Consolidated Annual Financial Statements

For the year ended December 31, 2019, seven-month year ended December 31, 2018, and year ended May 31, 2018
(Expressed in Canadian dollars)

Independent auditor's report

To the Shareholders of Atlas Engineered Products Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Atlas Engineered Products Ltd. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year ended December 31, 2019 and seven months ended December 31, 2018 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 and seven months ended December 31, 2018;
- the consolidated statements of cash flows for the year ended December 31, 2019 and seven months ended December 31, 2018;
- the consolidated statements of changes in equity for the year ended December 31, 2019 and seven months ended December 31, 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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.

Comparative information

The consolidated financial statements of the Company for the year ended May 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated statements on September 20, 2018.

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, 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 29, 2020

Atlas Engineered Products Ltd.

Consolidated Statements of Financial Position

For the year ended December 31, 2019, seven-month year ended December 31, 2018, and year ended May 31, 2018

(Expressed in Canadian dollars)

	Note	December 31, 2019	December 31, 2018	May 31 2018
		$	$	$
Assets				
Current				
Cash		1,553,005	1,593,762	867,384
Restricted cash	**30**	204,400	-	-
Accounts receivable	**8, 28**	3,387,982	4,055,629	2,008,773
Inventories	**9**	1,858,930	1,986,950	1,347,940
Prepaid expenditures		74,948	83,349	381,876
Deposits		152,328	-	-
Loan receivable – current portion	**10**	-	86,085	-
		7,231,593	7,805,775	4,605,973
Non-current				
Loan receivable	**10**	-	204,000	-
Buildings and equipment	**11**	9,623,015	8,413,165	3,212,181
Intangible assets	**12**	5,150,892	5,058,028	436,200
Goodwill	**13**	3,778,476	2,980,895	418,928
Deferred tax asset	**14**	979,001	1,600,091	535,002
Total Assets		26,762,977	26,061,954	9,208,284
Liabilities				
Current				
Bank indebtedness	**15**	1,470,000	-	-
Accounts payable and accrued liabilities	**16, 28**	3,157,818	4,113,939	1,468,602
Customer deposits		94,549	95,663	111,388
Income taxes payable	**14**	240,326	228,010	90,202
Lease obligations – current portion	**18**	1,174,485	1,000,867	568,069
Long-term debt – current portion	**19**	6,182,748	7,470,165	1,704,918
Exchangeable notes – liability portion		-	-	292,346
		12,319,926	12,908,644	4,235,525
Non-current				
Intangible liability	**17**	134,729	169,133	-
Lease obligations	**18**	2,213,991	3,083,129	1,274,300
Long-term debt	**19**	2,092,851	-	-
Deferred tax liability	**14**	1,779,859	1,760,599	-
		18,541,356	17,921,505	5,509,825
Shareholders' Equity				
Share capital	**21**	14,836,346	14,341,346	8,938,703
Contributed surplus	**21**	1,346,747	1,005,428	696,851
Exchangeable notes – equity portion		-	-	19,144
Deficiency		(7,961,472)	(7,206,325)	(5,956,239)
		8,221,621	8,140,449	3,698,459
Total Liabilities and Shareholders' Equity		26,762,977	26,061,954	9,208,284

Subsequent events – Note 30

APPROVED BY THE DIRECTORS ON APRIL 29, 2020

DON HUBBARD Director ***KEVIN SMITH*** Director

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

Atlas Engineered Products Ltd.

Consolidated Statements of Loss and Comprehensive Loss
For the year ended December 31, 2019, seven-month year ended December 31, 2018, and year ended May 31, 2018
(Expressed in Canadian dollars)

	Note	December 31, 2019	December 31, 2018	May 31, 2018
		$	$	$
Revenue	**22**	34,763,527	13,352,676	11,597,176
Cost of sales	**23**	(26,303,594)	(10,241,447)	(8,725,350)
Gross profit		8,459,933	3,111,229	2,871,826
Operating expenses				
Administrative and office		2,249,119	1,142,093	660,493
Depreciation	**11, 12, 17**	1,482,311	274,717	225,561
Bad debt expense		35,452	26,947	29,608
Management fees	**25**	289,200	703,726	348,957
Professional fees		489,203	825,911	458,803
Salaries and benefits	**25**	2,908,936	1,020,279	280,348
Share-based payments	**21(c), 25**	341,319	308,577	696,851
Restructuring expense		-	383,012	-
Operating income (loss)		664,393	(1,574,033)	171,205
Interest earned		22,488	67,601	28,995
Interest expense and other		(577,314)	(129,576)	(60,467)
Finance charge on leases	**18, 25**	(250,255)	(48,704)	(81,869)
Foreign exchange loss		(51,594)	(10,153)	(7,465)
Gain (loss) on disposal of equipment		1,979	(16,426)	(6,074)
Goodwill impairment	**13**	(90,773)	-	-
Loss on investment	**10**	(263,469)	-	-
Accretion expense		-	(5,154)	(20,716)
Listing expense		-	-	(4,864,786)
Loss before income tax		(544,545)	(1,716,445)	(4,841,177)
Income taxes				
Current income tax expense	**14**	(199,725)	(302,953)	(118,672)
Deferred income tax (expense) recovery	**14**	(10,877)	769,312	5,084
		(210,602)	466,359	(113,588)
Net loss and comprehensive loss for the period		(755,147)	(1,250,086)	(4,954,765)
Loss per share				
Basic and diluted		(0.02)	(0.04)	(0.29)
Weighted average number of shares outstanding				
Basic and diluted		45,883,784	35,128,037	17,344,229

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

Atlas Engineered Products Ltd.

Consolidated Statements of Cash Flows

For the year ended December 31, 2019, seven-month year ended December 31, 2018, and year ended May 31, 2018

(Expressed in Canadian dollars)

	December 31, 2019	December 31, 2018	May 31, 2018
Cash provided by (used in):	**$**	**$**	**$**
Operating activities			
Net loss for the year	(755,147)	(1,250,086)	(4,954,765)
Depreciation	2,684,486	607,035	561,884
Unrealized foreign exchange loss	26,203	15,921	-
Deferred tax expense (recovery)	10,877	(769,312)	(5,084)
(Gain) loss on disposal of equipment	(1,979)	16,426	6,074
Share-based payments	341,319	308,577	696,851
Goodwill impairment	90,773	-	-
Loss on investment	263,469	-	-
Accretion expense	-	5,154	20,716
Interest on exchangeable notes	-	14,875	-
Listing expense	-	-	4,864,786
Changes in non-cash working capital items			
Accounts receivable	1,035,191	1,150,623	(1,005,678)
Inventories	440,295	426,121	(435,035)
Prepaid expenditures	28,736	327,373	(364,510)
Deposits	(152,328)	-	-
Accounts payable and accrued liabilities	(1,090,224)	215,540	127,603
Customer deposits	(1,113)	(15,726)	(40,632)
Corporate income taxes payable	(103,415)	248,460	(91,212)
Cash provided by (used in) operations	2,817,143	1,300,981	(619,002)
Investing activities			
Acquisition of equipment	(1,232,325)	(159,132)	(35,917)
Proceeds from disposition of building and equipment	2,000	9,093	-
SC acquisition net of cash acquired (Note 3)	(3,086,780)	-	-
Pacer acquisition net of cash acquired (Note 4)	110,652	(7,346,370)	-
Satellite acquisition net of cash acquired (Note 5)	-	(1,131,382)	-
Coastal acquisition net of cash acquired (Note 6)	-	(230,577)	-
Clinton acquisition net of cash acquired (Note 7)	-	-	(2,483,896)
Cash acquired in RTO transaction	-	-	56,923
Cash used in investing activities	(4,206,453)	(8,858,368)	(2,462,890)
Financing activities			
Repayment of principal lease obligations	(1,104,096)	(318,955)	(351,554)
Proceeds from long-term debt	2,451,150	5,159,234	1,760,000
Repayment of long-term debt	(1,704,293)	(381,629)	(437,063)
Proceeds from loan receivable	26,616	-	-
Proceeds from stock option exercise	5,000	-	-
Proceeds from bank indebtedness	1,470,000	-	-
Proceeds from principal lease obligations	408,576	-	-
Shares issued for cash	-	4,132,000	4,226,400
Cash share issue costs	-	(16,800)	(54,372)
Issuance of loan receivable	-	(290,085)	-
Proceeds from exchangeable notes	-	-	147,500
Redemption of preferred shares	-	-	(1,000,000)
Dividends paid	-	-	(576,483)
Cash provided by financing activities	1,552,953	8,283,765	3,714,428
Increase in cash	163,643	726,378	632,536
Cash - beginning of year	1,593,762	867,384	234,848
Cash - end of year	1,757,405	1,593,762	867,384
Cash paid during the year for:			
Interest	827,569	177,991	116,316
Income taxes	360,000	-	211,074

Supplemental cash flow information – Note 26

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

Atlas Engineered Products Ltd.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Exchangeable Notes – Equity Component	Contributed Surplus	Deficiency	Total
	(Note 21)	(Note 21)		(Note 21)		
		$	$	$	$	$
Balance, May 31, 2017	**1,010**	**101**	**-**	**-**	**(424,991)**	**(424,890)**
Shares issued on the amalgamation with Coastal	200	20	-	-	-	20
Exchangeable notes	-	-	19,144	-	-	19,144
Recapitalization transactions						
Shares issued on RTO	11,709,091	4,683,636	-	-	-	4,683,636
Exchanged for shares issued to shareholders pursuant to RTO	8,047,764	-	-	-	-	-
Shares cancelled pursuant to RTO	(1,210)	-	-	-	-	-
Shares issued pursuant to private placement	10,566,000	4,226,400	-	-	-	4,226,400
Shares issued as finders fees	407,550	-	-	-	-	-
Add: deferred income tax	-	82,918	-	-	-	82,918
Less: cash share issue costs	-	(54,372)	-	-	-	(54,372)
Share-based payments	-	-	-	696,851	-	696,851
Dividends paid	-	-	-	-	(576,483)	(576,483)
Net loss for the year	-	-	-	-	(4,954,765)	(4,954,765)
Balance, May 31, 2018	**30,730,405**	**8,938,703**	**19,144**	**696,851**	**(5,956,239)**	**3,698,459**
Exchangeable notes (Note 20)	1,521,305	331,518	(19,144)	-	-	312,374
Shares issued pursuant to private placement	10,330,000	4,132,000	-	-	-	4,132,000
Shares issued on acquisitions	1,933,395	900,000	-	-	-	900,000
Shares issued for finders fee	475,825	-	-	-	-	-
Less: cash share issue costs	-	39,125	-	-	-	39,125
Share-based payments	-	-	-	308,577	-	308,577
Net loss for the period	-	-	-	-	(1,250,086)	(1,250,086)
Balance, December 31, 2018	**44,990,930**	**14,341,346**	**-**	**1,005,428**	**(7,206,325)**	**8,140,449**
Shares issued on acquisitions (Note 3)	1,225,000	490,000	-	-	-	490,000
Stock options exercised (Note 21)	16,666	5,000	-	-	-	5,000
Share-based payments	-	-	-	341,319	-	341,319
Net loss for the year	-	-	-	-	(755,147)	(755,147)
Balance, December 31, 2019	**46,232,596**	**14,836,346**	**-**	**1,346,747**	**(7,961,472)**	**8,221,621**

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

1. Nature of Operations

Atlas Engineered Products Ltd. (the "Company" or "Atlas") was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on January 18, 1999. Atlas Engineered Products Ltd. is a leading manufacturer of trusses and supplier of engineered wood products. Atlas operates manufacturing and distribution facilities in British Columbia and Ontario to meet the needs of residential and commercial builders.

The Company's registered office is located at 102 – 6551 Aulds Road, Nanaimo, British Columbia V9T 6K2.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective for the Company's reporting for the year ended December 31, 2019.

During the seven-month period ended December 31, 2018, the Company elected to change its year end from May 31 to December 31. These statements represent the year ended December 31, 2019, the seven-month period ended December 31, 2018, and the year ended May 31, 2018 due to the change in year end.

These consolidated financial statements have been prepared under the historical cost basis and are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

The accounts of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amount of revenues and expenses during the reporting year. 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 future periods affected.

These consolidated financial statements were approved for issue by the Board of Directors on April 29, 2020.

Basis of consolidation

The Company's consolidated financial statements consolidate those of the parent company and all its subsidiaries as of the date that control was obtained over those subsidiaries. The Company has five subsidiaries, all located in Canada,: Clinton Roof Truss Ltd. ("Clinton"), Satellite Truss Limited ("Satellite"), Coastal Windows Ltd ("Coastal"), Pacer Building Components ("Pacer"), and South Central Building Systems Ltd ("SC"). The Company owns 100% of the issued and outstanding shares of all of these subsidiaries. During the year ended December 31, 2019, the Company amalgamated four subsidiaries: Pacer, DMH Holding Corp ("DMH"), Tandelle Specialty Products ("Tandelle"), and 2022013 Ontario Ltd ("2022013").

All transactions and balances between the Companies are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Amounts reported in the unaudited condensed interim consolidated financial statements of the subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2. Significant Accounting Policies (continued)

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquired assets and liabilities assumed are measured at their acquisition date fair values. Acquisition costs are expensed as incurred.

Under the guidance of IFRS 10 Consolidated Financial Statements, control is established by having power over the acquiree, exposure or rights to variable returns from its involvement with the acquiree, and the ability to use its power over the acquiree to affect the amount of the acquirer's returns. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date. During the year ended December 31, 2019, the Company's acquisition of SC (Note 3) was recorded as a business combination.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is measured in accordance with IFRS 9 Financial Instruments, as appropriate, with the corresponding gain or loss being recognized in profit and loss.

Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS as issued by the IASB requires management to make estimates and judgements that affect the amount reported in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are subject to measurement uncertainty. Actual results may differ from these estimates.

2. Significant Accounting Policies (continued)

Management estimates

a) Collectability of accounts receivable

In determining the collectability of a trade or other receivable, the Corporation considers all available information in assessing the risk or probability of a credit loss occurring over the contractual period of the receivable, even if the probability is low.

b) Inventory valuation

Management estimates the net realizable values ("NRV") of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market driven changes that may affect future selling prices.

c) Impairment of long-lived assets

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit ("CGU") at each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, an estimate of the recoverable amount will be made. These estimates and assumptions are subject to risk and uncertainty and therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

d) Income taxes

Management estimates income taxes based on current tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. To the extent that future cash flows and taxable profit differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

e) Business combinations

Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. In particular, the fair value of contingent consideration is dependent on the outcome of many variables including the acquirees' future profitability.

Cash

Cash in the statement of financial position comprises cash on deposit with financial institutions, cash on hand, restricted cash, and petty cash.

Inventories

The Company values inventory at the lower of cost and NRV. The NRV of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and costs to sell. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. The key assumptions require the use of management judgement regarding reliability of evidence available and are reviewed on a quarterly basis.

2. Significant Accounting Policies (continued)

Inventories (continued)

The cost of inventories is determined on a first in, first out basis, and includes all costs of purchase, costs of conversion and other costs in bringing the inventories to their present location and condition. The costs of purchase include the purchase price, import duties and non-recoverable taxes, transport, handling, and other costs directly attributable to the acquisition of finished goods, materials, or services. The costs of conversion include direct materials and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

Write-down of inventory is recognized within cost of sales in the period the write-down occurs. Reversal of any write-down of inventory, arising from an increase in net realizable value, is recorded within cost of sales to the extent that the related inventory has not been sold.

Buildings and equipment

Buildings and equipment are stated at historical cost net of accumulated depreciation and impairment losses.

The cost of an item of buildings and equipment includes the purchase price or construction cost and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

Where an item of buildings and equipment comprises major components with different useful lives, the components are accounted for as separate items of building and equipment.

Costs incurred for major overhaul of existing buildings and equipment are capitalized and are subject to depreciation once they are available for use. Major overhauls include improvement programs that increase the productivity or extend the useful life of an asset beyond that initially envisaged. The costs of routine maintenance and repairs that do not constitute improvement programs are expensed.

The carrying amounts of buildings and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned. Depreciation starts on the date when commissioning is complete and the asset is ready for its intended use. The major categories of buildings and equipment are depreciated on a declining-balance basis at the following annual rates:

Office furniture and equipment	20%
Vehicles	30%, useful life
Production equipment	20%
Computer equipment	30%
Computer software	100%
Signage	20%
Parking lot	8%
Building	4%
Buildings and vehicles under lease	Over the term of the lease

Impairment of non-financial assets

The Company performs impairment tests on non-financial assets when events or circumstances occur which indicate the carrying amount of the assets may not be recoverable.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

2. Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is the higher of the fair value less costs of disposal and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable by geographic location. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assignments of the time value of money and the risks specific to the asset.

Fair value less cost of disposal is the amount that would be received from selling an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal.

Goodwill and intangible assets and liability

Goodwill is not amortized; instead it is evaluated for impairment annually with October 31 as the assessment date and carried at cost less any accumulated impairment losses. The Company will evaluate goodwill more frequently if events or changes in circumstances indicate a potential impairment.

Definite-lived intangible assets are stated at cost less amortization and are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Definite-lived intangible assets include customer relationships, brand, certification, and non-compete agreements for Clinton, Satellite, Pacer, Coastal, and SC. Definite-lived intangible liabilities include an over market lease for Pacer. The customer relationships, brand, and certification are being amortized using the straight-line method over the estimated useful life of ten years. The non-compete agreements and over market lease are being amortized over the life of the agreements at five years.

Revenue

Revenue is generated mainly from the sale of trusses, wall panels, engineered wood products, and windows.

To determine whether to recognize revenue, the Company follows the following five-step process:

1. Identify the contract with a customer (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations. At this stage a quote turns to an order. Final design gets completed a few days before production where the customer is contacted to finalize these plans;
2. the performance obligation is easily identifiable regarding the goods or services to be transferred. The customer specifically orders trusses, windows, wall panels, or engineered wood products based on a design and quote. They are required to have approved plans through the city which indicate product requirements;
3. the Company can determine the transaction price for the goods or services to be transferred. This is usually obtained from a quote, confirmed purchase order, or final sales order prepared in our truss and window design and quoting software,
4. the contract has commercial substance (i.e. the risk, timing or amount of the Company's future cash flows is expected to change as a result of the contract); and
5. the revenue is recognized when the performance obligation has been satisfied. All deliveries are Free On Board (FOB) and delivered within the same day. Revenue is recognized on day of delivery.

2. Significant Accounting Policies (continued)

Revenue (continued)

Revenue is recognized at a point in time when the Company satisfies the performance obligation by transferring the promised goods and services to the customer and the customer has taken control of the asset. There is no deferred revenue to be disclosed during the year.

A customer obtains control of an asset at a point in time when:

- the Company has transferred physical possession of the asset;
- a customer has accepted the asset;
- a customer has legal title to the asset; and
- a customer has the significant risks and rewards related to the ownership of the asset.

Revenue is measured at the amount of the transaction price that is allocated to that performance obligation. The transaction price (which excludes estimates of constrained variable consideration) that is allocated to each performance obligation is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The Company recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as customer deposits in the consolidated statement of financial position.

No element of financing is deemed present as the sales are made with credit terms standard for the market. Historically, the Company's annual returns for products sold have been negligible as the product is customized to each customer and returns are not authorized. No value has been assigned for returns given the negligible value. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Where possible, the Company will apply the practical expedient not to disclose the transaction price for unsatisfied performance if the performance obligation is part of a contract that has an original expected duration of one year or less. The Company does not expect to have any contracts where the period between the transfer of the promised goods and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

Leases and right-of-use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

2. Significant Accounting Policies (continued)

Leases and right-of-use assets (continued)

A lease liability is initially measured at the present value of the unpaid lease payments. Subsequently, the Company measures a lease liability by: (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

Income tax

Provision for income taxes consists of current and deferred tax expense. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized either in other comprehensive loss or directly in equity, in which case it is recognized in other comprehensive loss or in equity, respectively. Taxes and withholding taxes are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to taxable income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences associated with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss and temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

Earnings per share is calculated by dividing the net income for the period available to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity only when such conversion would have a dilutive effect on income. The Company uses the treasury stock method of calculating fully diluted loss per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

2. Significant Accounting Policies (continued)

Impairment of financial assets

Financial assets 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 assets, the estimated future cash flows of the financial assets have been negatively impacted.

The criteria used to determine if there is objective evidence of an impairment loss include significant financial difficulty of the other party, default or delinquency in payments, or it has become probable that the customer will enter bankruptcy or financial reorganization.

The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Share-based payments

Common shares issued for non-monetary consideration are recorded at the fair value of the goods or services received. The Company has a stock option plan and warrants, whereby stock options and warrants are granted in accordance with the policies of regulatory authorities. The Company records a compensation cost attributable to all share purchase options and warrants granted at fair value at the grant date using the Black-Scholes valuation model and the fair value of all share purchase options and warrants are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options and warrants, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

When the value of goods or services received in exchange for share-based payments cannot be reliably estimated, the value is measured by reference to the trading price of the Company's shares on the TSX Venture Exchange.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Financial Instruments

a) Recognition

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectation of recovering the contractual cash flows of a financial asset.

2. Significant Accounting Policies (continued)

Financial Instruments (continued)

b) Classification and measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

i) those to be measured subsequently at fair value, either through profit or loss (“FVTPL”) or through other comprehensive income (“FVTOCI”); and,
ii) those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

i) amortized cost; or,
ii) FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives).

If the Company was to optionally designate a financial liability in other comprehensive income (“OCI”) then the Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in profit or loss.

The Company’s financial assets consist of cash, trade accounts receivable and due from related party, which is classified and subsequently measured at amortized cost. The Company’s financial liabilities consists of bank indebtedness, accounts payable and accrued liabilities, customer deposits, and long-term debt which are classified and measured at amortized cost using the effective interest method. Interest expense is reported in net loss.

c) Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

There was no material impact on the Company’s consolidated financial statements upon adoption of this standard.

2. Significant Accounting Policies (continued)

Accounting Standards Adopted

a) IFRIC 23 – Uncertainty Over Income Tax Treatments

This interpretation clarifies the recognition and measurement requirements in IAS 12 Income Taxes, for taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates, when there are uncertainties over tax treatments. IFRIC 23 will be effective for annual periods beginning on or after January 1, 2019. The Company adopted at January 1, 2019. The implementation of these amendments did not have an impact on the Company.

b) IAS 19 Amendments – Employee Benefits

In February 2018, the IASB issued amendments to IAS 19. When a change to a plan (an amendment, curtailment, or settlement) takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. This amendment will be effective for annual periods beginning on or after January 1, 2019. The Company adopted at January 1, 2019. The implementation of these amendments did not have an impact on the Company.

Accounting Standards Issued Not Yet Effective

a) IAS 1 and IAS 8 Amendments – Definition of Material

The IASB issued amendments to IAS 1 – *Presentation of financial statements* and IAS 8 – *Accounting policies, changes in accounting estimates and errors* to revise the definition of material to be more clear, consistent, and provide further guidance regarding immaterial information. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

b) IFRS 3 Amendment – Business Combinations

In October 2018, the IASB issued amendments to IFRS 3 Business Combinations. The amendments narrowed and clarified the definition of a business. The amendments will help companies determine whether an acquisition is a business or a group of assets. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. This amendment will be effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted. The Company has elected not to early adopt this new standard for the December 31, 2019 year end. The Company will adopt at January 1, 2020. The Company has determined that the amendments to IFRS 3 may have an impact on future Consolidated Financial Statements depending on an assessment of each business combination that may occur. All current acquisitions would still be treated as a business combination.

3. Acquisition of South Central Building Systems Ltd.

On March 1, 2019, the Company completed its acquisition of SC Building Systems Ltd. (“SC”) whereby the Company acquired all the issued and outstanding shares of SC for $3,400,000 consisting of $2,500,000 in cash, $400,000 in Atlas common shares at $0.40, $500,000 either in cash of five equal monthly instalments or shares at $0.40 beginning three months after closing, and future payment of assets totalling $261,671. SC elected to take $410,000 of the $500,000 in cash and $90,000 in Atlas common shares. SC is located in Carman, Manitoba. SC, a manufacturer of roof and floor trusses aligns with the core business of the Company. Share prices determined at time of negotiation and approved in share purchase agreement.

(Expressed in Canadian dollars)

3. Acquisition of South Central Building Systems Ltd. (continued)

Goodwill of $883,275 has given the Company access to Southern Manitoba and the capital, Winnipeg. SC also has the ability to provide access to the Saskatchewan and US market with its proximity to these locations. Employees of SC also have many years of experience and skills in using automated equipment in the truss industry that can be extended to our other locations as automation is implemented.

A significant portion of the cash required to complete the transaction was provided by a term loan from a major Canadian chartered bank and secured by the assets of SC (Note 19).

In accordance with IFRS 3, the SC acquisition will be accounted for as a business combination. The purchase price allocation has been estimated as follows:

Category	$
Cash	2,910,000
Shares	490,000
Working capital excess	261,671
Total consideration	**3,661,671**
Cash	84,891
Accounts receivable	240,790
Inventories	312,276
Prepaids	20,335
Building and equipment	2,075,300
Other non-current assets	152,958
Intangible assets	714,000
Goodwill	883,275
Accounts payable and accrued liabilities	(134,103)
Long-term debt	(58,577)
Deferred tax liability	(629,474)
	3,661,671

The above PPA calculations have been finalized.

Prior to acquisition SC was a private company and financial information was impractical to obtain and verify. If the acquisition had occurred at January 1, 2019 then the revenues would have been $3,199,045. The following table shows the results of the operations of SC since the acquisition date.

	SC Mar 1 – Dec 31, 2019
	$
Sales per consolidated financial statements	2,825,332
Loss before tax	(303,838)
Income tax recovery	(81,758)
Loss	(222,080)

4. Acquisition of DMH, Pacer, Tandelle, and 2022013

On November 19, 2018, the Company completed its acquisition of DMH, Pacer, Tandelle, and 2022013 (the “Pacer Acquisition”) whereby the Company acquired 100% of the issued and outstanding shares of all four companies for cash of $8,100,000, $500,000 in common shares in Atlas Engineered Products Ltd., and future payment of assets totalling $739,936. DMH and 2022013 are holding companies for Pacer and Tandelle. Pacer is the operations company, while Tandelle holds the assets. This division is located in Ilderton, Ontario and is a manufacturer of roof and floor trusses aligned with the core business of the Company.

(Expressed in Canadian dollars)

4. Acquisition of DMH, Pacer, Tandelle, and 2022013 (continued)

Goodwill of $2,284,327 has given the Company access to the Greater Toronto Area and the US market, with a significant number of employees with years of experience in the industry. Pacer also specialize in the manufacturing of wall panels and floor trusses and this knowledge can be extended to our other locations. Relationships and buying power can now be formed with new suppliers in order to lead to more favourable supplier terms and pricing.

A significant portion of the cash required to complete the transaction was provided by a non-revolving term loan advanced by a major Canadian chartered bank (Note 19).

In accordance with IFRS 3, the Pacer Acquisition was accounted for as a business combination. The purchase price allocation was calculated as follows:

Category	$
Cash	8,100,000
Atlas Engineered Products common shares	500,000
Excess working capital	739,936
Total consideration	**9,339,936**
Cash	1,604,218
Accounts receivable	2,762,261
Inventories	724,809
Prepaids	25,369
Equipment	2,006,400
Intangible assets	4,427,000
Goodwill	2,284,327
Accounts payable and accrued liabilities	(2,095,783)
Corporate taxes payable	(5,079)
Intangible liability	(172,000)
Long-term debt and lease obligations	(910,340)
Deferred tax liability	(1,311,246)
	9,339,936

The above PPA calculations have been finalized.

The following tables shows the results of the operations of Pacer and Tandelle since the acquisition date. Prior to acquisition, Pacer and Tandelle was a private company and financial information was impractical to obtain and verify. The current year is not comparable to the prior period due to a management fee allocation during the fiscal year ending December 31, 2019, which was not applied in the prior period.

	Pacer Jan 1 – Dec 31, 2019	**Pacer Nov 19 – Dec 31, 2018**
	$	**$**
Sales per consolidated financial statements	12,815,348	1,379,365
(Loss) Earnings before tax	(1,526,975)	149,678
Income tax (recovery) expense	(380,207)	38,663
(Loss) Earnings	(1,146,768)	111,015

(Expressed in Canadian dollars)

4. Acquisition of DMH, Pacer, Tandelle, and 2022013 (continued)

	Tandelle Jan 1 – Dec 31, 2019	Tandelle Nov 19 – Dec 31, 2018
	$	$
Sales per consolidated financial statements	330,000	50,000
(Loss) Earnings before tax	(215,725)	12,862
Income tax (recovery) expense	(53,931)	3,216
(Loss) Earnings	(161,794)	9,646

5. Acquisition of Satellite Truss Limited

On August 1, 2018, the Company completed its acquisition of Satellite Truss Limited. ("Satellite") whereby the Company acquired all of the issued and outstanding shares of Satellite for $1,200,000 in cash and $91,844 in cash representing excess working capital. Satellite is located in Merrickville, Ontario. Satellite, a manufacturer of roof and floor trusses aligns with the core business of the Company.

Goodwill of $136,446 has given the Company access to South Eastern Ontario. This location provides access to the Ottawa area and close to Quebec. Relationships with new suppliers have been formed that have led to more favourable supplier terms and pricing.

A significant portion of the cash required to complete the transaction will be provided by a mortgage and equipment term loan to be advanced by a major Canadian chartered bank (Note 19).

In accordance with IFRS 3, the Satellite acquisition has been accounted for as a business combination. The purchase price allocation has been calculated as follows:

Category	$
Cash	1,200,000
Excess working capital	91,844
Total consideration	**1,291,844**
Cash	160,462
Accounts receivable	262,526
Inventories	193,945
Prepaids	3,477
Buildings and equipment	801,800
Intangible assets	202,000
Goodwill	136,446
Accounts payable and accrued liabilities	(228,726)
Long term debt	(83,012)
Deferred tax liability	(157,074)
	1,291,844

The above purchase price allocation ("PPA") calculations have been finalized.

The following table shows the results of the operations of Satellite since the acquisition date. Prior to acquisition Satellite was a private company and financial information was impractical to obtain and verify. The current year is not comparable to the prior period due to a management fee allocation during the fiscal year ending December 31, 2019, which was not applied in the prior period.

(Expressed in Canadian dollars)

5. Acquisition of Satellite Truss Limited (continued)

	Satellite Jan 1 – Dec 31, 2019	**Satellite Aug 1 – Dec 31, 2018**
	$	**$**
Sales per consolidated financial statements	2,806,024	1,157,711
Earnings before tax	188,520	73,977
Income tax	47,441	71,655
Earnings	141,079	2,322

6. Acquisition of Coastal Windows Ltd.

On October 1, 2018, the Company completed its acquisition of Coastal Windows Ltd. (“Coastal”) whereby the Company acquired all of the issued and outstanding shares for $250,000 in cash and $400,000 in common shares of Atlas Engineered Products Ltd. Coastal is located in Nanaimo, British Columbia and is a manufacturer of high-quality windows aligned with the core business of the Company.

This acquisition has given the Company access to the window market with a significant number of employees with years of experience in the industry. The window market allows the Company to provide a customer with more products they need to complete their build at one location. This provides bundling options that customers will prefer.

Goodwill of $90,773 has given the Company access to the window manufacturing market on Vancouver Island. This is in line with the Company’s goal of offering a full lock-up solution to our customers. This goodwill amount has been written off in the current year end (Note 13).

The full portion of the cash required to complete the transaction was provided by the Company’s excess cash and a private placement financing.

In accordance with IFRS 3, the Coastal acquisition was accounted for as a business combination. The purchase price allocation was calculated as follows:

Category	$
Cash	250,000
Atlas Engineered Products common shares	400,000
Total consideration	**650,000**
Cash	19,423
Accounts receivable	188,613
Inventories	146,377
Equipment	239,030
Intangible asset	142,000
Goodwill	90,773
Accounts payable and accrued liabilities	(105,289)
Deferred tax liability	(70,927)
	650,000

The above PPA calculations have been finalized.

The following table shows the results of the operations of Coastal since the acquisition date. Prior to acquisition Coastal was a private company and financial information was impractical to obtain and verify. The current year is not comparable to the prior period due to a management fee allocation during the fiscal year ending December 31, 2019, which was not applied in the prior period.

(Expressed in Canadian dollars)

6. Acquisition of Coastal Windows Ltd. (continued)

	Coastal Jan 1 – Dec 31, 2019	Coastal Oct 1 – Dec 31, 2018
	$	$
Sales per consolidated financial statements	1,299,123	288,385
Loss before tax	(445,717)	(22,105)
Income tax recovery	(97,080)	(5,968)
Loss	(348,637)	(16,137)

7. Acquisition of Clinton Roof Truss Ltd.

On February 21, 2018, the Company completed its acquisition of Clinton Roof Truss Ltd. (the “Clinton Acquisition”) whereby the Company acquired 100% of the issued and outstanding shares of Clinton Roof Truss Ltd. (“Clinton”) for cash of $2,600,000. Clinton is located in Clinton, Ontario. Clinton, a manufacturer of roof and floor trusses aligns with the core business of the Company.

Goodwill of $474,428 has given the Company access to South Western Ontario with a significant number of employees with years of experience in the industry. Clinton also specializes in the manufacturing of floor trusses and this knowledge can be extended to other locations. Relationships with new suppliers have been formed that have led to more favourable supplier terms and pricing.

A significant portion of the cash required to complete the transaction was provided by a non-revolving term loan advanced by a major Canadian chartered bank (see Note 19).

In accordance with IFRS 3, the Clinton Acquisition was accounted for as a business combination. The purchase price allocation was calculated as follows:

Category	$
Cash	2,600,000
Total consideration	**2,600,000**
Cash	116,104
Accounts receivable	86,093
Inventories	729,148
Building and equipment	1,242,910
Intangible assets	379,000
Goodwill	474,428
Accounts payable and accrued liabilities	(144,540)
Deferred tax liability	(283,143)
	2,600,000

The above purchase price allocation (“PPA”) calculations have been finalized.

The following table shows the results of the operations of Clinton since the acquisition date. Prior to acquisition Clinton was a private company and financial information prior to the acquisition was impractical to obtain and verify. The current year is not comparable to the prior periods due to a management fee allocation during the fiscal year ending December 31, 2019, which was not applied in the prior periods.

(Expressed in Canadian dollars)

7. Acquisition of Clinton Roof Truss Ltd. (continued)

	Clinton Jan 1 – Dec 31, 2019	Clinton Jun 1 – Dec 31, 2018	Clinton Feb 21 – May 31, 2018
	$	$	$
Sales per consolidated financial statements	4,201,276	3,182,638	1,148,536
Earnings before tax	604,068	612,693	172,955
Income tax	155,048	153,173	43,239
Earnings	449,020	459,520	129,716

8. Accounts receivable

Trade and other receivables were as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Trade accounts receivable	3,334,500	4,051,405	1,999,886
Other receivables	58,925	30,631	13,751
Loss allowance	(5,443)	(26,407)	(4,864)
	3,387,982	4,055,629	2,008,773

Trade and other receivables are non-interest bearing and are carried at amortized cost, and impaired using the simplified approach which records impairment at the lifetime expected credit losses. During the year ended December 31, 2019, the estimated credit loss amounted to $5,443.

9. Inventories

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Raw materials	1,376,642	1,547,709	979,348
Work in progress	116,802	56,725	34,768
Finished goods	365,486	382,516	333,824
	1,858,930	1,986,950	1,347,940

During the year ended December 31, 2019, $14,492,681 (seven months ended December 31, 2018 - $6,294,410, and year ended May 31, 2018 - $5,424,353) in raw materials was expensed through cost of sales. It was determined that there was no requirement to write down any raw material, work in progress, or finished goods inventory during the year ended December 31, 2019.

10. Loan receivable

During the year ended May 31, 2018, $290,085 had been advanced to Selkirk Truss Ltd. related to the potential acquisition of the business and was included in prepaid expenditures in prior periods. Upon completion of due diligence and negotiations it has been determined that there will be no deal to acquire Selkirk at this time.

(Expressed in Canadian dollars)

10. Loan receivable

On March 27, 2019, an agreement was reached with Selkirk for repayment of the balance plus interest, which includes a personal guarantee. Selkirk made a payment of $18,085 plus interest in the first month, April 2019, and was supposed to make principal payments of $8,500 plus accrued interest, prime plus 1% each month subsequently until the balance is paid, but only one payment was received. Subsequent to the year end, the Company received $9,993 in interest payments plus monthly post-dated cheques for interest only of $1,110 starting April 2020 and ending August 2020. During the year ended December 31, 2019, the Company has written off this loan receivable due to the lack of principal payments and the economic situation subsequent to the year end that has made it unlikely payments will be received. The Company is still attempting to collect funds and any potential future payments obtained will be included as income in subsequent periods.

11. Buildings and equipment

	Land & Buildings	Office Furniture and Equipment	Vehicles	Production Equipment	Computer Equipment and Software	Signage and Parking Lot	Total
	$	$	$	$	$	$	$
Cost							
Balance, May 31, 2017	1,148,158	97,894	829,110	1,219,952	203,014	191,062	3,689,190
Additions	380,977	1,000	207,415	390,000	18,502	-	997,894
Additions through business combination	769,451	8,960	209,500	244,450	-	10,549	1,242,910
Disposals	-	-	(96,154)	-	-	-	(96,154)
Balance, May 31, 2018	2,298,586	107,854	1,149,871	1,854,402	221,516	201,611	5,833,840
Additions	2,877,905	-	23,140	115,778	7,718	-	3,024,541
Additions through business combination	590,000	62,500	1,269,800	1,124,930	-	-	3,047,230
Disposals	(380,977)	(1,000)	(55,250)	-	-	-	(437,227)
Balance, December 31, 2018	5,385,514	169,354	2,387,561	3,095,110	229,234	201,611	11,468,384
Additions	124,102	33,428	441,994	596,299	36,502	-	1,232,325
Additions through business combination	892,000	7,000	290,500	885,800	-	-	2,075,300
Disposals	-	-	(400)	-	-	-	(400)
Balance, December 31, 2019	6,401,616	209,782	3,119,655	4,577,209	265,736	201,611	14,775,609

(Expressed in Canadian dollars)

11. Buildings and equipment (continued)

	Land & Buildings	Office Furniture and Equipment	Vehicles	Production Equipment	Computer Equipment and Software	Signage and Parking Lot	Total
	$	$	$	$	$	$	$
Accumulated depreciation							
Balance, May 31, 2017	306,174	91,964	367,127	1,027,628	192,595	114,573	2,100,061
Additions	269,979	2,182	158,485	101,910	5,901	6,627	545,084
Disposals	-	-	(23,486)	-	-	-	(23,486)
Balance, May 31, 2018	576,153	94,146	502,126	1,129,538	198,496	121,200	2,621,659
Additions	278,221	2,858	137,663	107,491	4,704	3,793	534,730
Disposals	(74,080)	(160)	(26,930)	-	-	-	(101,170)
Balance, December 31, 2018	780,294	96,844	612,859	1,237,029	203,200	124,993	3,055,219
Additions	888,866	18,350	681,185	489,878	13,286	6,189	2,097,754
Disposals	-	-	(379)	-	-	-	(379)
Balance, December 31, 2019	1,669,160	115,194	1,293,665	1,726,907	216,486	131,182	5,152,594
Carrying amount at May 31, 2018	1,722,433	13,708	647,745	724,864	23,020	80,411	3,212,181
Carrying amount at December 31, 2018	4,605,220	72,510	1,774,702	1,858,081	26,034	76,618	8,413,165
Carrying amount at December 31, 2019	4,732,456	94,588	1,825,990	2,850,302	49,250	70,429	9,623,015

Depreciation for tangible assets during the year ended December 31, 2019 was $2,097,754 (seven months ended December 31, 2018 - $534,730, and year ended May 31, 2018 - $545,084). During the year ended December 31, 2019, $1,208,274 (seven months ended December 31, 2018 - $332,316, and year ended May 31, 2018 - $336,323) of the depreciation was included in cost of sales.

The above buildings and equipment schedule includes right-of-use assets. The following summarizes those right-of-use assets and their depreciation for the year ended December 31, 2019, seven-months period ended December 31, 2018, and year ended May 31, 2018.

	Building	Office Furniture and Equipment	Vehicles	Production Equipment	Total
	$	$	$	$	$
Balance, May 31, 2017	841,984	-	428,331	-	1,270,315
Additions	380,977	1,000	190,000	390,000	961,977
Disposals	-	-	(66,092)	-	(66,092)
Depreciation charge for the year	(261,379)	(100)	(115,666)	(39,000)	(416,145)
Balance, May 31, 2018	961,582	900	436,573	351,000	1,750,055
Additions	2,865,409	-	675,000	-	3,540,409
Leaseback update	-	(900)	(161,500)	(351,000)	(513,400)
Disposals	(306,902)	-	-	-	(306,902)
Depreciation charge for the year	(259,026)	-	(57,873)	-	(316,899)
Balance, December 31, 2018	3,261,063	-	892,200	-	4,153,263
Additions	-	-	408,576	-	408,576
Disposals	-	-	-	-	-
Depreciation charge for the year	(826,841)	-	(378,745)	-	(1,205,586)
Balance, December 31, 2019	2,434,222	-	922,031	-	3,356,253

(Expressed in Canadian dollars)

12. Intangible assets

	Customer Relationships	Brand	Certifications	Non-Compete Agreements	Total
	$	$	$	$	$
Cost					
Balance, May 31, 2017	-	-	-	-	-
Additions	333,000	120,000	-	-	453,000
Balance, May 31, 2018	333,000	120,000	-	-	453,000
PPA adjustment	(41,000)	(33,000)	-	-	(74,000)
Additions	3,465,000	751,000	142,000	413,000	4,771,000
Balance, December 31, 2018	3,757,000	838,000	142,000	413,000	5,150,000
Additions	282,000	368,000	-	64,000	714,000
Balance, December 31, 2019	4,039,000	1,206,000	142,000	477,000	5,864,000
Accumulated Depreciation					
Balance, May 31, 2017	-	-	-	-	-
Additions	13,800	3,000	-	-	16,800
Balance, May 31, 2018	13,800	3,000	-	-	16,800
Additions	50,506	12,702	3,549	8,415	75,172
Balance, December 31, 2018	64,306	15,702	3,549	8,415	91,972
Additions	399,196	114,478	14,196	93,266	621,136
Balance, December 31, 2019	463,502	130,180	17,745	101,681	713,108
Carrying amount at May 31, 2018	319,200	117,000	-	-	436,200
Carrying amount at December 31, 2018	3,692,694	822,298	138,451	404,585	5,058,028
Carrying amount at December 31, 2019	3,575,498	1,075,820	124,255	375,319	5,150,892

Depreciation for intangible assets during the year ended December 31, 2019 was $621,136 (seven months ended December 31, 2018 - $75,172, and year ended May 31, 2018 - $16,800).

As at December 31, 2019, the Company determined that there was no impairment to intangible assets.

13. Goodwill

The following summarizes the Company's goodwill as at December 31, 2019, December 31, 2018, and May 31, 2018.

	Clinton	Satellite	Coastal	Pacer	SC	Total
	$	$	$	$	$	$
Cost						
Balance, May 31, 2017	-	-	-	-	-	-
Additions	418,928	-	-	-	-	418,928
Balance, May 31, 2018	418,928	-	-	-	-	418,928
PPA adjustment	55,500	-	-	-	-	55,500
Additions	-	136,446	90,773	2,279,248	-	2,506,467
Balance, December 31, 2018	474,428	136,446	90,773	2,279,248	-	2,980,895
Additions	-	-	-	5,079	883,275	888,354
Goodwill impairment	-	-	(90,773)	-	-	(90,773)
Balance, December 31, 2019	474,428	136,446	-	2,284,327	883,275	3,778,476

(Expressed in Canadian dollars)

13. Goodwill (continued)

The Company used the value in use method to evaluate the carrying amount of goodwill. The key assumptions used in the assessment include an estimate of current cash flow, taxes, projected growth of 5% each year with gross margin improving and then remaining consistent each year and expenses remaining consistent, and capital maintenance expenditures. A discount rate of between 20.4%-25.9% has been applied to the expected cash flow, after adjusting the cash flow for an estimate of the taxes and capital maintenance expenditures.

It was determined that there was an impairment of the Coastal acquisition and management has elected to write off the entire goodwill balance of $90,773. The sensitivity analysis indicated reasonable changes in the key assumptions will not result in an impairment loss for Clinton, Satellite, and Pacer.

14. Income taxes

The tax expense differs from the theoretical amount that would arise using the tax rate applicable to profits of the Company for the year ended December 31, 2019, period ended December 31, 2018, and year ended May 31, 2018 as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Loss for the year before income tax	(544,545)	(1,716,445)	(4,841,177)
Average statutory rate	27.00%	27.00%	26.42%
Estimated income tax recovery	(147,027)	(463,440)	(1,279,039)
Difference in tax rates	54,570	(18,019)	(37,416)
Items not deductible for tax purposes	133,687	14,980	1,411,680
Change in estimate	133,804	121	(29,645)
Reduction of loss on amalgamation with associated entity	-	-	158,713
Recognition of previously unrecognized tax benefits	35,568	-	(110,705)
Income tax expense (recovery)	210,602	(466,359)	113,588

The breakdown of the income tax expense during the year is as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Current tax expense	199,725	302,953	118,672
Deferred tax expense (recovery)	10,877	(769,312)	(5,084)
Total income tax expense (recovery)	210,602	(466,359)	113,588

(Expressed in Canadian dollars)

14. Income taxes (continued)

The significant components of the Company's net deferred tax assets and liabilities are as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Deferred tax assets			
Lease obligations	926,838	1,160,850	497,440
Capital loss carry forwards	87,419	51,851	51,851
Non-capital loss carry forwards	1,205,511	1,337,338	708,481
Share issue costs	83,641	112,357	74,614
	2,303,409	2,662,396	1,332,386
Offset against deferred tax liabilities	(1,236,989)	(1,010,454)	(745,533)
Unrecognized deferred tax assets	(87,419)	(51,851)	(51,851)
Deferred tax assets	979,001	1,600,091	535,002
Deferred tax liabilities			
Buildings and equipment	(1,716,781)	(1,504,326)	(635,091)
Brand and customer relationships	(1,300,067)	(1,266,727)	(109,050)
Exchangeable notes	-	-	(1,392)
Offset against deferred tax assets	1,236,989	1,010,454	745,533
Deferred tax liabilities	(1,779,859)	(1,760,599)	-
Net deferred tax balance	(800,858)	(160,508)	535,002

The Company has non-capital losses of approximately $5,018,197 at December 31, 2019, which are available to be carried forward and can be used to offset future taxable income. These non-capital losses expire as follows:

Expiry Date	Amount
	$
December 31, 2029	467,148
December 31, 2030	1,096,367
December 31, 2031	435,105
December 31, 2032	209,187
December 31, 2033	-
December 31, 2034	3,498
December 31, 2035	164,977
December 31, 2036	247,720
December 31, 2037	-
December 31, 2038	2,364,157
December 31, 2039	30,038
	5,018,197

(Expressed in Canadian dollars)

15. Bank Indebtedness

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Operating Line	1,470,000	-	-

The Company has an operating line of credit available for up to $1.75 million with no set terms of repayment. Interest rate on this line of credit is 5.7%. The line of credit is part of a larger facility that has a general security agreement and charges against fixed assets that was provided by a major Canadian bank. This debt is with the same major Canadian bank as the covenant breach (Note 19).

16. Accounts payable and accrued liabilities

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Trade accounts payable	1,711,022	2,737,022	1,091,902
Sales taxes payable	220,686	187,152	136,846
Salaries and vacation payable	309,924	316,641	93,956
Other accounts payable	65,621	31,712	10,648
Accrued liabilities	850,565	841,412	135,250
	3,157,818	4,113,939	1,468,602

17. Intangible liability

	Over-Market Lease Agreement	Total
	$	$
Cost		
Balance, May 31, 2018	-	-
Additions	172,000	172,000
Balance, December 31, 2018	172,000	172,000
Additions	-	-
Balance, December 31, 2019	172,000	172,000
Accumulated Depreciation		
Balance, May 31, 2018	-	-
Additions	2,867	2,867
Balance, December 31, 2018	2,867	2,867
Additions	34,404	34,404
Balance, December 31, 2019	37,271	37,271
Carrying amount at December 31, 2018	169,133	169,133
Carrying amount at December 31, 2019	134,729	134,729

Depreciation for intangible liability during the year ended December 31, 2019 was $34,404 (seven months ended December 31, 2018 - $2,867, and year ended May 31, 2018 - $NIL).

As at December 31, 2019, the Company determined that there was no impairment to the intangible liability due to the recent nature of the transaction.

(Expressed in Canadian dollars)

18. Lease obligations

Certain buildings and equipment of the Company's' are held as right-of-use assets under lease obligations. The terms and the outstanding balances of the lease obligations as at December 31, 2019, December 31, 2018, and May 31, 2018 are as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Building under right-of-use asset lease repayable in monthly instalments of $22,000 inclusive of implied interest of 6.20% per annum, residual value of $nil, maturing in January 2021 (Note 25).	276,161	515,635	648,706
Building under right-of-use asset lease repayable in monthly instalments of $5,359 inclusive of implied interest of 6.45% per annum, residual value of $nil, maturing August 2021.	105,871	162,195	-
Building under right-of-use asset lease repayable in monthly instalments of $53,160 inclusive of implied interest of 6.45% per annum, residual value of $nil, maturing November 2023.	2,152,987	2,616,375	-
Vehicle under right-of-use asset lease repayable in monthly instalments of $4,879 with interest of 9.1% per annum, residual value of $51,000, maturing November 2020.	98,224	145,445	171,072
Vehicle under right-of-use asset lease repayable in monthly instalments of $5,150 with interest of 4.4% per annum, residual value of $2, maturing in April 2022.	136,804	191,278	-
Vehicle under right-of-use asset lease repayable in monthly instalments of $2,551 with interest of 4.5% per annum, residual value of $1, maturing September 2022.	79,039	105,472	-
Vehicle under right-of-use asset lease repayable in monthly instalments of $5,287 with no interest and residual value of $1, maturing December 2022.	190,339	253,786	-
Vehicle under right-of-use asset lease repayable in monthly instalments of $1,354 with interest of 4.6% per annum, residual value of $16,500, maturing October 2021.	43,686	57,576	65,389
Vehicle under right-of-use asset lease repayable in monthly instalments of $9,352 with interest of 4.7% per annum, residual value of $nil, maturing November 2022.	305,365	-	-
Vehicle under right-of-use asset lease repayable in monthly instalments of $2,021 with interest of 8.0% per annum, residual value of $16,000, maturing May 2020.	-	36,234	48,359
Building under right-of-use asset lease repayable in monthly instalments of $11,500 inclusive of implied interest of 5.95% per annum, residual value of $nil, maturing in February 2021	-	-	350,003
Vehicle and equipment under right-of-use asset lease repayable in monthly instalments of $13,262 with interest of 4.6% per annum, maturing October 2021.	-	-	558,840
Total lease obligation	3,388,476	4,083,996	1,842,369
Current portion	(1,174,485)	(1,000,867)	(568,069)
Non-current portion	2,213,991	3,083,129	1,247,300

(Expressed in Canadian dollars)

18. Lease obligations (continued)

The following is a schedule of the total lease payments made during the year ended December 31, 2019, period ended December 31, 2018, and year ended May 31, 2018:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Principal payment	1,104,096	318,955	351,554
Finance charge	250,255	48,704	81,869
Total lease payments	1,354,351	367,659	433,423

During the year ended December 31, 2019 a vehicle was purchased under a right-of-use asset lease for $408,576 (seven months ended December 31, 2018 – a building, vehicles and equipment in the amount of $3,540,409 and the year ended May 31, 2018 – building, vehicles and equipment in the amount of $961,977).

The following is a schedule of the Company's future minimum lease payments related to the building, equipment, and vehicles under lease obligations:

	December 31, 2019
	$
2020	1,357,548
2021	1,003,231
2022	847,795
2023	563,491
2024	-
Total minimum lease payments	3,772,065
Less: imputed interest	(383,589)
Total present value of minimum lease payments	3,388,476

As of December 31, 2019, the Company has not entered into any short-term or low-value leases.

(Expressed in Canadian dollars)

19. Long-term debt

The long-term debt consists of the following:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
RBC loan[1]	-	1,030,765	1,149,217
RBC loan[2]	529,641	546,788	555,701
RBC Leaseback[3]	339,740	479,946	-
RBC Leaseback[4]	153,347	204,354	-
RBC loan[5]	418,335	438,837	-
RBC loan[6]	-	4,435,920	-
RBC assumed loan[7]	-	20,499	-
RBC assumed loan[8]	3,849	20,531	-
RBC assumed loan[9]	6,509	14,971	-
RBC assumed loan[10]	15,719	30,229	-
RBC assumed loan[11]	8,113	15,143	-
RBC assumed loan[12]	22,119	36,089	-
RBC assumed loan[13]	29,653	41,923	-
RBC assumed loan[14]	72,000	93,600	-
RBC assumed loan[15]	47,110	60,570	-
BDC loan[16]	892,000	-	-
BDC loan[17]	1,183,300	-	-
Scotiabank assumed loan[18]	42,981	-	-
RBC loan[19]	4,187,534	-	-
Saw financing[20]	323,649	-	-
	8,275,599	7,470,165	1,704,918
Less current portion of term debt	(6,182,748)	(7,470,165)	(1,704,918)
Total long-term portion of term debt	2,092,851	-	-

1. A term loan with a major Canadian bank bearing interest at a floating base rate (6.45% as at Dec 31, 2019) repayable at approximately $23,567 per month with the initial term ending February 2019. The loan is amortized over 61 months. The loan is secured by a general security interest granted by the Company, with a security on the equipment of Clinton.
2. A mortgage with a major Canadian bank bearing interest at a floating base rate (4.95% as at Dec 31, 2019) repayable at approximately $3,686 per month with the current term ending February 2021. The mortgage is amortized over 251 months. The loan is secured by a general security interest granted by the Company, with a security on the land and building of Clinton.
3. A leaseback with a major Canadian bank bearing interest at an implied rate of 4.6% repayable in instalments of $13,262 per month over a 48-month term. The leaseback is secured by the equipment of Truebeam.
4. A leaseback with a major Canadian bank bearing interest at an implied rate of 4.7% repayable in instalments of $4,965 per month over a 48-month term. The leaseback is secured by the equipment of Satellite.
5. A mortgage with a major Canadian bank bearing interest at a fixed rate of 5.05% for the initial term repayable at approximately $3,510 per month. The initial term ends October 9, 2023. The mortgage is amortized over 180 months. The loan is secured by a general security interest granted by the Company, with security on the land and building of Satellite.
6. A term loan with a major Canadian bank bearing interest at a floating base rate (6.45% as Dec 31, 2019) repayable at approximately $87,936 per month. The loan is amortized over 61 months. The loan is secured by a general security interest granted by the Company, with a security on the equipment of Tandelle.
7. A term loan with a major Canadian bank bearing interest at a floating base rate (4.7% as at Dec 31, 2019) repayable at approximately $2,320 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 10 months. The loan is secured by a specific piece of equipment.
8. A term loan with a major Canadian bank bearing interest at a floating base rate (4.3% as at Dec 31, 2019) repayable at approximately $1,300 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 17 months. The loan is secured by a specific piece of equipment.
9. A term loan with a major Canadian bank bearing interest at a floating base rate (4.3% as at Dec 31, 2019) repayable at approximately $675 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 24 months. The loan is secured by a specific piece of equipment.

19. Long-term debt (continued)

10. A term loan with a major Canadian bank bearing interest at a floating base rate (4.3% as at Dec 31, 2019) repayable at approximately $1,265 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 26 months. The loan is secured by a specific piece of equipment.
11. A term loan with a major Canadian bank bearing interest at a floating base rate (4.3% as at Dec 31, 2019) repayable at approximately $570 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 29 months. The loan is secured by a specific piece of equipment.
12. A term loan with a major Canadian bank bearing interest at a floating base rate (4.3% as at Dec 31, 2019) repayable at approximately $1,220 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 33 months. The loan is secured by a specific piece of equipment.
13. A term loan with a major Canadian bank bearing interest at a floating base rate (4.3% as at Dec 31, 2019) repayable at approximately $1,120 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 42 months. The loan is secured by a specific piece of equipment.
14. A term loan with a major Canadian bank bearing interest at a floating base rate (4.3% as at Dec 31, 2019) repayable at approximately $2,050 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 53 months. The loan is secured by a specific piece of equipment.
15. A term loan with a major Canadian bank bearing interest at a floating base rate (4.3% as at Dec 31, 2019) repayable at approximately $1,280 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 55 months. The loan is secured by a specific piece of equipment.
16. A term loan with a major Canadian bank bearing interest at a floating base rate (6.10% as at Dec 31, 2019) repayable at approximately $3,717 per month with maturity being December 2039. The loan is interest only payments until January 9, 2020 and is amortized over 240 months. The loan is secured by a general security interest granted by the Company, with a security on the land and building of SC.
17. A term loan with a major Canadian bank bearing interest at a floating base rate (7.64% as at Dec 31, 2019) repayable at approximately $14,080 per month with maturity being December 2026. The loan is interest only payments until January 9, 2020 and is amortized over 84 months. The loan is secured by a general security interest granted by the Company, with a security on the equipment of SC.
18. A financing loan with a major Canadian bank bearing interest at 0.00% as at Dec 31, 2019, repayable at approximately $811 per month. The loan was assumed on the acquisition of SC and remaining life is amortized over 62 months. The loan is secured by a specific piece of equipment.
19. A term loan with a major Canadian bank bearing interest at a floating base rate (6.7% as at Dec 31, 2019) repayable at principal of $144,398 plus interest per month from June to December and interest only payments from January to May with the initial term ending June 2021. The loan is amortized over 55 months. The loan is secured by a general security interest granted by the Company, with a security on various equipment of the Company.
20. An equipment financing with a major equipment supplier, Mitek Canada Inc. bearing interest at 0.00% and repayable at principal of $10,440 plus tax per month. The loan is secured by a specific piece of equipment.

The Company applies judgement in the classification of long-term and short-term debt portions. The Company assumes that the prime interest rate will remain consistent or not change materially over the next twelve months. Loans 2, 5, 8, and 18 of the Company’s debt obligations have consistent payments and a change in the interest rate would affect the principal payment portion as the overall payment is set for the term. The remaining loans have fluctuating payments that would change as the interest rate changes and the principal portion of those payments would remain constant.

During the year ended December 31, 2019, the Company restructured some of its debt. Loans 1 and 6 above were restructured to a new term loan (Loan 19 above). The Company has also restructured Loan 2 to be renewable every two years instead of every year. This has allowed the Company to reallocate the debt between short and long term as detailed in the schedule above.

The long-term debt contains two financial covenants. A debt service coverage ratio of not less than 1.25 to 1 which is tested annually at its year end and a current ratio, updated October 2019, of not less than 1.25 to 1 which is tested quarterly. The Company was not in compliance with certain covenants with RBC as at the year ended December 31, 2019. As a result, all the Company’s long-term debt with RBC has been presented as current. The Company does have debt with other lenders and those amounts are not affected by the RBC covenant breach. Subsequent to year end, the bank has provided a waiver on these covenants up to December 31, 2020.

20. Exchangeable notes

On August 9, 2017, Atlas issued exchangeable notes in the principal amount $147,500 to individuals who have since become shareholders of the Company. The principal amount of the exchange notes is exchangeable into one unit for a price of $0.20 per unit. Each unit consists of one common share and one warrant. Each warrant is exercisable at a price of $0.40 per share for a period of one year. The notes matured on August 9, 2018 and the individuals have converted the exchangeable note plus interest for the year into 754,260 common shares.

On August 9, 2017, Atlas issued an exchangeable note in the principal amount of $150,000 to a shareholder of the Company. The principal amount of the exchangeable note is exchangeable into one common share for a price of $0.20 per share of the resulting company upon completion of the transaction. The note matured on August 9, 2018 and the individual has converted the exchangeable note plus interest for the year into 767,045 common shares.

Upon initial recognition, the debt component of $271,630 of the exchangeable notes was calculated by discounting the future cash flows of interest and principal at a rate of 15%, which represents management's best estimate of the interest rate to be used.

The value of the equity portion of the exchangeable notes was obtained by using the residual method. The net proceeds of $19,144, net of the fair value of the debt component and deferred income tax, was allocated to the exchangeable notes upon initial recognition and recognized as a component of equity.

The estimated amortized cost of the exchangeable notes at December 31, 2018 is $297,500, which includes accretion of $20,716, and has been determined based on management's best estimate of amortized cost. For the seven months ended December 31, 2018, the amount of interest incurred from the exchangeable notes was $14,875.

21. Share capital

a) Authorized

Unlimited common shares without par value.

b) Share capital transactions

On March 1, 2019, the Company acquired SC. The Company issued 1,000,000 common shares at $0.40 per share for gross proceeds of $400,000.

On October 1, 2019, the Company issued 225,000 common shares at $0.40 per share in lieu of $90,000 of the final payment for the SC acquisition.

On December 6, 2019, 16,666 stock options were exercised resulting in proceeds of $5,000.

c) Options

The Company adopted a share option plan that allows for the issuance of up to 10% of the issued and outstanding shares as incentive share options to directors, officers, employees and consultants to the Company. Share options granted under the plan may be subject to vesting provisions as determined by the Board of Directors. Standard vesting provisions are in thirds every six months from the date of grant. The options are priced using the trading price at the end of the close on the date of the grant and they are exercisable within five years from the date of grant.

(Expressed in Canadian dollars)

21. Share capital

c) Options (continued)

The Company's share options outstanding as at December 31, 2019, December 31, 2018, and May 31, 2018 and the changes for the years then ended are as follows:

	Number	Weighted average exercise price
		$
Balance as at May 31, 2017	-	-
Granted	3,072,500	0.53
Forfeited	(183,333)	0.49
Balance as at May 31, 2018	2,889,167	0.53
Granted	230,000	0.56
Forfeited	(749,168)	0.56
Balance as at December 31, 2018	2,369,999	0.53
Granted	1,390,000	0.30
Exercised	(16,666)	0.30
Forfeited	(658,333)	0.49
Balance as at December 31, 2019	3,085,000	0.43

The total share-based payment expense recorded during the year December 31, 2019 was $341,319 (seven months ended December 31, 2018 was $308,577 and the year ended May 31, 2018 was $696,851).

The following table summarizes information about the share options outstanding as at December 31, 2019:

Exercise price per share of options outstanding	Number of options outstanding	Weighted average remaining life (years) options outstanding	Weighted exercise price of options exercisable	Number of options exercisable	Expiry date
$0.49	1,222,500	2.85	$0.49	1,222,500	November 8, 2022
$0.60	450,000	3.10	$0.60	450,000	February 5, 2023
$0.53	202,500	3.14	$0.53	202,500	February 21, 2023
$0.30	1,210,000	4.17	$0.30	403,331	March 4, 2024
$0.43	3,085,000	3.43	$0.48	2,278,331	

The Black-Scholes Pricing Model was used to estimate the fair value of the share options using the following assumptions on the grant date of the options:

Issue date	Expected option life (years)	Risk free interest rate	Dividend yield	Expected volatility	Expected forfeiture rate	Weighted average fair value
November 8, 2017	5.00	1.60%	Nil	146%	0.00%	$0.44
February 5, 2018	5.00	1.60%	Nil	132%	2.15%	$0.47
February 21, 2018	5.00	1.60%	Nil	132%	2.15%	$0.46
April 18, 2018	5.00	1.60%	Nil	132%	2.22%	$0.47
March 4, 2019	5.00	1.80%	Nil	165%	25.45%	$0.28

(Expressed in Canadian dollars)

21. Share capital

d) Warrants

The Company issued a ½ warrant with each common share with the two private placements completed October 31, 2018 and December 3, 2018. These warrants allow the holder to exercise the warrant for a common share of the Company at a price of $0.60. These warrants expire two years after they were issued.

The Company's warrants outstanding as at December 31, 2019 and December 31, 2018 and the changes for the year and period then ended are as follows:

	Number	Weighted average exercise price
		$
Balance as at May 31, 2018	-	-
Granted	5,165,000	0.60
Forfeited	-	-
Balance as at December 31, 2018	5,165,000	0.60
Granted	-	-
Forfeited	-	-
Balance as at December 31, 2019	5,165,000	0.60

There were no warrants granted or forfeited for the year ended May 31, 2018.

The total warrant reserve recorded during the year for warrants for December 31, 2019 was $NIL (December 31, 2018: $NIL; May 31, 2018: $NIL).

22. Revenue

The Company has three distinct revenue streams: trusses, engineered wood products, and windows. The Company's revenues by product line for the year ended December 31, 2019, period ended December 31, 2018, and year ended May 31, 2018 is as follows:

Year ended December 31, 2019

	Trusses	Engineered wood products	Windows	Total
	$	$	$	$
Total revenue	27,690,431	5,773,973	1,299,123	34,763,527

Period ended December 31, 2018

	Trusses	Engineered wood products	Windows	Total
	$	$	$	$
Total revenue	10,611,283	2,453,008	288,385	13,352,676

(Expressed in Canadian dollars)

22. Revenue (continued)

Year ended May 31, 2018

	Trusses	Engineered wood products	Windows	Total
	$	$	$	$
Total revenue	8,844,925	2,752,251	-	11,597,176

23. Cost of sales

Cost of sales for the year ended December 31, 2019, period ended December 31, 2018, and year ended may 31, 2018 is broken down as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Materials	14,608,725	6,345,150	5,424,353
Labour	8,384,872	2,801,221	2,370,490
Fuel, maintenance, and overhead	2,101,723	762,759	594,184
Amortization	1,208,274	332,317	336,323
Total cost of sales	26,303,594	10,241,447	8,725,350

24. Restructuring

By November 30, 2018, the closure and asset allocation of Truebeam in Northern Alberta was completed. The equipment was disassembled and, along with inventory, transported to other manufacturing locations within the Company. The economy in Alberta was not supporting the operations of this location and it was deemed best by management to allocate the assets to other manufacturing locations where the assets can be better utilized for increased sales and profits.

The Company had entered into a three-year lease at this location and this lease obligation and asset has been written off and allocated as an accrued liability until either a payout is negotiated or the lease term ends. The Company has assessed the ability to sublease and due to the remote location, there is very limited leasing options, and none have been identified. There were also costs incurred in reallocating and restructuring the equipment and inventory to other locations.

25. Related party transactions

The Company’s related parties consist of the Company’s directors and officers, and any companies associated with them. Key management personnel includes directors and executive officers of the Company. Other than the amounts disclosed below, there was no other compensation paid or payable to key management personnel for the reported periods.

Atlas is the parent company and owns 100% of the following subsidiaries: Clinton, Satellite, Coastal, Pacer, and SC.

(Expressed in Canadian dollars)

25. Related party transactions (continued)

The Company incurred the following charges as part of the Company's consolidated statement of loss and comprehensive loss during the year ended December 31, 2019, period ended December 31, 2018, and year ended May 31, 2018:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Salaries and benefits	748,697	174,981	62,942
Management fees	289,200	363,866	284,872
Finance charge on lease obligations[1]	24,525	20,929	46,309
Share-based compensation	295,664	199,765	387,095
Professional fees	-	-	36,362
Cost of sales	-	-	151,025
Total related party transactions	1,358,086	759,541	968,605

Due to/from related parties

Amounts due to/from related parties are detailed as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Due from related party			
Accounts receivable	95,787	-	23,797
Total due from related party	95,787	-	23,797
Due to related parties			
Accounts payable and accrued liabilities	(424,331)	(76,620)	(1,040)
Lease obligation (Note 18)[1]	(276,161)	(515,635)	(648,706)
Exchangeable note – liability portion (Note 20)	-	-	(49,134)
Total due to related parties	(700,492)	(592,255)	(698,880)

1. A Director of the Company has a 50% ownership in a company that owns the land and building and leases the premises to our Atlas Truss location.

These amounts were incurred in the normal course of operations and are recorded at exchange amounts as part of our consolidated statement of financial position. Accounts receivable and accounts payable and accrued liabilities are unsecured, non-interest bearing, and have no set terms of repayment.

26. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on the current cash flows are excluded from the cash flow statements. During the year ended December 31, 2019, period ended December 31, 2018 and year ended May 31, 2018, the Company had the following non-cash investing and financing activities:

Period ended December 31, 2019

During the year ended December 31, 2019, the Company had no investing or financing activities identified that did not have a direct impact on the current cash flows.

(Expressed in Canadian dollars)

26. Supplemental cash flow information (continued)

Period ended December 31, 2018
- The issuance of 1,521,305 common shares valued at $312,374 pursuant to the exchangeable notes conversion (Note 20);
- $2,865,409 of lease obligations that have been capitalized to buildings; and
- $310,538 of restructuring for the Truebeam location (Note 24).

Year ended May 31, 2018
- $150,000 in long-term debt was converted into an exchangeable note (Note 20);
- The issuance of 200 common shares valued at $20 pursuant to the amalgamation of Coastal;
- The issuance of 11,709,091 common shares valued at $4,683,636 pursuant to the RTO;
- $7,415 of loss on disposal of equipment was non-cash disposal of capital leases;
- $581,000 of lease obligations that have been capitalized to equipment; and
- $380,977 of lease obligations that have been capitalized to building.

27. Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	Long-term debt	Lease obligations	Total
	$	$	$
Balance January 1, 2019	7,470,165	4,083,996	11,554,161
Repayments	(1,704,293)	(1,104,096)	(2,808,389)
Issuance	2,451,150	408,576	2,859,726
Assumed on acquisition	58,577	-	58,577
Balance December 31, 2019	8,275,599	3,388,476	11,664,075

	Long-term debt	Lease obligations	Total
	$	$	$
Balance June 1, 2018	1,704,918	1,842,369	3,547,287
Repayments	(381,629)	(318,955)	(700,584)
Issuance	5,159,234	-	5,159,234
Assumed on acquisition	428,802	564,551	993,353
Non-cash – leaseback update	558,840	(558,840)	-
Non-cash – lease obligation	-	2,865,409	2,865,409
Non-cash – restructuring	-	(310,538)	(310,538)
Balance December 31, 2018	7,470,165	4,083,996	11,554,161

	Term debt	Lease obligations	Total
	$	$	$
Balance June 1, 2017	531,981	1,298,540	1,830,521
Transfer to exchangeable note	(150,000)	-	(150,000)
Repayments	(437,063)	(351,554)	(788,617)
Non-cash – issuance	1,760,000	961,977	2,721,977
Non-cash – change lease	-	(66,594)	(66,594)
Balance May 31, 2018	1,704,918	1,842,369	3,547,287

28. Financial instruments

Classification of financial instruments

The Company's financial instruments consist of cash, trade accounts receivable, bank indebtedness, accounts payable and accrued liabilities, customer deposits, and long-term debt. The Company classified and measured its cash and accounts receivable as subsequently measured at amortized cost. The bank indebtedness, accounts payable and accrued liabilities, customer deposits, and long-term debt notes are classified and measured at amortized cost.

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include market risk, interest rate risk, credit risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors who actively focus on securing the Company's cash flows by minimizing the exposure to volatile financial instrument risks.

Fair value

Due to the short-term nature of cash, trade accounts receivable, accounts payable and accrued liabilities the carrying value of these financial instruments approximate their fair value. Customer deposits are short-term in nature as they are either refundable if the order is not completed or applied to an order at their carrying value. The carrying value of the customer deposits would approximate their fair value. The fair value of long-term debt and liability portion of the exchangeable notes are not materially different from their carrying value.

Market risk

a) Foreign exchange risk

The Company is exposed to foreign exchange risk. The Company has revenue from sales to the US, US non-inventory expenditures, and bank accounts in US currency. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the Company. The risk is measured through a forecast of highly probable USD transactions.

The Company minimizes the risk of the volatility of the US currency cost by keeping USD funds received from sales in USD bank accounts. These USD funds are then used for expenditures that arise in the same currency. Only at the end of the year does the Company assess the risk of transferring the excess funds to a CDN bank account. If the risk is too high, then the funds will remain in the USD account until the risk is reduced.

Profit or loss is sensitive to the fluctuations of the USD to CDN foreign exchange rates on the US revenues. If the USD foreign exchange rate were to increase by 10% with a full year of USD sales transactions, this is estimated by management to increase sales by $110,000 annually.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's policy is to minimize interest rate risk exposures on term financing. All leases and exchangeable notes have fixed rates. As at December 31, 2019, the Company is exposed to changes in market interest rates through the bank borrowings at a floating base rate. This risk is low because changes in the prime rate are not substantial and increases would not impact the consolidated financial statements significantly. If the rates were to increase 10% this would result in an increase in interest of approximately $29,950 over the next fiscal year.

(Expressed in Canadian dollars)

28. Financial instruments (continued)

Credit risk

Credit risk is the risk that a counterparty fails to meet its contractual obligation to the Company. The Company is exposed to the risk for various financial instruments through receivables from customers and placing deposits and the potential for cash fraud. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized for the year ended December 31, 2019 and period ended December 31, 2018 summarized below:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Classes of financial assets – carrying amounts			
Cash	1,553,005	1,593,762	867,384
Trade accounts receivable, net of loss allowance	3,329,057	4,024,998	1,995,022
	4,882,062	5,618,760	2,862,406

The Company closely monitors cash by applying a sweep account function to the subsidiary accounts and a daily bank reconciliation. The Company also requires each division to detail weekly any collection attempts of receivables over 61 days and prepares and aging account receivable report weekly to monitor any progress.

The Company also continuously monitors defaults of customers, identified individually, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and credit checks are obtained and used. The Company's policy is to deal only with creditworthy customers.

The Company has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The receivables and their aging as at December 31, 2019, December 31, 2018, and May 31, 2018 is summarized below:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Trade accounts receivable, net of loss allowance			
Current	2,213,996	1,989,325	1,405,682
Past due 1 to 30 days	743,149	1,085,951	335,018
Past due 31 to 60 days	239,811	522,556	111,442
Past due over 60 days	132,101	427,166	142,880
	3,329,057	4,024,998	1,995,022

The loss allowance as at December 31, 2019, December 31, 2018, and May 31, 2018 was determined as follows for trade accounts receivable:

As at December 31, 2019

	Current	Past due 1 to 30 days	Past due 31 to 60 days	Past due over 60 days	Total
Expected loss rate	0.00%	0.00%	0.25%	3.54%	0.16%
Trade accounts receivable	2,213,996	743,149	240,412	136,943	3,334,500
Loss allowance	-	-	601	4,842	5,443

(Expressed in Canadian dollars)

28. Financial instruments (continued)

Credit risk (continued)

As at December 31, 2018

	Current	Past due 1 to 30 days	Past due 31 to 60 days	Past due over 60 days	Total
Expected loss rate	0.00%	0.00%	0.70%	5.05%	0.65%
Trade accounts receivable	1,989,325	1,085,951	526,239	449,890	4,051,405
Loss allowance	-	-	3,683	22,724	26,407

The expected loss rates are based on historical credit losses and adjusted to reflect current and forward-looking information of the customers' ability to settle the receivables. This is affected and adjusted constantly based on acquisitions that bring in new customers and new information from economic conditions.

Liquidity risk

Liquidity risk is that the Company will encounter difficulty in meeting its financial obligations. The Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables balances in a timely manner, which could in turn impact the Company's long-term ability to meeting commitments under its current facilities. The Company manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities and debt servicing ratios. The Company also forecasts and manages cash inflows and outflows on a daily, weekly and monthly basis.

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Company's existing cash resources and trade receivables exceeds the current cash outflow requirements as our current ratio is currently 0.59:1. Cash flows from trade accounts receivable are all contractually due within thirty days.

As at December 31, 2019, the Company's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

	Current	Current	Non-current	Non-current
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	$	$	$	$
Lease obligations	655,424	702,124	2,414,518	-
Accounts payable and accrued liabilities	3,157,818	-	-	-
Income taxes payable	240,326	-	-	-
Long-term debt	6,079,418	241,327	1,480,212	1,341,805
Total	10,132,986	943,451	3,894,730	1,341,805

The Company has presented the long-term debt balance related to RBC as a current liability due to the covenant breach (Note 19). Subsequent to year end, the Company did receive a waiver letter for any violations as at December 31, 2019 and up to December 31, 2020.

(Expressed in Canadian dollars)

28. Financial instruments (continued)

Liquidity risk (continued)

This compares to the maturity of the Company's non-derivative financial liabilities as of December 31, 2018 is as follows:

	Current Within 6 months	Current 6 to 12 months	Non-current 1 to 5 years	Non-current Later than 5 years
	$	$	$	$
Lease obligations	610,567	625,126	3,444,733	-
Accounts payable and accrued liabilities	4,113,939	-	-	-
Income taxes payable	228,010	-	-	-
Long-term debt	7,630,938	-	-	-
Total	12,583,454	625,126	3,444,733	-

This compares to the maturity of the Company's non-derivative financial liabilities as of May 31, 2018 is as follows:

	Current Within 6 months	Current 6 to 12 months	Non-current 1 to 5 years	Non-current Later than 5 years
	$	$	$	$
Lease obligations	330,100	330,100	1,355,134	-
Accounts payable and accrued liabilities	1,468,602	-	-	-
Income taxes payable	90,202	-	-	-
Long-term debt	156,600	1,615,932	-	-
Total	2,045,504	1,946,032	1,355,134	-

The above amounts reflect the contractual undiscounted cash flows, which may differ from the carrying values of the liabilities at the reporting date.

29. Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to continue operations. In the management of capital, the Company includes its components of long-term debt, lease obligations, cash and equity.

The amounts managed as capital by the Company are summarized as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Long-term debt	8,275,599	7,470,165	1,704,918
Lease obligations	3,388,476	4,083,996	1,842,369
Less: Cash and cash equivalents	(1,553,005)	(1,593,762)	(867,384)
Net debt	10,111,070	9,960,399	2,679,903
Total equity	8,221,621	8,140,449	3,698,459
	18,332,691	18,100,848	6,378,362

29. Management of capital (continued)

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity, issuing new debt, or acquiring or disposing of assets, and controlling its expenses.

Management reviews its capital management policies on an ongoing basis.

30. Subsequent events

a) Company closes non-brokered private placement financing for $4,597,254.

On December 16, 2019, the Company announced a private placement financing to raise up to $4,250,000 (the "Offering"). By December 31, 2019, $204,400 was received by the Company and has been included as restricted cash on the balance sheet.

On February 10, 2020, the Company announced the closing of the Offering for an oversubscribed total of $4,597,254. The Company issued 11,493,134 common shares at a price of $0.40 per share, as well as, 11,493,134 warrants that are exercisable for two years at $0.60. The Company also paid finders fees totaling $261,954 and issued 654,885 finders warrants. The net proceeds of the Offering will be used primarily for working capital, capital expenditures, and acquisition purposes. All regulatory approvals were received regarding this private placement.

b) RBC Loans

As of April 17, 2020, the Company has received a tolerance letter from RBC as the Company was in breach of certain covenants (Note 19). The waiver was received for the year ended December 31, 2019 and all periods up to December 31, 2020.

c) Covid-19 economic impact

Subsequent to the year ended December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "Covid-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, closure of non-essential businesses, self-imposed quarantine periods, and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the Covid-19 outbreak is unknown at this time.

The Company continues to monitor and assess the impact on its business activities. The potential impact is not yet determinable; however there may have a material impact on the Company's financial position, results of operations and cash flows in future periods. In particular, there may be an increased risk of future goodwill and intangible asset impairments. As required by IFRS, we have not reflected these subsequent conditions in the financial results for the year ended December 31, 2019.

AEP
ATLAS ENGINEERED PRODUCTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2019

Management's Discussion and Analysis

INTRODUCTION

This Management's Discussion and Analysis (the "MD&A"), dated as April 29th, 2020, is for the fiscal year ended December 31, 2019. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019, the period ended December 31, 2018, and the year ended May 31, 2018, available under Atlas Engineered Products Ltd's ("AEP" or "the Company") profile on SEDAR at www.sedar.com.

The referenced unaudited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related IFRS Interpretations Committee ("IFRICs") as issued by the International Accounting Standards Board ("IASB"). All amounts included in this MD&A are expressed in Canadian dollars unless otherwise indicated.

AEP's board of directors, on the recommendation of the audit committee, has approved the content of this MD&A.

The Company is listed on the TSX Venture Exchange ("TSX-V") in Canada under the symbol AEP. All dollar amounts stated in this MD&A are expressed in Canadian dollars unless noted otherwise.

CHANGE OF FISCAL YEAR-END

To better align its financial reporting with the calendar year and that of its industry peers, the Company changed its fiscal year-end to December 31, from May 31. The Company's transition year is the seven-month period ended December 31, 2018. As such, the comparative periods for the Company's year ended December 31, 2019 are the seven-month period ended December 31, 2018 and the year ended May 31, 2018. For additional information see the Notice of Change of Year End filed on SEDAR on January 2, 2019.

FORWARD-LOOKING INFORMATION

This MD&A contains statements that constitute "forward-looking statements" within the meaning of National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators. It is important to note that, unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations up to the date of this MD&A.

Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and other similar expressions. Forward-looking statements in this MD&A include statements regarding the Company's future plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the actual results to differ include market prices, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms acceptable to the Company and the ability of third-party service providers to deliver services in a timely manner. Some of these risks and uncertainties are identified under the heading "RISKS AND UNCERTAINTIES" as disclosed elsewhere in this MD&A. Additional information regarding these factors and other important factors that could cause results to differ materially may be referred to as part of particular forward-looking statements.

Forward-looking statements in this MD&A also include future-oriented financial information and financial outlook information ("FOFI") regarding the Company and its prospective results of operations, cash flows and components thereof. The FOFI contained in this MD&A is subject to the same assumptions, risk factors, limitations and qualifications set forth in this MD&A relating to other forward-looking statements. The FOFI contained in this MD&A is provided for the purpose of providing information regarding management's assessment of the Company's anticipated business operations and may not be appropriate for other purposes.

Forward-looking statements, including FOFI, contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise except as required by securities law. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

NON-IFRS / NON-GAAP FINANCIAL MEASURES

Certain measures in this MD&A do not have any standardized meaning under IFRS and, therefore are considered non-IFRS or non-GAAP measures (collectively, "non-IFRS measures"). These non-IFRS measures are used by management to facilitate the analysis and comparison of period-to-period operating results for the Company and to assess whether the Company's operations are generating sufficient operating cash flow to fund working capital needs and to fund capital expenditures. As these non-IFRS measures do not have any standardized meaning under IFRS, these measures may not be comparable to similar measures presented by other issuers. The non-IFRS measures used in this MD&A include "EBITDA", "EBITDA margin", "adjusted EBITDA", "adjusted EBITDA per share", "adjusted EBITDA margin", "normalized EBITDA", and "normalized EBITDA margin". "EBITDA" is calculated as revenue less operating expenses before interest expense, interest income, amortization and depletion, impairment charges, and income taxes. "EBITDA margin" is EBITDA expressed as a percentage of revenues. "Adjusted EBITDA" is EBITDA after adjusting for share-based payments, foreign exchange gains or losses and non-recurring items. "Adjusted EBITDA per share" is adjusted EBITDA divided by the weighted average number of shares outstanding for the relevant period. "Adjusted EBITDA margin" is adjusted EBITDA expressed as a percentage of revenues. "Normalized EBITDA" is EBITDA adjusted for one time items. "Normalized EBITDA margin" is normalized EBITDA expressed as a percentage of revenues. Further information regarding these measures can be found in the "Non-IFRS Measures" section of this MD&A.

CORPORATE PROFILE

Atlas Engineered Products Ltd. ("AEP" or "the Company"), formerly Archer Petroleum Corp., was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on January 18, 1999. The Company's corporate office is located at 6551 Aulds Road, Unit 102, Nanaimo, British Columbia V9T 6K2.

The Company designs, manufactures and sells roof trusses, floor trusses, wall panels, and windows. The Company also distributes I-joists, engineered beams, and patio doors for use by builders of residential and commercial wood-framed buildings. These include single family homes, townhouses, multi-story wood-framed residential buildings, commercial buildings and agricultural structures.

Since going public on November 6, 2017, the Company has grown its Canadian footprint with six operations in British Columbia, Manitoba and Ontario. Its six plants consist of: Atlas Building Systems ("Atlas"), Pacer Building Components ("Pacer"), Clinton Building Components ("Clinton"), Satellite Building Components ("Satellite"), South Central Building Systems ("SC") and Coastal Windows & Doors ("Coastal").

Atlas, in Nanaimo, BC, is the Company's benchmark for efficiency and productivity. The Company is applying the Atlas methodology to all of its acquisitions and is still in the process of integrating these operations.

OVERALL STRATEGY

The Company's strategy is focused on profitability and organic revenue growth within its current markets, and the pursuit of a roll-up acquisition strategy to consolidate similar companies operating in the engineered wood products industry across Canada.

To pursue its business strategy, the Company's specific objectives are to:

I. Drive revenue growth within all operating markets by developing and enhancing the Company's sales teams, products, and services.
II. Lower operating costs by introducing scale economies in procurement and leveraging the strategic deployment of expensive design, engineering and transportation resources for the benefit of all operating locations.
III. Broaden the product offerings available within each of the Company's operating markets. A core focus was to target roof truss manufacturing companies. However, there is massive organic growth potential in complementary product lines such as engineered wood (I-joist & engineered beams), engineered floor trusses, wall-panel and modular systems, other building components, windows and doors. The Company is actively pursuing the development and introduction of complementary product lines across all its facilities.
IV. Acquire revenue and profit accretive businesses that strategically expand the Company's geographic footprint.

The Company believes its strategy provides for several competitive advantages, including:

- Strong regional and national leadership;
- Accumulated design and manufacturing know-how and deep operational expertise;
- Design, engineering and manufacturing capabilities;
- Strong regional networks of loyal clientele;
- Scalability of operations; and
- Replicable operational practices and methods.

Due to truss size, quality and shipping constraints, there is a maximum geographical radius where it is logistically feasible to transport trusses. Most metropolitan areas have several truss plants who compete aggressively and generally serve a limited geographical radius. Outside of large metropolitan areas, truss production facilities generally serve wide geographical areas in which there are limited competitors, very loyal customers and a more varied range of building types than those constructed by their counterparts in more metropolitan markets. Through strategic market consolidation, the Company will be able to acquire significant market share in key geographies, leverage additional revenue and profit from the acquired entities through business improvement opportunities and cost savings available at scale, and drive growth by diversifying product mix to include pre-fabricated floor and wall panels where not currently offered.

The strong performance of the Company's founding Atlas operations in Nanaimo, BC, serves as the Company's benchmark for operational and financial performance, and for evaluating potential targets in the truss and engineered wood products sector.

The Company believes the owners of many Canadian truss companies will be seeking to sell their businesses over the next several years. The Company's acquisition program has been designed to provide an exit strategy for these owner/managers and to integrate target companies in a manner that strategically increases the Company's share of the Canadian market, while positioning the acquired entities for significant continued growth.

To date, the Company has focused on the Pacific Region, Ontario and the Canadian Prairies. These regions have the most buoyant residential construction markets and the largest number of truss plants. However, the Company intends to remain opportunistic should other strategically valuable options present themselves.

HIGHLIGHTS FOR THE YEAR

Financial

- Overall revenue for the year ended December 31, 2019 was $34,763,527 compared to revenue of $13,352,676 and $11,597,176 for the seven months ended December 31, 2018 and the year ended May 31, 2018, respectively. This represents overall growth in revenue from the prior comparative period of 160% and 200%, respectively. The Company also experienced 9% revenue growth for the three months ended December 31, 2019 as compared to the four months ended December 31, 2018. This was despite the period ending December 31, 2018 having included one extra month during the busier fall season than the comparative period ended December 31, 2019. These results reflect the positive impact of the Company's overall strategy, taking into account the seasonality and acquisition growth of the business, despite the fact that some significant construction projects were pushed by customers to the beginning of the 2020 fiscal year.

- The Company generated positive adjusted EBITDA margin of 11% for the year ended December 31, 2019 as compared to (-5%) for the seven months ended December 31, 2018. Normalized EBITDA margin for the year ended December 31, 2019 increased to 13% as compared to 9% for the seven months ended December 31, 2018. Adjusted EBITDA margin and normalized EBITDA margin for the year ended December 31, 2019 was comparable to the Company's adjusted EBITDA margin of 12% and normalized EBITDA margin of 13% for the year ended May 31, 2018, which mainly represented the Company's flagship Atlas operations in Nanaimo, BC. The Company's acquisition targets have typically been higher cost, lower margin operations than the Company's flagship operations. As a result, the Company expects these acquisitions to initially lower profit margins until its integration and optimization strategies can be implemented. The Company believes the return of adjusted EBITDA margin and normalized EBITDA margin to the levels represented by its flagship operations demonstrates the ongoing success of its integration and optimization activities.

Integration/Optimization

- The Company has a decentralized corporate structure with regional hubs supported by a lean parent office to provide the most effective means of managing a geographically diverse operation. The parent office team has been structured to provide corporate support to regional management teams in the areas of Corporate Strategy, Operational Excellence, Organizational Development & Human Resources, Operations, Finance, Procurement, and IT Infrastructure.

- Included in the Company's results for the year ended December 31, 2019 are continued costs incurred to improve the following at each of the Company's acquisitions:
  - Improved workflows to increase productivity and efficiencies,
  - Automation activities – upgrading and improving equipment and technology applications,

- Equipment relocation and installation to maximize capacity and equipment usage,
- Product development to prepare for rapid sales growth through the busy construction season laying ahead,
- Significant costs associated to the overall continued reorganization of the Company to establish a lean, effective and value adding leadership and staffing structure.

OUTLOOK

The Company's revenue objectives for 2020 are to reach an annualized revenue run rate of up to $45 million on an organic basis, with an EBITDA margin of 10-15%. The Company is currently assessing whether 2020 targets set in the last quarter of 2019 will continue to be achievable due to the economic conditions associated with the Covid-19 pandemic subsequent to the year ended December 31, 2019.

On a pro-forma basis, taking seasonality into account, management believes the targeted acquisitions, the addition of new product lines and sales staff to specific regions, and the focus on improved costs, should enable those targets to still be achievable, but will greatly depend on the ongoing and lasting impacts of the Covid-19 pandemic. The Company continues to be optimistic that an EBITDA margin of up to 15% may be achievable this year. However, adjustments such as physical distancing and increased cleaning required subsequent to the Company's 2019 year end, may affect efficiencies in the Company's plants for a period of time.

FINANCIAL HIGHLIGHTS

The Company's results for the year and three months ended December 31, 2019 include full period results from Atlas in Nanaimo, BC, Clinton in Clinton, ON, Satellite in Merrickville, ON, Coastal in Nanaimo, BC, and Pacer in Ilderton, ON, and results from March 1, 2019 from SC in Carman, MB.

Summary of Financial Results

Revenue:

- Overall revenue for the year ended December 31, 2019 was $34,763,527 up from $13,352,676 and $11,597,176 for the seven months ended December 31, 2018 and year ended May 31, 2018. This represents overall growth in revenue of 160% in comparison to the seven months ended December 31, 2018 and a 200% increase in comparison to the year ended May 31, 2018.

- Revenues during the fiscal quarters ended December 31, 2019, September 30, 2019 and June 30, 2019 were significantly higher than revenues during the Company's first fiscal quarter ended March 31, 2019. This growth was attributable to seasonality, organic growth, and the acquisition of SC.

SUMMARY OF QUARTERLY REVENUES	Dec-19	Sep-19	Jun-19	Mar-19
Revenues	$9,027,723	$10,451,562	$9,067,334	$6,216,908

- Revenue from new acquisitions (SC) for the year ended December 31, 2019 was $2,825,332 compared to $2,875,461 for the seven months ended December 31, 2018 (Satellite from August 1, 2018, Coastal from October 1, 2018, and Pacer from November 19, 2018). This represents consistent new revenues from acquisitions as compared to the prior period.

- The Company had a 14% decrease in revenues from the third quarter of 2019 to the fourth quarter of 2019. This was mainly due to some significant jobs being pushed by customers into the 2020 year, as well as some seasonality experienced due to early winter conditions across some areas of the Company. The Company's fiscal year ended December 31, 2019 demonstrated strong organic revenue growths are achievable, post acquisitions.

Cost of Sales & Gross Margin:

- Cost of sales for the year ended December 31, 2019 was $26,303,594 compared to $10,241,447 for the seven months ended December 31, 2018, and $8,725,350 for the year ended May 31, 2018. This increase in cost of sales was primarily due to increased sales and new acquisitions.

- Gross margin for the year ended December 31, 2019 was 24%, which was reasonably consistent with gross margin of 23% for the seven months ended December 31, 2018, and 25% for the year ended May 31, 2018. Gross margins at Satellite, Coastal, Pacer and SC were significantly lower when acquired, and through the Company's integration and optimization activities, gross margins at these operations have been improved. These improvements are not fully reflected in our gross margin for the year ended December 31, 2019 due to the various timings of each acquisition and the various stages at which the acquisitions are in the integration process. The Company anticipates that many of its acquisitions will operate more efficiently as those operations are fully integrated with the Company's operations. The Company is also in the process of expanding product lines at some of the locations. This has resulted in an initial higher cost of sales as the product lines are established and efficiencies maximized.

SUMMARY OF QUARTERLY GROSS MARGINS	Dec-19	Sep-19	Jun-19	Mar-19
Revenues	$9,027,723	$10,451,562	$9,067,334	$6,216,908
Gross Margin	24%	25%	28%	19%

- The Company is also in the process of expanding product lines at some of the locations. This has resulted in an initial higher cost of sales as the product lines are established and efficiencies maximized.

- The Company believes it will be able to continue to lower cost of sales as its acquisitions become more fully integrated with the Company, greater economies of scale are realized, and efficiencies are developed for all new product lines at each location.

EBITDA, Adjusted EBITDA & Normalized EBITDA:

- Non-IFRS measures adjusted EBITDA and adjusted EBITDA margin grew significantly from $(658,421) for the seven months ended December 31, 2018 and $1,429,940 the year ended May 31, 2018. Adjusted EBITDA margin was also significantly higher during the year ended December 31, 2019 (11%) than the seven months ended December 31, 2018, and reasonably consistent with the year ended May 31, 2018. (See "Non-IFRS Financial Measures on page 10").

EBITDA SUMMARY	Year Ended Dec 2019	Seven Month Ended Dec 2018	Year Ended May 2018
EBITDA Margin	8%	-7%	-36%
Adjusted EBITDA Margin	11%	-5%	12%
Normalized EBITDA Margin	13%	9%	13%

- EBITDA margin, adjusted EBITDA margin, and normalized EBITDA margin have also seen significant growth during the year ended December 31, 2019 as compared to the seven-month period ended December 31, 2018, and are reasonably consistent with the year ended May 31, 2018.

During the year ended December 31, 2019, the Company absorbed $773,454 in one-time costs related to severance and acquisitions. (See *"Results of Operations"* for one-time costs summary).

SELECTED FINANCIAL RESULTS	Year Ended Dec 2019	Seven Month Ended Dec 2018	Year Ended May 2018
Revenue from the Business	$31,938,195	$10,477,215	$10,340,571
Revenue from New Acquisitions	2,825,332	2,875,461	1,256,605
Total Revenue	**34,763,527**	**13,352,676**	**11,597,176**
Cost of Sales	26,303,594	10,241,447	8,725,350
Gross Profit	**8,459,933**	**3,111,229**	**2,871,826**
Gross Margin %	24%	23%	25%
Operating Expenses	7,795,540	4,685,262	2,700,621
Operating Income (Loss)	**664,393**	**(1,574,033)**	**171,205**
Net Income (Loss) After Adjustments and Taxes	(755,147)	(1,250,086)	(4,954,765)
Adjusted EBITDA	**3,690,198**	**(658,421)**	**1,429,940**
Adjusted EBITDA Margin %	11%	-5%	12%
Normalized EBITDA	**4,463,652**	**1,250,925**	**1,549,340**
Normalized EBITDA Margin %	13%	9%	13%
Weighted Average Number of Shares	45,883,784	35,128,037	17,344,229
Adjusted EBITDA per Share ($ per share)	0.08	(0.02)	0.08
Income (Loss) per Share, Basic and Fully Diluted ($ per share)	(0.02)	(0.04)	(0.29)

Selected Financial Information as at:			
	Dec 2019	**Dec 2018**	**May 2018**
Total Assets	$26,762,977	$26,061,954	$9,208,284
Total Non-Current Liabilities	6,221,430	5,012,861	1,274,300

Summary of Quarterly Financial Results

The following table sets forth selected financial information from the Company’s unaudited quarterly financial statements for each of the eight most recently completed quarters. See below under Results of Operations for more details.

SUMMARY OF QUARTERLY RESULTS	Dec-19	Sep-19	Jun-19	Mar-19	Dec-18	Aug-18	May-18	Feb-18
	[3 MTH Quarter]	[3 MTH Quarter]	[3 MTH Quarter]	[3 MTH Quarter]	[4 MTH Quarter]	[3 MTH Quarter]	[3 MTH Quarter]	[3 MTH Quarter]
Revenues	$9,027,723	$10,451,562	$9,067,334	$6,216,908	$8,269,618	$5,083,058	$3,987,449	$2,079,046
Net income (loss) (2)	($1,010,096)	$531,710	$162,876	($439,637)	($1,193,675)	($56,411)	($485,317)	($295,757)
Net income (loss) per share (1)	(0.11)	0.01	0.01	(0.01)	(0.04)	(0.00)	(0.04)	(0.01)

(1) The basic and diluted income per share calculations result in the same amount due to there not being any outstanding instruments that would be anti-dilutive.

- One time, non-recurring costs, impairments, write-offs, and other factors lead to the decrease in net income during the fourth quarter ended December 31, 2019.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2019

Due to the change in the Company's year end to December 31, the comparative period for the three month period ended December 31, 2019 is the four month period ended December 31, 2018.

Revenue for the three months ended December 31, 2019 was $9,027,723 compared to revenue of $8,269,618 for the four months ended December 31, 2018. The revenue increase was due to organic growth and the timing of the Company's acquisitions. Revenue from the Company's acquisitions were fully integrated in the Company's results for the three months ended December 31, 2019, whereas revenue from acquisitions during the four months ended December 31, 2018 were included from the date the acquisitions were completed. Revenues for our operations are also subject to seasonal fluctuations as construction activities tend to be higher in spring, summer, and fall, and slower in winter. Seasonal fluctuations are expected to be greater in the Company's eastern divisions as seasonal weather on the West Coast tends to be milder than on the East Coast.

Cost of sales for the three months ended December 31, 2019 was $6,878,726 compared to $6,538,414 for the four months ended December 31, 2018 and $3,141,380 for the three months ended May 31, 2018. Cost of sales has continued to increase due to increased sales and new acquisitions that had higher cost of sales when acquired.

Gross margin for the three months ended December 31, 2019 was 24%, slightly higher than gross margin of 23% for the four months ended December 31, 2018, and higher than gross margin of 21% for the three months ended May 31, 2018. Gross margins for Satellite, Coastal, Pacer and SC were significantly lower when acquired and, through the Company's integration activities, these margins have been improved. These improvements are not fully reflected in the Company's annual gross margin due to the timing of each acquisition and the various stages which the acquisitions are at in the integration process. The Company anticipates that many of its acquisitions will operate more efficiently as those operations are fully integrated with the Company's operations. The Company is also in the process of expanding product lines at some of the locations. This has resulted in an initial higher cost of sales as the product lines are established and efficiencies maximized.

The Company recorded a net loss of $(1,010,097) ($-0.02 per share) for the three months ended December 31, 2019 compared to a net loss of $(1,193,675) ($-0.04 per share) for the four months ended December 31, 2018 and a net loss of $(485,317) ($-0.02) for the three months ended May 31, 2018. The Company recorded a net loss in the current period due to goodwill and loan receivable impairments. The Company elected to write off the full value of Coastal's goodwill and the loan receivable in the current period. The goodwill was written off due to an assessed impairment and management's election to write off any remaining balance due to costs of maintaining an immaterial goodwill balance for Coastal. The loan receivable was written off due to lack of principal payments received during the period. Subsequent to the year end, the Company did receive interest only payments and are still working to obtain principal payments.

<u>Administrative and office for the three months ended December 31, 2019 $713,941 (four months ended December 31, 2018 – $423,002, the three months ended May 31, 2018 – $177,794).</u> Administrative and office expenses have increased due to higher recruitment fees, investor and marketing fees, and office related expenses. The increase in sales plus preparation for further acquisitive activities has resulted in a greater need for staff to support higher sales, and bigger focus on integration for targeted future acquisitions which resulted in increased recruitment fees, onboarding costs, and other office expenses. Part of the increase is also attributable to the timing of the acquisitions in 2018. Administrative and office costs for the Company's acquisitions for the comparative periods ended December 31, 2018 and May 31, 2018 are included from the date of acquisition rather than for a full four or three month period. For example, the Pacer acquisition was completed on November 18, 2018, resulting in the inclusion of administrative and office expenses attributable to Pacer for 6 weeks during the four month period ended December 31, 2018. In comparison, administrative and office expenses attributable to Pacer are included for a full 12 weeks during the three months ended December 31, 2019.

Depreciation for the three months ended December 31, 2019 $440,106 (four months ended December 31, 2018 – $197,666, the three months ended May 31, 2018 – $118,490). Overall depreciation increased due to building and equipment and intangible assets that were acquired with the Company's acquisitions. Part of the increase is also attributable to the timing of acquisitions. The comparative periods ended December 31, 2018 and May 31, 2018 include depreciation attributable to acquisitions from the date those acquisitions were completed rather than for a full four or three month period. During the three months ended December 31, 2019, $308,097 in additional depreciation was included in cost of sales (four months ended December 31, 2018 – $211,759, the three months ended May 31, 2018 – $141,012).

Management fees for the three months ended December 31, 2019 $72,000 (four months ended December 31, 2018 – $365,661, the three months ended May 31, 2018 – $216,791). Management fees decreased due to the restructuring of the parent office resulting in the reduction of positions and the change from management contracts to employment contracts.

Professional fees for the three months ended December 31, 2019 $123,113 (four months ended December 31, 2018 – $438,022, the three months ended May 31, 2018 – $225,919). No acquisitions occurred during the three months ended December 31, 2019 which has resulted in reduced professional fees associated with the Company's high acquisition activities in both comparative periods of 2018.

Salaries and benefits for the three months ended December 31, 2019 $1,081,246 (four months ended December 31, 2018 – $918,077, the three months ended May 31, 2018 – $87,384). There has continued to be an increase in salaries and benefits due to staffing increases from May 2018 to December 2019 in the parent office and with acquisitions. A large portion of this is due to the Company's acquisitions of Clinton, Satellite, Coastal, Pacer, and SC, each of which have their own operating salaries and benefits. Some positions in the prior period were also under management contracts, which were accounted for as management fees, that have now been changed to employment agreements during this period and accounted for as salaries and benefits. Part of the increase is also attributable to the timing of the acquisitions as previously mentioned.

Share-based payments for the three months ended December 31, 2019 $46,698 (four months ended December 31, 2018 – $98,600, the three months ended May 31, 2018 – $209,977). This has decreased due to the number of options granted and being expensed in the comparative periods which was higher than the current period. A large number of options were issued upon completion of the reverse-takeover transaction with Archer Petroleum Corp. (the "RTO") which has resulted in a larger expense over the vesting period for these options. Options are expensed over eighteen months as they vest and any unvested options on termination are credited back to share based payment expense. This current period expense is also reduced due to the forfeiture of a number of options that had been issued from November 2017 to date.

Year Ended December 31, 2019

Due to the previously mentioned change in Company's year end to December 31, the comparative periods for the Company's year ended December 31, 2019 are the seven-month period ended December 31, 2018 and the year ended May 31, 2018.

Revenue for the year ended December 31, 2019 was $34,763,527 compared to $13,352,676 for the seven months ended December 31, 2018, and $11,597,176 for the year ended May 31, 2018. The revenue increase is due to the strong organic growth and the Company's acquisitions. Additional revenue from new acquisitions for the year ended December 31, 2019 was $2,825,332 (SC) compared to $2,875,461 (Satellite, Coastal & Pacer) for the seven months ended December 31, 2018, and $1,256,605 (Clinton) for the year ended May 31, 2018.

Cost of sales for the year ended December 31, 2019 was $26,303,594 compared to $10,241,447 and $8,725,350 for the seven months ended December 31, 2018 and year ended May 31, 2018 due to increased sales and new acquisitions.

Gross margin was reasonably consistent at 24% for the year ended December 31, 2019 and 23% for the seven months ended December 31, 2018, and 25% for the year ended May 31, 2018. Gross margins for Satellite, Coastal, Pacer and SC were significantly lower when acquired, and through the Company's integration activities, these margins have been improved. These improvements are not fully reflected in the Company's gross margin due to the various timings of each acquisition and various stages which these acquisitions are at in the integration process. The Company anticipates that many of its acquisitions will operate more efficiently as those operations are fully integrated with the Company's operations. The Company is also in the process of expanding product lines at some of the locations. This has resulted in an initial higher cost of sales as the product lines are established and efficiencies maximized.

The Company recorded a net loss of $(755,147) ($-0.02 per share) for the year ended December 31, 2019 compared to a net loss of $(1,250,086) ($-0.04 per share) for the seven months ended December 31, 2018 and a net loss of $(4,954,765) ($-0.29 per share) for the year ended May 31, 2018. The increase period of period is mainly due to increased sales from organic and acquisitive growth and a decrease in costs associated with the Company's acquisition activities in 2018. Support staff was increased to help with operations and acquisitions, but also led to previous losses. The Company also recorded a net loss in the current period due to goodwill and loan receivable impairments. The Company elected to write off the full value of Coastal's goodwill and the loan receivable in the current period. The goodwill was written off due to an assessed impairment and management's election to write off any remaining balance due to costs of maintaining an immaterial goodwill balance for Coastal. The loan receivable was written off due to lack of principal payments received during the period. Subsequent to the year end, the Company did receive interest only payments and are still working to obtain principal payments.

Administrative and office for the year ended December 31, 2019 $2,249,119 (seven months ended December 31, 2018 – $1,142,093, year ended May 31, 2018 – $660,493). Administrative and office expenses have increased due to higher recruitment fees, investor and marketing fees, and office related expenses. The increase in sales has resulted in a greater need for staff to support higher sales which resulted in increased recruitment fees, onboarding costs, and other office expenses. Part of the increase is also attributable to the timing of acquisitions. The current year includes a number of acquisitions for a full year that were completed at various timings during the prior two comparable periods and therefore did not include a full cost representation for the full period or year end.

Depreciation for the year ended December 31, 2019 $1,482,311 (seven months ended December 31, 2018 – $274,717, year ended May 31, 2018 – $225,561). Depreciation increased due to building and equipment and intangible assets that were acquired with the Company's acquisitions. Part of the increase is also attributable to the timing of acquisitions. The current year includes a number of acquisitions for a full year that were completed at various timings during the prior two comparable periods and therefore did not include a full cost representation for the full period or year end. During the year ended December 31, 2019, $1,208,274 in additional depreciation was included in cost of sales (seven months ended December 31, 2018 – $332,316, year ended May 31, 2018 – $336,323).

Management fees for the year ended December 31, 2019 $289,200 (seven months ended December 31, 2018 – $703,726, year ended May 31, 2018 – $348,957). Management fees decreased due to the restructuring of the parent office resulting in the reduction of positions and the change from management contracts to employment contracts.

Professional fees for the year ended December 31, 2019 $489,203 (seven months ended December 31, 2018 – $825,911, year ended May 31, 2018 – $458,803). This decreased due to fewer acquisitions in the current year compared to the seven months ended December 31, 2018. Acquisitions lead to higher legal and accounting fees and will vary based on the number of acquisitions completed in a year.

Salaries and benefits for the year ended December 31, 2019 $2,908,936 (seven months ended December 31, 2018 – $1,020,279, year ended May 31, 2018 – $280,348). There has been an increase in salaries and benefits due to the staffing increase and restructuring from May 2018 to December 2019 in the parent office, severance payments, and salaries with acquisitions. A large portion of this is due to the Company's acquisition of five businesses that each have their own operating salaries and benefits. Some positions in the prior periods were also under management contracts which have been changed to employment agreements during this period. Part of the increase is also attributable to the timing of acquisitions. The current year includes a number of acquisitions for a full year that were completed at various timings during the prior two comparable periods and therefore did not include a full cost representation for the full period or year ends.

Share-based payments for the year ended December 31, 2019 $341,319 (seven months ended December 31, 2018 – $308,577, year ended May 31, 2018 – $696,851). This has slightly increased compared to the seven months ended December 31, 2018 due to the number of options granted during 2019 was higher than those granted in the seven months ended December 31, 2018. The current year end is also significantly reduced compared to the year ended May 31, 2018 because there was a large number of options granted upon completion of the RTO which has resulted in a larger expense over the vesting period for these options. Options are expensed over eighteen months as they vest and any unvested options on termination are credited back to share based payment expense.

One-time Costs

The Company incurred $773,454 in one-time and non-recurring costs related to severance, specific marketing and acquisitions during the year ended December 31, 2019. These costs are not expected to be ongoing each year and are added back into normalized EBITDA calculations. The Company incurred one-time and non-recurring costs of $1,909,346 for the seven months ended December 31, 2018 and $119,400 for the year ended May 31, 2018.

Non-IFRS Financial Measures – EBITDA, Adjusted EBITDA, and Normalized EBITDA

EBITDA is a non-IFRS measure that provides an indication of whether the Company's operations are generating sufficient operating cash flow to fund working capital needs and to fund capital expenditures. EBITDA comprises revenue less operating expenses before interest expense, interest income, depreciation, impairment charges, and income taxes.

Adjusted EBITDA is a non-IFRS measure in which standard EBITDA (earnings before interest expense, interest income, taxes, depreciation, and impairment charges) is adjusted for share-based payments expense, foreign exchange gains or losses, and non-cash items. Foreign exchange gains or losses may consist of both realized and unrealized losses. Under IFRS, entities must reflect in compensation expense the cost of share-based payments. In the Company's circumstances, share-based payments can involve a significant accrual of amounts that will not be settled in cash but are settled by the issuance of shares in exchange. The Company discloses adjusted EBITDA to aid in understanding of the results of the Company and is meant to provide further information about the Company's financial results to investors.

Adjusted EBITDA margin is adjusted EBITDA expressed as a percentage of revenues. The adjusted EBITDA margin has increased due to successful completion of some integration activities and increased sales.

Normalized EBITDA is adjusted EBITDA adjusted for one-time costs and non-recurring items that the Company has incurred during the period related to specific activities such as acquisitions, specific marketing, and staffing changes. Normalized EBITDA margin is normalized EBITDA expressed as a percentage of revenues.

EBITDA for the year ended December 31, 2019 was $2,945,022, with an EBITDA margin of 8%. EBITDA for the seven months ended December 31, 2018 was $(993,577), with an EBITDA margin of -7%, and EBITDA for the year ended May 31, 2018 was $(4,145,236), with an EBITDA margin of -36%. EBTIDA and EBITDA margin show significant improvement over the comparative periods ended December 31, 2018 and May 31, 2018 mainly due to integration and optimization strategies implemented by the Company and reduced non-recurring costs associated with the Company's acquisition activities.

Adjusted EBITDA margin for the year ended December 31, 2019 was 11%, which is a significant improvement over -5% for the seven-month period ended December 31, 2018. This improvement was also mainly due to the integration and optimization strategies implemented by the Company. Adjusted EBITDA margin for the year ended May 31, 2018 was 12%, slightly higher than adjusted EBITDA margin for the year ended December 31, 2019 due to results for the comparative period ended May 31, 2018 being mainly attributable to the Company's flagship Atlas division in Nanaimo, BC which has been used as the Company's benchmark for efficiency.

Normalized EBITDA margin was 13% for the year ended December 31, 2019, as compared to 9% during the seven months ended December 31, 2018 and 13% for the year ended May 31, 2018. Improvements to normalized EBITDA margin for December 31, 2019 as compared to December 31, 2018, and a return to normalized EBITDA margin rates for the year ended May 31, 2018, further reflect the success and accelerated progress of the Company's acquisition integration activities.

EBITDA, Adjusted EBITDA, and Normalized EBITDA Calculation	Year Ended Dec 2019	Seven Month Ended Dec 2018	Year Ended May 2018
Net income (loss) for the period as reported	($755,147)	($1,250,086)	($4,954,765)
Interest earned	(22,488)	(67,601)	(28,995)
Interest expense	577,314	129,576	60,467
Income tax expense (recovery)	210,602	(466,359)	113,588
Accretion expense	-	5,154	20,716
Finance charge on leases	250,255	48,704	81,869
Depreciation	2,684,486	607,035	561,884
EBITDA	**2,945,022**	**(993,577)**	**(4,145,236)**
Loss (gain) on disposal of equipment	(1,979)	16,426	6,074
Foreign exchange (gain) loss	51,594	10,153	7,465
Share-based payments	341,319	308,577	696,851
Goodwill impairment	90,773	-	-
Loss on investment	263,469	-	-
Listing Expense	-	-	4,864,786
Adjusted EBITDA	**3,690,198**	**(658,421)**	**1,429,940**
Revenue	34,763,527	13,352,676	11,597,176
EBITDA Margin %	**8%**	**-7%**	**-36%**
Adjusted EBITDA Margin %	**11%**	**-5%**	**12%**
One time costs	773,454	1,909,346	119,400
Normalized EBITDA	**4,463,652**	**1,250,925**	**1,549,340**
Normalized EBITDA Margin %	**13%**	**9%**	**13%**

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

The Company's related parties consist of the Company's directors and officers, and any companies associated with them. Key management personnel include directors and executive officers of the Company.

Other than the amounts disclosed above, there was no other compensation paid or payable to key management personnel for employee services for the reported periods.

The Company incurred the following charges during the year ended December 31, 2019, seven months ended December 31, 2018, and the year ended May 31, 2018:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Salaries and benefits	748,697	174,981	62,942
Management fees	289,200	363,866	284,872
Finance charge on lease obligations[1]	24,525	20,929	46,309
Share-based compensation	295,664	199,765	387,095
Professional fees	-	-	36,362
Cost of sales	-	-	151,025
Total related party transactions	1,358,086	759,541	968,605

Amounts due to/from related parties are detailed as follows:

	December 31, 2019	December 31, 2018	May 31, 2018
	$	$	$
Due from related party			
Accounts receivable	95,787	-	23,797
Total due from related party	95,787	-	23,797
Due to related parties			
Accounts payable and accrued liabilities	(424,331)	(76,620)	(1,040)
Lease obligation (Note 18)[1]	(276,161)	(515,635)	(648,706)
Exchangeable note – liability portion (Note 20)	-	-	(49,134)
Total due to related parties	(700,492)	(592,255)	(698,880)

1. A Director of the Company has a 50% ownership in a company that owns the land and building and leases the premises to our Atlas Truss location.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. In the management of capital, the Company includes its components of shareholders' equity.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity, issuing new debt, or acquiring or disposing of assets, and controlling its expenses. The Company is not subject to externally imposed capital requirements.

The Company is not subject to any capital requirements imposed by a regulator, other than continued listing requirements.

As at December 31, 2019 the Company held cash of $1,553,005 and restricted cash of $204,400 due to private placement funds received prior to the closing date (See *"Subsequent Events"*). The Company also had working capital of ($5,088,333) (December 31, 2018 – cash $1,593,762 and working capital of ($5,102,869), May 31, 2018 – cash $867,384 and working capital of $370,448). Working capital has remained consistent due to the requirement to record loans with one major Canadian bank as current due to a covenant breach. On April 17, 2020, subsequent to the year ended December 31, 2019, the Company received a waiver of this covenant breach which extends up to December 31, 2020. During the year ended December 31, 2019, the Company also restructured some of its debt. Two loans with a major Canadian bank were restructured to one loan that is renewable every two years instead of every year. This new loan will also have interest only payments from January to May and principal plus interest from June to December to allow for the Company to retain cash through the winter season. Another loan was also restructured to be renewable every two years instead of every year.

During the year ended December 31, 2019, net cash provided by operating activities was $2,817,143 (seven months ended December 31, 2018 – $1,300,981, and year ended May 31, 2018 – $619,002). The change during the year ended December 31, 2019 as compared to the prior periods is mainly due to the Company's acquisitions which have increased assets, depreciation, accounts receivable, and overall profitability.

Net cash used in investing activities for the year ended December 31, 2019 was $4,206,453 (seven months ended December 31, 2018 – $8,858,368, and year ended May 31, 2018 – $2,462,890). The significant reduction in cash used in investing activities during the year ended December 31, 2019 compared to the seven months ended December 31, 2018 and increase compared to the year ended May 31, 2018 was due to the number and value of completed acquisitions in each of the year/period ends. The year ended December 31, 2019 included the completion of one acquisition, SC compared to three acquisitions, Satellite, Coastal & Pacer, during the seven months ended December 31, 2018, and one acquisition, Clinton, during the year ended May 31, 2018. Cash used in investing activities for the year ended December 31, 2019 increased compared to the year ended May 31, 2018 due to a significant acquisition of equipment and vehicles.

Cash provided by financing activities for the year ended December 31, 2019 was $1,552,953 (seven months ended December 31, 2018 – $8,283,765, and year ended May 31, 2018 – $3,714,428). The change in cash provided by financing activities was due to the Company's acquisition activities varying between the three periods, similar to the investing activities. The Company spent cash during the year ended December 31, 2019 paying off debt and only incurred some debt for new capital expenditures and one acquisition compared to multiple acquisitions and shares issued for cash in the comparative periods.

CAPITAL EXPENDITURES

During the year ended December 31, 2019, the Company used cash to acquire equipment of $1,232,325 (seven months ended December 31, 2018 - $159,132, and year ended May 31, 2018 - $35,917). Overall buildings and equipment increased compared to the seven months ended December 31, 2018 and year ended May 31, 2018 due to the SC acquisition and the purchase of a new crane truck and automated saw for Atlas in order to support increased sales and deliveries.

FINANCIAL INSTRUMENTS

Fair value of financial instruments

Due to the short-term nature of cash, restricted cash, trade accounts receivable, accounts payable and accrued liabilities the carrying value of these financial instruments approximate their fair value. Customer deposits are short-term in nature as they are either refundable if the order is not completed or applied to an order at their carrying value. The carrying value of the customer deposits would approximate their fair value. The fair value of long-term debt is not materially different from their carrying value.

Classification of financial instruments

The Company's financial instruments consist of cash, restricted cash, trade accounts receivable, accounts payable and accrued liabilities, customer deposits, and long-term debt. The Company classified and measured its cash, restricted cash and trade accounts receivable as subsequently measured at amortized cost. The accounts payable and accrued liabilities, customer deposits, and long-term debt are measured at amortized cost.

Financial and capital risk management

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include interest rate risk, credit risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies with the most significant effect on the amounts recognized in the Company's financial statements are as follows:

Key sources of estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS as issued by the IASB requires management to make estimates and judgements that affect the amount reported in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are subject to measurement uncertainty. Actual results may differ from these estimates.

SECURITIES OUTSTANDING

As at April 29, 2020, the Company's outstanding share information is as follows:

Security	Number	Exercise Price	Expiry Date
Issued and outstanding common shares	57,725,730	NA	NA
Stock options	1,222,500	0.49	08-Nov-22
Stock options	450,000	0.60	05-Feb-23
Stock options	202,500	0.53	21-Feb-23
Stock options	1,210,000	0.30	04-Mar-24
Total Options	**3,085,000**		

The Company also has 17,313,019 outstanding warrants that can be exercised at $0.60. 5,165,000 of these warrants expire on October 31, 2020 and on December 3, 2020, while the remaining 12,148,019 expire on February 6, 2022.

DISCLOSURE CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 - *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the year ended December 31, 2019 and this accompanying MD&A.

In contrast to the full certificate under NI 52-109 the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information, the reader should refer to the Venture Issuer Basic Certificates filed by the Company with its filings on SEDAR at www.sedar.com.

RISKS AND UNCERTAINTIES

The Company's business and financial prospects are subject to several risks and uncertainties, including operational, financial and regulatory risks. The risks described below are not the only ones that the Company may face. If any of these risks occur, the Company's business, financial position and its results of operation could be materially and adversely affected.

Business Development, Marketing and Sales Risk

The Company's future growth and profitability will depend on the effectiveness and efficiency of its national and potentially future international business development and marketing and sales strategy, including the Company's ability to (i) consolidate the market via strategic acquisitions; (ii) determine appropriate business development, marketing and sales strategies and (iii) maintain acceptable operating margins on such costs. There can be no assurance that business development, marketing and sales costs will result in revenues for the Company in the future or will generate awareness of the Company's products and services. In addition, no assurance can be given that the Company will be able to manage the Company's business development, marketing and sales costs on a cost-effective basis.

Brand Awareness

The Company's expansion of its products and services depends on increasing market consolidation through strategic acquisitions and through this maintaining customer loyalty in these captive markets before another company decides to move into the market and follow a similar business objective of market consolidation through acquisition. There is no assurance that the Company will be able to increase brand awareness. In addition, the Company must successfully develop a market for its products in order to sell its products. If the Company is not able to successfully develop a market for its products, then such failure will have a material adverse effect on the business, financial condition and operating results of the Company.

Growth Risk

A key component of the Company's strategy is to continue to grow, both by increasing sales and earnings in existing markets with existing products, and by expanding into new markets and products. There can be no assurance that the Company will be successful in growing its business or in managing its growth. The Company's growth depends on, among other things:

- identifying and developing new markets and products;
- identifying and acquiring other businesses that are suitable acquisition candidates;
- successfully integrating any acquired businesses with existing operations;
- establishing and maintaining favourable relationships with customers in new markets, and maintaining these relationships in existing markets;
- establishing and maintaining favourable relationships with suppliers in new markets, and maintaining these relationships in existing markets; and
- successfully managing expansion and obtaining required financing.

In addition, the Company will depend on its ability to implement and integrate the following elements of its growth strategy:

- develop and expand sales through acquisitions;
- introduce new product lines; and
- carry out acquisitions, including identifying to the extent possible liabilities of the newly acquired businesses.

Management of Growth

The inability of the Company to successfully manage its growth could have a material adverse effect on its operating results and cause its results from operations to fluctuate. As part of the Company's growth strategy, it intends to introduce new product lines, pursue acquisitions and expand sales to existing and new customers, in new and existing territories. The Company's expense levels are based, in part, on expected future revenues and the Company is constrained in its ability to reduce expenses quickly if for any reason its sales levels do not meet expectations in a quarter or period. Furthermore, rapid expansion may place a significant strain on the Company's senior management team and other key personnel as well as its business processes, operations and other resources. The Company's ability to manage growth will also depend in part on its ability to continue to enhance its management information systems in a timely fashion, particularly if customer demands change in ways that the Company does not anticipate. Any inability to manage growth could result in delivery delays and cancellation of customer orders, which could have a material adverse effect on the Company's business.

Maintenance Obligations and Facility Disruptions

The Company's manufacturing processes are vulnerable to operational problems that could impair the ability to manufacture products. The Company could experience a breakdown in any of their machines or other important equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during normal hours of operation. Such disruptions could cause a loss of production, which could potentially have a material adverse effect on the business, financial conditions and operating results.

Dependence on the Housing, Construction, Repair and Remodelling Market

The demand for the Company products is primarily affected by the level of new wood-framed residential and commercial construction activity and, to a lesser extent, repair and remodeling activity and other industrial uses, which are subject to fluctuations due to changes in general economic conditions. Decreases in the level of residential construction activity generally result in lower revenues, profits and cash flows for builders who are important customers to the Company.

Fluctuations in Prices and Demand for and Selling Price of Lumber

The Company's financial performance principally depends on the demand for and selling price of its products. The markets for lumber products are cyclical and are subject to significant fluctuations. The markets for lumber are highly volatile and are affected by factors such as North American economic conditions, including the strength of the Canadian and U.S. housing market, the growing importance of the Asian market, changes in industry production capacity, changes in inventory levels and other factors beyond the Company's control. In addition, interest rates have a significant effect on residential construction and renovation activity, which in turn influences the demand for and price of lumber.

Product Liability Claims

The Company produces engineered products and each product design is certified by a professional engineer. Each of these certified products is then inspected and is subject to the building plan and permit which in turn is covered by new homes and buildings protection liability insurance policies.

Although the Company believes that it maintains adequate insurance coverage, it may from time to time be subject to claims for damages resulting from defects in products that it supplies. Product liability claims, even if unsuccessful, may result in significant litigation costs to defend the claims as well as other costs incurred to remedy the problem, such as product recalls, which could substantially increase the Company's expenses. Successful or partially successful product liability claims could result in significant monetary liability and could seriously disrupt the Business, particularly if the Company's insurance coverage is inadequate or unavailable in respect of any such claims.

Furthermore, a highly publicized actual or perceived problem with products that the Company supplies could adversely affect the market's perception of its products which may result in a decline in demand for products supplied by the Company, thereby reducing the Company's revenues and operating results, which could have a material adverse effect on its business.

Uninsured or Uninsurable Risk

The Company may become subject to liability for risks against which it cannot insure or against which the

Company may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

Competition

The Company may face significant competition in selling its products and services. Many competitors may have substantial marketing, financial, development and personnel resources. To remain competitive, the Company believes that it must effectively and economically provide: (i) products and services that satisfy customer demands, (ii) superior sales and customer service, (iii) high levels of quality and reliability, and (iv) dependable and efficient distribution networks. Increased competition may require the Company to reduce prices or increase spending on sales and marketing and customer support, which may have a material adverse effect on its financial condition and results of operations. Any decrease in the quality of the Company's products or level of service to customers or any occurrence of a price war among the Company's competitors and the Company may adversely affect the business and its results from operations.

Patent Infringement

While the Company believes that its products and operations will not violate the intellectual property rights of third parties, other parties could bring legal actions against the Company claiming damages and seeking to enjoin the marketing and sale of the Company's products for allegedly conflicting with patents held by them. Any such litigation could result in substantial cost to the Company and diversion of effort by its management and technical personnel. If any such actions are successful, in addition to any potential liability for damages, the Company could be required to obtain a license in order to continue to market the affected products. There can be no assurance that the Company would prevail in such action or that any license required under any such patent would be available on acceptable terms, if at all. Failure to obtain needed patents, licenses or proprietary information held by others may have material adverse effect on the Company's business. In addition, if the Company were to become involved in such litigation, it could consume a substantial portion of the Company's time and resources.

Cyber Security Risk

The Company relies on information technology systems and networks in its operations. The Company could be materially and adversely affected if the information technology systems or networks are compromised by malicious cyber attacks. This information technology infrastructure may be subject to security breaches or other cybersecurity incidents. In addition, these systems may be compromised by natural disasters or defects in software or hardware systems. The consequences of the Company's information technology systems being compromised potentially include material and adverse impacts on its financial condition, operations, production or sales, due to disruption of its business activities, and access to, and/or compromising of, proprietary sensitive information, including confidential customer or employee information, litigation and regulatory costs, devaluation of any intellectual property and reputation harm. While the Company believes it takes appropriate precautions considering cyber security risks, there can be no assurance that it may not be subject to cyber security risks or attack, which could have a material adverse effect on business or results of operations.

Obsolescence

Maintaining a competitive position requires constant growth, development and strategic marketing and planning. If the Company is unable to maintain a technological advantage, the Company's ability to grow its business will be adversely affected and its products may become obsolete compared with other technologies.

Results of Operations and Financing Risks

Management believes, based on its expectations as to the future performance of the Company, that the cash flow from its operations and funds available to it will be adequate to enable the Company to finance its operations, execute its business strategy and maintain an adequate level of liquidity. However, expected revenue and the costs of planned capital expenditures are only estimates. Actual cash flows from operations are dependent on regulatory, market and other conditions that will be beyond the control of the Company. As such, no assurance can be given that management's expectations as to future performance will be realized. In addition, management's expectations as to the future performance of the Company reflect the current state of its information about recently acquired assets or entities, assets or entities currently considered for acquisition, the operations related thereto and integration efforts, and there can be no assurance that such information is correct or complete in all material respects.

Additional Requirements for Capital

Substantial additional financing may be required if the Company is to be successful with the Company's acquisition strategy and the overall development of its business. The Company does not currently know whether it will be able to secure additional funding or funding on terms acceptable to the Company. The Company's ability to obtain additional funding will be subject to several factors, including market conditions, investor sentiment and the Company's operating performance. These factors may take the timing, amount, terms and conditions of additional funding unattractive to the Company. If the Company is unable to raise additional funds on terms acceptable to the Company's management when needed, the Company's ability to execute its acquisition strategy could be impaired, which could lead to a material adverse impact on its business. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion or may not be able to further develop its business at all.

If the Company can obtain additional funds by way of an equity financing, the Company's existing shareholders may experience dilution. Any additional debt financing, if available, may involve restrictions on the Company's financing and operating activities.

Liquidity and Future Financing Risk

The Company does not currently have cash reserves for funding future growth and expansion and therefore may require additional financing in order to fund future growth in operations and expansion plans. The Company's ability to secure any required financing to sustain its operations will depend in part upon prevailing capital market conditions, as well as the Company's business success. There can be no assurance that the Company will be successful in its efforts to secure any additional financing or additional financing on terms satisfactory to the Company's management. If additional financing is raised by issuing Common Shares, control may change, and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may be required to scale back its business plan.

Changes in Law, Regulations and Guidelines

The Company's business will be subject to laws, regulations, and guidelines. Although the Company intends to comply with all laws and regulations, there is no guarantee that the governing laws and regulations will not change which will be outside of the Company's control.

Key Personnel Risk

The Company's success will depend on its directors' and officers' ability to develop the Company's business and manage its operations, and on the Company's ability to attract and retain the Chief Executive Officer and other key technical, sales, public relations and marketing staff or consultants to ramp up its business activities. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on the Company's business. Competition for qualified technical, design, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact the Company's operations.

Conflicts of Interest Risk

Certain of the Company's directors and officers are also involved as advisors for other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers' conflict with or diverge from the Company's interests. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract, or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract.

In addition, the directors and the officers are required to act honestly and in good faith with a view to the best interests of the Company. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.

Intellectual Property Protection

The Company's intellectual property is protected primarily through trade secrets and copyright protection. The Company takes steps to document and protect its trade secrets and authorship of works protectable by copyright. However, there is no guarantee that such steps protect against the disclosure of confidential information, rights of employees, or that legal actions would provide sufficient remedy for any breach. Additionally, the Company's trade secrets might otherwise become known or be independently developed by competitors. If the Company's intellectual property cannot be protected, the business might be adversely affected.

Market Risk for Securities

The market price for the Company shares could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the Company's Shares. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Absence of Cash Dividends

To date, the Company has not paid any cash dividends on its Common Shares and it does not anticipate the payment of any dividends on its Common Shares in the foreseeable future.

Smaller Companies

Market perception of smaller companies may change, potentially affecting the value of investors' holdings and the ability of the Company to raise further funds through the issue of further Common Shares or otherwise. The share price of publicly traded smaller companies can be highly volatile. The value of the Company's securities may go down as well as up, and, the share price may be subject to sudden and large falls in value given the restricted marketability of the Common Shares, results of operations, changes in earnings estimates or changes in general market, economic and political conditions.

Future Sales by Significant Shareholders

Following release of shares from the resale restrictions imposed by the terms of the escrow agreement entered into by the former shareholders of the Company prior to its going public transaction with Archer Petroleum Corp., should the former shareholders of the Company determine to act in concert and sell their shares, the market price of the Common Shares may fall. This could result from the pressure on the market caused by such sales, or from concern that the sales signify problems in the Company's operations, or from some combination of the two. Mitigating this risk to some extent, though in no way eliminating it, is the fact that the securities subject to the escrow agreement are subject to certain release provisions.

Seasonality risk

As the Company continues its acquisitions across Canada there are several locations that will face extreme weather conditions that will impact manufacturing and delivery of products. It will also impact the Company's customers and deliveries could be delayed.

Macro-Economic risk

The Company may also be negatively affected by economic downturns or other disruptions to commercial and residential construction markets, which could affect the demand for the Company's products and services, and in turn negatively affect the Company's financial condition and results. Economic slowdowns may also affect capital or credit markets, affecting our ability to raise capital or credit for the purpose of achieving our business objectives.

In addition, pandemics, such as the newly identified COVID-19 pandemic, have the potential to disrupt the Company's operations, projects and business prospects through the disruption of operations at the Company's plants, disruption of the local, national and international supply chain and transportation services, and the loss of labour from quarantines and/or work restrictions, any of which may require the Company to temporarily reduce or shut down its operations. In addition, large scale epidemics, quarantines and work restrictions could negatively impact the construction market, the demand for the Company's products and services, or the collection of accounts receivable, any of which could have a material adverse affect on the Company's financial condition and results.

SUBSEQUENT EVENTS

a) Company closes non-brokered private placement financing for $4,597,254.

On December 16, 2019, the Company announced a private placement financing to raise up to $4,250,000 (the "Offering"). By December 31, 2019, $204,400 was received by the Company and has been included as restricted cash on the balance sheet.

On February 10, 2020, the Company announced the closing of the Offering for an oversubscribed total of $4,597,254. The Company issued 11,493,134 common shares at a price of $0.40 per share, as well as, 11,493,134 warrants that are exercisable for two years at $0.60. The Company also paid finders fees totaling $261,954 and issued 654,885 finders warrants. The net proceeds of the Offering will be used primarily for working capital, capital expenditures, and acquisition purposes. All regulatory approvals were received regarding this private placement.

b) RBC Loans

As of April 17, 2020, the Company has received a tolerance letter from RBC as the Company was in breach of certain covenants (Note 19). The waiver was received for the year ended December 31, 2019 and all periods up to December 31, 2020.

c) Covid-19 economic impact

Subsequent to the year ended December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "Covid-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, closure of non-essential businesses, self-imposed quarantine periods, and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and impact of the Covid-19 outbreak is unknown at this time.

The Company continues to monitor and assess the impact on its business activities. The potential impact is not yet determinable; however there may have a material impact on the Company's financial position, results of operations and cash flows in future periods. In particular, there may be an increased risk of future goodwill and intangible asset impairments. As required by IFRS, we have not reflected these subsequent conditions in the financial results for the year ended December 31, 2019.

OTHER INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com.