AEP
ATLAS ENGINEERED PRODUCTS

Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and May 31, 2018
(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and reviewed by the Audit Committee and Board of Directors of the Company.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditor.

Atlas Engineered Products Ltd.

Condensed Interim Consolidated Statements of Financial Position
For the periods ended June 30, 2019 and December 31, 2018
(Unaudited - expressed in Canadian dollars)

	Note	June 30, 2019	December 31, 2018
		$	$
Assets			
Current			
Cash		212,512	1,593,762
Accounts receivable	**6**	4,663,688	4,055,629
Inventories	**7**	2,112,565	1,986,950
Prepaid expenditures		266,433	83,349
Loan receivable – current portion	**8**	102,000	86,085
		7,357,198	7,805,775
Non-current			
Loan receivable	**8**	161,500	204,000
Buildings and equipment	**9**	10,020,569	8,413,165
Intangible assets	**10**	4,779,880	5,058,028
Goodwill	**11**	4,501,121	2,980,895
Deferred tax asset		1,505,308	1,600,091
Total Assets		28,325,576	26,061,954
Liabilities			
Current			
Accounts payable and accrued liabilities	**13, 20**	4,013,761	4,113,939
Customer deposits		142,482	95,663
Income taxes payable		558,128	228,010
Current portion of lease obligations	**15**	1,118,527	1,000,867
Long-term debt – current portion	**16**	1,471,066	7,470,165
		7,303,964	12,908,644
Non-current			
Intangible liability	**14**	151,931	169,133
Lease obligations	**15, 20**	2,833,426	3,083,129
Long-term debt	**16**	7,442,610	-
Deferred tax liability		2,132,276	1,760,599
		19,864,207	17,921,505
Shareholders' Equity			
Share capital		14,741,346	14,341,346
Contributed surplus		1,203,109	1,005,428
Deficiency		(7,483,086)	(7,206,325)
		8,461,369	8,140,449
Total Liabilities and Shareholders' Equity		28,325,576	26,061,954

Subsequent events – Note 25

APPROVED BY THE DIRECTORS ON JULY 26, 2019

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

Atlas Engineered Products Ltd.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the three and six months ended June 30, 2019 and May 31, 2018
(Unaudited - expressed in Canadian dollars)

	Note	Three Months Ended June 30, 2019	Three Months Ended May 31, 2018	Six Months Ended June 30, 2019	Six Months Ended May 31, 2018
		$	$	$	$
Revenue	**18**	9,067,334	3,987,449	15,284,242	6,066,495
Cost of sales	**19**	(6,561,592)	(3,141,380)	(11,618,083)	(4,730,623)
Gross profit		2,505,742	846,069	3,666,159	1,335,872
Operating expenses					
Administrative and office		556,417	397,120	1,000,132	515,980
Depreciation	**9, 10, 14**	354,065	118,490	673,379	152,842
Bad debt (recovery) expense	**6**	46	15,669	(8,307)	17,629
Management fees	**20**	72,000	216,791	145,200	320,480
Professional fees		81,412	225,919	281,129	357,929
Salaries and benefits	**20**	548,076	87,384	1,073,853	150,319
Share-based payments	**17(c), 20**	111,713	328,271	197,681	613,683
Operating income (loss)		782,013	(543,575)	303,092	(792,990)
Interest earned		2,499	14,090	106,920	27,689
Interest expense and other		(158,088)	(37,703)	(267,845)	(48,757)
Accretion expense		-	(6,620)	-	(12,952)
Foreign exchange loss		(38,274)	(7,414)	(49,536)	(7,252)
Finance charge on leases	**15, 20**	(65,493)	(24,180)	(135,415)	(41,115)
Loss on disposal of equipment		-	(272)	-	(272)
Income (loss) before income tax		522,657	(605,674)	(42,784)	(875,649)
Income taxes					
Current income tax expense		(148,955)	(45,397)	(204,210)	(95,796)
Deferred income tax (expense) recovery		(210,826)	165,754	(29,767)	190,371
		(359,781)	120,357	(233,977)	94,575
Net income (loss) and comprehensive income (loss) for the period		162,876	(485,317)	(276,761)	(781,074)
Income (loss) per share					
Basic and diluted		0.00	(0.02)	(0.01)	(0.03)
Weighted average number of shares outstanding					
Basic and diluted		45,990,930	30,730,405	45,659,438	30,730,405

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

Atlas Engineered Products Ltd.
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2019 and May 31, 2018
(Unaudited - expressed in Canadian dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2019	May 31, 2018	June 30, 2019	May 31, 2018
Cash provided by (used in):			$	$
Operating activities				
Net income (loss) for the period	162,876	(485,317)	(276,761)	(781,074)
Depreciation	645,384	276,302	1,237,300	370,229
Accretion expense	-	6,620	-	12,952
Unrealized foreign exchange (loss) gain	(11,269)	-	622	-
Deferred tax expense (recovery)	210,825	(165,754)	29,766	(190,371)
Loss on disposal of equipment	-	272	-	272
Share-based payments	111,713	328,271	197,681	613,683
Changes in non-cash working capital items				
Accounts receivable	(1,696,017)	(525,071)	(214,932)	(89,604)
Inventories	379,447	(348,567)	186,661	(371,188)
Prepaid expenditures	(125,127)	(261,029)	(162,749)	(314,601)
Deposit on equipment	-	315,000	-	-
Accounts payable and accrued liabilities	494,694	681,979	(234,281)	127,963
Customer deposits	32,997	7,106	46,820	(27,902)
Corporate income taxes payable	260,589	46,587	214,387	(114,088)
Cash provided by (used in) operations	466,112	(123,601)	1,024,514	(763,729)
Investing activities				
Acquisition of equipment	(78,289)	(9,166)	(508,458)	(10,942)
Deferred acquisition costs	-	297,907	-	14,398
SC acquisition net of cash acquired	(261,671)	-	(3,176,780)	-
Clinton acquisition net of cash acquired	-	(1,760,000)	-	(2,483,896)
Cash used in investing activities	(339,960)	(1,471,259)	(3,685,238)	(2,480,440)
Financing activities				
Repayment of principal lease obligations	(267,849)	(128,574)	(540,621)	(203,683)
Issuance of principal lease obligations	-		408,576	
Proceeds from long-term debt	-	1,760,000	2,075,300	1,760,000
Repayment of long-term debt	(343,566)	-	(690,366)	-
Proceeds from loan receivable	26,585	(52,569)	26,585	(52,569)
Cash (used in) provided by financing activities	(584,830)	1,578,857	1,279,474	1,503,748
Decrease in cash	(458,678)	(16,003)	(1,381,250)	(1,740,421)
Cash - beginning of period	671,190	883,387	1,593,762	2,607,805
Cash - end of period	212,512	867,384	212,512	867,384
Cash paid during the period for:				
Interest	223,581	49,703	403,260	67,631
Income taxes	-	-	-	211,074

Supplemental cash flow information – Note 21

Atlas Engineered Products Ltd.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited - expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Exchangeable Notes – Equity Component	Contributed Surplus	Deficiency	Total
	(Note 18)	(Note 18)		(Note 18)		
		$	$	$	$	$
Balance, May 31, 2017	1,010	101	-	-	(424,991)	(424,890)
Shares issued on the amalgamation with Coastal	200	20	-	-	-	20
Exchangeable notes	-	-	19,144	-	-	19,144
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	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	1,521,305	331,518	(19,144)	-	-	312,374
Shares issued pursuant to private placement	10,330,000	4,132,000	-	-	-	4,132,000
Shares issued on acquisitions (Note 4 and 5)	1,933,395	900,000	-	-	-	900,000
Shares issued for finders fee	475,825	-	-	-	-	-
Less: cash share issue costs	-	39,125	-	-	-	39,125
Share-based payments	-	-	-	636,848	-	636,848
Net loss for the period	-	-	-	-	(1,735,403)	(1,735,403)
Balance, December 31, 2018	44,990,930	14,341,346	-	1,005,428	(7,206,325)	8,140,449
Shares issued on acquisitions (Note 6)	1,000,000	400,000	-	-	-	400,000
Share-based payments	-	-	-	197,682	-	197,682
Net loss for the period	-	-	-	-	(276,761)	(276,761)
Balance, June 30, 2019	45,990,930	14,741,346	-	1,203,110	(7,483,086)	8,461,370

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

1. Nature of Operations

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

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

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), effective for the Company’s reporting for the period ended June 30, 2019.

During the previous fiscal period, the Company elected to change its year end from May 31 to December 31. These statements represent the six month period ended June 30, 2019 and the six month period ended May 31, 2018 due to the change in year end.

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

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

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amount of revenues and expenses during the reporting year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

These consolidated financial statements were approved for issue by the Board of Directors on July 26, 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 eight 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”), 2022013 Ontario Ltd (“2022013”), and South Central Building Systems Ltd (“SC”). 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.

(Unaudited - expressed in Canadian dollars)

3. 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.

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 Jan 1 – Jun 30, 2019	**Coastal Oct 1 – Dec 31, 2018**
	$	**$**
Sales per consolidated financial statements	955,980	288,385
Loss before tax	(103,212)	(22,105)
Income tax recovery	(29,112)	(5,968)
Loss	(74,100)	(16,137)

(Unaudited - expressed in Canadian dollars)

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

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

Goodwill of $2,394,979 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 16).

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

Category	$
Cash	8,100,000
Atlas Engineered Products common shares	500,000
Excess working capital	739,936
Total consideration	**9,339,936**
Cash	1,604,218
Accounts receivable	2,762,261
Inventories	724,809
Prepaids	25,369
Equipment	2,006,400
Intangible assets	4,427,000
Goodwill	2,394,979
Accounts payable and accrued liabilities	(2,095,783)
Corporate taxes payable	(115,731)
Intangible liability	(172,000)
Long-term debt and lease obligations	(910,340)
Deferred tax liability	(1,311,246)
	9,339,936

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.

(Unaudited - expressed in Canadian dollars)

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

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

	Pacer Jan 1 – Jun 30, 2019	**Pacer Nov 19 – Dec 31, 2018**
	$	**$**
Sales per consolidated financial statements	5,390,998	1,379,365
Earnings before tax	55,119	149,678
Income tax expense	13,943	38,663
Earnings	41,176	111,015

	Tandelle Jan 1 –Jun 30, 2019	**Tandelle Nov 19 – Dec 31, 2018**
	$	**$**
Sales per consolidated financial statements	180,000	50,000
(Loss) Earnings before tax	(92,489)	12,862
Income tax (recovery) expense	(23,122)	3,216
(Loss) Earnings	(69,367)	9,646

5. Acquisition of South Central Building Systems Ltd.

On March 1, 2019, the Company completed its acquisition of SC Building Systems Ltd. (“SC”) whereby the Company acquired all the issued and outstanding shares of SC for $3,400,000 consisting of $2,500,000 in cash, $400,000 in Atlas common shares, 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 (Note 16).

(Unaudited - expressed in Canadian dollars)

5. Acquisition of South Central 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	261,671
Total consideration	**3,661,671**
Cash	84,891
Accounts receivable	240,790
Inventories	312,276
Prepaids	20,335
Building and equipment	2,075,300
Other non-current assets	152,958
Intangible assets	1,404,495
Accounts payable and accrued liabilities	(134,103)
Long-term debt	(58,577)
Deferred tax liability	(436,694)
	3,661,671

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.

The following table shows the results of the operations of SC since the acquisition date. Prior to acquisition SC was a private company and financial information was impractical to obtain and verify.

	SC **Mar 1 – Jun 30, 2019**
	$
Sales per consolidated financial statements	883,814
Income before tax	65,007
Income tax expense	17,679
Earnings	47,328

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(Unaudited - expressed in Canadian dollars)

6. Accounts receivable

Trade and other receivables were as follows:

	June 30, 2019	December 31, 2018
	$	$
Trade accounts receivable	4,618,474	4,051,405
Other receivables	60,150	30,631
Loss allowance	(14,936)	(26,407)
	4,663,688	4,055,629

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 six months ended June 30, 2019, the estimated credit loss amounted to $14,936.

7. Inventories

	June 30, 2019	December 31, 2018
	$	$
Raw materials	1,548,579	1,547,709
Work in progress	50,952	56,725
Finished goods	513,034	382,516
	2,112,565	1,986,950

During the three and six months ended June 30, 2019, $3,641,857 and $6,122,920 (May 31, 2018 - $1,075,740 and $2,311,499) 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.

8. Loan receivable

During a 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 was been determined that there will be no deal to acquire Selkirk at this time. On March 27, 2019, an agreement was reached with Selkirk for repayment of the balance plus interest, which includes a personal guarantee. Selkirk made a payment of $18,085 plus interest in the first month, April 2019, and will make principal payments of $8,500 plus accrued interest each month subsequently until the balance is paid. Interest will accrue at prime plus 1%.

(Unaudited - expressed in Canadian dollars)

9. 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, 2018	2,298,586	107,854	1,149,871	1,854,402	221,516	201,611	5,833,840
Additions	2,877,905	-	23,140	115,778	7,718	-	3,024,541
Additions through business combination	590,000	62,500	1,269,800	1,124,930	-	-	3,047,230
Disposals	(380,977)	(1,000)	(55,250)	-	-	-	(437,227)
Balance, December 31, 2018	5,385,514	169,354	2,387,561	3,095,110	229,234	201,611	11,468,384
Additions	20,364	6,599	408,576	45,110	27,809	-	508,458
Additions through business combination	892,000	7,000	290,500	885,800	-	-	2,075,300
Disposals	-	-	-	-	-	-	-
Balance, June 30, 2019	6,297,878	182,953	3,086,637	4,026,020	257,043	201,611	14,052,142
Accumulated depreciation							
Balance, May 31, 2018	576,153	94,146	502,126	1,129,538	198,496	121,200	2,621,659
Additions	278,221	2,858	137,663	107,491	4,704	3,793	534,730
Disposals	(74,080)	(160)	(26,930)	-	-	-	(101,170)
Balance, December 31, 2018	780,294	96,844	612,859	1,237,029	203,200	124,993	3,055,219
Additions	440,347	7,692	308,922	211,382	4,918	3,093	976,354
Disposals	-	-	-	-	-	-	-
Balance, June 30, 2019	1,220,641	104,536	921,781	1,448,411	208,118	128,086	4,031,573
Carrying amount at December 31, 2018	4,605,220	72,510	1,774,702	1,858,081	26,034	76,618	8,413,165
Carrying amount at June 30, 2019	5,077,237	78,417	2,164,856	2,577,609	48,925	73,525	10,020,569

Depreciation for tangible assets during the three and six months ended June 30, 2019 was $514,911 and $976,354 (May 31, 2018 - $259,502 and $353,429). During the three and six months ended June 30, 2019, $291,319 and $563,921 (May 31, 2018 - $157,812 and $217,387) of the depreciation was included in cost of sales.

(Unaudited - expressed in Canadian dollars)

9. 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 June 30, 2019 and December 31, 2018.

	Building	Office Furniture and Equipment	Vehicles	Production Equipment	Total
	$	$	$	$	$
Balance, May 31, 2018	961,582	900	436,573	351,000	1,750,055
Additions	2,865,409	-	675,000	-	3,540,409
Leaseback update	-	(900)	(161,500)	(351,000)	(513,400)
Disposals	(306,902)	-	-	-	(306,902)
Depreciation charge for the year	(259,026)	-	(57,873)	-	(316,899)
Balance, December 31, 2018	3,261,063	-	892,200	-	4,153,263
Additions	-	-	408,576	-	408,576
Disposals	-	-	-	-	-
Depreciation charge for the year	(413,421)	-	(87,233)	-	(500,654)
Balance, June 30, 2019	2,847,642	-	1,213,543	-	4,061,185

10. Intangible assets

	Customer Relationships	Brand	Certifications	Non-Compete Agreements	Total
	$	$	$	$	$
Cost					
Balance, May 31, 2018	333,000	120,000	-	-	453,000
PPA adjustment	(41,000)	(33,000)	-	-	(74,000)
Additions	3,465,000	751,000	142,000	413,000	4,771,000
Balance, December 31, 2018	3,757,000	838,000	142,000	413,000	5,150,000
Additions	-	-	-	-	-
Balance, June 30, 2019	3,757,000	838,000	142,000	413,000	5,150,000
Accumulated Depreciation					
Balance, May 31, 2018	13,800	3,000	-	-	16,800
Additions	50,506	12,702	3,549	8,415	75,172
Balance, December 31, 2018	64,306	15,702	3,549	8,415	91,972
Additions	187,848	41,904	7,098	41,298	278,148
Balance, June 30, 2019	252,154	57,606	10,647	49,713	370,120
Carrying amount at December 31, 2018	3,692,694	822,298	138,451	404,585	5,058,028
Carrying amount at June 30, 2019	3,504,846	780,394	131,353	363,287	4,779,880

Depreciation for intangible assets during the three and six months ended June 30, 2019 was $139,074 and $278,148 (May 31, 2018 - $16,800 and $16,800).

As at June 30, 2019, the Company determined that there was no impairment to all intangible assets due to the recent nature of the transactions.

(Unaudited - expressed in Canadian dollars)

11. Goodwill

	Clinton	Satellite	Coastal	Pacer	SC	Total
	$	$	$	$		$
Cost						
Balance, May 31, 2018	418,928	-	-	-	-	418,928
PPA adjustment	55,500	-	-	-	-	55,500
Additions	-	136,446	90,773	2,279,248	-	2,506,467
Balance, December 31, 2018	474,428	136,446	90,773	2,279,248	-	2,980,895
Additions	-	-	-	115,731	1,404,495	1,520,226
Balance, June 30, 2019	474,428	136,446	90,773	2,394,979	1,404,495	4,501,121

As at June 30, 2019, 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.

12. Bank Indebtedness

The Company has available a $1.75 million line of credit with no set terms of repayment. Interest rate on this line of credit is 5.70%. As of June 30, 2019, the Company had used $NIL of its line of credit.

13. Accounts payable and accrued liabilities

	June 30, 2019	December 31, 2018
	$	$
Trade accounts payable	2,583,359	2,737,022
Sales taxes payable	444,496	187,152
Salaries and vacation payable	402,699	316,641
Other accounts payable	43,296	31,712
Accrued liabilities	539,911	841,412
	4,013,761	4,113,939

(Unaudited - expressed in Canadian dollars)

14. Intangible liability

	Over-Market Lease Agreement	Total
	$	$
Cost		
Balance, May 31, 2018	-	-
Additions	172,000	172,000
Balance, December 31, 2018	172,000	172,000
Additions	-	-
Balance, June 30, 2019	172,000	172,000
Accumulated Depreciation		
Balance, May 31, 2018	-	-
Additions	2,867	2,867
Balance, December 31, 2018	2,867	2,867
Additions	17,202	17,202
Balance, June 30, 2019	20,069	20,069
Carrying amount at December 31, 2018	169,133	169,133
Carrying amount at June 30, 2019	151,931	151,931

Depreciation for intangible liability during the three and six months ended June 30, 2019 was $8,601 and $17,202 (May 31, 2018 - $2,867 and $2,867).

As at June 30, 2019, the Company determined that there was no impairment to the intangible liability due to the recent nature of the transaction.

(Unaudited - expressed in Canadian dollars)

15. 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 June 30, 2019 and December 31, 2018 are as follows:

	June 30, 2019	December 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 20).	397,663	515,635
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.	134,748	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.	2,388,628	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.	25,382	36,234
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.	122,371	145,445
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.	164,330	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.	92,406	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.	222,062	253,786
Vehicle under right-of-use asset lease repayable in monthly instalments of $1,354 with interest of 4.6% per annum, residual value of $16,500, maturing October 2021.	50,711	57,576
Vehicle under right-of-use asset lease repayable in monthly instalments of $9,789 with interest of 4.7% per annum, residual value of $nil, maturing November 2022.	353,652	-
Total lease obligation	3,951,953	4,083,996
Current portion	(1,118,527)	(1,000,867)
Non-current portion	2,833,426	3,083,129

(Unaudited - expressed in Canadian dollars)

15. Lease obligations (continued)

The following is a schedule of the total lease payments made during the three and six months ended June 30, 2019 and May 31, 2018:

	Three months ended		Six months ended	
	June 30, 2019	**May 31, 2018**	**June 30, 2019**	**May 31, 2018**
	$	**$**	**$**	**$**
Principal payment	267,849	128,574	540,621	203,683
Interest expense	65,493	23,981	135,415	41,909
Total lease payments	333,342	152,555	676,036	245,592

During the six months ended June 30, 2019, a vehicle was purchased under a right-of-use asset lease for $408,576 (May 31, 2018 – vehicles and equipment were purchased under a right-of-use asset lease, as well as, a building lease was entered into for $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:

	June 30, 2019
	$
2019	681,240
2020	1,357,548
2021	1,003,231
2022	847,795
2023	563,491
Total minimum lease payments	4,453,305
Less: imputed interest	(501,352)
Total present value of minimum lease payments	3,951,953

As of June 30, 2019, the Company has not entered into any short-term or low-value leases.

(Unaudited - expressed in Canadian dollars)

16. Long-term debt

The long-term debt consists of the following:

	June 30, 2019	December 31, 2018
	$	$
RBC loan[1]	-	1,030,765
RBC loan[2]	538,554	546,788
RBC Leaseback[3]	410,639	479,946
RBC Leaseback[4]	179,152	204,354
RBC loan[5]	428,713	438,837
RBC loan[6]	-	4,435,920
RBC assumed loan[7]	6,833	20,499
RBC assumed loan[8]	11,548	20,531
RBC assumed loan[9]	10,415	14,971
RBC assumed loan[10]	22,974	30,229
RBC assumed loan[11]	11,358	15,143
RBC assumed loan[12]	29,104	36,089
RBC assumed loan[13]	35,787	41,923
RBC assumed loan[14]	82,800	93,600
RBC assumed loan[15]	53,840	60,570
BDC loan[16]	892,000	-
BDC loan[17]	1,183,300	-
Scotiabank assumed loan[18]	47,847	-
RBC loan[19]	4,968,812	-
	8,913,676	7,470,165
Less current portion of term debt	(1,471,066)	(7,470,165)
Total long-term portion of term debt	7,442,610	-

1. A term loan with a major Canadian bank bearing interest at a floating base rate (6.45% as at June 30, 2019) repayable at approximately $23,567 per month with the initial term ending February 2019. The loan is amortized over 61 months. The loan is secured by a general security interest granted by the Company, with a security on the equipment of Clinton.
2. A mortgage with a major Canadian bank bearing interest at a floating base rate (4.95% as at June 30, 2019) repayable at approximately $3,686 per month with the current term ending February 2021. The mortgage is amortized over 251 months. The loan is secured by a general security interest granted by the Company, with a security on the land and building of Clinton.
3. A leaseback with a major Canadian bank bearing interest at an implied rate of 4.6% repayable in instalments of $13,925 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 June 30, 2019) 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 June 30, 2019) repayable at approximately $87,936 per month. The loan is amortized over 61 months. The loan is secured by a general security interest granted by the Company, with a security on the equipment of Tandelle.
7. A term loan with a major Canadian bank bearing interest at a floating base rate (4.45% as at June 30, 2019) 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 June 30, 2019) 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 June 30, 2019) 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.

16. Long-term debt (continued)

10. A term loan with a major Canadian bank bearing interest at a floating base rate (4.05% as at June 30, 2019) 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.
11. A term loan with a major Canadian bank bearing interest at a floating base rate (4.05% as at June 30, 2019) 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 June 30, 2019) 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 June 30, 2019) 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 June 30, 2019) 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 June 30, 2019) 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.
16. A term loan with a major Canadian bank bearing interest at a floating base rate (6.10% as at June 30, 2019) repayable at approximately $3,717 per month with maturity being December 2039. The loan is interest only payments until January 9, 2020 and is amortized over 240 months. The loan is secured by a general security interest granted by the Company, with a security on the land and building of SC.
17. A term loan with a major Canadian bank bearing interest at a floating base rate (7.64% as at June 30, 2019) repayable at approximately $14,080 per month with maturity being December 2026. The loan is interest only payments until January 9, 2020 and is amortized over 84 months. The loan is secured by a general security interest granted by the Company, with a security on the equipment of SC.
18. A financing loan with a major Canadian bank bearing interest at 0.00% as at June 30, 2019, repayable at approximately $811 per month. The loan was assumed on the acquisition of SC and remaining life is amortized over 62 months. The loan is secured by a specific piece of equipment.
19. A term loan with a major Canadian bank bearing interest at a floating base rate (6.7% as at June 30, 2019) repayable at principal of $144,398 plus interest per month from June to December and interest only payments from January to May with the initial term ending June 2021. The loan is amortized over 55 months. The loan is secured by a general security interest granted by the Company, with a security on various equipment of the Company.

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, 8, and 18 of the Company's debt obligations have consistent payments and a change in the interest rate would affect the principal payment portion as the overall payment is set for the term. The remaining loans have fluctuating payments that would change as the interest rate changes and the principal portion of those payments would remain constant.

During the six months ended June 30, 2019, the Company restructured some of its debt. Loans 1 and 6 above were restructured to a new term loan (Loan 19 above). The Company has also restructured Loan 2 to be renewable every two years instead of every year. This has allowed the Company to reallocate the debt between short and long term as detailed in the schedule above.

The long-term debt contains two financial covenants. The Company also updated its two financial covenants to be in line with industry standards and a seasonal market. 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 1.2 to 1 which is tested quarterly. The current ratio will change to 1.25 to 1 effective October 1, 2019. 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 June 30, 2019, the Company was not in compliance with these ratios but did receive forbearance on June 25, 2019.

(Unaudited - expressed in Canadian dollars)

17. Share capital

a) Authorized

Unlimited common shares without par value.

b) Share capital transactions

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

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 June 30, 2019 and December 31, 2018 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		$
Balance as at May 31, 2018	2,889,167	0.53
Granted	230,000	0.56
Forfeited	(749,168)	0.56
Balance as at December 31, 2018	2,369,999	0.53
Granted	1,390,000	0.30
Forfeited	(485,000)	0.51
Balance as at June 30, 2019	3,274,999	0.43

The total share-based payment expense recorded during the three and six months ended June 30, 2019 was $111,713 and $197,681 (May 31, 2018: $328,271 and $613,683).

The following table summarizes information about the share options outstanding as at June 30, 2019:

Exercise price per share of options outstanding	Number of options outstanding	Weighted average remaining life (years) options outstanding	Weighted exercise price of options exercisable	Number of options exercisable	Expiry date
$0.49	1,222,500	3.36	$0.49	1,222,500	November 8, 2022
$0.60	450,000	3.60	$0.60	299,999	February 5, 2023
$0.53	235,833	3.65	$0.53	168,331	February 21, 2023
$0.55	66,666	3.80	$0.55	66,666	April 18, 2023
$0.30	1,300,000	4.68	$0.30	-	March 4, 2024
$0.43	3,274,999	3,94	$0.51	1,757,496	

(Unaudited - expressed in Canadian dollars)

17. Share capital (continued)

c) Options (continued)

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%	2.15%	$0.47
February 21, 2018	5.00	1.60%	Nil	132%	2.15%	$0.46
April 18, 2018	5.00	1.60%	Nil	132%	2.22%	$0.47
March 4, 2019	5.00	1.80%	Nil	165%	25.45%	$0.28

d) Warrants

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

The Company's warrants outstanding as at June 30, 2019 and December 31, 2018 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		$
Balance as at May 31, 2018	-	-
Granted	5,165,000	0.60
Forfeited	-	-
Balance as at December 31, 2018	5,165,000	0.60
Granted	-	-
Forfeited	-	-
Balance as at June 30, 2019	5,165,000	0.60

The total warrant reserve recorded for the three and six months ended June 30, 2019 was $NIL and $NIL (May 31, 2018: $NIL and $NIL).

18. Revenue

The Company has three distinct revenue streams: trusses, engineered wood products, and windows. Regional information of the Company's revenues for the three and six months ended June 30, 2019 and May 31, 2018 is as follows:

Three months ended June 30, 2019

	Trusses	Engineered wood products	Windows	Total
	$	$	$	$
Total revenue	6,871,984	1,819,599	375,751	9,067,334

(Unaudited - expressed in Canadian dollars)

18. Revenue (continued)

Three months ended May 31, 2018

	Trusses	Engineered wood products	Windows	Total
	$	$	$	$
Total revenue	3,010,316	977,133	-	3,987,449

Six months ended June 30, 2019

	Trusses	Engineered wood products	Windows	Total
	$	$	$	$
Total revenue	11,917,333	2,757,866	609,043	15,284,242

Six months ended May 31, 2018

	Trusses	Engineered wood products	Windows	Total
	$	$	$	$
Total revenue	4,724,250	1,342,245	-	6,066,495

19. Cost of sales

Cost of sales for the three and six months ended June 30, 2019 and May 31, 2018 is as follows:

	Three months ended		Six months ended	
	June 30, 2019	May 31, 2018	June 30, 2019	May 31, 2018
	$	$	$	$
Materials	3,668,156	2,040,020	6,189,560	2,966,705
Labour	2,035,167	737,762	3,700,907	1,239,528
Maintenance and overhead	566,949	205,785	1,163,695	307,002
Amortization	291,320	157,813	563,921	217,388
Total cost of sales	6,561,592	3,141,380	11,618,083	4,730,623

20. 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, Tandelle, and SC.

(Unaudited - expressed in Canadian dollars)

20. Related party transactions (continued)

The Company incurred the following charges as part of our income statement during the three and six months ended June 30, 2019 and May 31, 2018:

	Three months ended		Six months ended	
	June 30, 2019	**May 31, 2018**	**June 30, 2019**	**May 31, 2018**
	$	**$**	**$**	**$**
Salaries and benefits	145,110	-	291,822	-
Management fees	72,000	152,706	145,200	256,395
Finance charge on lease obligations[1]	6,644	10,076	14,028	21,332
Share-based compensation	87,476	167,985	145,811	335,326
Cost of sales	-	32,299	-	32,299
Professional fees	-	15,138	-	33,039
Total related party transactions	311,230	378,204	596,861	678,391

Due to related parties

Amounts due to related parties are detailed as follows:

	June 30, 2019	**December 31, 2018**
	$	**$**
Due to related parties		
Accounts payable and accrued liabilities	-	(76,620)
Lease obligation (Note 16)[1]	(397,663)	(515,635)
Total due to related parties	(397,663)	(592,255)

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.

There were no amounts due from related parties during the period ended June 30, 2019.

21. 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 three and six months ended June 30, 2019 the Company had no investing or financing activities identified that did not have a direct impact on the current cash flows. During the three and six months ended May 31, 2018, the Company had the following non-cash investing and financing activities:

Three months ended May 31, 2018

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

Six months ended May 31, 2018

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

(Unaudited - expressed in Canadian dollars)

22. 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 December 31, 2018	7,470,165	4,083,996	11,554,161
Repayments	(690,366)	(540,621)	(1,230,987)
Issuance	2,075,300	408,576	2,483,876
Assumed on acquisition	58,577	-	58,577
Balance June 30, 2019	8,913,676	3,951,951	12,865,627

	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

23. 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, and long-term debt 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 of financial instruments

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 is not materially different from their carrying value.

23. 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 June 30, 2019, the Company is exposed to changes in market interest rates through the bank borrowings at a floating base rate. This risk is low because changes in the prime rate are not substantial and increases would not impact the consolidated financial statements significantly. If the rates were to increase 10% this would result in an increase in interest of approximately $40,000 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 June 30, 2019 and December 31, 2018 summarized below:

	June 30, 2019	**December 31, 2018**
	$	**$**
Classes of financial assets – carrying amounts		
Cash	212,512	1,593,762
Trade accounts receivable, net of loss allowance	4,603,538	4,024,998
	4,816,050	5,618,760

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.

(Unaudited - expressed in Canadian dollars)

23. 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 June 30, 2019 and December 31, 2018 is summarized below:

	June 30, 2019	December 31, 2018
	$	$
Trade accounts receivable, net of loss allowance		
Current	2,960,226	1,989,325
Past due 1 to 30 days	1,144,893	1,085,951
Past due 31 to 60 days	290,587	526,239
Past due over 60 days	184,138	423,483
	4,579,844	4,024,998

The loss allowance as at June 30, 2019 and 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%	5.79%	-
Trade accounts receivable	2,960,226	1,144,893	290,587	222,768	4,618,474
Loss allowance	-	-	2,034	12,902	14,936

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

(Unaudited - expressed in Canadian dollars)

23. Financial instruments (continued)

Liquidity risk (continued)

As at June 30, 2019, the Company's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

	Current	Current	Non-current	Non-current
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	$	$	$	$
Lease obligations	681,240	678,774	3,093,291	-
Accounts payable and accrued liabilities	4,013,761	-	-	-
Income taxes payable	329,893	228,235	-	-
Long-term debt	1,309,930	664,021	7,520,384	1,463,619
Total	6,334,824	1,571,030	10,613,675	1,463,619

This compares to the maturity of the Company's non-derivative financial liabilities as of December 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	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 above amounts reflect the contractual undiscounted cash flows, which may differ from the carrying values of the liabilities at the reporting date.

24. 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.

(Unaudited - expressed in Canadian dollars)

24. Management of capital (continued)

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

	June 30, 2019	**December 31, 2018**
	$	**$**
Long-term debt	8,913,676	7,470,165
Lease obligations	3,951,953	4,083,996
Less: Cash and cash equivalents	(212,512)	(1,593,762)
Net debt	12,653,117	9,960,399
Total equity	8,461,370	8,140,449
	21,114,487	18,100,848

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.

25. Subsequent events

No significant subsequent events occurred after the three and six months ended June 30, 2019 to the filing of these statements.