

# AEP

ATLAS ENGINEERED  
PRODUCTS

**Unaudited Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2019 and August 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 Income (Loss) and Comprehensive Income (Loss) For the three and nine months ended September 30, 2019 and August 31, 2018

(Unaudited - expressed in Canadian dollars)

	Note	Three Months Ended		Nine Months Ended	
		September 30, 2019	August 31, 2018	September 30, 2019	August 31, 2018
		\$	\$	\$	\$
<b>Revenue</b>	<b>18</b>	10,451,562	5,083,058	25,735,804	11,149,553
<b>Cost of sales</b>	<b>19</b>	(7,806,785)	(3,703,033)	(19,424,868)	(8,433,656)
<b>Gross profit</b>		2,644,777	1,380,025	6,310,936	2,715,897
<b>Operating expenses</b>					
Administrative and office		535,046	264,603	1,535,178	780,583
Depreciation	9, 10, 14	368,826	77,051	1,042,205	229,893
Bad debt (recovery) expense	6	(2,597)	8,288	(10,904)	25,917
Management fees	20	72,000	338,065	217,200	658,545
Professional fees		84,961	387,889	366,090	745,818
Salaries and benefits	20	753,837	102,202	1,827,690	252,521
Share-based payments	17(c), 20	96,941	209,977	294,622	823,660
<b>Operating income (loss)</b>		735,763	(8,050)	1,038,855	(801,040)
Interest earned		1,584	10,348	108,504	38,037
Interest expense and other		(160,855)	(46,262)	(428,700)	(95,019)
Accretion expense		-	(5,154)	-	(18,106)
Foreign exchange gain (loss)		5,438	(9,679)	(44,098)	(16,931)
Finance charge on leases	15, 20	(61,323)	(26,258)	(196,738)	(67,373)
(Loss) gain on disposal of equipment		(21)	8,824	(21)	8,552
<b>Income (loss) before income tax</b>		520,586	(76,231)	477,802	(951,880)
<b>Income taxes</b>					
Current income tax (expense) recovery		(304,771)	19,820	(508,981)	(75,976)
Deferred income tax recovery		315,895	-	286,128	190,371
		11,124	19,820	(222,853)	114,395
<b>Net income (loss) and comprehensive income (loss) for the period</b>		531,710	(56,411)	254,949	(837,485)
<b>Income (loss) per share</b>					
Basic and diluted		0.01	(0.00)	0.01	(0.03)
<b>Weighted average number of shares outstanding</b>					
Basic and diluted		45,990,930	31,110,731	45,771,150	30,971,139

**Atlas Engineered Products Ltd.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the three and nine months ended September 30, 2019 and August 31, 2019**  
*(Unaudited - expressed in Canadian dollars)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2019</b>	<b>August 31, 2018</b>	<b>September 30, 2019</b>	<b>August 31, 2018</b>
<b>Cash provided by (used in):</b>			<b>\$</b>	<b>\$</b>
<b>Operating activities</b>				
Net income (loss) for the period	531,710	(56,411)	254,949	(837,485)
Depreciation	705,083	197,608	1,942,383	567,837
Accretion expense	-	5,154	-	18,106
Unrealized foreign exchange loss	(5,892)	-	(5,270)	-
Deferred tax recovery	(315,895)	-	(286,128)	(190,371)
Loss (gain) on disposal of equipment	21	(8,824)	21	(8,552)
Share-based payments	96,941	209,977	294,622	823,660
Interest on exchangeable note	-	14,875	-	14,875
Changes in non-cash working capital items				
Accounts receivable	714,324	(253,205)	499,392	(342,809)
Inventories	(63,647)	31,901	123,014	(339,287)
Prepaid expenditures	77,750	(227,938)	(85,000)	(542,539)
Accounts payable and accrued liabilities	(216,544)	245,189	(450,825)	373,152
Customer deposits	(16,517)	41,957	30,303	14,055
Corporate income taxes payable	17,396	18,732	231,783	(95,356)
<b>Cash provided by (used in) operations</b>	<b>1,524,730</b>	<b>219,015</b>	<b>2,549,244</b>	<b>(544,714)</b>
<b>Investing activities</b>				
Acquisition of equipment	(601,992)	(3,690)	(1,110,450)	(14,632)
Proceeds from disposition of equipment	-	9,093	-	9,093
Deferred acquisition costs	-	-	-	14,398
SC acquisition net of cash acquired	-	-	(3,176,780)	-
Tandelle acquisition net of cash acquired	110,652	-	110,652	-
Satellite acquisition net of cash acquired	-	(1,039,538)	-	(1,039,538)
Clinton acquisition net of cash acquired	-	-	-	(2,483,896)
<b>Cash used in investing activities</b>	<b>(491,340)</b>	<b>(1,034,135)</b>	<b>(4,176,578)</b>	<b>(3,514,575)</b>
<b>Financing activities</b>				
Repayment of principal lease obligations	(272,161)	(138,791)	(812,782)	(342,474)
Issuance of principal lease obligations	-	-	408,576	-
Proceeds from line of credit	-	815,000	-	815,000
Proceeds from long-term debt	375,850	-	2,451,150	1,760,000
Repayment of long-term debt	(462,213)	(137,705)	(1,152,579)	(137,705)
Proceeds from loan receivable	-	-	26,585	(52,569)
<b>Cash (used in) provided by financing activities</b>	<b>(358,524)</b>	<b>538,504</b>	<b>920,950</b>	<b>2,042,252</b>
<b>Increase (decrease) in cash</b>	<b>674,866</b>	<b>(276,616)</b>	<b>(706,384)</b>	<b>(2,017,037)</b>
<b>Cash - beginning of period</b>	<b>212,512</b>	<b>867,384</b>	<b>1,593,762</b>	<b>2,607,805</b>
<b>Cash - end of period</b>	<b>887,378</b>	<b>590,768</b>	<b>887,378</b>	<b>590,768</b>
<b>Cash paid during the period for:</b>				
Interest	222,178	52,040	625,438	119,671
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 (Note 18)	Share Capital (Note 18)	Exchangeable Notes – Equity Component	Contributed Surplus (Note 18)	Deficiency	Total
		\$	\$	\$	\$	\$
<b>Balance, November 30, 2017</b>	30,730,405	8,855,785	19,144	83,168	(5,175,165)	3,782,932
Deferred tax on shares issued as finders fees	-	82,918	-	-	-	82,918
Exchangeable notes	1,521,305	331,518	(19,144)	-	-	312,374
Share-based payments	-	-	-	823,660	-	823,660
Net loss for the period	-	-	-	-	(837,485)	(837,485)
<b>Balance, August 31, 2018</b>	32,251,710	9,270,221	-	906,828	(6,012,650)	4,164,399
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	-	-	-	98,600	-	98,600
Net loss for the period	-	-	-	-	(1,193,675)	(1,193,675)
<b>Balance, December 31, 2018</b>	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	-	-	-	294,622	-	294,622
Net income for the period	-	-	-	-	254,949	254,949
<b>Balance, September 30, 2019</b>	45,990,930	14,741,346	-	1,300,050	(6,951,376)	9,090,020

**Atlas Engineered Products Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2019 and August 31, 2018**  
*(Unaudited - expressed in Canadian dollars)*

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**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 September 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 nine month period ended September 30, 2019 and the nine month period ended August 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 November 7, 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.

**Atlas Engineered Products Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2019 and August 31, 2018**  
*(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:

<b>Category</b>	<b>\$</b>
Cash	250,000
Atlas Engineered Products common shares	400,000
<b>Total consideration</b>	<b>650,000</b>
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)
	<b>650,000</b>

The above PPA calculations have been finalized.

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

	<b>Coastal</b>	<b>Coastal</b>
	<b>Jan 1 – Sept 30, 2019</b>	<b>Oct 1 – Dec 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Sales per consolidated financial statements	954,418	288,385
Loss before tax	(110,239)	(22,105)
Income tax recovery	(15,289)	(5,968)
Loss	(94,950)	(16,137)

**Atlas Engineered Products Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2019 and August 31, 2018**  
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**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 \$2,284,327 has given the Company access to the Greater Toronto Area and the US market, with a significant number of employees with years of experience in the industry. Pacer 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:

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

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.

**Atlas Engineered Products Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2019 and August 31, 2018**  
*(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.

	<b>Pacer</b>	<b>Pacer</b>
	<b>Jan 1 – Sept, 2019</b>	<b>Nov 19 – Dec 31, 2018</b>
	\$	\$
Sales per consolidated financial statements	9,168,321	1,379,365
Earnings before tax	213,478	149,678
Income tax expense	52,753	38,663
<b>Earnings</b>	<b>160,725</b>	<b>111,015</b>

	<b>Tandelle</b>	<b>Tandelle</b>
	<b>Jan 1 –Sept 30, 2019</b>	<b>Nov 19 – Dec 31, 2018</b>
	\$	\$
Sales per consolidated financial statements	270,000	50,000
(Loss) Earnings before tax	(161,535)	12,862
Income tax (recovery) expense	(34,775)	3,216
<b>(Loss) Earnings</b>	<b>(126,760)</b>	<b>9,646</b>

**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).

**Atlas Engineered Products Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2019 and August 31, 2018**  
*(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:

<b>Category</b>	<b>\$</b>
Cash	2,500,000
Shares	400,000
Cash or shares	500,000
Working capital excess	261,671
<b>Total consideration</b>	<b>3,661,671</b>
Cash	84,891
Accounts receivable	240,790
Inventories	312,276
Prepays	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)
	<b>3,661,671</b>

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.

	<b>SC</b>
	<b>Mar 1 – Sept 30, 2019</b>
	<b>\$</b>
Sales per consolidated financial statements	1,930,110
Income before tax	245,015
Income tax expense	56,799
<b>Earnings</b>	<b>188,216</b>

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**Atlas Engineered Products Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2019 and August 31, 2018**  
*(Unaudited - expressed in Canadian dollars)*

**6. Accounts receivable**

Trade and other receivables were as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Trade accounts receivable	3,949,844	4,051,405
Other receivables	17,635	30,631
Loss allowance	(12,224)	(26,407)
	<b>3,955,255</b>	<b>4,055,629</b>

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 nine months ended September 30, 2019, the estimated credit loss amounted to \$12,224.

**7. Inventories**

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Raw materials	1,566,792	1,547,709
Work in progress	72,822	56,725
Finished goods	536,598	382,516
	<b>2,176,212</b>	<b>1,986,950</b>

During the three and nine months ended September 30, 2019, \$4,528,944 and \$10,651,864 (August 31, 2018 - \$2,968,400 and \$5,279,899) 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%.

# Atlas Engineered Products Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and August 31, 2018

(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
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
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	33,473	23,563	432,994	591,978	28,442	-	1,110,450
Additions through business combination	892,000	7,000	290,500	885,800	-	-	2,075,300
Disposals	-	-	(400)	-	-	-	(400)
<b>Balance, September 30, 2019</b>	<b>6,310,987</b>	<b>199,917</b>	<b>3,110,655</b>	<b>4,572,888</b>	<b>257,676</b>	<b>201,611</b>	<b>14,653,734</b>
<b>Accumulated depreciation</b>							
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	665,518	13,053	491,693	367,003	9,057	4,640	1,550,964
Disposals	-	-	(379)	-	-	-	(379)
<b>Balance, September 30, 2019</b>	<b>1,445,812</b>	<b>109,897</b>	<b>1,104,173</b>	<b>1,604,032</b>	<b>212,257</b>	<b>129,633</b>	<b>4,605,804</b>
<b>Carrying amount at December 31, 2018</b>	<b>4,605,220</b>	<b>72,510</b>	<b>1,774,702</b>	<b>1,858,081</b>	<b>26,034</b>	<b>76,618</b>	<b>8,413,165</b>
<b>Carrying amount at September 30, 2019</b>	<b>4,865,175</b>	<b>90,020</b>	<b>2,006,482</b>	<b>2,968,856</b>	<b>45,419</b>	<b>71,978</b>	<b>10,047,930</b>

Depreciation for tangible assets during the three and nine months ended September 30, 2019 was \$574,610 and \$1,550,964 (August 31, 2018 - \$186,283 and \$539,712). During the three and nine months ended September 30, 2019, \$205,784 and \$508,759 (August 31, 2018 - \$120,557 and \$337,944) of the depreciation was included in cost of sales.

**Atlas Engineered Products Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2019 and August 31, 2018**  
*(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 September 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	(620,131)	-	(147,893)	-	(768,024)
<b>Balance, September 30, 2019</b>	<b>2,640,932</b>	<b>-</b>	<b>1,152,883</b>	<b>-</b>	<b>3,793,815</b>

**10. Intangible assets**

	Customer Relationships	Brand Certifications	Non-Compete Agreements	Total
	\$	\$	\$	\$
<b>Cost</b>				
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	4,771,000
Balance, December 31, 2018	3,757,000	838,000	142,000	5,150,000
Additions	-	-	-	-
<b>Balance, June 30, 2019</b>	<b>3,757,000</b>	<b>838,000</b>	<b>142,000</b>	<b>5,150,000</b>
<b>Accumulated Depreciation</b>				
Balance, May 31, 2018	13,800	3,000	-	16,800
Additions	50,506	12,702	3,549	75,172
Balance, December 31, 2018	64,306	15,702	3,549	91,972
Additions	281,772	62,856	10,647	417,222
<b>Balance, September 30, 2019</b>	<b>346,078</b>	<b>78,558</b>	<b>14,196</b>	<b>509,194</b>
<b>Carrying amount at December 31, 2018</b>	<b>3,692,694</b>	<b>822,298</b>	<b>138,451</b>	<b>5,058,028</b>
<b>Carrying amount at September 30, 2019</b>	<b>3,410,922</b>	<b>759,442</b>	<b>127,804</b>	<b>4,640,806</b>

Depreciation for intangible assets during the three and nine months ended September 30, 2019 was \$139,074 and \$417,222 (August 31, 2018 - \$11,325 and \$28,125).

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

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**11. Goodwill**

	Clinton	Satellite	Coastal	Pacer	SC	Total
	\$	\$	\$	\$		\$
<b>Cost</b>						
Balance, May 31, 2018	418,928	-	-	-	-	418,928
PPA adjustment	55,500	-	-	-	-	55,500
Additions	-	136,446	90,773	2,279,248	-	2,506,467
Balance, December 31, 2018	474,428	136,446	90,773	2,279,248	-	2,980,895
Additions	-	-	-	5,079	1,404,495	1,409,574
<b>Balance, September 30, 2019</b>	<b>474,428</b>	<b>136,446</b>	<b>90,773</b>	<b>2,284,327</b>	<b>1,404,495</b>	<b>4,390,469</b>

As at September 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 September 30, 2019, the Company had used \$NIL of its line of credit.

**13. Accounts payable and accrued liabilities**

	September 30, 2019	December 31, 2018
	\$	\$
Trade accounts payable	2,416,654	2,737,022
Sales taxes payable	267,062	187,152
Salaries and vacation payable	329,307	316,641
Other accounts payable	130,957	31,712
Accrued liabilities	653,237	841,412
	<b>3,797,217</b>	<b>4,113,939</b>

**Atlas Engineered Products Ltd.**  
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**14. Intangible liability**

	<b>Over-Market Lease Agreement</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<b>Cost</b>		
Balance, May 31, 2018	-	-
Additions	172,000	172,000
Balance, December 31, 2018	172,000	172,000
Additions	-	-
<b>Balance, September 30, 2019</b>	<b>172,000</b>	<b>172,000</b>
<b>Accumulated Depreciation</b>		
Balance, May 31, 2018	-	-
Additions	2,867	2,867
Balance, December 31, 2018	2,867	2,867
Additions	25,803	25,803
<b>Balance, September 30, 2019</b>	<b>28,670</b>	<b>28,670</b>
<b>Carrying amount at December 31, 2018</b>	<b>169,133</b>	<b>169,133</b>
<b>Carrying amount at September 30, 2019</b>	<b>143,330</b>	<b>143,330</b>

Depreciation for intangible liability during the three and nine months ended September 30, 2019 was \$8,601 and \$25,803 (August 31, 2018 - \$NIL and \$NIL).

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

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**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 September 30, 2019 and December 31, 2018 are as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
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).	337,397	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.	120,577	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.	2,272,097	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.	19,790	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.	110,434	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.	150,652	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.	85,774	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.	206,201	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.	47,219	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.	329,650	-
Total lease obligation	3,679,791	4,083,996
Current portion	(1,130,285)	(1,000,867)
Non-current portion	2,549,506	3,083,129

**Atlas Engineered Products Ltd.**  
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**15. Lease obligations (continued)**

The following is a schedule of the total lease payments made during the three and nine months ended September 30, 2019 and August 31, 2018:

	Three months ended		Nine months ended	
	September 30, 2019	August 31, 2018	September 30, 2019	August 31, 2018
	\$	\$	\$	\$
Principal payment	272,161	138,791	812,782	342,474
Interest expense	61,323	26,259	196,738	68,168
Total lease payments	333,484	165,050	1,009,520	410,642

During the nine months ended September 30, 2019, a vehicle was purchased under a right-of-use asset lease for \$408,576 (August 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:

	September 30, 2019
	\$
2019	347,754
2020	1,357,548
2021	1,003,231
2022	847,795
2023	563,491
Total minimum lease payments	4,119,819
Less: imputed interest	(440,028)
Total present value of minimum lease payments	3,679,791

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

**Atlas Engineered Products Ltd.**  
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**16. Long-term debt**

The long-term debt consists of the following:

	September 30, 2019	December 31, 2018
	\$	\$
RBC loan <sup>1</sup>	-	1,030,765
RBC loan <sup>2</sup>	534,124	546,788
RBC Leaseback <sup>3</sup>	375,391	479,946
RBC Leaseback <sup>4</sup>	166,326	204,354
RBC loan <sup>5</sup>	423,615	438,837
RBC loan <sup>6</sup>	-	4,435,920
RBC assumed loan <sup>7</sup>	-	20,499
RBC assumed loan <sup>8</sup>	7,699	20,531
RBC assumed loan <sup>9</sup>	8,462	14,971
RBC assumed loan <sup>10</sup>	19,346	30,229
RBC assumed loan <sup>11</sup>	9,735	15,143
RBC assumed loan <sup>12</sup>	25,611	36,089
RBC assumed loan <sup>13</sup>	32,720	41,923
RBC assumed loan <sup>14</sup>	77,400	93,600
RBC assumed loan <sup>15</sup>	50,475	60,570
BDC loan <sup>16</sup>	892,000	-
BDC loan <sup>17</sup>	1,183,300	-
Scotiabank assumed loan <sup>18</sup>	45,414	-
RBC loan <sup>19</sup>	4,620,725	-
Saw financing <sup>20</sup>	354,970	-
	8,827,313	7,470,165
Less current portion of term debt	(1,642,618)	(7,470,165)
<b>Total long-term portion of term debt</b>	<b>7,184,695</b>	<b>-</b>

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.

**Atlas Engineered Products Ltd.**  
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**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.
20. An equipment financing with a major equipment supplier, Mitek Canada Inc. bearing interest at 0.00% and repayable at principal of \$10,440 plus tax per month. The loan is secured by a specific piece of equipment.

The Company applies judgement in the classification of long-term and short-term debt portions. The Company assumes that the prime interest rate will remain consistent or not change materially over the next twelve months. Loans 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 nine months ended September 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 September 30, 2019, the Company was not in compliance with the quarterly current ratio test but did receive forbearance on September 26, 2019.

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**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 September 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	(618,333)	0.50
<b>Balance as at September 30, 2019</b>	<b>3,141,666</b>	<b>0.43</b>

The total share-based payment expense recorded during the three and nine months ended September 30, 2019 was \$96,940 and \$294,621 (August 31, 2018: \$209,977 and \$823,660).

The following table summarizes information about the share options outstanding as at September 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	3.10	\$0.49	1,222,500	November 8, 2022
\$0.60	450,000	3.35	\$0.60	450,000	February 5, 2023
\$0.53	202,500	3.39	\$0.53	202,500	February 21, 2023
\$0.30	1,266,666	4.42	\$0.30	433,330	March 4, 2024
\$0.43	3,141,666	3.69	\$0.43	2,308,330	

# Atlas Engineered Products Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 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 September 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	-	-
<b>Balance as at September 30, 2019</b>	<b>5,165,000</b>	<b>0.60</b>

The total warrant reserve recorded for the three and nine months ended September 30, 2019 was \$NIL and \$NIL (August 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 nine months ended September 30, 2019 and August 31, 2018 is as follows:

#### Three months ended September 30, 2019

	Trusses	Engineered wood products	Windows	Total
	\$	\$	\$	\$
<b>Total revenue</b>	<b>8,490,352</b>	<b>1,615,835</b>	<b>345,375</b>	<b>10,451,562</b>

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**18. Revenue (continued)**

**Three months ended August 31, 2018**

	Trusses	Engineered wood products	Windows	Total
	\$	\$	\$	\$
<b>Total revenue</b>	4,061,893	1,021,165	-	5,083,058

**Nine months ended September 30, 2019**

	Trusses	Engineered wood products	Windows	Total
	\$	\$	\$	\$
<b>Total revenue</b>	20,407,685	4,373,701	954,418	25,735,804

**Nine months ended August 31, 2018**

	Trusses	Engineered wood products	Windows	Total
	\$	\$	\$	\$
<b>Total revenue</b>	8,786,143	2,363,410	-	11,149,553

**19. Cost of sales**

Cost of sales for the three and nine months ended September 30, 2019 and August 31, 2018 is as follows:

	Three months ended		Nine months ended	
	September 30, 2019	August 31, 2018	September 30, 2019	August 31, 2018
	\$	\$	\$	\$
Materials	4,553,667	2,501,142	10,743,227	5,467,847
Labour	2,421,015	881,589	6,121,922	2,121,117
Maintenance and overhead	495,847	199,745	1,659,542	506,747
Amortization	336,256	120,557	900,177	337,945
<b>Total cost of sales</b>	<b>7,806,785</b>	<b>3,703,033</b>	<b>19,424,868</b>	<b>8,433,656</b>

**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.

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**20. Related party transactions (continued)**

The Company incurred the following charges as part of our income statement during the three and nine months ended September 30, 2019 and August 31, 2018:

	Three months ended		Nine months ended	
	September 30, 2019	August 31, 2018	September 30, 2019	August 31, 2018
	\$	\$	\$	\$
Salaries and benefits	214,150	50,000	505,972	50,000
Management fees	72,000	109,000	217,200	365,395
Finance charge on lease obligations <sup>1</sup>	5,733	9,570	19,761	30,902
Share-based compensation	87,734	162,645	233,545	497,971
Cost of sales	-	-	-	32,299
Professional fees	-	-	-	33,039
<b>Total related party transactions</b>	<b>379,617</b>	<b>331,215</b>	<b>976,478</b>	<b>1,009,606</b>

**Due to related parties**

Amounts due to related parties are detailed as follows:

	September 30, 2019	December 31, 2018
	\$	\$
<b>Due to related parties</b>		
Accounts payable and accrued liabilities	-	(76,620)
Lease obligation (Note 16) <sup>1</sup>	(337,397)	(515,635)
<b>Total due to related parties</b>	<b>(337,397)</b>	<b>(592,255)</b>

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 September 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 nine months ended September 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 nine months ended August 31, 2018, the Company had the following non-cash investing and financing activities:

**Three months ended August 31, 2018**

- The issuance of 1,521,305 common shares valued at \$312,375 pursuant to the exchangeable notes conversion.

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**21. Supplemental cash flow information (continued)**

**Nine months ended August 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.
- The issuance of 1,521,305 common shares valued at \$312,375 pursuant to the exchangeable notes conversion.

**22. Reconciliation of liabilities arising from financing activities**

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

	<b>Long-term debt</b>	<b>Lease obligations</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance December 31, 2018	7,470,165	4,083,996	11,554,161
Repayments	(776,729)	(812,782)	(1,589,511)
Issuance	2,075,300	408,576	2,483,876
Assumed on acquisition	58,577	-	58,577
<b>Balance September 30, 2019</b>	<b>8,827,313</b>	<b>3,679,790</b>	<b>12,507,103</b>

	<b>Long-term debt</b>	<b>Lease obligations</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
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)
<b>Balance December 31, 2018</b>	<b>7,470,165</b>	<b>4,083,996</b>	<b>11,554,161</b>

**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.

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**23. Financial instruments (continued)**

**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.

**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 September 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 September 30, 2019 and December 31, 2018 summarized below:

	September 30, 2019	December 31, 2018
	\$	\$
<b>Classes of financial assets – carrying amounts</b>		
Cash	887,378	1,593,762
Trade accounts receivable, net of loss allowance	3,937,620	4,024,998
	4,824,998	5,618,760

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**23. Financial instruments (continued)**

**Credit risk (continued)**

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

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

The Company has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The receivables and their aging as at September 30, 2019 and December 31, 2018 is summarized below:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
<b>Trade accounts receivable, net of loss allowance</b>		
Current	2,841,361	1,989,325
Past due 1 to 30 days	794,462	1,085,951
Past due 31 to 60 days	117,046	526,239
Past due over 60 days	184,751	423,483
	<b>3,937,620</b>	<b>4,024,998</b>

The loss allowance as at September 30, 2019 and December 31, 2018 was determined as follows for trade accounts receivable:

	<b>Current</b>	<b>Past due 1 to 30 days</b>	<b>Past due 31 to 60 days</b>	<b>Past due over 60 days</b>	<b>Total</b>
Expected loss rate	0.00%	0.00%	0.70%	5.79%	-
Trade accounts receivable	2,841,361	794,462	117,046	196,975	3,949,844
<b>Loss allowance</b>	-	-	819	11,405	12,224

	<b>Current</b>	<b>Past due 1 to 30 days</b>	<b>Past due 31 to 60 days</b>	<b>Past due over 60 days</b>	<b>Total</b>
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
<b>Loss allowance</b>	-	-	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.

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**23. Financial instruments (continued)**

**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.

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

	<b>Current</b>	<b>Current</b>	<b>Non-current</b>	<b>Non-current</b>
	<b>Within 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>Later than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Lease obligations	675,466	655,424	2,788,929	-
Accounts payable and accrued liabilities	3,797,217	-	-	-
Income taxes payable	311,227	264,297	-	-
Long-term debt	992,084	1,158,540	6,425,715	1,960,211
<b>Total</b>	<b>5,775,994</b>	<b>2,078,261</b>	<b>9,214,644</b>	<b>1,960,211</b>

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

	<b>Current</b>	<b>Current</b>	<b>Non-current</b>	<b>Non-current</b>
	<b>Within 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>Later than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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	-	-	-
<b>Total</b>	<b>12,583,454</b>	<b>625,126</b>	<b>3,444,733</b>	<b>-</b>

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

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**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.

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Long-term debt	8,827,313	7,470,165
Lease obligations	3,679,791	4,083,996
Less: Cash and cash equivalents	(887,378)	(1,593,762)
Net debt	11,619,726	9,960,399
Total equity	9,090,021	8,140,449
	<b>20,709,747</b>	<b>18,100,848</b>

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**

- a) On October 1, 2019, 225,000 AEP common shares were issued to three previous shareholders of SC instead of cash for 90% of the final instalment payment per the SC acquisition (Note 5). These shares were issued at \$0.40 per the agreement.