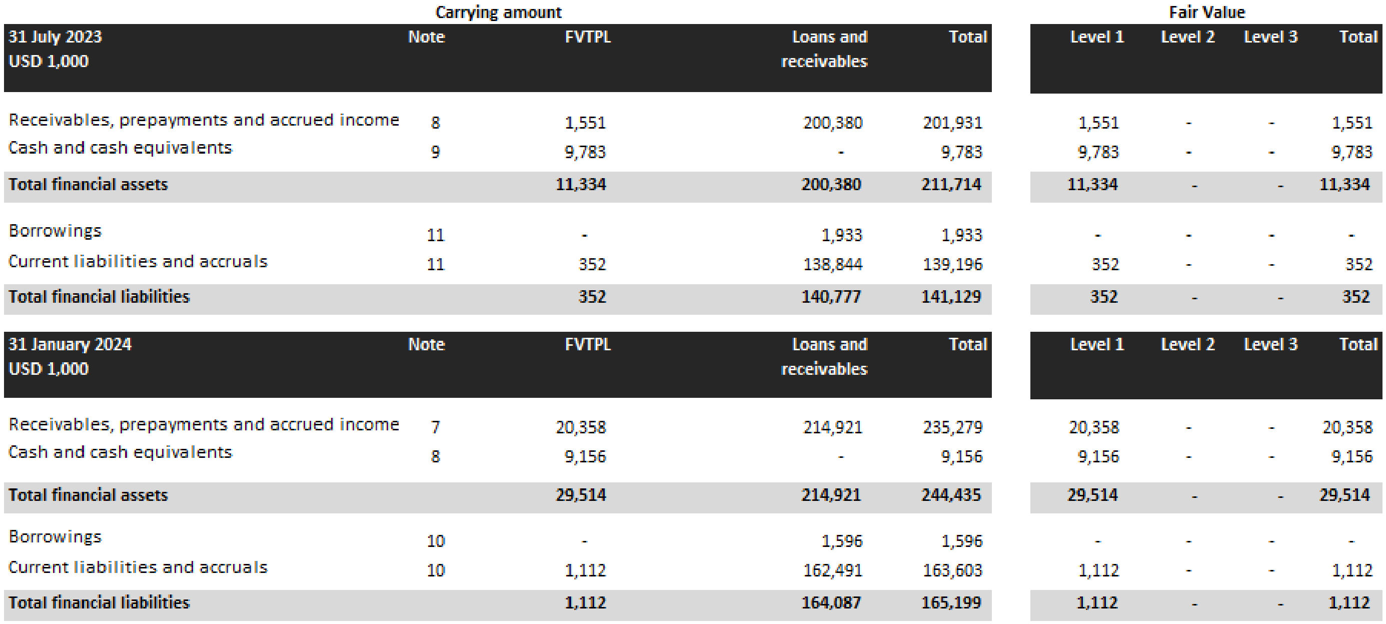
Climate change may cause more frequent and severe weather events, diminished biodiversity, and changing weather factors such as fluctuating temperatures, precipitation, wind, and water levels. Physical risks from climate change may also result in operational or supply chain delays, depending on the nature of the event. The Issuer is also subject to reputational risks associated with climate change, including its stakeholders’ initiatives to transition to a lower-carbon economy. These factors, as well as others resulting from climate change, could adversely impact the business, financial condition or results of operations. Existing and future laws and regulations in support of a transition to low-carbon energy and climate change action may impose significant constraints on fossil fuel development. Among other sustainability goals, the Issuer has committed to enhancing its business in ETC such as Nickel, Cobalt, Copper along with lower sulphur fuels, biofuels etc. The Group is also working on reducing its Scope 1 and Scope 2 emissions.

7. Other Risks

Other risks facing the Company include performance risk on supply agreements; quality of commodities traded, competition, environmental and insurance risks and uncertainty of additional financing. These risks and the mitigating measures are monitored and managed by the company on a regular basis and appropriate action is taken whenever this is required.

I. Financial Instruments

The table below provides an overview of the financial instruments of the group divided into the classes Fair Value through Profit and Loss ("FVTPL"), Available-for-sale, and Loans and Receivables. Held-to-maturity instruments are not applicable.



		Carrying amount			Fair Value			
31 July 2023 USD 1,000	Note	FVTPL	Loans and receivables	Total	Level 1	Level 2	Level 3	Total
Receivables, prepayments and accrued income	8	1,551	200,380	201,931	1,551	-	-	1,551
Cash and cash equivalents	9	9,783	-	9,783	9,783	-	-	9,783
Total financial assets		**11,334**	**200,380**	**211,714**	**11,334**	**-**	**-**	**11,334**
Borrowings	11	-	1,933	1,933	-	-	-	-
Current liabilities and accruals	11	352	138,844	139,196	352	-	-	352
Total financial liabilities		**352**	**140,777**	**141,129**	**352**	**-**	**-**	**352**
31 January 2024 USD 1,000	Note	FVTPL	Loans and receivables	Total	Level 1	Level 2	Level 3	Total
Receivables, prepayments and accrued income	7	20,358	214,921	235,279	20,358	-	-	20,358
Cash and cash equivalents	8	9,156	-	9,156	9,156	-	-	9,156
Total financial assets		**29,514**	**214,921**	**244,435**	**29,514**	**-**	**-**	**29,514**
Borrowings	10	-	1,596	1,596	-	-	-	-
Current liabilities and accruals	10	1,112	162,491	163,603	1,112	-	-	1,112
Total financial liabilities		**1,112**	**164,087**	**165,199**	**1,112**	**-**	**-**	**1,112**

FAIR VALUE MEASUREMENTS

Fair values are primarily determined using quoted market prices or standard pricing models using observable market inputs where available and are presented to reflect the expected gross future cash in/outflows. The Company classifies the fair values of its financial instruments into three level hierarchy based on the degree of the source and observability of the inputs that are used to derive the fair value of the financial asset or liability as follows:

- Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the measurement date; or
- Level 2 – Inputs other than quoted inputs included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; or
- Level 3 – Unobservable inputs for the assets or liabilities, requiring the Company to make market-based assumptions.

In the table above (in which the financial instruments are presented) cash and the financial instruments that are included in the receivables and liabilities are valued at fair value. All of these positions qualify as Level 1.

FINANCIAL AND CAPITAL RISK MANAGEMENT

The Group has exposure to the following risks arising from financial instruments:

A. Credit risk
B. Liquidity risk
C. Market risk

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital.

A. Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers and loans related to resources development:

The Receivables, prepayments and accrued income mainly consists of Trade Receivables which is secured by adequate credit insurance. The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the group's payment and delivery terms and conditions are offered. This is done in close cooperation with the Trade Finance institutions and Credit insurance companies. Nevertheless, in principle insurance coverage is obtained for all Trade Receivables.

B. Liquidity risk

Liquidity risk is the risk that the group will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group'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 group's reputation. The group has extensive facilities that are provided by brokers in order to provide sufficient flexibility to the hedging activities in relation to the trades.

C. Market risk

Market risk is the risk that results out of changes in market prices, such as foreign exchange rates, interest rates, market prices and equity prices and will affect the group'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.

The group buys and sells derivatives in order to manage market risks. All such transactions are carried out within the guidelines set by the group. In principle all derivatives are accounted at FVTPL; if required and appropriate, the group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The currency risk is limited as most of the contract deals are denominated in USD for both purchases and sales. Purchases are financed by means of trade finance in USD as well. As the purchase, sale and financing are all in USD, and as trading occurs in principle on a back-to-back basis, the deals are naturally hedged. In some circumstances, activities can be exposed to EUR and GPB in which case adequate hedging is applied.

Interest rates

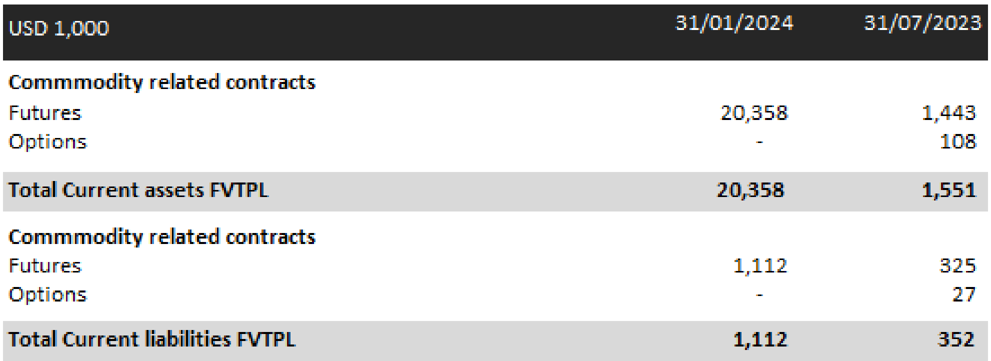
To limit the interest rate risk, the Company decided to only give out and obtain loans with a fixed interest rate.

Market price risk

The Company mainly enters into back-to-back deals, which means that the market price risk is naturally hedged. In case that that a trade is subject to price risk, this is hedged through adequate instruments. When instruments are required, the Company prepares a sensitivity analysis with regards to the impact of the changes in commodity price and (if applicable) the changes in foreign currency risks. Based on this analysis an adequate non speculative hedging strategy is applied.

At January 31, 2024, the Company has a number of hedging instruments, which are presented under Current receivables as well as current liabilities. These instruments are designated as FVTPL and include trade related financial and physical forward purchase and sale commitments. Fair values are primarily determined using quoted market prices or standard pricing models using observable market inputs where available and are presented to reflect the expected gross future cash in/outflows.
It is the Group's policy that transactions and activities in trade related financial instruments are netted.

Note that the Company only purchases futures and options.



USD 1,000	31/01/2024	31/07/2023
Commmodity related contracts		
Futures	20,358	1,443
Options	-	108
Total Current assets FVTPL	**20,358**	**1,551**
Commmodity related contracts		
Futures	1,112	325
Options	-	27
Total Current liabilities FVTPL	**1,112**	**352**

J. Significant Accounting Estimates, Judgements and Assumptions

Functional Currency

All amounts are expressed in thousands of US Dollars, unless otherwise stated, consistent with the predominant functional currency of the company's operations.

Seasonality and Cyclicality

The impact of seasonality or cyclicality on operations is not regarded as significant to the unaudited condensed interim consolidated financial statements.

Changes in Estimates

There are no changes in estimates reported in prior (interim) periods of the current financial year or prior financial years that have a material effect in the current interim period.

K. New Accounting Standards Adopted

No new accounting standards are adopted in the reporting period. No updates are prescribed, and the operations of the Company have not developed in any manner that new accounting standards are to be adopted.

L. Off-Balance Sheet Arrangements

As of January 31, 2024, the Company has no Off-Balance sheet settlements.

M. Share information

As of January 31, 2024, Rektron Group Inc. has issued 74,169,060 shares.

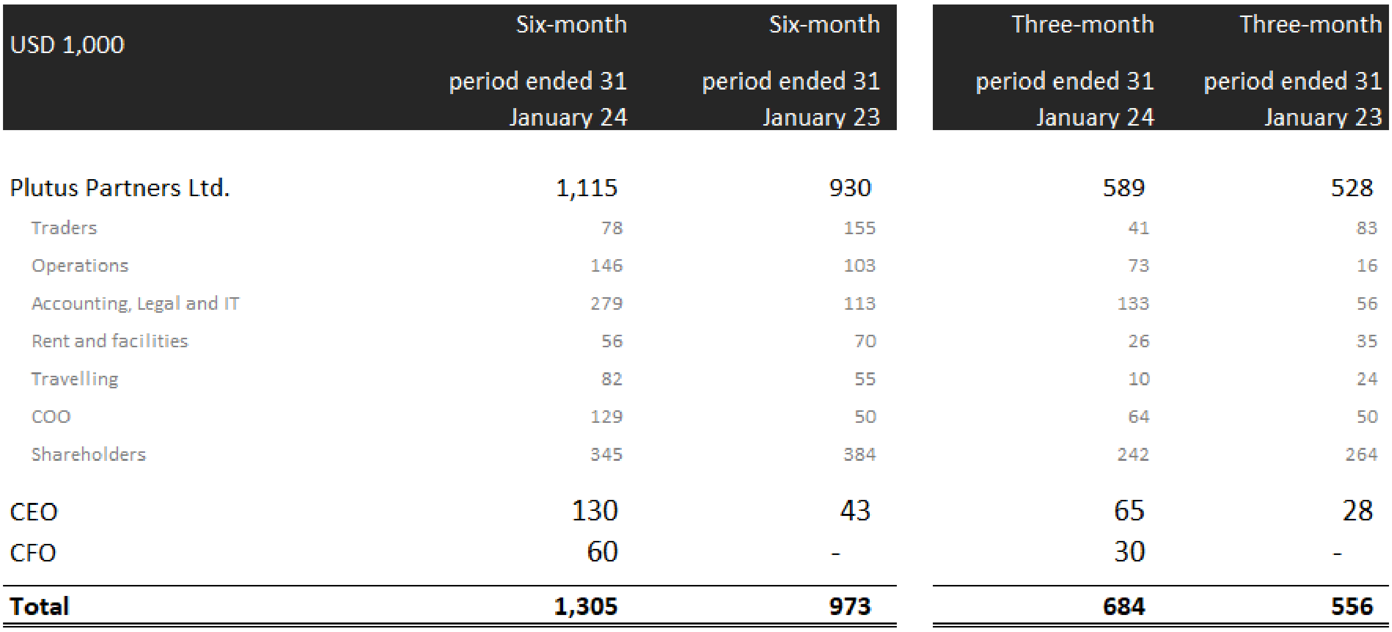
N. Transactions with related parties

The related parties of the Company include key executives and companies controlled by them, as explained below.

Unless otherwise specified, none of the transactions include special characteristics or conditions and no guarantees were given or received.

Transactions with key management

Key management includes directors (members of the management committee or not) and senior executives. There is no compensation paid or payable to key management for services as employees. The fees charged by them or by a company controlled by them, for the nine-month period ended on October 31, 2023, are as follows:



USD 1,000	Six-month period ended 31 January 24	Six-month period ended 31 January 23	Three-month period ended 31 January 24	Three-month period ended 31 January 23
Plutus Partners Ltd.	1,115	930	589	528
Traders	78	155	41	83
Operations	146	103	73	16
Accounting, Legal and IT	279	113	133	56
Rent and facilities	56	70	26	35
Travelling	82	55	10	24
COO	129	50	64	50
Shareholders	345	384	242	264
CEO	130	43	65	28
CFO	60	-	30	-
Total	**1,305**	**973**	**684**	**556**

Plutus Partners Ltd. (hereinafter “Plutus) is the management company of the shareholders. Initially, all contracts with personnel and facilities were entered into with Plutus. In preparation for the IPO, all contracts are gradually being transitioned to the Group, so that in the future only the compensation for the work performed by the shareholders for their respective roles in the Company.

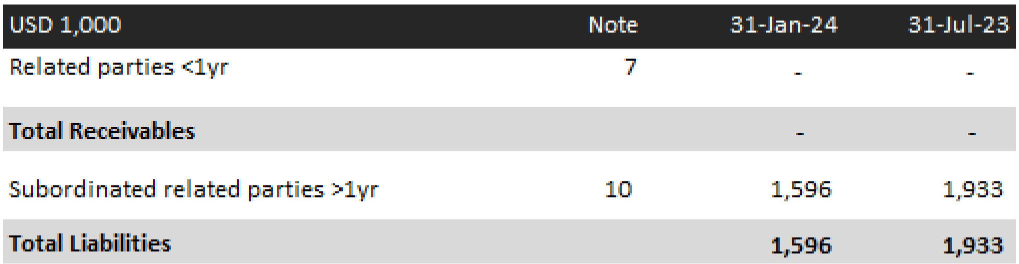
The six-month period ended January 31, 2024 is relatively higher compared to the increase in staff (traders, operations and accounting, legal and IT) as well as rent expenses.

The CEO’s remuneration based on the existing pre-IPO contract provides for a minimum base compensation in hours. As a result of the IPO and year-end process, additional hours were required and as such additional billings have gone through.

The CFO was hired in the third quarter of 2023.

Mr. Tolia and Mr. Mokashi are recharged through Plutus (line item "shareholders") and the COO, Mr. Michan Portillo, is also recharged through Plutus and is included in the line item "Operations".

Outstanding receivables and liabilities



USD 1,000	Note	31-Jan-24	31-Jul-23
Related parties <1yr	7	-	-
Total Receivables		**-**	**-**
Subordinated related parties >1yr	10	1,596	1,933
Total Liabilities		**1,596**	**1,933**

The Subordinated related parties' loan is a payable to Plutus Partners, the management company of the shareholders. The loan is provided at arm's length condition and is subordinated to other debt.

O. Other Information

Subsequent events

Initial Public Offering

The Company received from the British Columbia Securities Commission (the "**BCSC**") a receipt for the filing of its final long form prospectus on March 5, 2024. The Company endeavors completing its initial public offering in order to list its securities on the Canadian Securities Exchange (the "**CSE**"). The CSE issued a condition approval for listing on February 23, 2024. Listing will be subject to the Company fulfilling all of the requirements of the CSE.

MACA Special Warrants Conversion

On January 29, 2024, the Company completed a private placement for the issuance of 2,595,917 special warrants at a deemed price of $1.58 to MidAtlantic Capital Associates Ltd., a consultant to the Company for a value of $4,101,548.86 in exchange for services (the "**Special Warrants**"). The terms of the Special Warrants provide that the Special Warrants will be deemed to be exercised on the date the Company receives the final receipt for the final prospectus. As the final receipt was received on March 5, 2024, the Special Warrants were automatically exercised into 2,595,917 common shares, without payment of any additional consideration and without any further action on the part of the holder.