(formerly Archer Petroleum Corp.)

Consolidated Annual Financial Statements

For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

Wolrige Mahon Collins Barrow LLP

VANCOUVER OFFICE
900 – 400 Burrard Street
Vancouver, BC V6C 3R3
Canada
T: 604.684.6212
F: 604.688.3497
E: email@wm.ca
www.collinsbarrow.com

TORONTO OFFICE
1400 – 200 University Avenue
Toronto, ON M5H 3C6
Canada
T: 416.368.7990
F: 416.368.0886
E: email@wm.ca
www.collinsbarrow.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Atlas Engineered Products Ltd.

We have audited the accompanying consolidated financial statements of Atlas Engineered Products Ltd., which comprise the consolidated statements of financial position as at May 31, 2018 and 2017, and the consolidated statements of income and comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity (deficit) for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Atlas Engineered Products Ltd. as at May 31, 2018 and 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

CHARTERED PROFESSIONAL ACCOUNTANTS

Wolrige Mahon Collins Barrow LLP

September 20, 2018
Vancouver, B.C.

Atlas Engineered Products Ltd.
Consolidated Statements of Financial Position
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

	Note	May 31, 2018	May 31, 2017
		$	$
Assets			
Current			
Cash		867,384	234,848
Accounts receivable	**7, 21**	2,008,773	893,104
Inventories	**8**	1,347,940	183,757
Prepaid expenditures	**9**	381,876	2,366
		4,605,973	1,314,075
Non-current			
Due from related party	**21**	-	744,611
Buildings and equipment	**10**	3,212,181	1,589,129
Goodwill	**11**	418,928	-
Other intangible assets	**12**	436,200	-
Deferred tax asset	**13**	535,002	10,738
Total Assets		9,208,284	3,658,553
Liabilities			
Current			
Accounts payable and accrued liabilities	**14, 21**	1,468,602	919,488
Customer deposits		111,388	152,020
Corporate income taxes payable		90,202	181,414
Current portion of lease obligations	**15**	568,069	303,573
Term debt – current portion	**16**	1,704,918	29,040
Exchangeable notes – liability portion	**17, 21**	292,346	-
Preferred share liabilities	**3**	-	1,000,000
		4,235,525	2,585,535
Non-current			
Lease obligations	**15**	1,274,300	994,967
Term debt	**16**	-	502,941
		5,509,825	4,083,443
Shareholders' Equity (Deficiency)			
Share capital	**18(b)**	8,938,703	101
Contributed surplus	**18(c)**	696,851	-
Exchangeable notes – equity portion	**17**	19,144	-
Deficiency		(5,956,239)	(424,991)
		3,698,459	(424,890)
Total Liabilities and Shareholders' Equity (Deficiency)		9,208,284	3,658,553

Nature of operations – Note 1
Subsequent events – Note 26

APPROVED BY THE DIRECTORS ON SEPTEMBER 20, 2018

DON HUBBARD Director ***GUY CHAMPAGNE*** Director

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

Atlas Engineered Products Ltd.
Consolidated Statements of Income and Comprehensive Income
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

	Note	May 31, 2018	May 31, 2017
		$	$
Revenue	**19**	11,597,176	8,076,027
Cost of sales	**20, 21**	(8,725,350)	(5,987,828)
Gross profit		2,871,826	2,088,199
Operating expenses			
Administrative and office		302,585	130,332
Depreciation	**10, 12**	225,561	139,270
Bad debt expense	**7**	29,608	58,642
Filing and transfer agent fees		22,627	-
Management fees	**21**	348,957	39,520
Professional fees	**21**	458,803	9,192
Salaries and benefits	**21**	280,348	169,338
Share-based payments	**18(c), 21**	696,851	-
Shareholder communication		70,958	-
Travel		114,243	-
Credit card processing costs		150,080	123,169
Operating income		171,205	1,418,736
Interest earned		28,995	394
Interest expense and other		(60,467)	(42,584)
Accretion expense		(20,716)	-
Foreign exchange loss		(7,465)	-
Finance charge on leases	**15, 21**	(81,869)	(91,357)
(Loss) gain on disposal of equipment		(6,074)	10,750
Write-down of due from related party	**4**	-	(1,755,671)
Listing expense	**3**	(4,864,786)	-
Loss before tax		(4,841,177)	(459,732)
Income taxes			
Current income tax expense	**13**	(118,672)	(286,465)
Deferred income tax recovery	**13**	5,084	7,154
		(113,588)	(279,311)
Net loss and comprehensive loss for the year		(4,954,765)	(739,043)
Loss per share			
Basic and diluted		(0.29)	(731.73)
Weighted average number of shares outstanding			
Basic and diluted		17,344,229	1,010

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

Atlas Engineered Products Ltd.
Consolidated Statements of Cash Flows
For the years ended May 31, 2018 and 2017
(Expressed in Canadian dollars)

	May 31, 2018	May 31, 2017
	$	$
Cash provided by (used in):		
Operating activities		
Net loss for the year	(4,954,765)	(739,043)
Depreciation	561,884	372,218
Accretion expense	20,716	-
Deferred tax recovery	(5,084)	(7,154)
Loss (gain) on disposal of equipment	6,074	(10,750)
Write-down of related party loan	-	1,755,671
Share-based payments	696,851	-
Listing expense	4,864,786	-
Changes in non-cash working capital items		
Accounts receivable	(1,005,678)	(398,137)
Inventories	(435,035)	(17,760)
Prepaid expenses	(364,510)	789
Accounts payable and accrued liabilities	127,603	(53,688)
Customer deposits	(40,632)	(163,855)
Corporate income taxes payable	(91,212)	92,450
Cash (used by) provided by operations	(619,002)	830,741
Investing activities		
Acquisition of equipment	(35,917)	(120,755)
Proceeds from disposal of equipment	-	20,000
Advances to Coastal Windows Ltd.	-	(497,685)
Clinton acquisition net of cash acquired	(2,483,896)	-
Cash acquired in RTO transaction	56,923	-
Cash used by investing activities	(2,462,890)	(598,440)
Financing activities		
Redemption of preferred shares	(1,000,000)	-
Shares issued for cash	4,226,400	-
Cash share issue costs	(54,372)	-
Repayment of lease obligations	(351,554)	(280,000)
Proceeds from exchangeable notes	147,500	-
Dividends paid	(576,483)	-
Proceeds from term debt	1,760,000	213,881
Repayment of term debt	(437,063)	(43,100)
Cash provided by (used by) financing activities	3,714,428	(109,219)
Increase in cash	632,536	123,082
Cash - beginning of year	234,848	111,766
Cash - end of year	867,384	234,848
Cash paid during the year for:		
Interest	116,316	98,810
Income taxes	211,074	193,444

Supplemental cash flow information – Note 22

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

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

	Number of Common Shares	Share Capital	Exchangeable Note – Equity Component	Contributed Surplus	Retained Earnings (Deficiency)	Total
	(Note 18)	(Note 18)		(Note 18)		
		$	$	$	$	$
Balance, May 31, 2016	1,010	101	-	-	314,052	314,153
Net loss for the year	-	-	-	-	(739,043)	(739,043)
Balance, May 31, 2017	1,010	101	-	-	(424,991)	(424,890)
Shares issued on the amalgamation with Coastal (Note 4)	200	20	-	-	-	20
Exchangeable notes (Note 17)	-	-	19,144	-	-	19,144
Recapitalization transactions (Note 3)						
Shares issued on RTO	11,709,091	4,683,636	-	-	-	4,683,636
Exchanged for shares issued to shareholders pursuant to RTO	8,047,764	-	-	-	-	-
Shares cancelled pursuant to RTO	(1,210)	-	-	-	-	-
Shares issued pursuant to private placement	10,566,000	4,226,400	-	-	-	4,226,400
Shares issued as finders fees	407,550	-	-	-	-	-
Add: deferred income tax	-	82,918	-	-	-	82,918
Less: cash share issue costs	-	(54,372)	-	-	-	(54,372)
Share-based payments	-	-	-	696,851	-	696,851
Dividends paid	-	-	-	-	(576,483)	(576,483)
Net loss for the year	-	-	-	-	(4,954,765)	(4,954,765)
Balance, May 31, 2018	30,730,405	8,938,703	19,144	696,851	(5,956,239)	3,698,459

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

1. Nature of Operations

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

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

On July 31, 2017, the Company amalgamated with its affiliated company, Coastal Windows Ltd. ("Coastal") a shell company. The amalgamation was carried out for accounting purposes, and the assets and operations of the window manufacturing business of Coastal Windows Ltd. were not part of the amalgamation (Note 4).

On November 6, 2017, the Company completed a transaction with Archer Petroleum Corp. ("Archer") whereby Archer agreed to acquire all of the issued and outstanding shares of Atlas through a reverse takeover transaction (the "RTO" or the "Transaction"). On completion of the Transaction, the shareholders of Atlas obtained control of the consolidated entity. Under the purchase method of accounting, Atlas has been identified as the acquirer, and accordingly the entity is considered to be a continuation of the Company with the net assets of Archer as at the date of the RTO deemed to be acquired by Atlas. The consolidated financial statements for the year ended May 31, 2018 include the results of operations of Archer from November 6, 2017, the date of the RTO (Note 3). The comparative figures are those of Atlas.

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 year ended May 31, 2018.

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 subsidiary are prepared for the same reporting year as the parent company, using consistent accounting policies.

These consolidated financial statements were approved for issue by the Board of Directors on September 20, 2018.

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. Clinton Roof Truss Ltd. ("Clinton") is the sole subsidiary and the Company owns 100% of the issued and outstanding shares. More details of this transaction can be found in Note 5.

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 consolidated financial statements of the subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

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

2. Significant Accounting Policies (continued)

Business combinations

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

Under the guidance of IFRS 10 Consolidated Financial Statements, control is established by having power over the acquiree, exposure or rights to variable returns from its involvement with the acquiree, and the ability to use its power over the acquiree to affect the amount of the acquirer's returns. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date. During the year ended May 31, 2018, the Company's reverse takeover transaction with Archer (Note 3), the amalgamation with Coastal (Note 4), and the transaction with Truebeam (Note 6) were recorded as asset acquisitions. The acquisition of Clinton was recorded as a business combination (Note 5).

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 remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: Recognition and Measurement or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit and loss.

Use of estimates and judgements

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

2. Significant Accounting Policies (continued)

Management estimates

a) Collectability of accounts receivable

In determining the collectability of a trade or other receivable, the Company performs a risk analysis by considering the type and age of the outstanding receivable and the creditworthiness of the customer. If an account is deemed uncollectible, an allowance for doubtful account is recognized. The Company also reviews the allowance for doubtful accounts on a regular basis to determine if any of the accounts provided should be written off.

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.

Mobile and other equipment is depreciated, net of residual value, over its useful economic life. 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.

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.

2. Significant Accounting Policies (continued)

Management estimates (continued)

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.

Inventories

The Company values inventory at the lower of cost and net realizable value ("NRV"). The net realizable value 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 is 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 is comprised of 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.

2. Significant Accounting Policies (continued)

Buildings and equipment (continued)

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%
Production equipment	20%
Computer equipment	30%
Computer software	100%
Signage	20%
Parking lot	8%
Building	4%
Building and vehicles under lease	Over the term of the lease

Impairment of non-financial assets

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

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

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 other intangible assets

Goodwill is not amortized; instead it is evaluated for impairment annually and carried at cost less any accumulated impairment losses.

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 includes customer relationships and brand for Clinton and are being amortized using the straight-line method over the estimated useful life of 10 years.

2. Significant Accounting Policies (continued)

Revenue

Revenue is generated mainly from the sale of trusses and engineered wood products.

To determine whether to recognize revenue, the Company follows the following 5-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;
2. the performance obligation is easily identifiable regarding the goods or services to be transferred;
3. the Company can determine the transaction price for the goods or services to be transferred,
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 identified.

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.

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. A receivable is recognised 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.

Leases and right-of-use assets

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

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

2. Significant Accounting Policies (continued)

Leases and right-of-use assets (continued)

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

Income tax

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

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

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

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

Earnings per share

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

2. Significant Accounting Policies (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been negatively impacted.

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

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

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.

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, whereby stock options are granted in accordance with the policies of regulatory authorities. The Company records a compensation cost attributable to all share purchase options granted at fair value at the grant date using the Black-Scholes valuation model and the fair value of all share purchase options are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, 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.

2. Significant Accounting Policies (continued)

Share-based payments (continued)

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.

New standards adopted as at June 1, 2017

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9's key changes include but are not limited to (i) eliminating the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale, and (ii) replacing IAS 39's incurred loss model with the expected credit loss model in evaluating certain financial assets for impairment. The Company's new accounting policy for IFRS 9 is as follows:

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.

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).

2. Significant Accounting Policies (continued)

b) Classification and measurement (continued)

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

i) amortized cost;
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); or,
iii) FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

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 fair value through profit or loss are expensed in profit or loss.

The Company's financial asset consists 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, preferred share liabilities 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. Reverse takeover transaction

On November 6, 2017, the Company completed a transaction with Archer Petroleum Corp. ("Archer") whereby Archer had agreed to acquire all of the issued and outstanding shares of Atlas (the "Transaction"). Under the terms of the Transaction, the preferred shares were redeemed for $1,000,000 cash and 8,047,764 shares were issued to the shareholders of Atlas on a 1:1 basis. On completion of the Transaction, the shareholders of Atlas obtained control of the consolidated entity. Under the purchase method of accounting, Atlas has been identified as the acquirer, and accordingly the entity is considered to be a continuation of the Company with the net assets of Archer acquired as at the date of the Transaction.

On completion of the Transaction, Atlas was renamed 1128469 BC Ltd. and Archer was renamed Atlas Engineered Products Ltd. On January 18, 2018, Atlas Engineered Products Ltd. and 1128469 BC Ltd. were amalgamated.

3. Reverse takeover transaction (continued)

In accordance with IFRS 3, the substance of the transaction was a reverse takeover ("RTO") of a non-operating company. The transaction does not constitute a business combination since Archer does not meet the definition of a business under IFRS 3. As a result, the transaction is accounted for as an asset acquisition with Atlas being identified as the acquirer (legal subsidiary) and Archer being treated as the accounting subsidiary (legal parent) with the transaction being measured at the fair value of the equity consideration issued to Archer.

The net assets acquired was the fair value of the net assets of Archer, which on November 6, 2017 was $181,150. The amount was calculated as follows:

Category	$
Fair value of 11,709,091 common shares of the Company at $0.40 per share	4,683,636
Cash	1,000,000
Total consideration	**5,683,636**
Cash	56,923
Accounts receivable	23,898
Prepaid expenditures	15,000
Accounts payable and accrued liabilities	(276,971)
Extinguishment of Atlas preferred share liability	1,000,000
Listing expense	4,864,786
	5,683,636

4. Amalgamation with Coastal Windows Ltd.

On July 31, 2017, the Company amalgamated with its affiliated company, Coastal Windows Ltd. ("Old Coastal") (BC Incorp No. 1009663), a shell company. The amalgamation was carried out for accounting purposes, and the assets and operations of the window manufacturing business of Old Coastal were not part of the amalgamation. These assets and operations formed a new Coastal Windows Ltd. company.

Old Coastal was acquired and this was recorded as an asset acquisition. At the time of the transaction, both Atlas and Old Coastal were under common control, and therefore the accounting is applied as a continuity of interests.

Consideration paid:

	$
Fair value of 200 common shares issued	20

The fair value of identifiable assets acquired and liabilities assumed from Coastal were as follows:

	$
Deferred income tax asset	744,631
Due to Atlas Engineered Products Ltd.	(744,611)
Total identifiable assets acquired	20

4. Amalgamation with Coastal Windows Ltd. (continued)

Upon acquisition, there was an amalgamation of Atlas and Old Coastal. As a result of the amalgamation of Atlas and Old Coastal, tax losses carried forward of $2,863,888 originating in Old Coastal will be available for use by Atlas to offset its future taxable income. The due from Old Coastal account at May 31, 2017, previously limited to the tax effect of the tax losses carried forward of $744,611, was eliminated, and the tax effect of the loss carry forward increased the deferred tax asset. Accordingly, the balance of $2,500,282 due from Old Coastal was written down by $1,755,671 to its recoverable amount of $744,611.

5. 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 Roof Truss Ltd. is located in Clinton, Ontario. Clinton, a manufacturer of roof and floor trusses aligns with the core business of the Company.

Goodwill of $418,928 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 16).

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
Land	115,000
Building	665,000
Equipment	462,910
Customer relationships	333,000
Brand	120,000
Goodwill	418,928
Accounts payable and accrued liabilities	(144,540)
Deferred tax liability	(301,643)
	2,600,000

The above purchase price allocation ("PPA") calculations are still preliminary and have not been finalized.

Transaction costs of $4,004 have been expensed in operating expenses.

Accounts receivable of $86,093 is the fair value of the receivables for material delivered to customers. By May 31, 2018 the full receivable amount had been collected.

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

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
	$
Sales per consolidated financial statements	1,148,536
Earnings (Loss) before tax	172,955
Income tax	43,239
Earnings (loss)	129,716

6. Acquisition of Truebeam Assets

On March 7, 2018, the Company purchased the operating assets of Alberta Truebeam Ltd. ("Truebeam") including equipment, and plate inventory from an independent third party. The Company also purchased additional inventory directly from Truebeam and entered into a lease for the land and buildings in which Truebeam operates. The equipment and inventory of the Company were acquired for $701,513 plus GST.

7. Accounts receivable

	May 31, 2018	May 31, 2017
	$	$
Trade accounts receivable	1,999,886	892,055
Other receivables	13,751	1,049
Allowance for doubtful accounts	(4,864)	-
	2,008,773	893,104

Movement in the allowance for doubtful accounts balance on trade receivables were as follows:

	May 31, 2018	May 31, 2017
	$	$
Allowance for doubtful accounts, beginning of year	-	42,365
Allowance recognized during the year	34,472	-
Amounts written off during the year as uncollectable	(29,608)	(42,365)
Allowance for doubtful accounts, end of year	4,864	-

8. Inventories

	May 31, 2018	May 31, 2017
	$	$
Raw materials	979,348	128,645
Work in progress	34,768	34,532
Finished goods	333,824	20,580
	1,347,940	183,757

During the year ended May 31, 2018, $5,424,353 (2017 - $3,445,283) in inventory was expensed through cost of sales.

During the years ended May 31, 2018 and May 31, 2017, it was determined that there was no requirement to write down any raw material, work in progress, or finished goods inventory.

9. Potential Acquisition of Selkirk Truss

On November 16, 2017, the Company entered into a letter of intent (the "Selkirk LOI") with Selkirk Truss (2010) Ltd. ("Selkirk") whereby the Company will acquire all of the issued and outstanding shares of Selkirk for $150,000 in common shares of the Company (the "Consideration Shares"). In addition, the shareholder of Selkirk will be entitled to receive up to an additional $600,000 in common shares of the Company (the "Performance Shares") upon Selkirk achieving the following milestones:

1. $200,000 in common shares of the Company if Selkirk's net income exceeds $150,000 in its 2018 fiscal year end;
2. $200,000 in common shares of the Company if Selkirk's cumulative net income exceeds $400,000 for fiscal 2018 and 2019, and
3. $200,000 in common shares of the Company if Selkirk's cumulative net income exceeds $1,100,000 for fiscal 2018, 2019 and 2020.

Completion of the transaction is subject to a number of conditions, including but not limited to, completion of due diligence, negotiation of definitive agreements in respect of such a transaction and receipt of any required regulatory approvals. As at May 31, 2018, $290,085 has been advanced to Selkirk related to this transaction and is included in prepaid expenditures.

10. 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, 2016	1,148,158	97,894	738,476	1,321,601	203,014	191,062	3,700,205
Additions	-	-	162,819	98,989	-	-	261,808
Disposals	-	-	(72,185)	(200,638)	-	-	(272,823)
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
Acquisition 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
Accumulated depreciation							
Balance, May 31, 2016	76,543	90,482	304,533	1,186,129	188,130	107,806	1,953,623
Additions	229,631	1,482	96,699	33,174	4,465	6,767	372,218
Disposals	-	-	(34,105)	(191,675)	-	-	(225,780)
Balance, May 31, 2017	306,174	91,964	367,127	1,027,628	192,595	114,573	2,100,061
Additions	261,379	1,286	127,060	77,465	5,901	6,205	479,296
Acquisition through business combination	8,600	896	31,425	24,445	-	422	65,788
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
Carrying amount at May 31, 2017	841,984	5,930	461,983	192,324	10,419	76,489	1,589,129
Carrying amount at May 31, 2018	1,722,433	13,708	647,745	724,864	23,020	80,411	3,212,181

Depreciation for tangible assets during the year ended May 31, 2018 was $545,084 (2017 - $372,218). During the year ended May 31, 2018, $336,323 (2017 - $232,950) of the depreciation was included in cost of sales.

10. 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 years ended May 31, 2018 and 2017.

	Building	Office Furniture and Equipment	Vehicles	Production Equipment	Total
	$	$	$	$	$
Balance, May 31, 2016	1,071,615	-	418,726	-	1,490,341
Additions	-	-	145,012	-	145,012
Disposals	-	-	(48,544)	-	(48,544)
Depreciation charge for the year	(229,631)		(86,863)	-	(316,494)
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	1,750,155

11. Goodwill

As at May 31, 2018, the Company determined that there was no impairment to the goodwill of Clinton due to the recent nature of the transaction.

12. Other intangible assets

	Customer Relationships	Brand	Total
	$	$	$
Cost			
Balance, May 31, 2017	-	-	-
Additions (Note 3)	333,000	120,000	453,000
Balance, May 31, 2018	333,000	120,000	453,000
Accumulated Depreciation			
Balance, May 31, 2017	-	-	-
Additions	13,800	3,000	16,800
Balance, May 31, 2018	13,800	3,000	16,800
Carrying amount at May 31, 2017	-	-	-
Carrying amount at May 31, 2018	319,200	117,000	436,200

As at May 31, 2018, the Company determined that there was no impairment to the brand and customer relationships of Clinton due to the recent nature of the transaction.

13. 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 years ended May 31, 2018 and 2017 as follows:

	2018	2017
	$	$
Loss for the year before income tax	(4,841,177)	(459,732)
Average statutory rate	26.42%	26.00%
Estimated income tax expense (recovery)	(1,279,039)	(119,530)
Difference in future tax rates and for income earned at the small business threshold	(37,416)	236,774
Items not deductible for tax purposes	1,411,680	3,947
Change in estimate	(29,645)	-
Reduction of loss on amalgamation with associated entity	158,713	-
Recognition of previously unrecognized tax benefits	(110,705)	158,121
Income tax expense	113,588	279,311

The difference in the statutory rate is due to the 1% increase in the provincial tax rate effective January 1, 2018.

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

	2018	2017
	$	$
Current tax expense	118,672	286,465
Deferred tax expense (recovery)	(5,084)	(7,154)
Total income tax expense	113,588	279,311

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

	2018	2017
	$	$
Deferred tax assets		
Leases	497,440	234,769
Capital loss carry forwards	51,851	3,848
Non-capital loss carry forwards	708,481	158,708
Share issue costs	74,614	-
	1,332,386	397,325
Offset against deferred tax liabilities	(745,533)	(224,031)
Unrecognized deferred tax assets	(51,851)	(162,556)
Deferred tax assets	535,002	10,738
Deferred tax liabilities		
Buildings and equipment	(635,091)	(224,031)
Brand and customer relationships	(109,050)	-
Exchangeable notes	(1,392)	-
Offset against deferred tax assets	745,533	224,031
Deferred tax liabilities	-	-
Net deferred tax balance	535,002	10,738

13. Income taxes (continued)

The Company has non-capital losses of approximately $2,624,002 at May 31, 2018, which are available to carry forward from 2030 to 2038 and can be used to offset future taxable income. These non-capital losses expire as follows:

Expiry Date	Amount
	$
May 31, 3030	467,148
May 31, 3031	1,096,367
May 31, 3032	435,105
May 31, 3033	209,187
May 31, 3034	-
May 31, 3035	3,498
May 31, 3036	164,977
May 31, 3038	247,720
	2,624,002

The Company has capital losses of approximately $384,000 at May 31, 2018, which are available to carry forward indefinitely, and can be used to shelter capital gains. The benefit of these losses has not been recognized in the consolidated financial statements as it is not probable that the Company will generate gains which can be sheltered by such losses.

14. Accounts payable and accrued liabilities

	May 31, 2018	May 31, 2017
	$	$
Trade accounts payable	1,091,902	517,115
Sales taxes payable	136,846	136,302
Salaries and vacation payable	93,956	81,033
Other accounts payable	10,648	119,138
Accrued liabilities	135,250	65,900
	1,468,602	919,488

15. Lease obligations

The Company's main manufacturing plants and certain equipment are held under finance lease arrangements. The terms and the outstanding balances of the lease obligations as at May 31, 2018 and May 31, 2017 are as follows:

	May 31, 2018	May 31, 2017
	$	$
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 21)	648,706	866,398
Building under right-of-use asset lease repayable in monthly instalments of $11,500 inclusive of implied interest of 5.95% per annum, residual value of $nil, maturing in February 2021	350,003	-
Vehicle 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	48,359	67,872
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	171,072	211,963
Vehicle under right-of-use asset lease repayable in monthly instalments of $519 with interest of 5.0% per annum, residual value of $5,000, maturing in September 2021. This lease was terminated during the current year.	-	23,300
Vehicle under right-of-use asset lease repayable in monthly instalments of $758 with interest of 3.6% per annum, residual value of $25,000, maturing September 2021. This lease was terminated during the current year.	-	50,704
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	65,389	78,303
Vehicle and equipment under right-of-use asset lease repayable in monthly instalments of $13,262 with interest of 4.6% per annum, maturing October 2021	558,840	-
Total lease obligation	1,842,369	1,298,540
Current portion	(568,069)	(303,573)
Non-current portion	1,274,300	994,967

The following is a schedule of the total lease payments made during the years ended May 31, 2018 and 2017:

	May 31, 2018	May 31, 2017
	$	$
Principal payment	351,554	280,000
Finance charge	81,661	91,357
Total lease payments	433,215	371,357

During year ended May 31, 2018 building, vehicles and equipment were purchased under a right-of-use asset lease for $961,977 (2017 – One forklift in the amount of $85,566 and one vehicle in the amount of $55,486).

15. Lease obligations (continued)

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

	May 31, 2018 $
2019	660,200
2020	664,073
2021	535,171
2022	155,890
2023	-
Total minimum lease payments	2,015,334
Less: imputed interest	(172,965)
Total present value of minimum lease payments	1,842,369

16. Term debt

The term debt consists of the following:

	May 31, 2018	May 31, 2017
	$	$
Loan payable[1]	-	98,881
BDC loan[2]	-	133,100
Personal loan[3]	-	300,000
RBC loan – 1[4]	1,149,217	-
RBC loan – 2[5]	555,701	-
	1,704,918	531,981
Less current portion of term debt	(1,704,918)	(29,040)
Total long-term portion of term debt	-	502,941

1. Loan payable, bearing interest at 10% per annum, with no set term for repayment. Loan was repaid in full November 30, 2017.
2. A loan with BDC bearing interest at a floating base rate (4.7% as at May 31, 2017), plus 1.5% per year repayable at $2,420 per month plus interest ending in December 2021. The loan is secured by certain accounts receivables, inventory, and equipment of the Company, a joint corporate guarantee from a related company for 25% and a shareholder guarantee for 25%. This loan was repaid in full November 30, 2017.
3. Personal loan from one of the previous owners of the private Company, bearing no interest, with no set term for repayment (Note 22). $150,000 of this was repaid by November 30, 2017 and the remaining $150,000 was converted to an exchangeable note (Note 17).
4. A term loan with a major Canadian bank bearing interest at a floating base rate (5.95% as at May 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 Roof Truss Ltd.
5. A mortgage with a major Canadian bank bearing interest at a floating base rate (4.45% as at May 31, 2018) repayable at approximately $3,453 per month with the initial term ending February 2019. The mortgage is amortized over 248 months. The loan is secured by a general security interest granted by the Company, with a security on the land and building.

The term debt contains two financial covenants. A debt service coverage ratio of not less than 1.25 to 1 and a current ratio of not less than 1.4 to 1. As at May 31, 2018, the Company was in compliance with these financial covenants.

17. 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 mature on August 9, 2018 and pay interest on the principal sum outstanding, at a rate of 5% per annum, calculated from date of issue and payable in arrears on an annual basis commencing August 9, 2018 (see Note 26).

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 matures on August 9, 2018 and pays interest on the principal sum outstanding, at a rate of 5% per annum, calculated from date of issue and payable in arrears on an annual basis commencing August 9, 2018 (see Note 26).

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

The value of the equity portion of the exchangeable notes was obtained by using the residual method. The net proceeds of $19,114, 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 May 31, 2018 is $292,346, which includes accretion of $20,716, and has been determined based on management's best estimate of amortized cost. For the year ended May 31, 2018, the amount of interest incurred from the exchangeable notes was $12,022.

18. Share capital

a) Authorized

Unlimited common shares without par value.

b) Share capital transactions

Prior to completion of the RTO, 1128469 BC Ltd. had the following shares outstanding:

Issued	$
Class A common shares: 10	1
Class A1 common shares: 100	10
Class A2 common shares: 100	10
Class B common shares: 1,000	100
	121

Prior to the completion of the RTO, 1128469 BC Ltd. declared dividends of $576,483. Upon completion of the RTO the original shares of 1128469 BC Ltd. were cancelled.

18. Share capital (continued)

b) Share capital transactions (continued)

On November 6, 2017 11,709,091 common shares were deemed to be issued by 1128469 BC Ltd. as a result of the RTO (refer to Note 3). The fair value of the 11,709,091 common shares deemed issued ($4,683,636) was estimated using a fair value of $0.40 per share.

On November 6, 2017 the Company completed a private placement, issuing 10,566,000 common shares at $0.40 per share for gross proceeds of $4,226,400. The Company also issued 407,550 finders' shares and incurred $54,372 of cash issue costs.

c) Options

The Company has 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 6 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 5 years from the date of grant.

The Company's share options outstanding as at May 31, 2018 and May 31, 2017 and the changes for the years then ended are as follows:

	Number	Weighted average exercise price
		$
Balance as at May 31, 2017 and 2016	-	-
Granted	3,072,500	0.53
Cancelled	(183,333)	0.49
Balance as at May 31, 2018	2,889,167	0.53

The total share-based payment expense recorded during the year May 31, 2018 was $696,851 (2017: $Nil).

The following table summarizes information about the share options as at May 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	1,664,167	4.44	$0.49	612,500	November 8, 2022
$0.60	450,000	4.69	-	-	February 5, 2023
$0.53	305,000	4.73	-	-	February 21, 2023
$0.65	370,000	4.88	-	-	April 18, 2023
$0.55	100,000	4.88	-	-	April 18, 2023
$0.56	2,889,167	4.58	$0.49	612,500	

18. Share capital (continued)

c) Options (continued)

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

Volatility was determined using the historical volatility rate of the Company.

19. Revenue

The Company operates in two geographical regions located in Canada. Western Canada which presently includes British Columbia and Alberta and Eastern Canada which presently includes Ontario.

The Company has two distinct revenue streams. Regional information of the Company's revenues for the years ended May 31, 2018 and 2017 is as follows:

Year ended May 31, 2018

	Trusses	Engineered wood products	Total
	$	$	$
Western Canada	7,723,813	2,724,948	10,448,761
Eastern Canada	1,121,112	27,303	1,148,415
Total revenue	8,844,925	2,752,251	11,597,176

Year ended May 31, 2017

	Trusses	Engineered wood products	Total
	$	$	$
Western Canada	6,485,794	1,590,233	8,076,027

20. Cost of sales

Cost of sales is broken down as follows:

	May 31, 2018	May 31, 2017
	$	$
Materials	5,424,353	3,445,283
Labour	2,370,490	1,885,498
Fuel, maintenance, and overhead	594,184	424,097
Amortization	336,323	232,950
Total cost of sales	8,725,350	5,987,828

21. 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.

The Company incurred the following charges during the years ended May 31, 2018 and 2017:

	May 31, 2018	May 31, 2017
	$	$
Salaries and benefits	62,942	44,616
Management fees	284,872	39,520
Professional fees	36,362	34,445
Cost of sales	151,025	341,080
Finance charge on leases	46,309	59,011
Share-based compensation	387,095	-
Interest expense	-	4,399
Total related party transactions	968,605	523,071

Due to/from related parties

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

	May 31, 2018	May 31, 2017
	$	$
Due from related party		
Accounts receivable	23,797	-
Coastal Windows Ltd.	-	744,611
Total due from related party	23,797	744,611
Due to related parties		
Accounts payable and accrued liabilities	(1,040)	(79,686)
Exchangeable note – liability portion (Note 17)	(49,134)	-
Director loan	-	(300,000)
Lease obligation (Note 15)	(648,706)	(866,398)
Total due to related parties	(698,880)	(1,246,084)

21. Related party transactions (continued)

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

22. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on the current cash flows are excluded from the cash flow statements. During the year ended May 31, 2018 and 2017 the Company had the following non-cash investing and financing activities:

Year ended May 31, 2018

- $150,000 in long-term debt was converted into an exchangeable note (Note 17);
- The issuance of 200 common shares valued at $20 pursuant to the amalgamation of Coastal (Note 4);
- The issuance of 11,709,091 common shares valued at $4,683,636 pursuant to the RTO (Note 3);
- $7,415 of loss on disposal of equipment was non-cash disposal of capital leases;
- $581,000 of lease obligations that have been capitalized to equipment; and
- $380,977 of lease obligations that have been capitalized to building.

Year ended May 31, 2017

- $141,053 of lease obligations that have been capitalized to equipment.

23. Reconciliation of liabilities arising from financing activities

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

	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

	Term debt	Lease obligations	Total
	$	$	$
Balance June 1, 2016	361,200	1,475,280	1,836,480
Repayments	(43,100)	(280,000)	(323,100)
Issuance	213,881	-	213,881
Non-cash – change lease	-	103,260	103,260
Balance May 31, 2017	531,981	1,298,540	1,830,521

24. Financial instruments

Classification of financial instruments

The Company's financial instruments consist of cash, trade accounts receivable, due from related party, accounts payable and accrued liabilities, customer deposits, term debt, preferred share liabilities, and the liability portion of the exchangeable notes. The Company classified and measured its cash, accounts receivable, and due from related party as subsequently measured at amortized cost. The accounts payable and accrued liabilities, customer deposits, term debt, preferred share liabilities, 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 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.

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 May 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 $9,200 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 years ended May 31, 2018 and 2017 summarized below:

	May 31, 2018	**May 31, 2017**
	$	**$**
Classes of financial assets – carrying amounts		
Cash	867,384	234,848
Trade accounts receivable, net of allowance for doubtful accounts	1,995,022	892,055
Due from related party	-	744,611
	2,862,406	1,871,514

The Company continuously monitors defaults of customers, identified individually, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and credit checks are obtained and used. The Company's policy is to deal only with creditworthy customers. The Company also closely monitors cash by applying a sweep account function to the subsidiary accounts and a daily bank reconciliation.

24. 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 May 31, 2018 and 2017 is summarized below:

	May 31, 2018	May 31, 2017
	$	$
Trade accounts receivable, net of allowance for doubtful accounts		
Current	1,405,682	416,007
Past due 1 to 30 days	335,018	267,950
Past due 31 to 60 days	111,442	51,571
Past due over 60 days	142,880	156,527
	1,995,022	892,055

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 1.67:1. Cash flows from trade accounts receivables are all contractually due within thirty days.

As at May 31, 2018, the Company's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

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

24. Financial instruments (continued)

Liquidity risk (continued)

This compares to the maturity of the Company's non-derivative financial liabilities in the previous year as follows:

	Current Within 6 months	Current 6 to 12 months	Non-current 1 to 5 years	Non-current Later than 5 years
	$	$	$	$
Finance lease obligations	189,188	189,188	1,091,534	-
Accounts payable and accrued liabilities	919,488	-	-	-
Corporate incomes taxes payable	181,414	-	-	-
Term debt	413,401	18,664	133,756	-
Total	1,703,491	207,852	1,225,290	-

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

25. 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 term debt, lease obligations, cash and equity.

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

	May 31, 2018	May 31, 2017
	$	$
Term debt	1,704,918	531,981
Lease obligations	1,842,369	1,298,540
Less: Cash and cash equivalents	(867,384)	(234,848)
Net debt	2,679,903	1,595,673
Total equity	3,698,459	(424,890)
	6,378,362	1,170,783

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.

26. Subsequent events

a) 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. Satellite is located in Merrickville, Ontario. Satellite, a manufacturer of roof and floor trusses aligns with the core business of the Company.

With this location the Company gains access to South Eastern Ontario. This location provides access to the Ottawa area and close to the Quebec & US border. 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 mortgage and equipment term loan advanced by a major Canadian chartered bank.

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

Category	$
Cash	1,200,000
Total consideration	**1,200,000**
Cash	160,062
Accounts receivable	262,526
Inventories	196,445
Prepaids	3,477
Land	250,000
Buildings	340,000
Equipment	211,800
Accounts payable and accrued liabilities	(224,310)
	1,200,000

Due to the recent nature of the transaction the purchase price allocation ("PPA") calculations are still preliminary and have not been finalized.

b) Potential acquisition of Coastal Windows Ltd.

On August 1, 2018, the Company entered into a definitive agreement (the "Coastal DA") with the new Coastal Windows Ltd. ("Coastal") (BC Incorp. No. 1119866) whereby the Company will acquire all of the issued and outstanding shares of Coastal for $650,000 consisting of $250,000 in cash and $400,000 in Atlas common shares. Completion of the transaction is subject to a number of conditions, including but not limited to, completion of due diligence and receipt of any required regulatory approvals. This is the new Coastal and the Company is acquiring all of assets and operations of the window manufacturing business with this share purchase.

26. Subsequent events (continued)

c) Potential acquisition of Tandelle Specialty Inc. and Pacer Building Components Inc.

On August 14, 2018, the Company entered into a definitive agreement (the "Tandelle-Pacer DA") with Tandelle Specialty Inc. and Pacer Building Components Inc. ("Tandelle-Pacer") whereby the Company will acquire all of the issued and outstanding shares of Tandelle-Pacer for $8,100,000 cash and $500,000 of Atlas common shares. Completion of the transaction is subject to a number of conditions, including but not limited to, completion of due diligence and receipt of any required regulatory approvals.

d) Company announces non-brokered private placement financing for up to $5,000,000.

On August 14, 2018, the Company announced a private placement financing to raise up to $5,000,000 (the "Offering"). The Offering will be non-brokered and consist of up to 12,500,000 shares at a price of $0.40 per share. The net proceeds of the Offering will be used primarily for acquisition purposes. Completion of the Offering is subject to all required regulatory approvals.

e) Operating Line of Credit

On July 31, 2018, the Company was approved for a $1 million line of credit with a major Canadian chartered bank which is secured by accounts receivable and inventory. The interest rate is prime plus 1.75%.

f) Exchangeable Notes

On August 9, 2018, all exchangeable notes issued on August 9, 2017 were converted to options and warrants as detailed in Note 17.

g) Truebeam closure and asset allocation

On August 27, 2018, the equipment at Truebeam in Alberta 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.