

AEP

ATLAS ENGINEERED
PRODUCTS

Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019
(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 and Comprehensive Loss
For the three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in Canadian dollars)

	Note	Three Months Ended September 30, 2020 \$	Three Months Ended September 30, 2019 \$	Nine Months Ended September 30, 2020 \$	Nine Months Ended September 30, 2019 \$
Revenue	16	9,677,692	10,451,562	24,676,476	25,735,804
Cost of sales	17	(7,552,880)	(7,806,785)	(19,569,812)	(19,424,868)
Gross profit		2,124,812	2,644,777	5,106,664	6,310,936
Operating expenses					
Administrative and office	18	369,526	535,046	1,509,711	1,535,178
Depreciation	7, 8, 12	362,997	368,826	1,056,195	1,042,205
Bad debt expense (recovery)		1,688	(2,597)	4,921	(10,904)
Management fees	18	71,200	72,000	206,200	217,200
Professional fees		104,015	84,961	323,563	366,090
Salaries and benefits	18	714,338	753,837	2,054,867	1,827,690
Share-based compensation	15(c), 18	18,230	96,941	85,798	294,622
Operating profit (loss)		482,818	735,763	(134,591)	1,038,855
Interest earned		3,498	1,584	16,862	108,504
Canadian emergency wage subsidy		287,610	-	462,660	
Interest expense and other		(103,398)	(160,855)	(332,341)	(428,700)
Foreign exchange (loss) gain		(5,432)	5,438	16,958	(44,098)
Finance charge on leases	13, 18	(45,099)	(61,323)	(145,455)	(196,738)
Loss on disposal of equipment		(21,502)	(21)	(18,910)	(21)
Income (loss) before income tax		598,495	520,586	(134,817)	477,802
Income taxes					
Current income tax expense		(114,906)	(304,771)	(115,561)	(508,981)
Deferred income tax (expense) recovery		(64,000)	315,895	127,607	286,128
		(178,906)	11,124	12,046	(222,853)
Net Income and comprehensive loss for the period		419,589	531,710	(122,771)	254,949
Income (Loss) per share					
Basic and diluted		0.01	0.01	(0.00)	0.01
Weighted average number of shares outstanding					
Basic and diluted		57,725,730	45,990,930	56,126,635	45,771,150

Atlas Engineered Products Ltd.
Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in Canadian dollars)

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Cash provided by (used in):	\$	\$	\$	\$
Operating activities				
Net income (loss) for the period	419,589	531,710	(122,771)	254,949
Depreciation	674,550	705,083	2,005,983	1,942,383
Unrealized foreign exchange gain	(8,650)	(5,892)	(8,650)	(5,270)
Deferred tax recovery (expense)	64,001	(315,895)	(127,605)	(286,128)
Loss on disposal of equipment	21,502	21	18,910	21
Share-based compensation	18,230	96,941	85,798	294,622
Changes in non-cash working capital items				-
Accounts receivable	(635,523)	714,324	(1,355,329)	499,392
Inventories	(550,430)	(63,647)	(533,019)	123,014
Prepaid expenditures	(14,883)	77,750	(71,900)	(85,000)
Deposits	249	-	83,173	-
Accounts payable and accrued liabilities	294,928	(216,544)	160,997	(450,825)
Customer deposits	114,381	(16,517)	293,802	30,303
Corporate income taxes payable	274,315	17,396	(222,429)	231,783
Cash provided by operations	672,259	1,524,730	206,960	2,549,244
Investing activities				
Acquisition of equipment	(133,574)	(601,992)	(274,874)	(1,110,450)
Proceeds from disposition of equipment	10,776	-	36,428	-
SC acquisition net of cash acquired (Note 4)	-	-	-	(3,176,780)
Tandelle acquisition net of cash acquired	-	110,652	-	110,652
Novum acquisition net of cash acquired (Note 3)	(362,250)	-	(362,250)	-
Cash used in by investing activities	(485,048)	(491,340)	(600,696)	(4,176,578)
Financing activities				
Repayment of principal lease obligations	(297,081)	(272,161)	(852,148)	(812,782)
Issuance of principal lease obligations	-	-	-	408,576
Repayment of long-term debt	(558,376)	(462,213)	(1,011,490)	(1,152,579)
Proceeds from long-term debt	238,039	375,850	238,039	2,451,150
Repayment of bank indebtedness	-	-	(1,470,000)	-
Proceeds from loan receivable	-	-	-	26,585
Shares issued for cash	-	-	4,597,253	-
Cash share issue costs	-	-	(261,954)	-
Cash (used in) provided by financing activities	(617,418)	(358,524)	1,239,700	920,950
(Decrease) Increase in cash	(430,207)	674,866	845,964	(706,384)
Cash - beginning of period	3,033,576	212,512	1,757,405	1,593,762
Cash - end of period	2,603,369	887,378	2,603,369	887,378
Cash paid during the period for:				
Interest	148,497	222,178	477,796	625,438
Income taxes	237,520	-	642,723	-

Supplemental cash flow information – Note 19

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

	Number of Common Shares	Share Capital	Exchangeable Notes – Equity Component	Contributed Surplus	Deficiency	Total
	(Note 15)	(Note 15)		(Note 15)		
		\$	\$	\$	\$	\$
Balance, December 31, 2018	44,990,930	14,341,346	-	1,005,428	(7,206,325)	8,140,449
Shares issued on acquisitions (Note 4)	1,000,000	400,000	-	-	-	400,000
Share-based payments	-	-	-	294,622	-	294,622
Net income for the period	-	-	-	-	254,949	254,949
Balance, September 30, 2019	45,990,930	14,741,346	-	1,300,050	(6,951,376)	9,090,020
Shares issued on acquisitions (Note 4)	225,000	90,000	-	-	-	90,000
Stock options exercised	16,666	5,000	-	-	-	5,000
Share-based payments	-	-	-	46,697	-	46,697
Net loss for the period	-	-	-	-	(1,010,096)	(1,010,096)
Balance, December 31, 2019	46,232,596	14,836,346	-	1,346,747	(7,961,472)	8,221,621
Shares issued pursuant to private placement (Note 15b)	11,493,134	4,597,253	-	-	-	4,597,253
Less: cash share issue costs (Note 15b)	-	(203,377)	-	-	-	(203,377)
Share-based payments	-	-	-	85,798	-	85,798
Net loss for the period	-	-	-	-	(122,771)	(122,771)
Balance, September 30, 2020	57,725,730	19,230,222	-	1,432,545	(8,084,243)	12,578,524

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in Canadian dollars)

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, windows and supplier of engineered wood products. Atlas operates manufacturing and distribution facilities in British Columbia and Ontario to meet the needs of residential and commercial builders.

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

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective for the Company's reporting for the three and nine months ended September 30, 2020.

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.

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

The Company continues to monitor and assess the impact of the Covid-19 pandemic on its business activities. The potential impact is not yet determinable; however there may have a material impact on the Company's financial position, results of operations, cash flows, and ability to obtain financing in future periods. In particular, there may be an increased risk of future goodwill and intangible asset impairments. As at November 12, 2020, all of our operations remain open and have not had to close as the Company has been deemed an essential business in all provinces that we currently operate in.

These consolidated financial statements were approved for issue by the Board of Directors on November 12, 2020.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

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 six subsidiaries, all located in Canada: Clinton Building Components Ltd ("Clinton"), Satellite Building Components Ltd ("Satellite"), Coastal Windows Ltd ("Coastal"), Pacer Building Components Ltd ("Pacer"), South Central Building Systems Ltd ("SC"), and Novum Building Components Ltd ("Novum"). The Company owns 100% of the issued and outstanding shares of all of these subsidiaries. During the year ended December 31, 2019, the Company amalgamated four subsidiaries: Pacer, DMH Holding Corp ("DMH"), Tandelle Specialty Products ("Tandelle"), and 2022013 Ontario Ltd ("2022013").

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

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

3. Asset acquisition

On July 20th, 2020, the Company completed an acquisition of assets from Trusstem Industries Inc. ("Trusstem") for \$362,250 consisting of \$187,250 in cash on day of closing and \$175,000 in cash in equal monthly instalments for a term of three years commencing on September 1, 2020. The \$175,000 to be paid over three years is subject to interest at 3% (Note 14). The Company acquired these assets through its wholly owned subsidiary, Novum Building Components Ltd. ("Novum"). Novum commenced operations at the original Trusstem location on July 20th, 2020. Novum is located in Abbotsford, British Columbia. Novum will be manufacturing roof and floor trusses and supplying engineered wood products which aligns with the core business of the Company.

With this location the Company gains access to the Lower Mainland and Okanagan areas in BC.

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

Category	\$
Cash	362,250
Total consideration	362,250
Equipment and vehicles	187,250
Goodwill	175,000
	362,250

Due to the recent nature of the transaction the values have not been finalized. The above values are based on initial working papers and the asset purchase agreement, but some values are still being valued. The valuation of the intangible assets has also not been completed.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
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3. Asset acquisition (continued)

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

	Novum
	July 20, 2020 – Sept 30, 2020
	\$
Sales per consolidated financial statements	101,339
Loss before tax	(82,310)
Income tax recovery	(20,577)
Loss	(61,733)

4. Acquisition of South Central Building Systems Ltd.

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

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

A significant portion of the cash required to complete the transaction was provided by a term loan from a major Canadian chartered bank and secured by the assets of SC (Note 14).

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
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4. Acquisition of South Central Building Systems Ltd. (continued)

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

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

The above PPA calculations have been finalized.

Prior to acquisition SC was a private company and financial information was impractical to obtain and verify. If the acquisition had occurred at January 1, 2019 then the revenues would have been \$3,199,045 for January 1, 2019 to December 31, 2019. The following table shows the results of the operations of SC since the acquisition date.

	SC	SC
	Jan 1 – Sept 30, 2020	Mar 1 – Dec 31, 2019
	\$	\$
Sales per consolidated financial statements	2,629,827	2,825,332
Loss before tax	(357,581)	(303,838)
Income tax recovery	(96,546)	(81,758)
Loss	(261,035)	(222,080)

5. Accounts receivable

Trade and other receivables were as follows:

	September 30,	December 31,
	2020	2019
	\$	\$
Trade accounts receivable	4,411,847	3,334,500
Other receivables	349,951	58,925
Loss allowance	(9,837)	(5,443)
	4,751,961	3,387,982

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, 2020, the estimated credit loss amounted to \$9,837.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in Canadian dollars)

6. Inventories

	September 30, 2020	December 31, 2019
	\$	\$
Raw materials	1,693,185	1,376,642
Work in progress	178,770	116,802
Finished goods	519,994	365,486
	2,391,949	1,858,930

During the three and nine months ended September 30, 2020, \$4,538,934 and \$11,583,520 (September 30, 2019 - \$4,528,944 and \$10,651,864) in raw materials was expensed through cost of sales. It was determined that there was no requirement to write down any raw material, work in progress, or finished goods inventory during the three and nine months ended September 30, 2020.

7. Buildings and equipment

	Land & Buildings	Office Furniture and Equipment	Vehicles	Production Equipment	Computer Equipment and Software	Signage and Land Improve	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, December 31, 2018	5,385,514	169,354	2,387,561	3,095,110	229,234	201,611	11,468,384
Additions	124,102	33,428	441,994	596,299	36,502	-	1,232,325
Additions through business combination	892,000	7,000	290,500	885,800	-	-	2,075,300
Disposals	-	-	(400)	-	-	-	(400)
Balance, December 31, 2019	6,401,616	209,782	3,119,655	4,577,209	265,736	201,611	14,775,609
Additions	255,511	9,602	173,224	151,562	42,675	30,360	662,934
Disposals	-	-	(77,500)	(12,000)	-	-	(89,500)
Balance, September 30, 2020	6,657,127	219,384	3,215,379	4,716,771	308,411	231,971	15,349,043
Accumulated depreciation							
Balance, December 31, 2018	780,294	96,844	612,859	1,237,029	203,200	124,993	3,055,219
Additions	888,866	18,350	681,185	489,878	13,286	6,189	2,097,754
Disposals	-	-	(379)	-	-	-	(379)
Balance, December 31, 2019	1,669,160	115,194	1,293,665	1,726,907	216,486	131,182	5,152,594
Additions	698,343	14,775	419,165	404,404	14,348	5,173	1,556,208
Disposals	-	-	(29,996)	(4,165)	-	-	(34,161)
Balance, September 30, 2020	2,367,503	129,969	1,682,834	2,127,146	230,834	136,355	6,674,641
Carrying amount at December 31, 2019	4,732,456	94,588	1,825,990	2,850,302	49,250	70,429	9,623,015
Carrying amount at September 30, 2020	4,289,624	89,415	1,532,545	2,589,625	77,577	95,616	8,674,402

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in Canadian dollars)

7. Buildings and equipment (continued)

Depreciation for tangible assets during the three and nine months ended September 30, 2020 was \$524,625 and \$1,556,208 (September 30, 2019 - \$574,610 and \$1,550,964). During the three and nine months ended September 30, 2020, \$352,007 and \$949,788 (September 30, 2019 - \$205,784 and \$508,759) of the depreciation was included in cost of sales.

The above buildings and equipment schedule includes right-of-use assets. The following summarizes those right-of-use assets and their depreciation for the periods ended September 30, 2020 and December 31, 2019.

	Building	Office Furniture and Equipment	Vehicles	Production Equipment	Total
	\$	\$	\$	\$	\$
Balance, December 31, 2018	3,261,063	-	892,200	-	4,153,263
Additions	-	-	408,576	-	408,576
Disposals	-	-	-	-	-
Depreciation charge for the year	(826,841)	-	(378,745)	-	(1,205,586)
Balance, December 31, 2019	2,434,222	-	922,031	-	3,356,253
Additions	200,809	-	-	-	200,809
Disposals	-	-	-	-	-
Depreciation charge for the year	(633,446)	-	(225,330)	-	(858,776)
Balance, September 30, 2020	2,001,585	-	696,701	-	2,698,286

8. Intangible assets

	Customer Relationships	Brand Certifications	Non-Compete Agreements	Total
	\$	\$	\$	\$
Cost				
Balance, December 31, 2018	3,757,000	838,000	142,000	5,150,000
Additions	282,000	368,000	-	714,000
Balance, December 31, 2019	4,039,000	1,206,000	142,000	5,864,000
Additions	-	-	-	-
Balance, September 30, 2020	4,039,000	1,206,000	142,000	5,864,000
Accumulated Depreciation				
Balance, December 31, 2018	64,306	15,702	3,549	91,972
Additions	399,196	114,478	14,196	621,136
Balance, December 31, 2019	463,502	130,180	17,745	713,108
Additions	302,922	90,459	10,647	475,578
Balance, September 30, 2020	766,424	220,639	28,392	1,188,686
Carrying amount at December 31, 2019	3,575,498	1,075,820	124,255	5,150,892
Carrying amount at September 30, 2020	3,272,576	985,361	113,608	4,675,314

As at September 30, 2020, the Company determined that there was no impairment to all intangible assets.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited - expressed in Canadian dollars)

9. Goodwill

The following summarizes the Company's goodwill as at September 30, 2020 and December 31, 2019.

	Clinton	Satellite	Coastal	Pacer	SC	Novum	Total
	\$	\$	\$	\$			\$
Cost							
Balance, December 31, 2018	474,428	136,446	90,773	2,279,248	-	-	2,980,895
Additions	-	-	-	5,079	883,275	-	888,354
Goodwill impairment	-	-	(90,773)	-	-	-	(90,773)
Balance, December 31, 2019	474,428	136,446	-	2,284,327	883,275	-	3,778,476
Additions	-	-	-	-	-	175,000	175,000
Balance, September 30, 2020	474,428	136,446	-	2,284,327	883,275	175,000	3,953,476

The Company uses the value in use method to evaluate the carrying amount of goodwill as at October 31 on an annual basis, but management still assesses for impairment indicators throughout the year. The Company has determined that there was no impairment to goodwill as at September 30, 2020.

10. Bank Indebtedness

	September 30, 2020	December 31, 2019
	\$	\$
Operating Line	-	1,470,000

The operating line of credit was available for up to \$1.75 million with no set terms of repayment. Interest rate on this line of credit is 4.2%. The line of credit is part of a larger facility that has a general security agreement and charges against fixed assets that was provided by a major Canadian bank.

11. Accounts payable and accrued liabilities

	September 30, 2020	December 31, 2019
	\$	\$
Trade accounts payable	2,000,217	1,711,022
Sales taxes payable	258,679	220,686
Salaries and vacation payable	547,806	309,924
Other accounts payable	115,743	65,621
Accrued liabilities	396,370	850,565
	3,318,815	3,157,818

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12. Intangible liability

	Over-Market Lease Agreement	Total
	\$	\$
Cost		
Balance, December 31, 2018	172,000	172,000
Additions	-	-
Balance, December 31, 2019	172,000	172,000
Additions	-	-
Balance, September 30, 2020	172,000	172,000
Accumulated Depreciation		
Balance, December 31, 2018	2,867	2,867
Additions	34,404	34,404
Balance, December 31, 2019	37,271	37,271
Additions	25,803	25,803
Balance, September 30, 2020	63,074	63,074
Carrying amount at December 31, 2019	134,729	134,729
Carrying amount at September 30, 2020	108,926	108,926

As at September 30, 2020, the Company determined that there was no impairment to the intangible liability.

Atlas Engineered Products Ltd.
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13. 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, 2020 and December 31, 2019 are as follows:

	September 30, 2020	December 31, 2019
	\$	\$
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 17).	86,907	276,161
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.	60,238	105,871
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.	1,783,288	2,152,987
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.	59,881	98,224
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.	94,358	136,804
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.	58,439	79,039
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.	142,755	190,339
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.	32,841	43,686
Vehicle under right-of-use asset lease repayable in monthly instalments of \$9,352 with interest of 4.7% per annum, residual value of \$nil, maturing November 2022.	230,781	305,365
Building under right-of-use asset lease repayable in monthly instalments of \$6,000 inclusive of implied interest of 5.20% per annum, residual value of \$nil, maturing in July 2023.	187,649	-
Total lease obligation	2,737,137	3,388,476
Current portion	(1,066,388)	(1,174,485)
Non-current portion	1,670,749	2,213,991

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13. Lease obligations (continued)

The following is a schedule of the total lease payments made during the three and nine months ended September 30, 2020 and 2019:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Principal payment	297,082	272,161	852,149	812,782
Interest expense	45,097	61,323	145,455	196,738
Total lease payments	342,179	333,484	997,604	1,009,520

During the nine months ended September 30, 2020, a building was acquired under a right-of-use asset lease for \$200,809 (September 30, 2019 – a vehicle was purchased under a right-of-use asset lease for \$408,576).

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, 2020
	\$
2020	392,267
2021	1,075,232
2022	919,798
2023	603,168
Total minimum lease payments	2,990,465
Less: imputed interest	(253,328)
Total present value of minimum lease payments	2,737,137

During the nine months ended September 30, 2020, the Company entered into a low value lease for multiple office equipment items for \$15,816 (September 30, 2019 – no short-term or low-value leases were entered into).

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14. Long-term debt

The long-term debt consists of the following:

	September 30, 2020	December 31, 2019
	\$	\$
RBC loan ¹	512,038	529,641
RBC Leaseback ²	230,328	339,740
RBC Leaseback ³	113,480	153,347
RBC loan ⁴	402,331	418,335
RBC assumed loan ⁵	-	3,849
RBC assumed loan ⁶	651	6,509
RBC assumed loan ⁷	4,836	15,719
RBC assumed loan ⁸	3,245	8,113
RBC assumed loan ⁹	11,642	22,119
RBC assumed loan ¹⁰	20,450	29,653
RBC assumed loan ¹¹	55,800	72,000
RBC assumed loan ¹²	37,015	47,110
BDC loan ¹³	877,212	892,000
BDC loan ¹⁴	1,126,400	1,183,300
Scotiabank assumed loan ¹⁵	35,682	42,981
RBC loan ¹⁶	3,609,946	4,187,534
Saw financing ¹⁷	229,686	323,649
Truck financing ¹⁸	60,839	-
VTB loan ¹⁹	170,567	-
	7,502,148	8,275,599
Less current portion of term debt	(1,736,483)	(6,182,748)
Total long-term portion of term debt	5,765,665	2,092,851

1. A mortgage with a major Canadian bank bearing interest at a floating base rate (3.45% as at Sept 30, 2020) repayable at approximately \$3,688 per month with the current term ending February 2022. 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.
2. A leaseback with a major Canadian bank bearing interest at an implied rate of 4.6% repayable in instalments of \$13,262 per month over a 48-month term. The leaseback is secured by the equipment of Truebeam.
3. A leaseback with a major Canadian bank bearing interest at an implied rate of 4.7% repayable in instalments of \$4,965 per month over a 48-month term. The leaseback is secured by the equipment of Satellite.
4. A mortgage with a major Canadian bank bearing interest at a fixed rate of 5.05% for the initial term repayable at approximately \$3,510 per month. The initial term ends October 9, 2023. The mortgage is amortized over 180 months. The loan is secured by a general security interest granted by the Company, with security on the land and building of Satellite.
5. A term loan with a major Canadian bank bearing interest at a floating base rate (2.8% as at Sept 30, 2020) repayable at approximately \$1,300 per month. The loan was assumed on the acquisition of Pacer and remaining life is amortized over 17 months. The loan is secured by a specific piece of equipment.
6. A term loan with a major Canadian bank bearing interest at a floating base rate (2.8% as at Sept 30, 2020) repayable at approximately \$666 per month. The loan was assumed on the acquisition of Pacer and remaining life is amortized over 24 months. The loan is secured by a specific piece of equipment.
7. A term loan with a major Canadian bank bearing interest at a floating base rate (2.8% as at Sept 30, 2020) repayable at approximately \$1,253 per month. The loan was assumed on the acquisition of Pacer and remaining life is amortized over 26 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 (2.8% as at Sept 30, 2020) repayable at approximately \$561 per month. The loan was assumed on the acquisition of Pacer and remaining life is amortized over 29 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 (2.8% as at Sept 30, 2020) repayable at approximately \$1,220 per month. The loan was assumed on the acquisition of Pacer and remaining life is amortized over 33 months. The loan is secured by a specific piece of equipment.

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14. Long-term debt (continued)

10. A term loan with a major Canadian bank bearing interest at a floating base rate (2.8% as at Sept 30, 2020) repayable at approximately \$1,110 per month. The loan was assumed on the acquisition of Pacer and remaining life is amortized over 42 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 (2.8% as at Sept 30, 2020) repayable at approximately \$2,027 per month. The loan was assumed on the acquisition of Pacer and remaining life is amortized over 53 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 (2.8% as at Sept 30, 2020) repayable at approximately \$1,280 per month. The loan was assumed on the acquisition of Pacer and remaining life is amortized over 55 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 (6.10% as at Sept 30, 2020) 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.
14. A term loan with a major Canadian bank bearing interest at a floating base rate (7.64% as at Sept 30, 2020) 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.
15. A financing loan with a major Canadian bank bearing interest at 0.00% as at Sept 30, 2020, 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.
16. A term loan with a major Canadian bank bearing interest at a floating base rate (5.2% as at Sept 30, 2020) repayable at principal of \$144,398 plus interest per month from June to December and interest only payments from January to May. 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.
17. An equipment financing with a major equipment supplier, Mitek Canada Inc. bearing interest at 0.00% as at Sept 30, 2020 and repayable at principal of \$10,440 plus tax per month. The loan is secured by a specific piece of equipment.
18. A vehicle financing loan with a major Canadian bank, bearing interest at 5.99% as at Sept 30, 2020, repayable at approximately \$1,040.59 per month for 84 months.
19. A vendor take back loan related to the Novum acquisition bearing interest at 3% as at Sept 30, 2020 repayable at approximately \$5,095 per month for 36 months.

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 and 4 of the Company's debt obligations have consistent payments and a change in the interest rate would affect the principal payment portion as the overall payment is set for the term. The remaining loans have fluctuating payments that would change as the interest rate changes and the principal portion of those payments would remain constant.

The Company has not had any modifications to the terms of the debt during the nine months ended September 30, 2020 and any future changes will result in updates to the long-term debt schedules.

The long-term debt contains two financial covenants. A debt service coverage ratio of not less than 1.25 to 1 which is tested annually at the Company's year end and a current ratio of not less than 1.25 to 1 which is tested quarterly. As at September 30, 2020, the Company was in compliance with their covenants and the bank has also provided a waiver on the covenants from December 31, 2019 and up to December 31, 2020.

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15. Share capital

a) Authorized

Unlimited common shares without par value.

b) Share capital transactions

On February 6, 2020, the Company completed a private placement, issuing 11,493,134 common shares at \$0.40 per share for gross proceeds of \$4,597,253. The Company also incurred \$261,954 of cash issue costs. Cash issue costs net of tax is \$203,377.

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, 2020 and December 31, 2019 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		\$
Balance as at December 31, 2018	2,369,999	0.53
Granted	1,390,000	0.30
Exercised	(16,666)	0.30
Forfeited	(658,333)	0.49
Balance as at December 31, 2019	3,085,000	0.43
Granted	-	-
Forfeited	(10,000)	0.49
Balance as at September 30, 2020	3,075,000	0.43

The total share-based payment expense recorded during the three and nine months ended September 30, 2020 was \$18,230 and \$85,798 (September 30, 2019: \$96,940 and \$294,621).

The following table summarizes information about the share options outstanding as at September 30, 2020:

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	1,212,500	2.10	\$0.49	1,212,500	November 8, 2022
\$0.60	450,000	2.35	\$0.60	450,000	February 5, 2023
\$0.53	202,500	2.39	\$0.53	202,500	February 21, 2023
\$0.30	1,210,000	3.42	\$0.30	1,210,000	March 4, 2024
\$0.43	3,075,000	2.68	\$0.43	3,075,000	

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15. 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%	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. On February 6, 2020, the Company close another private placement with one warrant issued with each common share. All warrants allow the holder to exercise the warrant for a common share of the Company at a price of \$0.60. All warrants also expire two years after they were issued.

The Company's warrants outstanding as at September 30, 2020 and December 31, 2019 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		\$
Balance as at December 31, 2018	5,165,000	0.60
Granted	-	-
Forfeited	-	-
Balance as at December 31, 2019	5,165,000	0.60
Granted	12,148,019	0.60
Forfeited	-	-
Balance as at September 30, 2020	17,313,019	0.60

The total warrant reserve recorded for the three and nine months ended September 30, 2020 was \$NIL and \$NIL (September 30, 2019: \$NIL and \$NIL).

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16. Revenue

The Company has three distinct revenue streams: trusses, engineered wood products, windows, and walls. The Company's revenues by these revenue streams for the three and nine months ended September 30, 2020 and 2019 is as follows.

Three months ended September 30, 2020

	Trusses	Engineered wood products	Windows	Walls	Total
	\$	\$	\$		\$
Total revenue	7,591,910	1,742,623	331,269	11,890	9,677,692

Three months ended September 30, 2019

	Trusses	Engineered wood products	Windows	Walls	Total
	\$	\$	\$		\$
Total revenue	8,490,352	1,615,835	345,375	-	10,451,562

Nine months ended September 30, 2020

	Trusses	Engineered wood products	Windows	Walls	Total
	\$	\$	\$		\$
Total revenue	18,638,714	4,995,840	1,030,032	11,890	24,676,476

Nine months ended September 30, 2019

	Trusses	Engineered wood products	Windows	Walls	Total
	\$	\$	\$		\$
Total revenue	20,407,685	4,373,701	954,418	-	25,735,804

17. Cost of sales

Cost of sales for the three and nine months ended September 30, 2020 and 2019 is as follows:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Materials	4,552,284	4,553,667	11,634,490	10,743,227
Labour	2,129,573	2,421,015	5,567,195	6,121,922
Maintenance and overhead	519,015	495,847	1,377,885	1,659,542
Amortization	352,008	336,256	990,242	900,177
Total cost of sales	7,552,880	7,806,785	19,569,812	19,424,868

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18. Related party transactions

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

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

The Company incurred the following charges as part of the Company's consolidated statement of income and comprehensive loss during the three and nine months ended September 30, 2020 and 2019:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Salaries and benefits	284,962	214,150	757,668	505,972
Management fees	61,200	72,000	206,200	217,200
Administrative and office	30,000	-	80,500	-
Finance charge on lease obligations ¹	1,966	5,733	8,746	19,761
Share-based compensation	17,175	87,734	80,834	233,545
Total related party transactions	395,303	379,617	1,133,948	976,478

Due from/to related parties

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

	September 30, 2020	December 31, 2019
	\$	\$
Due from related party		
Accounts receivable	-	95,787
Total due from related party	-	95,787
Due to related parties		
Accounts payable and accrued liabilities	(85,014)	(424,331)
Lease obligation (Note 13) ¹	(86,907)	(276,161)
Total due to related parties	(171,921)	(700,492)

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 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.

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19. 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, 2020 and 2019, the Company had the following non-cash investing and financing activities:

Three and nine months ended September 30, 2020

During the three and nine months ended September 30, 2020, \$200,809 of lease obligations have been capitalized to land and buildings.

Three and nine months ended September 30, 2019

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.

20. Reconciliation of liabilities arising from financing activities

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

	Long- term debt	Lease obligations	Total
	\$	\$	\$
Balance December 31, 2019	8,275,599	3,388,476	11,664,075
Repayments	(1,011,490)	(852,148)	(1,863,638)
Issuance	238,039	-	238,039
Non-cash – lease obligation	-	200,809	200,809
Balance September 30, 2020	7,502,148	2,737,137	10,239,285

	Long- term debt	Lease obligations	Total
	\$	\$	\$
Balance December 31, 2018	7,470,165	4,083,996	11,554,161
Repayments	(1,704,293)	(1,104,096)	(2,808,389)
Issuance	2,451,150	408,576	2,859,726
Assumed on acquisition	58,577	-	58,577
Balance December 31, 2019	8,275,599	3,388,476	11,664,075

21. Financial instruments

Classification of financial instruments

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

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

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21. Financial instruments (continued)

Fair value

Due to the short-term nature of cash, trade accounts receivable, accounts payable and accrued liabilities the carrying value of these financial instruments approximate their fair value. Customer deposits are short-term in nature as they are either refundable if the order is not completed or applied to an order at their carrying value. The carrying value of the customer deposits would approximate their fair value. The fair value of long-term debt 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 \$110,000 annually.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's policy is to minimize interest rate risk exposures on term financing. All leases and exchangeable notes have fixed rates. As at September 30, 2020, 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 \$12,053 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, 2020 and December 31, 2019 summarized below:

	September 30, 2020	December 31, 2019
	\$	\$
Classes of financial assets – carrying amounts		
Cash	2,603,369	1,553,005
Trade accounts receivable, net of loss allowance	4,402,010	3,329,057
	<u>7,005,379</u>	<u>4,882,062</u>

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21. 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, 2020 and December 31, 2019 is summarized below:

	September 30, 2020	December 31, 2019
	\$	\$
Trade accounts receivable, net of loss allowance		
Current	3,141,829	2,213,996
Past due 1 to 30 days	668,661	743,149
Past due 31 to 60 days	348,046	239,811
Past due over 60 days	243,474	132,101
	4,402,010	3,329,057

The loss allowance as at September 30, 2020 and December 31, 2019 was determined as follows for trade accounts receivable:

As at September 30, 2020

	Current	Past due 1 to 30 days	Past due 31 to 60 days	Past due over 60 days	Total
Expected loss rate	0.00%	0.00%	0.25%	3.54%	0.22%
Trade accounts receivable	3,141,829	668,661	348,046	253,311	4,411,847
Loss allowance	-	-	870	8,967	9,837

As at December 31, 2019

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

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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21. 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 1.53:1. Cash flows from trade accounts receivable are all contractually due within thirty days.

As at September 30, 2020, the Company's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

	Current	Current	Non-current	Non-current
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	\$	\$	\$	\$
Lease obligations	679,776	525,369	1,785,321	-
Accounts payable and accrued liabilities	3,318,815	-	-	-
Income taxes payable	17,897	-	-	-
Long-term debt	973,893	1,102,388	5,217,381	1,689,594
Total	4,990,381	1,627,757	7,002,702	1,689,594

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

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

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

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in Canadian dollars)

22. 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:

	September 30, 2020	December 31, 2019
	\$	\$
Long-term debt	7,502,148	8,275,599
Lease obligations	2,737,137	3,388,476
Less: Cash and cash equivalents	(2,603,369)	(1,553,005)
Net debt	7,635,916	10,111,070
Total equity	12,578,524	8,221,621
	20,214,440	18,332,691

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.

23. Subsequent events

a) Warrant extension

On October 8th, 2020, the Company announced its intention to extend the exercise period of 5,165,000 share purchase warrants issued in 2018. The TSX Venture Exchange has accepted this warrant extension. These warrants are extended as follows:

- The 4,748,750 Warrants originally set to expire on October 31, 2020 will have their exercise period extended to October 31, 2021.
- The 416,250 Warrants originally set to expire on December 3, 2020 will have their exercise period extended to December 3, 2021.