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ATLAS ENGINEERED PRODUCTS

Consolidated Annual Financial Statements

For the 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, 2018, and its financial performance and its cash flows for the period from June 1, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards (IFRS).

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

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of loss and comprehensive loss for the period from June 1, 2018 to December 31, 2018;
- the consolidated statement of changes in equity for the period from June 1, 2018 to December 31, 2018;
- the consolidated statement of cash flows for the period from June 1, 2018 to 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.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Comparative information

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

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or 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 on the other information that we obtained prior to the date of this auditor's report, 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. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 to 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.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 29, 2019

Atlas Engineered Products Ltd.
Consolidated Statements of Financial Position
For the periods ended December 31, 2018 and May 31, 2018
(Expressed in Canadian dollars)

	Note	December 31, 2018	May 31, 2018
		$	$
Assets			
Current			
Cash		1,593,762	867,384
Accounts receivable	**8, 25**	4,055,629	2,008,773
Inventories	**9**	1,986,950	1,347,940
Prepaid expenditures		83,349	381,876
Loan receivable – current portion	**10**	86,085	-
		7,805,775	4,605,973
Non-current			
Loan receivable	**10**	204,000	-
Buildings and equipment	**11**	8,413,165	3,212,181
Intangible assets	**12**	5,058,028	436,200
Goodwill	**13**	2,980,895	418,928
Deferred tax asset	**14**	1,600,091	535,002
Total Assets		26,061,954	9,208,284
Liabilities			
Current			
Accounts payable and accrued liabilities	**16, 25**	4,113,939	1,468,602
Customer deposits		95,663	111,388
Income taxes payable	**14**	228,010	90,202
Current portion of lease obligations	**18**	1,000,867	568,069
Long-term debt – current portion	**19**	7,470,165	1,704,918
Exchangeable notes – liability portion	**20, 25**	-	292,346
		12,908,644	4,235,525
Non-current			
Intangible liability	**17**	169,133	-
Lease obligations	**18**	3,083,129	1,274,300
Deferred tax liability	**14**	1,760,599	-
		17,921,505	5,509,825
Shareholders' Equity			
Share capital		14,341,346	8,938,703
Contributed surplus		1,005,428	696,851
Exchangeable notes – equity portion	**20**	-	19,144
Deficiency		(7,206,325)	(5,956,239)
		8,140,449	3,698,459
Total Liabilities and Shareholders' Equity		26,061,954	9,208,284

Going Concern – Note 1
Subsequent events – Note 30

APPROVED BY THE DIRECTORS ON APRIL 29, 2019

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 periods ended December 31, 2018 and May 31, 2018
(Expressed in Canadian dollars)

	Note	December 31, 2018	May 31, 2018
		$	$
Revenue	**22**	13,352,676	11,597,176
Cost of sales	**23, 25**	(10,241,447)	(8,725,350)
Gross profit		3,111,229	2,871,826
Operating expenses			
Administrative and office		568,068	302,585
Depreciation	**11, 12**	274,717	225,561
Bad debt expense	**8**	26,947	29,608
Filing and transfer agent fees		36,476	22,627
Management fees	**25**	703,726	348,957
Professional fees	**25**	825,911	458,803
Salaries and benefits	**25**	1,020,279	280,348
Share-based payments	**21(c), 25**	308,577	696,851
Shareholder communication		189,080	70,958
Travel		235,498	114,243
Credit card processing costs		112,971	150,080
Restructuring expense	**24**	383,012	-
Operating (loss) income		(1,574,033)	171,205
Interest earned		67,601	28,995
Interest expense and other		(129,576)	(60,467)
Accretion expense		(5,154)	(20,716)
Foreign exchange loss		(10,153)	(7,465)
Finance charge on leases	**18, 25**	(48,704)	(81,869)
Loss on disposal of equipment		(16,426)	(6,074)
Listing expense		-	(4,864,786)
Loss before income tax		(1,716,445)	(4,841,177)
Income taxes			
Current income tax expense	**14**	(302,953)	(118,672)
Deferred income tax recovery	**14**	769,312	5,084
		466,359	(113,588)
Net loss and comprehensive loss for the period		(1,250,086)	(4,954,765)
Loss per share			
Basic and diluted		(0.04)	(0.29)
Weighted average number of shares outstanding			
Basic and diluted		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 periods ended December 31, 2018 and May 31, 2018
(Expressed in Canadian dollars)

	December 31, 2018	May 31, 2018
Cash provided by (used in):	**$**	**$**
Operating activities		
Net loss for the period	(1,250,086)	(4,954,765)
Depreciation	607,035	561,884
Accretion expense	5,154	20,716
Unrealized foreign exchange loss	15,921	-
Deferred tax recovery	(769,312)	(5,084)
Loss on disposal of equipment	16,426	6,074
Share-based payments	308,577	696,851
Interest on exchangeable notes	14,875	-
Listing expense	-	4,864,786
Changes in non-cash working capital items		
Accounts receivable	1,150,623	(1,005,678)
Inventories	426,121	(435,035)
Prepaid expenditures	327,373	(364,510)
Accounts payable and accrued liabilities	215,540	127,603
Customer deposits	(15,726)	(40,632)
Corporate income taxes payable	248,460	(91,212)
Cash provided by (used in) operations	1,300,981	(619,002)
Investing activities		
Acquisition of equipment	(159,132)	(35,917)
Proceeds from disposition of building and equipment	9,093	-
Pacer acquisition net of cash acquired	(7,346,370)	-
Coastal acquisition net of cash acquired	(230,577)	-
Satellite acquisition net of cash acquired	(1,131,382)	-
Clinton acquisition net of cash acquired	-	(2,483,896)
Cash acquired in RTO transaction	-	56,923
Cash used in investing activities	(8,858,368)	(2,462,890)
Financing activities		
Redemption of preferred shares	-	(1,000,000)
Shares issued for cash	4,132,000	4,226,400
Cash share issue costs	(16,800)	(54,372)
Repayment of principal lease obligations	(318,955)	(351,554)
Issuance of loan receivable	(290,085)	-
Proceeds from exchangeable notes	-	147,500
Dividends paid	-	(576,483)
Proceeds from long-term debt	5,159,234	1,760,000
Repayment of long-term debt	(381,629)	(437,063)
Cash provided by financing activities	8,283,765	3,714,428
Increase in cash	726,378	632,536
Cash - beginning of period	867,384	234,848
Cash - end of period	1,593,762	867,384
Cash paid during the period for:		
Interest	177,991	116,316
Income taxes	-	211,074

Supplemental cash flow information – Note 26

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

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 (Note 20)	-	-	19,144	-	-	19,144
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 period	-	-	-	-	(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 (Note 21b)	10,330,000	4,132,000	-	-	-	4,132,000
Shares issued on acquisitions (Note 6 and 7)	1,933,395	900,000	-	-	-	900,000
Shares issued for finders fee (Note 21b)	475,825	-	-	-	-	-
Less: cash share issue costs (Note 21b)	-	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

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

1. Going Concern

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

As at December 31, 2018, the Company was in violation of the covenants of its long-term debt facilities (Note 19). Subsequent to period end, the Company obtained a waiver from the lender waiving compliance with this covenant as at December 31, 2018 and March 31, 2019. Management has forecasted that the Company may also fail to meet those covenants at certain covenant compliance testing dates in 2019. There is no certainty that the Company would be able to obtain similar waivers at any or all of those points, which could result in the lender having the ability to demand repayment. If the lender demands repayment, the Company may not have sufficient cash to repay the debt and may not be able to secure debt on similar commercial terms or raise equity that could be used to repay the existing debt. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

The Company is currently in discussions with the lenders to negotiate amendments to the debt covenants.
The Company's ability to continue as a going concern is dependent upon its ability to maintain debt financing to support its growth and operations. While the Company has been successful in obtaining financing in the past, and received a waiver from its lender for the December 31, 2018 and March 31, 2019 covenant breach, the success of future initiatives cannot be assured.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

Subsequent to the year end, the Company has continued to meet the financial obligations payments on the required due dates.

2. 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.

3. 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") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the period ended December 31, 2018.

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

3. Significant Accounting Policies (continued)

Basis of presentation (continued)

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, 2019.

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 seven subsidiaries, all located in Canada,: Clinton Roof Truss Ltd. ("Clinton"), Satellite Truss Limited ("Satellite"), Coastal Windows Ltd ("Coastal"), DMH Holding Corp ("DMH"), Pacer Building Components ("Pacer"), Tandelle Specialty Products ("Tandelle"), and 2022013 Ontario Ltd ("2022013"). The Company owns 100% of the issued and outstanding shares of all of these subsidiaries.

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.

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 period ended December 31, 2018, the Company's acquisition of Satellite (Note 5), Coastal (Note 6), DMH (Note 7), Pacer (Note 7), Tandelle (Note 7), and 2022013 (Note 7) were recorded as a business combination.

3. Significant Accounting Policies (continued)

Business combinations (continued)

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.

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) Depreciation and amortization and determining useful lives

Production equipment and other tangible assets used directly in manufacturing activities are depreciated on a declining balance basis.

3. Significant Accounting Policies (continued)

Management estimates (continued)

c) Depreciation and amortization and determining useful lives (continued)

Mobile and other equipment are depreciated, net of residual value, over their useful economic lives. Depreciation commences when assets are available for use. The assets' useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each fiscal year end. There is no indication that there will be a material change to depreciation in the next year.

Significant judgement is involved in the determination of useful life and residual values. No assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

d) 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.

e) 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.

f) 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.

g) Calculation of share-based compensation

The amount expensed for share-based compensation is determined using the Black-Scholes Option Pricing Model based on estimated fair values of all share-based awards at the date of grant and is expensed to profit or loss over each award's vesting period. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility, expected forfeiture rates, and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Cash

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

3. Significant Accounting Policies (continued)

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.

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

3. Significant Accounting Policies (continued)

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.

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 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, and Coastal. 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.

3. Significant Accounting Policies (continued)

Revenue

IFRS 15 was early adopted by the Company as part of its transition to IFRS as of June 1, 2016.

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.

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.

3. Significant Accounting Policies (continued)

Revenue (continued)

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.

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.

3. Significant Accounting Policies (continued)

Income tax (continued)

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.

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.

De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred, and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

3. Significant Accounting Policies (continued)

Exchangeable notes

Exchangeable notes are separated into their liability and equity components on the statement of financial position. The liability component is initially recognized at fair value, calculated as the net present value of a similar liability without an associated equity conversion feature and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for debt with similar terms at the time of issue. The fair value of the equity component (conversion feature) is determined at the time of issue as the difference between the face value of the exchangeable note and the fair value of the liability component.

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.

3. 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 consist of accounts payable and accrued liabilities, customer deposits, term debt, and the liability portion of the exchangeable note 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.

3. Significant Accounting Policies (continued)

Accounting Standards Issued Not Yet Effective

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. Early adoption is permitted. The Company has elected not to early adopt this new standard for the December 31, 2018 year end. The Company will adopt at January 1, 2019. The implementation of these amendments is not expected to have a significant 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 has elected not to early adopt this new standard for the December 31, 2018 year end. The Company will adopt at January 1, 2019. The implementation of these amendments is not expected to have a significant impact on the Company.

c) 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, 2018 year end. The Company will adopt at January 1, 2019. The implementation of these amendments is not expected to have a significant impact on the Company.

4. 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).

(Expressed in Canadian dollars)

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

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.

	Clinton Feb 21 – May 31, 2018	**Clinton Jun 1 – Dec 31, 2018**
	$	**$**
Sales per consolidated financial statements	1,148,536	3,182,638
Earnings before tax	172,955	612,693
Income tax	43,239	153,173
Earnings	129,716	459,520

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 gains 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).

(Expressed in Canadian dollars)

5. Acquisition of Satellite Truss Limited (continued)

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 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.

	Satellite August 1 – December 31, 2018
	$
Sales per consolidated financial statements	1,157,711
Earnings before tax	73,977
Income tax	71,655
Earnings	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.

The full portion of the cash required to complete the transaction was provided by the Company’s excess cash and a private placement financing (Note 21b).

(Expressed in Canadian dollars)

6. Acquisition of Coastal Windows Ltd. (continued)

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 are still preliminary and have not been finalized. The Company is currently waiting on some final documentation from the previous owner.

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.

	Coastal October 1 – December 31, 2018
	$
Sales per consolidated financial statements	288,385
Loss before tax	(22,105)
Income tax recovery	(5,968)
Loss	(16,137)

7. 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 $850,588. 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.

Goodwill of $2,279,248 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 and Tandelle 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 (see Note 19).

(Expressed in Canadian dollars)

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

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
Accrued taxes recoverable	110,652
Total consideration	**9,450,588**
Cash	1,604,218
Accounts receivable	2,762,261
Inventories	724,809
Prepaids	25,369
Equipment	2,006,400
Corporate taxes recoverable	110,652
Intangible assets	4,427,000
Goodwill	2,279,248
Accounts payable and accrued liabilities	(2,095,783)
Intangible liability	(172,000)
Long-term debt and lease obligations	(910,340)
Deferred tax liability	(1,311,246)
	9,450,588

Due to the recent nature of the transaction, the above PPA calculations are still preliminary and have not been finalized. The Company is currently waiting on some final documentation from the previous owner.

The following tables shows the results of the operations of Pacer and Tandelle since the acquisition date. Prior to acquisition, Coastal was a private company and financial information was impractical to obtain and verify.

	Pacer November 19 – December 31, 2018
	$
Sales per consolidated financial statements	1,379,365
Earnings before tax	149,678
Income tax	38,663
Earnings	111,015

	Tandelle November 19 – December 31, 2018
	$
Sales per consolidated financial statements	50,000
Earnings before tax	12,862
Income tax	3,216
Earnings	9,646

(Expressed in Canadian dollars)

8. Accounts receivable

Trade and other receivables were as follows:

	December 31, 2018	May 31, 2018
	$	$
Trade accounts receivable	4,051,405	1,999,886
Other receivables	30,631	13,751
Loss allowance	(26,407)	(4,864)
	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, 2018, the estimated credit loss amounted to $26,407.

9. Inventories

	December 31, 2018	May 31, 2018
	$	$
Raw materials	1,547,709	979,348
Work in progress	56,725	34,768
Finished goods	382,516	333,824
	1,986,950	1,347,940

During the period ended December 31, 2018, $6,294,410 (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.

10. Loan receivable

During the previous fiscal year, $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. As of the December 31, 2018 period end, the Company is in negotiations for a repayment plan for the loan.

(Expressed in Canadian dollars)

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
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
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

Depreciation for tangible assets during the period ended December 31, 2018 was $534,730 (May 31, 2018 - $545,084). During the period ended December 31, 2018, $332,316 (May 31, 2018 - $336,323) of the depreciation was included in cost of sales.

(Expressed in Canadian dollars)

11. Buildings and equipment (continued)

The above buildings and equipment schedule includes right-of-use assets. The following summarizes those right-of-use assets and their depreciation for the periods ended December 31, 2018 and 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

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
Adjustment to Clinton (Note 4)	(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
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
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

As at December 31, 2018, the Company determined that there was no impairment to all intangible assets due to the recent nature of the transactions.

(Expressed in Canadian dollars)

13. Goodwill

As at December 31, 2018, the Company determined that there was no impairment to the goodwill.

	Clinton	Satellite	Coastal	Pacer	Total
	$	$	$	$	$
Cost					
Balance, May 31, 2017	-	-	-	-	-
Additions	418,928	-	-	-	418,928
Balance, May 31, 2018	418,928	-	-	-	418,928
PPA adjustment (Note 4)	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

The Company concluded that there was no impairment due to the recent nature of the transactions resulting in goodwill. No formal test was required due to materiality and the timing of the acquisitions.

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 periods ended December 31, 2018 and May 31, 2018 as follows:

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

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

	December 31, 2018	May 31, 2018
	$	$
Current tax expense	302,953	118,672
Deferred tax recovery	(769,312)	(5,084)
Total income tax (recovery) expense	(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, 2018	May 31, 2018
	$	$
Deferred tax assets		
Lease obligations	1,160,850	497,440
Capital loss carry forwards	51,851	51,851
Non-capital loss carry forwards	1,337,338	708,481
Share issue costs	112,357	74,614
	2,662,396	1,332,386
Offset against deferred tax liabilities	(1,010,454)	(745,533)
Unrecognized deferred tax assets	(51,851)	(51,851)
Deferred tax assets	1,600,091	535,002
Deferred tax liabilities		
Buildings and equipment	(1,504,326)	(635,091)
Brand and customer relationships	(1,266,727)	(109,050)
Exchangeable notes	-	(1,392)
Offset against deferred tax assets	1,010,454	745,533
Deferred tax liabilities	(1,760,599)	-
Net deferred tax balance	(160,508)	535,002

The Company has non-capital losses of approximately $4,953,580 at December 31, 2018, 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, 3038	2,329,578
	4,953,580

15. Bank Indebtedness

During the seven-month period ended December 31, 2018, the Company was approved for a $1.75 million line of credit with no set terms of repayment. Interest rate on this line of credit is 5.45%. As of December 31, 2018, the Company had used $NIL of its line of credit.

(Expressed in Canadian dollars)

16. Accounts payable and accrued liabilities

	December 31, 2018	May 31, 2018
	$	$
Trade accounts payable	2,737,022	1,091,902
Sales taxes payable	187,152	136,846
Salaries and vacation payable	316,641	93,956
Other accounts payable	31,712	10,648
Accrued liabilities	841,412	135,250
	4,113,939	1,468,602

17. Intangible liability

	Over-Market Lease Agreement	Total
	$	$
Cost		
Balance, May 31, 2017	-	-
Additions	-	-
Balance, May 31, 2018	-	-
Adjustment to opening	-	-
Additions	172,000	172,000
Balance, December 31, 2018	172,000	172,000
Balance, May 31, 2017	-	-
Additions	-	-
Balance, May 31, 2018	-	-
Additions	2,867	2,867
Balance, December 31, 2018	2,867	2,867
Carrying amount at May 31, 2018	-	-
Carrying amount at December 31, 2018	169,133	169,133

As at December 31, 2018, 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, 2018 and May 31, 2018 are as follows:

	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).	515,635	648,706
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. The use of this lease was changed during the current year.	-	350,003
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.	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.	2,616,375	-
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
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.	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.	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.	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.	253,786	-
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
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.	57,576	65,389
Total lease obligation	4,083,996	1,842,369
Current portion	(1,000,867)	(568,069)
Non-current portion	3,083,129	1,247,300

(Expressed in Canadian dollars)

18. Lease obligations (continued)

During the year the Company reclassified a leaseback transaction to long-term debt.

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

	December 31, 2018	**May 31, 2018**
	$	**$**
Principal payment	318,955	351,554
Finance charge	48,704	81,661
Total lease payments	367,659	433,215

During the period ended December 31, 2018 building, vehicles and equipment were purchased under a right-of-use asset lease for $3,540,409 (May 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, 2018
	$
2019	1,235,693
2020	1,245,319
2021	891,003
2022	744,919
2023	563,491
Total minimum lease payments	4,680,426
Less: imputed interest	(596,430)
Total present value of minimum lease payments	4,083,996

As of December 31, 2018, 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, 2018	May 31, 2018
	$	$
RBC loan[1]	1,030,765	1,149,217
RBC loan[2]	546,788	555,701
RBC Leaseback[3]	479,946	-
RBC Leaseback[4]	204,354	-
RBC loan[5]	438,837	-
RBC loan[6]	4,435,920	-
RBC assumed loan[7]	20,499	-
RBC assumed loan[8]	20,531	-
RBC assumed loan[9]	14,971	-
RBC assumed loan[10]	30,229	-
RBC assumed loan[11]	15,143	-
RBC assumed loan[12]	36,089	-
RBC assumed loan[13]	41,923	-
RBC assumed loan[14]	93,600	-
RBC assumed loan[15]	60,570	-
	7,470,165	1,704,918
Less current portion of term debt	(7,470,165)	(1,704,918)
Total long-term portion of term debt	-	-

1. A term loan with a major Canadian bank bearing interest at a floating base rate (6.45% as at December 31, 2018) repayable at approximately $22,647 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 December 31, 2018) repayable at approximately $3,453 per month with the initial term ending February 2019. 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 $13,925 per month over a 60-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 60-month term. The leaseback is secured by the equipment of Satellite.
5. A mortgage with a major Canadian bank bearing interest at a floating base rate (5.05% as at December 31, 2018) repayable at approximately $3,510 per month. The mortgage is amortized over 180 months. The loan is secured by a general security interest granted by the Company, with a 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 at December 31, 2018) 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 (4.45% as at December 31, 2018) repayable at approximately $2,320 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over nine 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 (4.05% as at December 31, 2018) repayable at approximately $1,360 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 14 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 (4.05% as at December 31, 2018) repayable at approximately $690 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 21 months. The loan is secured by a specific piece of equipment.
10. A term loan with a major Canadian bank bearing interest at a floating base rate (4.05% as at December 31, 2018) repayable at approximately $1,290 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)

11. A term loan with a major Canadian bank bearing interest at a floating base rate (4.05% as at December 31, 2018) repayable at approximately $580 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 27 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 (4.05% as at December 31, 2018) repayable at approximately $1,240 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 30 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 (4.05% as at December 31, 2018) repayable at approximately $1,140 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 40 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 (4.05% as at December 31, 2018) repayable at approximately $2,080 per month. The loan was assumed on the acquisition of Tandelle and remaining life is amortized over 51 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 (4.05% as at December 31, 2018) repayable at approximately $1,310 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.

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 1, 2, 5, 6, and 8 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.

The Company has not had any modifications to the terms of the debt during the year and any future changes will result in updates to the long-term debt schedules.

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 of not less than 1.4 to 1 which is tested quarterly. The debt service ratio is EBITDA (earning before interest, taxes, stock based compensation, depreciation, amortization, and one time non-cash expenditures) over annual debt payments. The current ratio test is current assets over current liabilities. As at December 31, 2018, the Company was not in compliance with these ratios with RBC. As a result, all the Company's long-term debt has been presented as current. Subsequent to year end, the bank has provided a forbearance on these covenants. The bank has also provided a forbearance letter for the current ratio until the second quarter reporting period.

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.

(Expressed in Canadian dollars)

20. Exchangeable notes (continued)

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-month period 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 October 1, 2018, the Company acquired Coastal. The Company issued 869,565 common shares at $0.46 per share for gross proceeds of $400,000.

On October 31, 2018, the Company completed a private placement, issuing 9,497,500 common shares at $0.40 per share for gross proceeds of $3,799,000. The Company also issued 475,825 finders' shares and incurred $190,330 of cash issue costs.

On November 19, 2018, the Company acquired DMH, 2022013, Pacer, and Tandelle. The Company issued 1,063,830 common shares $0.47 per share for gross proceeds of $500,000.

On December 3, 2018 the Company completed a private placement, issuing 832,500 common shares at $0.40 per share for gross proceeds of $333,000.

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.

The Company's share options outstanding as at December 31, 2018 and May 31, 2018 and the changes for the periods 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

(Expressed in Canadian dollars)

21. Share capital (continued)

c) Options (continued)

The total share-based payment expense recorded during the year December 31, 2018 was $308,577 (May 31, 2018: $696,851).

The following table summarizes information about the share options outstanding as at December 31, 2018:

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	1,394,166	3.85	$0.49	984,988	November 8, 2022
$0.60	450,000	4.10	$0.60	149,998	February 5, 2023
$0.53	302,500	4.14	$0.53	100,830	February 21, 2023
$0.65	123,333	4.30	$0.65	123,333	April 18, 2023
$0.55	100,000	4.30	$0.55	33,333	April 18, 2023
$0.53	2,369,999	3.98	$0.52	1,392,482	

Volatility was determined using the historical volatility rate of the Company. 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%	0.00%	$0.47
February 21, 2018	5.00	1.60%	Nil	132%	0.00%	$0.46
April 18, 2018	5.00	1.60%	Nil	132%	0.00%	$0.47
April 18, 2018	5.00	1.60%	Nil	132%	0.00%	$0.46
September 23, 2018	5.00	1.60%	Nil	132%	0.00%	$0.56

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.

(Expressed in Canadian dollars)

21. Share capital (continued)

d) Warrants (continued)

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

	Number	Weighted average exercise price
		$
Balance as at May 31, 2017	-	-
Granted	-	-
Forfeited	-	-
Balance as at May 31, 2018	-	-
Granted	5,165,000	0.60
Forfeited	-	-
Balance as at December 31, 2018	5,165,000	0.60

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

22. Revenue

The Company has three distinct revenue streams: trusses, engineered wood products, and windows. Regional information of the Company's revenues for the periods ended December 31, 2018 and May 31, 2018 is as follows:

Period ended December 31, 2018

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

Year ended May 31, 2018

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

(Expressed in Canadian dollars)

23. Cost of sales

Cost of sales is broken down as follows:

	December 31, 2018	May 31, 2018
	$	$
Materials	6,345,150	5,424,353
Labour	2,801,221	2,370,490
Fuel, maintenance, and overhead	762,759	594,184
Amortization	332,317	336,323
Total cost of sales	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, DMH, 2022013, Pacer, and Tandelle.

The Company incurred the following charges as part of our income statement during the periods ended December 31, 2018 and May 31, 2018:

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

(Expressed in Canadian dollars)

25. Related party transactions (continued)

Due to/from related parties

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

	December 31, 2018	May 31, 2018
	$	$
Due from related party		
Accounts receivable	-	23,797
Total due from related party	-	23,797
Due to related parties		
Accounts payable and accrued liabilities	(76,620)	(1,040)
Lease obligation (Note 18)[1]	(515,635)	(648,706)
Exchangeable note – liability portion (Note 20)	-	(49,134)
Total due to related parties	(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 period ended December 31, 2018 and May 31, 2018 the Company had the following non-cash investing and financing activities:

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 a right-of-use asset;
- $581,000 of lease obligations that have been capitalized to equipment; and
- $380,977 of lease obligations that have been capitalized to building.

(Expressed in Canadian dollars)

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 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 (Note 24)	-	(310,538)	(310,538)
Balance December 31, 2018	7,470,165	4,083,996	11,554,161

	Long-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)
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, accounts payable and accrued liabilities, customer deposits, long-term debt, and the liability portion of the exchangeable notes. The Company classified and measured its cash and accounts receivable as subsequently measured at amortized cost. The accounts payable and accrued liabilities, customer deposits, long-term debt, and the liability portion of the exchangeable 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.

28. Financial instruments (continued)

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 $60,000 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, 2018, 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 $38,000 over the next fiscal year.

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 periods ended December 31, 2018 and May 31, 2018 summarized below:

	December 31, 2018	May 31, 2018
	$	$
Classes of financial assets – carrying amounts		
Cash	1,593,762	867,384
Trade accounts receivable, net of loss allowance	4,024,998	1,995,022
	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.

(Expressed in Canadian dollars)

28. Financial instruments (continued)

Credit risk (continued)

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, 2018 and May 31, 2018 is summarized below:

	December 31, 2018	May 31, 2018
	$	$
Trade accounts receivable, net of loss allowance		
Current	1,989,325	1,405,682
Past due 1 to 30 days	1,085,951	335,018
Past due 31 to 60 days	526,239	111,442
Past due over 60 days	423,483	142,880
	4,024,998	1,995,022

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

	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%	-
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 0.95:1. Cash flows from trade accounts receivable are all contractually due within thirty days.

(Expressed in Canadian dollars)

28. Financial instruments (continued)

Liquidity risk (continued)

As at December 31, 2018, 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	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	-

The Company has presented the entire long-term debt balance as current liability due to the covenant breach noted in Note 19. Subsequent to year end, the Company did receive a forbearance letter for any violations as at December 31, 2018 and March 31, 2019.

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

	Current	Current	Non-current	Non-current
	Within 6 months	6 to 12 months	1 to 5 years	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.

(Expressed in Canadian dollars)

29. Management of capital (continued)

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

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

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) Acquisition of SC 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, and $500,000 either in cash of five equal monthly instalments or shares at $0.40 beginning three months after closing. SC is located in Carman, Manitoba. SC, a manufacturer of roof and floor trusses aligns with the core business of the Company.

With this location the Company gains access to Southern Manitoba and the capital, Winnipeg. SC has updated equipment and technology that the Company has now gained access to in order to assess its usefulness in the other locations.

A significant portion of the cash required to complete the transaction will be provided by a term loan from a major Canadian chartered bank and secured by the assets of SC.

(Expressed in Canadian dollars)

30. Subsequent events (continued)

a) Acquisition of SC Building Systems Ltd. (continued)

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	2,500,000
Shares	400,000
Cash or shares	500,000
Working capital excess	276,715
Total consideration	**3,676,715**
Cash	84,891
Accounts receivable	231,506
Inventories	312,276
Prepaids	20,335
Building and equipment	2,003,300
Other non-current assets	152,958
Intangible assets	996,700
Accounts payable and accrued liabilities	(125,251)
	3,676,715

Due to the recent nature of the transaction and that the PPA calculations are still preliminary and have not been finalized. The working capital excess has not been completed and finalized by the Company and the seller. The above values are based on initial working papers detailing the carrying value of the assets and liabilities at time of acquisition, but some values are still being valued and agreed upon. The valuation of the intangible assets has also not been completed.

b) RBC Loans

As of January 15, 2019, RBC has renewed the two loans that were expiring on February 19, 2019 (Note 19) for an additional one-year term. The new term ends on February 16, 2020.

As of April 23, 2019, the Company has received a forbearance letter from RBC as the Company was in breach of the covenants (Note 19).

c) Options

As of March 4, 2019, the Company granted 1,390,000 options that can be exercised at $0.30 per common share. These options follow the share purchase plan of the Company. The fair value estimation of these options is $1,067,149 after taking into account a forfeiture rate of 25% based on actual forfeiture history.

d) Loan receivable

As of March 27, 2019, an agreement was reached with Selkirk for the repayment of a $290,085 loan receivable, which includes a personal guarantee. Selkirk will make a payment of $18,085 plus interest in the first month and principal payments of $8,500 plus accrued interest each month subsequently until the balance is paid. Interest will accrue at prime plus 1%.