Annual Performance Report

Align Construction

2018/2019

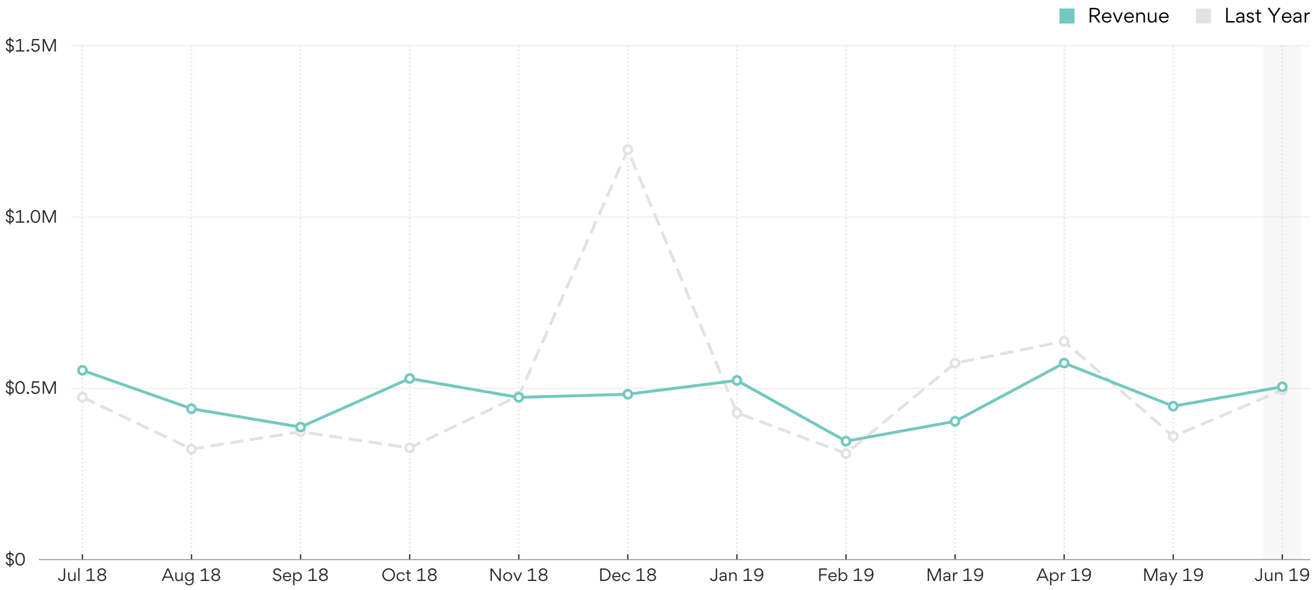
Management Discussion & Analysis

Align had mixed results for the 2018/2019 fiscal year, we saw a revenue decline of -5.2% and continued to struggle to collect on our outstanding invoices. Accounts receivable turnover and employee safety remain two of our biggest concerns in the current year. Accounts receivable days increased significantly this year to 32 days as clients hold onto their money in uncertain times. This is particularly apparent as a number of projects were completed in time for Christmas and we're yet to receive final payment.

In the upcoming year we will focus on increasing the number of quotes and jobs won hoping to increase our win rate of 0.6% and increase our total projects from 71 to something closer to our target of 105. We are also mindful that material costs are expected to swing and we often bear the risk of cost changes due to our fixed price contracts and the speculative nature of all construction work. The cost of land and raw materials can change rapidly. This highlights the importance to free up cash for quick capital investments.

We have had a continued problem regulating cash flow, we believe that this is partially due to our outdated invoicing system. The board has decided to invest in a new Point-of-Sales and invoicing software in the upcoming year, with the hopes that this will improve visibility and predictability in our billing system. We may also consider stepping away from the 'Progress Payment' billing that is traditional in the industry. We currently have $75,380 of cash on hand, this may leave us needing to find additional funding for upcoming payroll and materials purchasing.

Total Revenue by Month | Current Year vs Prior Year



REVENUE

Revenue $5,663,756 (Last year $5,974,487)

Negative trend downwards.

PROFITABILITY

Profitability Ratio 20.34% (Last year 41.24%)

Negative trend downwards. Strategies to improve profitability include: increasing price, increasing sales volume, reducing cost of sales and reducing operating expenses

CASH FLOW

Free Cash Flow $880,567

Free Cash Flow is positive. After paying its operating expenses and investing for future growth (capital expenditures) the business has generated cash. This cash is available to be paid back to the suppliers of capital.

Cash Flow

CASH ON HAND

$75,380

A measure of the cash and cash equivalents in actual possession by the company at a particular time. This is the total cash Align has to pay upcoming obligations, including payroll and sales. Considering the company has grown to close to 50 employees, we need to work on freeing up cash for expenses.

ACCOUNTS RECEIVABLE DAYS

32 days

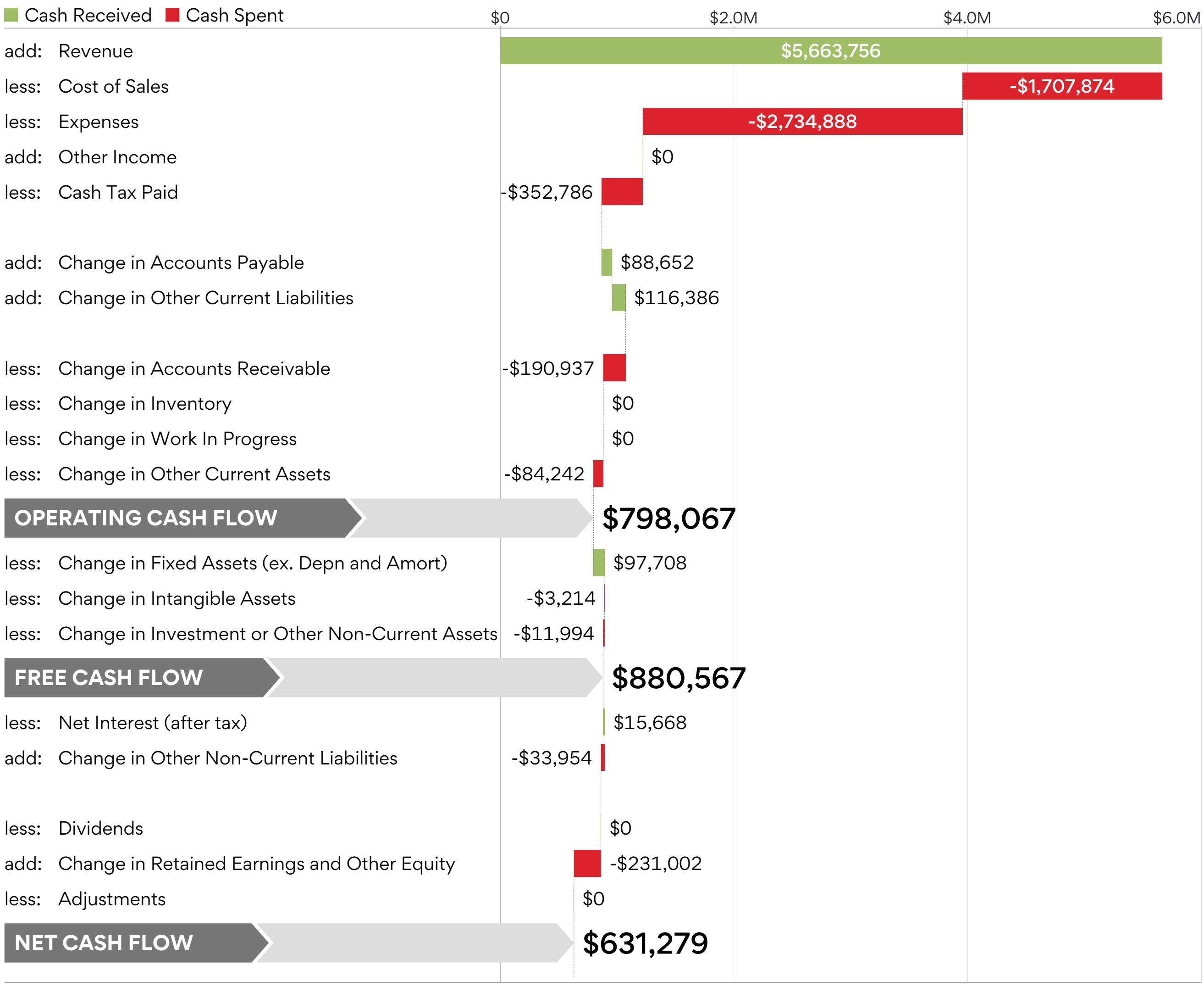
▲ 13 days from last year (YTD)

A measure of how long it takes for the business to collect the amounts due from customers. This is something that Align has struggled with in the current year, we can see that the average time to collect on our accounts increased by 13 days over the prior fiscal year.

NET CASH FLOW

$631,279

Net cash flow is the cash left after subtracting expenditures from financing activities from the free cash flow. This includes the cash impact from financing activities. Financing activities include the inflow of cash from investors such as banks or shareholders, as well as the outflow of cash to shareholders as dividends.

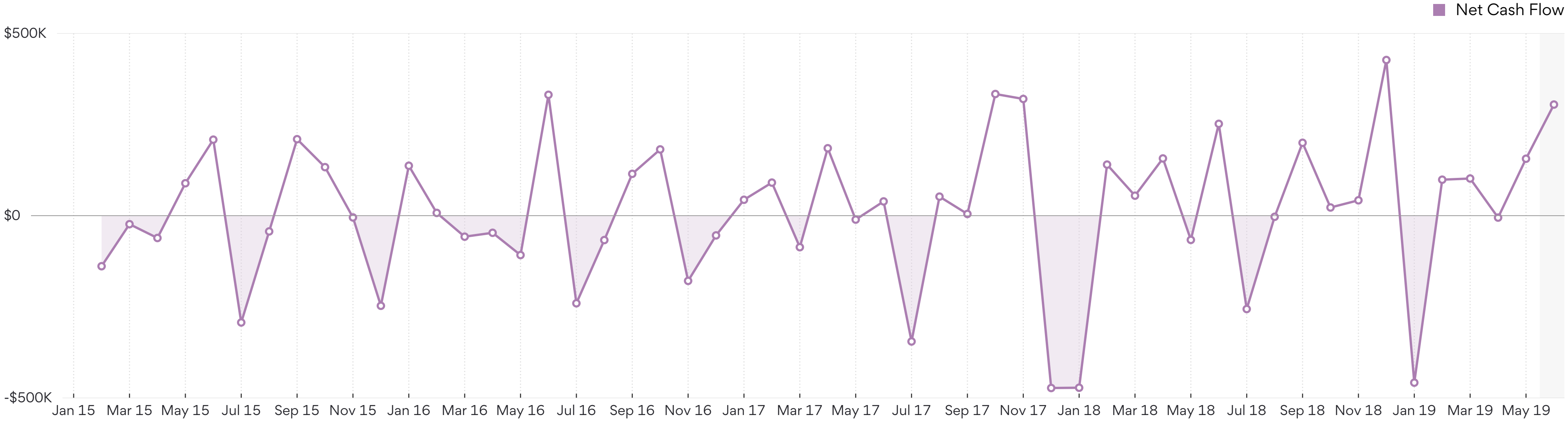


Net Cash Flow can also be calculated as:

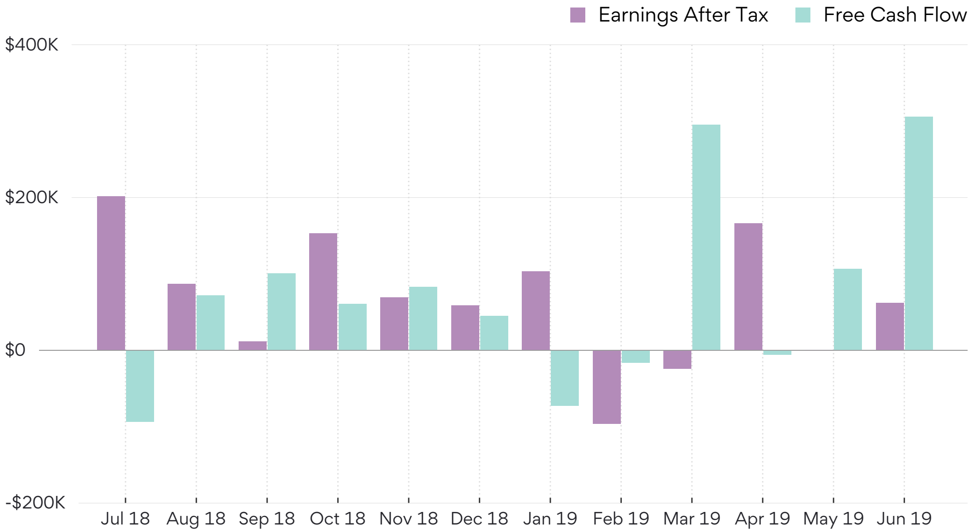
Change in Cash on Hand $3,847 (Open: $71,533, Close: $75,380) — **Change in Debt** $177,353 (Open: $435,039, Close: $612,392)

Cash Flow Charts

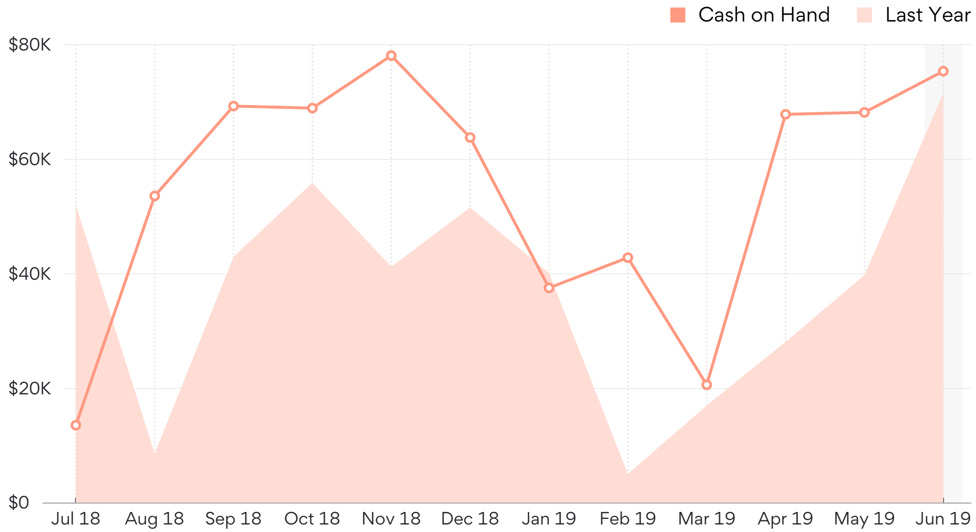
Net Cash Flow for all time



Profit vs Cash Flow



Cash Position | Cash on Hand



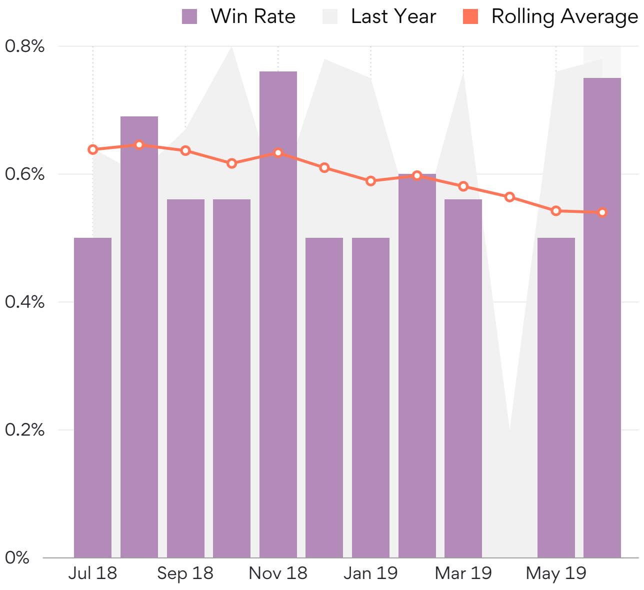
Projects & Safety

Align's 2018/2019 largest initiatives were to reduce on the job injuries and improve the overall quality of our product.

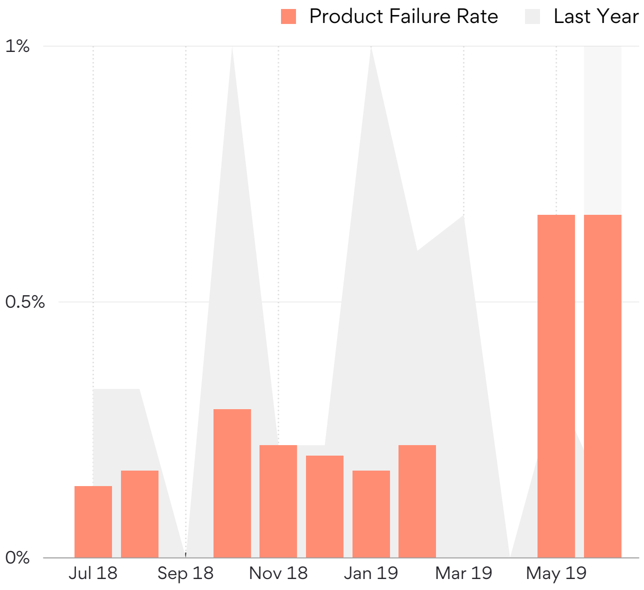
Product Quality: We had a fantastic year for product quality, with only 14 defects, compared to the previous years 21. The addition of an onsite quality manager dedicated to monitoring and reviewing labourer work, has been effective. We except this number to continue to decrease in the upcoming months.

Safety: We see that injuries per employee have increased by .05 injuries to 1.64. We'd like to focus on this area in the upcoming months, employing several more staff, to ensure all employees have proper break times, and reducing the pressure on employees to complete projects on time.

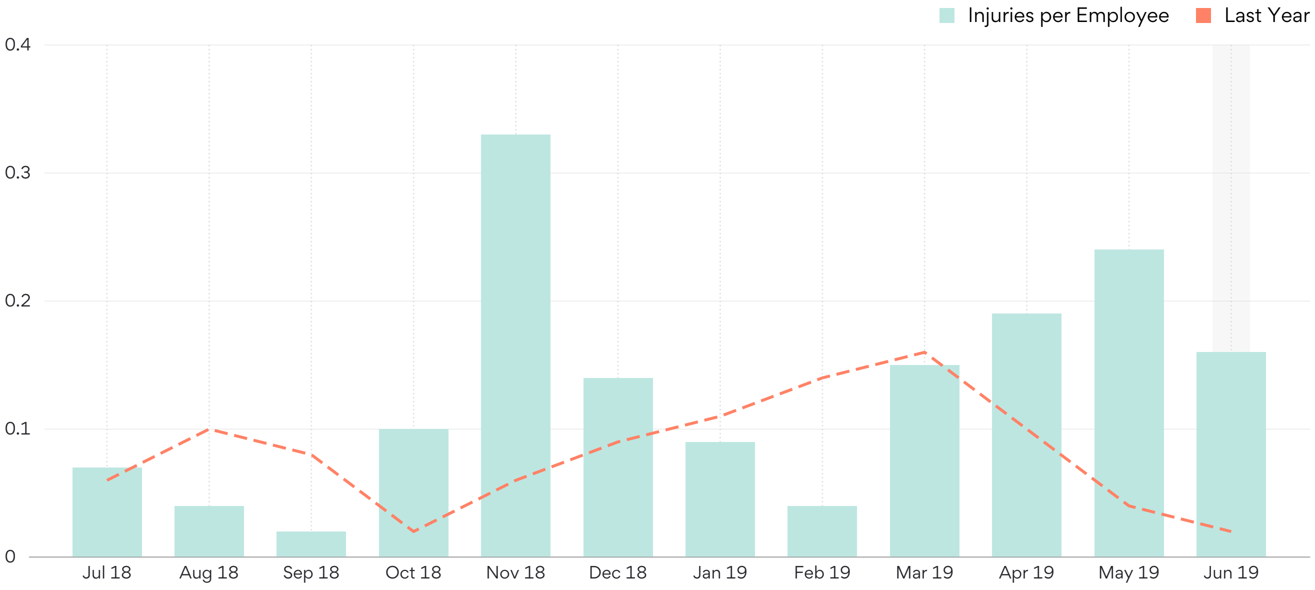
Project Win Rate | Current Year vs Prior Year



Product Failure Rate | Current Year vs Prior Year

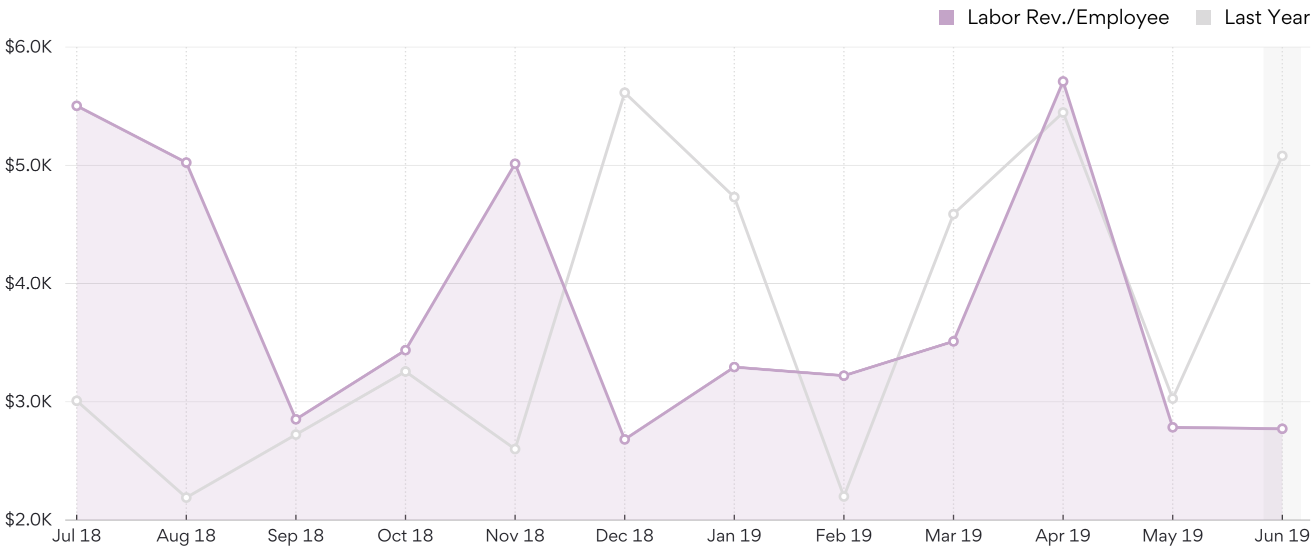


Injuries per Employee | Current Year vs Prior Year

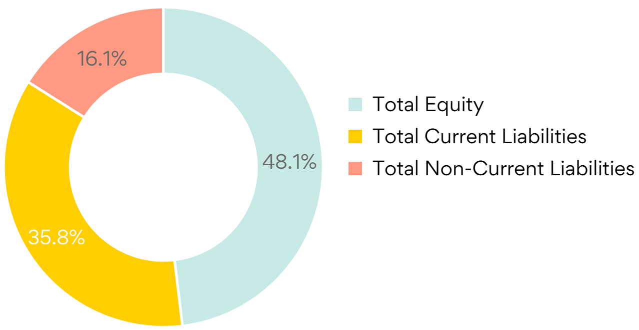


Employee and Project Profitability

Construction Labor Revenue Per Employee | Current Year vs. Prior Year



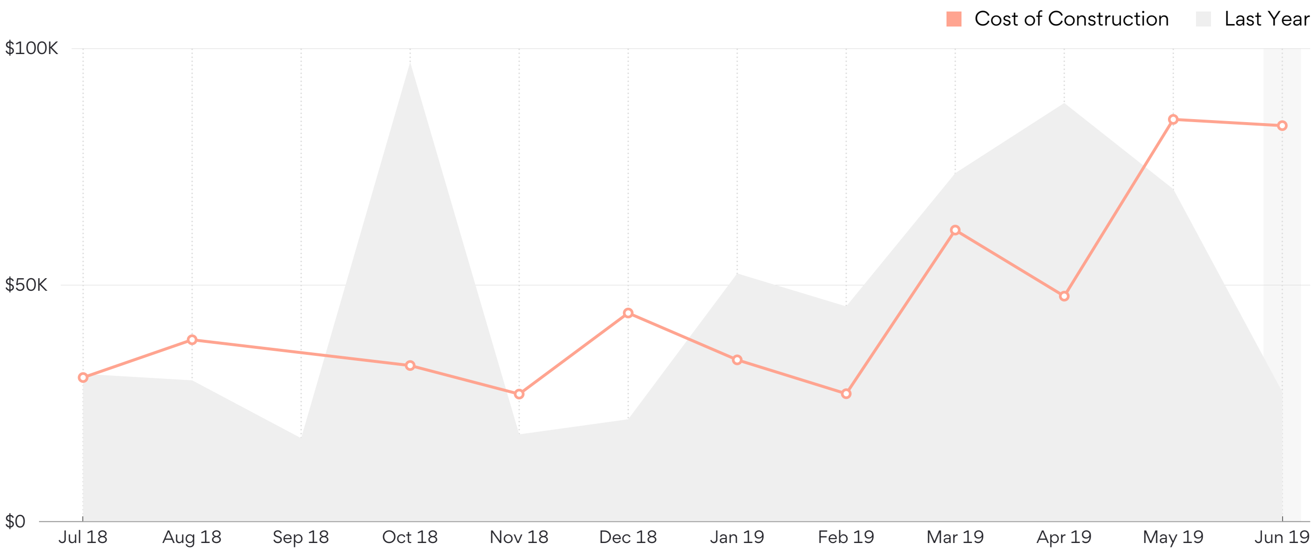
Liquidity Guide | Total Liabilities & Equity



Revenue breakdown

Contract Revenue: Design	$2,865,313
Contract Revenue: Labor	$2,139,657
Other Revenue	$341,095
Construction Revenue: General	$317,691

Cost of Construction | Cost per Project

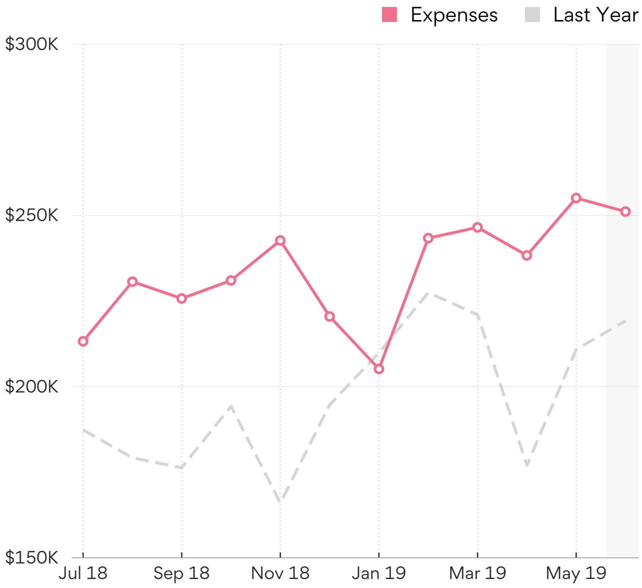


Expenditures

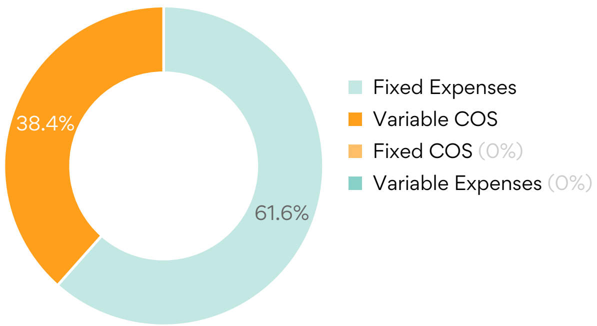
Overhead expenses, combined with direct material and direct labor expenses, form the three components to the cost of any product or service that Align offers.

We have seen increased raw material costs, including steep increases in the price of land, concrete and timber. As this is out of the management team's control, we aim to more accurately predict these costs, and pass them on to our customers in our project bids. While we feel that we need to remain competitive in the market, we believe our quality and efficiency can set us apart.

Total Expenses | Current Year vs Prior Year



Expenditure Mix



Top expenses breakdown

Labour	$1,080,671
Salaries & Wages	$1,021,877
Contract Labor	$165,906
Entertainment	$114,214
Transportation	$105,249
Depreciation & Amortisation: Trucks	$68,703

Current Liabilities breakdown

Other Current Liabilities	$482,839
Accounts Payable	$382,297
Bank Overdraft	$78,135
Provision for Annual Leave	$45,512
Accrued Interest Payable	$22,209
Capital One Credit Card	$17,363

Financials

PROFIT & LOSS	2018/2019	2017/2018	Variance %
Revenue			
Core Revenue			
Contract Revenue: Labor	$2,139,657	$2,095,353	2.11%
Contract Revenue: Design	$2,865,313	$2,689,705	6.53%
Total Core Revenue	**$5,004,970**	**$4,785,058**	**4.60%**
Construction Revenue: General	$317,691	$288,690	10.05%
Other Revenue	$341,095	$900,739	-62.13%
Total Revenue	**$5,663,756**	**$5,974,487**	**-5.20%**
Cost of Sales			
Raw Materials	$1,326,514	$950,235	39.60%
Fixtures	$141,120	$101,089	39.60%
Freight	$240,240	$96,145	149.87%
Total Cost of Sales	**$1,707,874**	**$1,147,469**	**48.84%**
Gross Profit	**$3,955,882**	**$4,827,018**	**-18.05%**
Expenses			
Employee Costs			
Contract Labor	$165,906	$45,381	265.58%
Entertainment	$114,214	$58,753	94.40%
Transportation	$105,249	$80,329	31.02%
Salaries & Wages	$1,021,877	$833,801	22.56%
Labour	$1,080,671	$1,003,411	7.70%
Worker's Compensation	$1,204	$4,048	-70.26%
Training & Education	$44,901	$24,147	85.95%
Total Employee Costs	**$2,534,022**	**$2,049,870**	**23.62%**
Depreciation			
Depreciation & Amortisation:...	$68,703	$65,823	4.38%
Depreciation & Amortisation...	-$50,522	$58,948	-185.71%
Total Depreciation	**$18,181**	**$124,771**	**-85.43%**
G&A Expenses			
Telephone & Internet	$18,068	$5,533	226.55%
Utilities	$4,429	$2,283	94.00%
Postage	$2,903	$1,066	172.33%
Rent	$66,000	$66,000	0.00%
Print Advertising	$6,847	$6,535	4.77%
Insurance	$63,104	$46,285	36.34%
Lighting & Power	$11,128	$22,683	-50.94%
Printing & Stationery	$2,459	$936	162.71%
Online Advertising	$11,409	$2,575	343.07%
Website	$18,274	$10,252	78.25%
Repairs & Maintenance	$46,767	$24,527	90.68%
Total G&A Expenses	**$251,388**	**$188,675**	**33.24%**
Total Expenses	**$2,803,591**	**$2,363,316**	**18.63%**
Operating Profit	**$1,152,291**	**$2,463,702**	**-53.23%**
Interest Income			
Interest Income	$22,383	$8,952	150.03%
Earnings Before Tax	**$1,174,674**	**$2,472,654**	**-52.49%**

	2018/2019	2017/2018	Variance %
Tax Expenses			
Payroll Tax	$29,554	$62,943	-53.05%
Tax Expense	$17,142	$13,439	27.55%
Income Tax Expense	$335,805	$126,718	165.00%
Earnings After Tax	**$792,173**	**$2,269,554**	**-65.10%**
Retained Income	**$792,173**	**$2,269,554**	**-65.10%**

BALANCE SHEET	2018/2019	2017/2018	Variance ($)	Variance (%)
ASSETS				
Cash & Equivalents				
Cash on Hand	$75,380	$71,533	$3,847	5.38%
Accounts Receivable				
Accounts Receivable	$148,191	$77,680	$70,511	90.77%
Accounts Receivable - Trade	$351,671	$231,245	$120,426	52.08%
Total Accounts Receivable	**$499,862**	**$308,925**	**$190,937**	**61.81%**
Other Current Assets				
Trucks	$172,393	$205,880	-$33,487	-16.27%
Tools & Equipment	$7,831	$7,647	$184	2.41%
Fixtures - Assets	$1,936	$0	$1,936	–
Prepayments	$70,334	$46,249	$24,085	52.08%
Material	$267,270	$175,746	$91,524	52.08%
Total Other Current Assets	**$519,764**	**$435,522**	**$84,242**	**19.34%**
Total Current Assets	**$1,095,006**	**$815,980**	**$279,026**	**34.20%**
Fixed Assets				
Store Fit Outs	$373,144	$505,299	-$132,155	-26.15%
Factory fit out	$171,003	$99,857	$71,146	71.25%
Machinery	$27,454	$26,390	$1,064	4.03%
Furniture & Fixtures	$30,835	$137,301	-$106,466	-77.54%
Total Fixed Assets	**$602,436**	**$768,847**	**-$166,411**	**-21.64%**
Intangible Assets				
Intellectual Property Acquired	$3,214	$0	$3,214	–
Investment or Other Non-Current ...				
Other Investments	$11,994	$0	$11,994	–
Total Non-Current Assets	**$617,644**	**$768,847**	**-$151,203**	**-19.67%**
Total Assets	**$1,712,650**	**$1,584,827**	**$127,823**	**8.07%**
LIABILITIES				
Short Term Debt				
Bank Overdraft	$78,135	$56,384	$21,751	38.58%
Capital One Credit Card	$17,363	$12,530	$4,833	38.57%
Total Short Term Debt	**$95,498**	**$68,914**	**$26,584**	**38.58%**
Accounts Payable				
Accounts Payable	$382,297	$293,645	$88,652	30.19%
Other Current Liabilities				
Other Current Liabilities	$482,839	$369,704	$113,135	30.60%
Provision for Annual Leave	$45,512	$34,958	$10,554	30.19%
Accrued Interest Payable	$22,209	$29,512	-$7,303	-24.75%
Total Other Current Liabilities	**$550,560**	**$434,174**	**$116,386**	**26.81%**
Total Current Liabilities	**$1,028,355**	**$796,733**	**$231,622**	**29.07%**

	2018/2019	2017/2018	Variance ($)	Variance (%)
Long Term Debt				
Wells Fargo Bank Loan	$338,584	$244,329	$94,255	38.58%
Other Bank Loans	$178,310	$121,796	$56,514	46.40%
Total Long Term Debt	**$516,894**	**$366,125**	**$150,769**	**41.18%**
Deferred Taxes				
Defered Tax Liability	$54,388	$31,388	$23,000	73.28%
Other Non-Current Liabilities				
Intercompany Loan	-$110,421	-$76,467	-$33,954	-44.40%
Total Non-Current Liabilities	**$460,861**	**$321,046**	**$139,815**	**43.55%**
Total Liabilities	**$1,489,216**	**$1,117,779**	**$371,437**	**33.23%**
EQUITY				
Retained Earnings				
Retained Earnings	$838,921	$661,483	$177,437	26.82%
Current Earnings				
Current Year Earnings	$353,819	$156,103	$197,716	126.66%
Other Equity				
Share Capital	$147,682	$0	$147,682	–
Owners Contribution	$38,956	$620	$38,336	6,183.23%
Total Other Equity	**$186,638**	**$620**	**$186,018**	**30,002.90%**
Total Equity	**$1,379,378**	**$818,206**	**$561,171**	**68.59%**
Total Liabilities & Equity	**$2,868,594**	**$1,935,985**	**$932,608**	**48.17%**

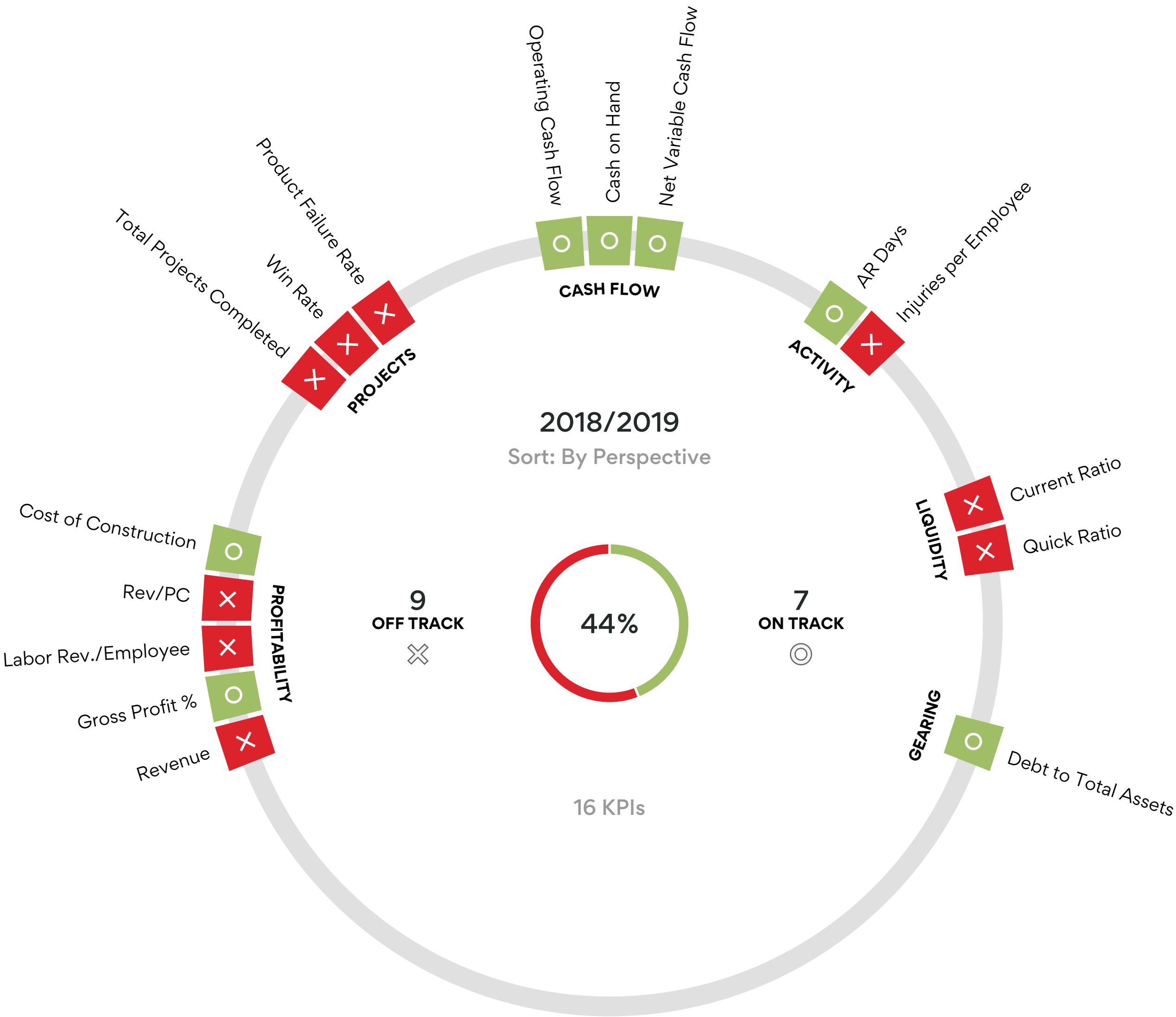
KPI Results

	RESULT		TREND
A PROFITABILITY	2018/2019	2017/2018	vs 2017/2018
Total Revenue	$5,663,756	$5,974,487	▼ -5.2%
Gross Profit Margin	69.85%	80.79%	▼ -10.94%
Labor Revenue per Employee	$47,548	$44,582	▲ 6.7%
Revenue per Project Completed	$128,303	$125,007	▲ 2.6%
Cost of Construction *	$43,806	$35,273	▲ 24.2%
B PROJECTS			
Total Projects Completed	64	67	▼ -3
Win Rate	0.6%	0.7%	▼ -0.1%
Product Failure Rate *	0.22%	0.31%	▼ -0.09%
C CASH FLOW			
Operating Cash Flow	$798,067	$2,329,343	▼ -65.7%
Cash on Hand	$75,380	$71,533	▲ 5.4%
Net Variable Cash Flow	67.77%	80.54%	▼ -12.77%
D ACTIVITY			
Accounts Receivable Days *	32 days	19 days	▲ 13 days
Injuries per Employee *	1.64	1.02	▲ 0.62
E LIQUIDITY			
Current Ratio	1.06:1	1.02:1	▲ 0.04:1
Quick Ratio	0.56:1	0.48:1	▲ 0.08:1
F GEARING			
Debt to Total Assets *	35.76%	27.45%	▲ 8.31%

* For this metric, a result below target is favourable

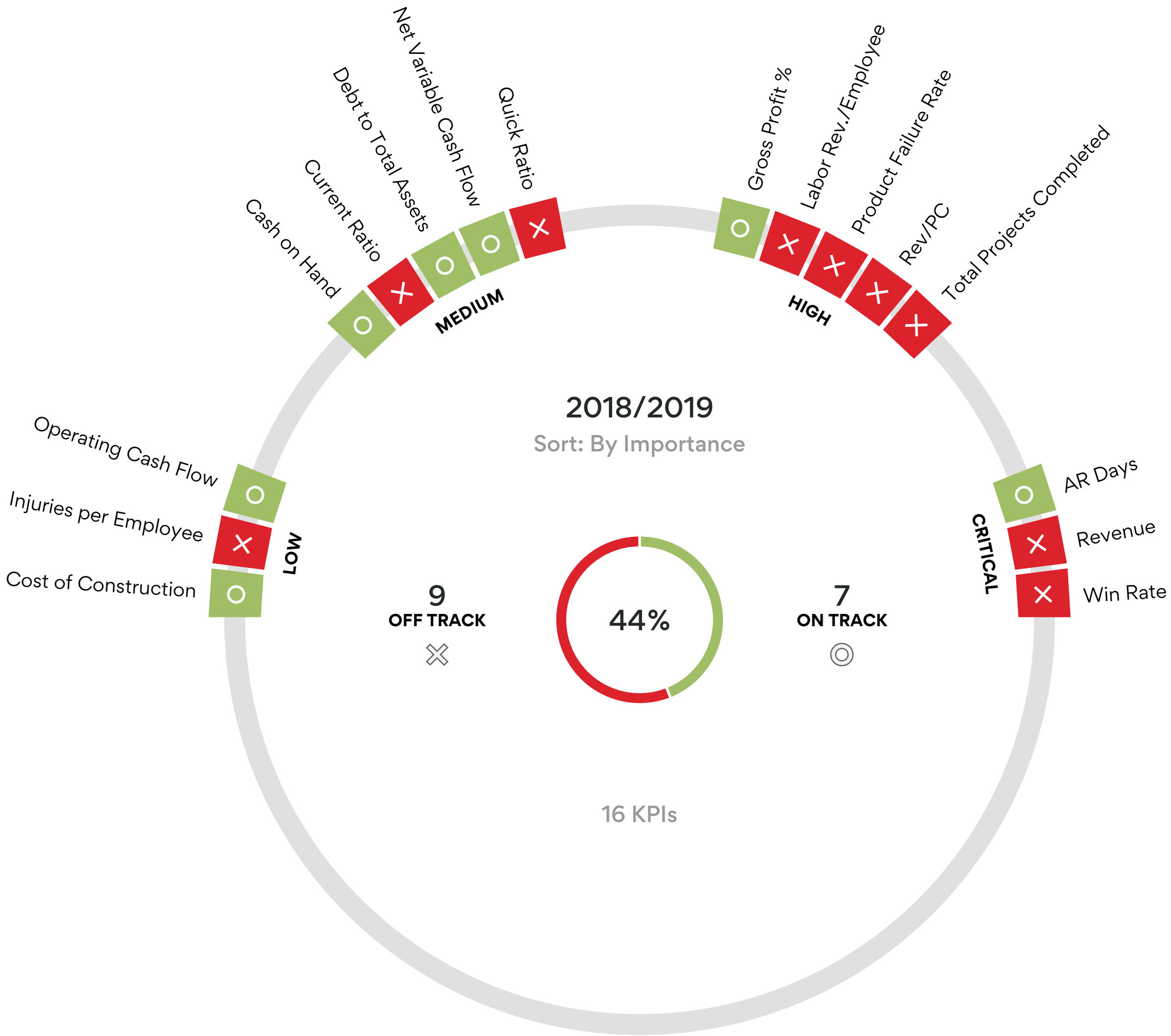
KPI Results

This chart shows KPIs grouped into performance perspectives.



KPI Results

This chart shows KPIs sorted by degree of importance. KPIs are classified as either low, medium, high or critical importance.



KPIs Explained

✓ Accounts Receivable Days 32 days

A measure of how long it takes for the business to collect the amounts due from customers. A lower number indicates that it takes the business fewer days to collect its accounts receivable. A shorter time to collect debtors has a positive impact on Cash Flow. A higher number indicates that it takes longer to collect its accounts receivable. For this period, accounts receivable days are below the maximum target of 40 days.

Accounts Receivable Days = Accounts Receivable * Period Length / Revenue

✓ Cash on Hand $75,380

A measure of the cash and cash equivalents in actual possession by the company at a particular time. At the end of this period the company held $75,380 of cash and cash equivalents. Cash on Hand is above the required target of $10,000.

Cash on Hand = Cash & Equivalents

✓ Cost of Construction $43,806

Cost of Construction = (Employee Costs + G&A Expenses + Interest Expenses + Depreciation) / Total Projects Completed

✗ Current Ratio 1.06:1

A measure of liquidity. This measure compares the totals of the current assets and current liabilities. The higher the current ratio, the greater the 'cushion' between current obligations and the business's ability to pay them. Generally a current ratio of 2 or more is an indicator of good short-term financial strength. In other words, the current assets of the business should be at least double the current liabilities. For this period, the current ratio was 1.06:1, up from 1.02:1 last period and below the minimum target of 2.00:1.

Current Ratio = Total Current Assets / Total Current Liabilities

✓ Debt to Total Assets 35.76%

A measure of the proportion of the business's assets that are financed through debt. The funds to pay for 35.76% of the business's assets have been supplied by creditors. For this period, the debt to total assets ratio is below the set target of 50%.

Debt to Total Assets = Total Debt / Total Assets * 100

✓ Gross Profit Margin 69.85%

A measure of the proportion of revenue that is left after deducting all costs directly related to the sales. For each $100 in sales the business retains $69.85 after deducting the cost of sales. The gross profit serves as the source for paying operating expenses. The gross profit margin can be further improved by improving price, volume and cost of sales management. For this period, the gross profit margin % is above the required target of 35%.

Gross Profit Margin = Gross Profit / Revenue * 100

✗ Injuries per Employee 1.64

Injuries per Employee = Employee Injuries / Total Employees

✗ Labor Revenue per Employee $47,548

An indication of efficiency

Labor Revenue per Employee = Contract Revenue: Labor / Total Employees

Net Variable Cash Flow 67.77%

A measure of the additional cash that will either be generated or used up by the next $100 of products or services that the business sells. If the Net Variable Cash Flow is positive then for every additional $100 of revenue the business will generate cash. If the Net Variable Cash Flow is negative then for every additional $100 of revenue the business will require additional cash funding. For this period, the Net Variable Cash Flow exceeded the target of 0%. The Net Variable Cash Flow is 67.77% of gross revenue. Each additional $100 of Revenue will generate $67.77 of cash.

Net Variable Cash Flow = (Annualised Revenue - Annualised Variable COS - Annualised Variable Expenses - Operating Working Capital) / (Annualised Revenue) * 100

Operating Cash Flow $798,067

Operating cash flow is simply the cash generated by the operating activities of the business. Operating activities include the production, sales and delivery of the company's product and/or services as well as collecting payment from its customers and making payment to suppliers.

Operating Cash Flow = Earnings Before Interest, Tax, Depn & Amort. - Tax Expenses + (Deferred Taxes - Opening Deferred Taxes) - (Non - cash Working Capital - Opening Non - cash Working Capital) - (Net Interest * (Tax Rate / 100))

Product Failure Rate 0.22%

Total Defects/Total Completed

Product Failure Rate = Total Defects / Total Projects Completed

Quick Ratio 0.56:1

The Quick Ratio measures the availability of assets which can quickly be converted into cash to cover current liabilities. Inventory and other less liquid current assets are excluded from this calculation. The Quick Ratio is a measure of the ability to pay short-term creditors immediately from liquid assets. A quick ratio of 1:1 or more is considered 'safe'. For this period, the quick ratio was 0.56:1, up from 0.48:1 last period and below the minimum target of 1.00:1.

Quick Ratio = (Cash & Equivalents + Accounts Receivable) / Total Current Liabilities

Revenue per Project Completed $128,303

An indication of the size and quality of each project.

Revenue per Project Completed = (Core Revenue + Contract Revenue: Design + Other Revenue) / Total Projects Completed

Total Projects Completed 64

Total Revenue $5,663,756

A measure of the total amount of money received by the company for goods sold or services provided. The business has earned total revenues of $5,663,756. Strategies to improve revenue may include increasing prices, increasing the volume of sales through marketing initiatives or finding alternative sources of income. For this period, the revenue earned is below the required target of $10,800,000.

Total Revenue = Revenue

Win Rate 0.6%

Win Rate = Total Projects Won / Total Projects Bid