AEP

ATLAS ENGINEERED PRODUCTS

Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2023 and 2022
(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Atlas Engineered Products Ltd.
Condensed Interim Consolidated Statements of Financial Position
As at June 30, 2023 and December 31, 2022
(Unaudited - expressed in Canadian dollars)

	Note	June 30, 2023	December 31, 2022
		$	$
Assets			
Current			
Cash and cash equivalents		14,552,256	16,118,601
Accounts receivable	**4, 16, 19**	6,021,320	5,825,034
Income taxes receivable		1,097,404	-
Inventories	**5**	4,550,182	4,591,681
Prepaid expenditures		111,839	145,727
Deposits		1,100,000	216,985
		27,433,001	26,898,028
Non-current			
Buildings and equipment	**6**	15,201,731	11,884,753
Intangible assets	**7**	4,137,419	4,567,291
Goodwill	**8**	6,734,499	6,734,499
Deferred tax asset		432,976	406,773
Total Assets		53,939,626	50,491,344
Liabilities			
Current			
Accounts payable and accrued liabilities	**9, 16**	3,304,360	2,835,996
Customer deposits		426,433	375,636
Income taxes payable		-	912,371
Lease obligations – current portion	**11**	1,088,235	918,593
Long-term debt – current portion	**12**	1,850,184	1,818,966
		6,669,212	6,861,562
Non-current			
Intangible liability	**10**	14,315	31,517
Lease obligations	**11**	4,059,847	842,680
Long-term debt	**12**	10,715,998	11,665,481
Deferred tax liability		2,055,174	2,217,401
		23,514,546	21,618,641
Shareholders' Equity			
Share capital	**13**	19,428,420	19,426,569
Contributed surplus	**13**	1,614,924	1,393,934
Retained Earnings		9,381,736	8,052,200
		30,425,080	28,872,703
Total Liabilities and Shareholders' Equity		53,939,626	50,491,344

Subsequent events – Note 21

APPROVED BY THE DIRECTORS ON AUGUST 28, 2022

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

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

Atlas Engineered Products Ltd.

Condensed Interim Consolidated Statements of Income and Comprehensive Income
For the three and six months ended June 30, 2023 and 2022
(Unaudited - expressed in Canadian dollars)

		Three Months Ended		Six Months Ended	
	Note	**June 30, 2023**	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
		$	$	$	$
Revenue	**14**	11,217,336	16,836,329	20,846,704	29,270,743
Cost of sales	**15**	(7,819,049)	(12,092,488)	(14,592,636)	(20,640,545)
Gross profit		3,398,287	4,743,841	6,254,068	8,630,198
Operating expenses					
Administrative and office	**16**	717,415	486,765	1,182,071	887,542
Depreciation and amortization	**6, 7, 10**	355,091	300,822	706,502	581,653
Bad debt expense		79	568	(608)	461
Professional fees		116,205	93,518	208,174	222,428
Salaries and benefits	**16**	917,800	880,087	1,870,004	1,642,168
Share-based payments	**13(c), 16**	174,468	80,112	340,585	141,804
Operating profit		1,117,229	2,901,969	1,947,340	5,154,142
Other income		198,064	29,365	398,434	52,442
Interest expense		(221,719)	(132,418)	(408,457)	(208,699)
Finance charge on leases	**11, 16**	(20,543)	(38,129)	(44,724)	(74.229)
Foreign exchange loss		641	(4,512)	(653)	(8,271)
Gain (loss) on disposal of assets		16,267	-	16,267	(10,154)
Income before income tax		1,089,939	2,756,275	1,908,207	4,905,231
Income taxes					
Current income tax expense		(420,007)	(821,101)	(767,101)	(1,442,072)
Deferred income tax recovery		116,304	108,944	188,430	144,260
		(303,703)	(712,157)	(578,671)	(1,297,812)
Net income and comprehensive income for the period		786,236	2,044,118	1,329,536	3,607,419
Income per share					
Basic		0.01	0.03	0.02	0.06
Diluted		0.01	0.03	0.02	0.06
Weighted average number of shares outstanding					
Basic		57,447,751	59,245,049	57,589,181	58,914,880
Diluted		60,314,417	62,506,395	60,560,561	64,654,505

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

Atlas Engineered Products Ltd.

Condensed Interim Consolidated Statements of Cash Flows
For the three and six months ended June 30, 2023 and 2022
(Unaudited - expressed in Canadian dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	$	$	$	$
Operating activities				
Net income for the period	786,236	2,044,118	1,329,536	3,607,419
Depreciation and amortization	759,472	683,733	1,503,218	1,327,314
Unrealized foreign exchange gain	(1,022)	-	(76)	-
Deferred tax recovery	(116,304)	(108,944)	(188,430)	(144,260)
(Gain) loss on disposal of assets	(16,267)	-	(16,267)	10,154
Share-based payments	174,468	80,112	340,585	141,804
Changes in non-cash working capital items:				
Accounts receivable	(273,140)	(751,389)	(196,210)	(251,731)
Inventories	183,903	(952,126)	41,498	(2,856,558)
Prepaid expenditures	7,824	36,413	33,888	68,053
Deposits	(883,015)	(15,024)	(883,015)	(17,326)
Accounts payable and accrued liabilities	(558,331)	(1,081,910)	468,364	673,484
Customer deposits	50,095	633,928	50,798	939,763
Corporate income taxes receivable	(464,218)	-	(1,097,404)	-
Corporate income taxes payable	-	(1,112,289)	(912,371)	(500,445)
Cash provided by (used in) operations	(350,299)	(543,378)	474,114	2,997,671
Investing activities				
Acquisition of buildings and equipment	(506,818)	(85,934)	(522,084)	(3,470,629)
Proceeds from disposition of equipment	24,000	-	24,000	-
Proceeds from assets held for sale	-	-	-	20,000
Hi-Tec acquisition net of cash acquired	-	(454,981)	-	(5,940,423)
Cash used in investing activities	(482,818)	(540,915)	(498,084)	(9,391,052)
Financing activities				
Repayment of principal lease obligations	(255,002)	(247,078)	(506,366)	(501,316)
Repayment of long-term debt (Note 12)	(462,749)	(481,344)	(918,265)	(808,890)
Proceeds from long-term debt (Note 12)	-	-	-	8,237,500
Shares repurchased for cancellation (Note 13b)	(115,500)	(245,735)	(269,745)	(432,979)
Proceeds from warrants exercised (Note 13d)	-	-	-	1,261,691
Proceeds from stock option exercise (Note 13b)	-	-	152,001	9,000
Cash (used in) provided by financing activities	(833,251)	(974,157)	(1,542,375)	7,765,006
(Decrease) increase in cash	(1,666,368)	(2,058,450)	(1,566,345)	1,371,625
Cash - beginning of period	16,218,624	12,377,257	16,118,601	8,947,182
Cash - end of period	14,552,256	10,318,807	14,552,256	10,318,807
Cash paid during the period for:				
Interest	242,261	170,547	453,181	282,928
Income taxes	884,226	1,933,390	2,776,876	1,942,517

Supplemental cash flow information – Note 17

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

	Number of Common Shares	Share Capital	Contributed Surplus	Deficiency	Total
	(Note 13)	(Note 13)	(Note 13)		
		$	$	$	$
Balance, December 31, 2021	**57,750,730**	**19,067,094**	**1,523,686**	**(778,137)**	**19,812,643**
Share-based payments	-	-	141,804	-	141,804
Shares repurchased for cancellation	(638,500)	(432,979)	-	-	(432,979)
Warrants exercised	2,102,819	1,261,691	-	-	1,261,691
Stock options exercised	30,000	17,439	(8,439)	-	9,000
Net income for the period	-	-	-	3,607,419	3,607,419
Balance, June 30, 2022	**59,245,049**	**19,913,245**	**1,657,051**	**2,829,282**	**24,399,578**
Share-based payments	-	-	112,564	-	112,564
Shares repurchased for cancellation	(2,247,786)	(1,278,858)	-	-	(1,278,858)
Warrants exercised	-	-	-	-	-
Stock options exercised	850,000	792,182	(375,681)	-	416,501
Net income for the period	-	-	-	5,222,918	5,222,918
Balance, December 31, 2022	**57,847,263**	**19,426,569**	**1,393,934**	**8,052,200**	**28,872,703**
Share-based payments	-	-	340,585	-	340,585
Shares repurchased for cancellation (Note 13b)	(738,000)	(269,745)	-	-	(269,745)
Stock options exercised (Note 13b)	253,334	271,596	(119,595)	-	152,001
Net income for the period	-	-	-	1,329,536	1,329,536
Balance, June 30, 2023	**57,362,597**	**19,428,420**	**1,614,924**	**9,381,736**	**30,425,080**

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

1. Nature of Operations

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

The Company's registered office is located at 2005 Boxwood Road, Nanaimo, British Columbia V9S 5X9.

2. 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 six months ended June 30, 2023.

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 August 28, 2023.

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 seven subsidiaries, all located in Canada, Clinton Building Components Ltd. ("Clinton"), Satellite Building Components Ltd. ("Satellite"), Atlas Building Systems Ltd. ("ABS") (formally Coastal Windows Ltd.), Pacer Building Components Ltd. ("Pacer"), South Central Building Systems Ltd. ("SC"), Novum Building Components Ltd. ("Novum"), and Hi-Tec Industries Ltd. ("Hi-Tec"). The Company owns 100% of the issued and outstanding shares of all of these subsidiaries.

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

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

(Unaudited - expressed in Canadian dollars)

3. Acquisition of Hi-Tec

On February 28, 2022, the Company completed its acquisition of Hi-Tec whereby the Company acquired all the issued and outstanding shares of Hi-Tec for $5,800,000 in cash. A working capital adjustment was calculated and finalized within 60 days of closing and was calculated to be $454,981. The fair value of the identifiable assets acquired included $1.45 million in intangible assets, which primarily relate to customer relationships and a non-compete agreement. Management applied significant judgment in estimating the fair value of the intangible assets. To estimate the fair value of the intangible assets, management used the multi-period excess earnings method to value customer relationships and the with and without method to value the non-compete agreement using discounted cash flow models. Management developed significant assumptions related to revenue, gross margin, EBITDA forecasts, customer retention rates, and discount rates. Hi-Tec is located in Lantzville, BC. Hi-Tec, a manufacturer of roof and floor trusses and supplier of engineered wood products aligns with the core business of the Company.

The acquisition has given the Company greater access to the Vancouver Island market in BC. Hi-Tec is close to the Company's ABS location and this acquisition will provide synergies between the locations when it comes to employees, skills, training, equipment, and shipping options.

In accordance with IFRS 3, the Hi-Tec acquisition was accounted for as a business combination. The purchase price allocation is finalized as follows:

Category	$
Cash	5,800,000
Working capital	454,981
Total consideration	**6,254,981**
Cash	314,558
Accounts receivable	560,993
Inventories	680,373
Prepaids	24,383
Building and equipment	1,554,600
Intangible assets	1,453,000
Goodwill	2,956,023
Accounts payable and accrued liabilities	(509,026)
Deferred tax liability	(779,923)
	6,254,981

If the acquisition had occurred on January 1, 2022 then the revenues would have been $6,509,368. The following table shows the results of the operations of Hi-Tec since the acquisition date.

	Hi-Tec Jan 1 – June 30, 2023	**Hi-Tec Feb 28 – Dec 31, 2022**
	$	**$**
Revenue per consolidated financial statements	2,446,888	5,424,473
Income before tax	489,497	1,149,775
Income tax recovery	(32,110)	118,397
Income for the period	521,607	1,031,378

(Unaudited - expressed in Canadian dollars)

4. Accounts receivable

Trade and other receivables were as follows:

	June 30, 2023	December 31, 2022
	$	$
Trade accounts receivable	5,981,743	5,790,022
Other receivables	41,802	39,926
Loss allowance	(2,225)	(4,914)
	6,021,320	5,825,034

Trade and other receivables are non-interest bearing and are carried at amortized cost, and impaired using the simplified approach which records impairment at the lifetime expected credit losses. During the six months ended June 30, 2023, the estimated credit loss amounted to $2,225 (December 31, 2022 - $4,914).

5. Inventories

	June 30, 2023	December 31, 2022
	$	$
Raw materials	3,659,338	3,962,770
Work in progress	143,801	206,834
Finished goods	747,043	422,077
	4,550,182	4,591,681

During the three and six months ended June 30, 2023, $4,454,213 and $8,158,600 (June 30, 2022 - $8,126,295 and $13,194,161) 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 six months ended June 30, 2023.

(Unaudited - expressed in Canadian dollars)

6. Buildings and equipment

	Land and Buildings	Office Furniture and Equipment	Vehicles	Production Equipment	Computer Equipment and Software	Signage and Land Improv	Total
	$	$	$	$	$	$	$
Cost							
Balance, December 31, 2021	6,667,473	230,187	2,676,255	5,603,403	344,764	231,971	15,754,053
Additions	3,805,084	15,469	123,084	63,451	61,438	6,293	4,074,819
Additions through business combination	-	9,500	331,400	1,210,400	3,300	-	1,554,600
Disposals	-	-	(172,737)	-	-	(8,843)	(181,580)
Balance, December 31, 2022	10,472,557	255,156	2,958,002	6,877,254	409,502	229,421	21,201,892
Additions	3,903,156	1,200	24,783	455,188	30,932	-	4,415,259
Additions through business combination	-	-	-	-	-	-	-
Disposals	-	-	-	(25,000)	-	-	(25,000)
Balance, June 30, 2023	14,375,713	256,356	2,982,785	7,307,442	440,434	229,421	25,592,151
Accumulated depreciation							
Balance, December 31, 2021	2,327,600	150,714	1,637,126	2,763,387	261,484	145,629	7,285,940
Additions	1,027,260	18,392	369,957	695,381	34,694	7,553	2,153,237
Disposals	-	-	(113,413)	-	-	(8,625)	(122,038)
Balance, December 31, 2022	3,354,860	169,106	1,893,670	3,458,768	296,178	144,557	9,317,139
Additions	542,870	8,654	163,116	354,232	17,950	3,726	1,090,548
Disposals	-	-	-	(17,267)	-	-	(17,267)
Balance, June 30, 2023	3,897,730	177,760	2,056,786	3,795,733	314,128	148,283	10,390,420
Carrying amount at December 31, 2022	7,117,697	86,050	1,064,332	3,418,486	113,324	84,864	11,884,753
Carrying amount at June 30, 2023	10,477,983	78,596	925,999	3,511,709	126,306	81,138	15,201,731

Depreciation for tangible assets during the three and six months ended June 30, 2023 was $553,149 and $1,090,548 (June 30, 2022 - $532,982 and $1,025,812). During the three and six months ended June 30, 2023, $404,381 and $796,716 (June 30, 2022 - $382,911 and $745,661) of the depreciation was included in cost of sales.

(Unaudited - expressed in Canadian dollars)

6. Buildings and equipment (continued)

The above buildings and equipment schedule includes right-of-use assets. The following summarizes those right-of-use assets and their depreciation for the periods ended June 30, 2023 and December 31, 2022.

	Building	Vehicles	Total
	$	$	$
Balance, December 31, 2021	2,168,473	227,528	2,396,001
Additions	367,772	-	367,772
Disposals, net	-	(185,184)	(185,184)
Depreciation charge for the year	(908,325)	(42,344)	(950,669)
Balance, December 31, 2022	1,627,920	-	1,627,920
Additions	3,893,175	-	3,893,175
Disposals, net	-	-	-
Depreciation charge for the period	(464,713)	-	(464,713)
Balance, June 30, 2023	5,056,382	-	5,056,382

7. Intangible assets

	Customer Relationships	Brand	Non-Compete Agreements	Total
	$	$	$	$
Cost				
Balance, December 31, 2021	4,214,000	1,206,000	477,000	5,897,000
Additions	682,000	-	771,000	1,453,000
Impairment	-	-	-	-
Balance, December 31, 2022	4,896,000	1,206,000	1,248,000	7,350,000
Additions	-	-	-	-
Impairment	-	-	-	-
Balance, June 30, 2023	4,896,000	1,206,000	1,248,000	7,350,000
Accumulated amortization				
Balance, December 31, 2021	1,296,086	371,404	292,481	1,959,971
Additions	478,226	120,612	223,900	822,738
Impairment	-	-	-	-
Balance, December 31, 2022	1,774,312	492,016	516,381	2,782,709
Additions	244,806	60,256	124,810	429,872
Impairment	-	-	-	-
Balance, June 30, 2023	2,019,118	552,272	641,191	3,212,581
Carrying amount at December 31, 2022	3,121,688	713,984	731,619	4,567,291
Carrying amount at June 30, 2023	2,876,882	653,728	606,809	4,137,419

Amortization for intangible assets during the three and six months ended June 30, 2023 was $214,924 and $429,872 (June 30, 2022 - $159,352 and $318,704).

As at June 30, 2023, the Company completed a quarterly assessment of the intangible assets and determined there were no circumstances leading to an impairment of these intangible assets.

(Unaudited - expressed in Canadian dollars)

8. Goodwill

The following summarizes the Company's goodwill as at June 30, 2022 and December 31, 2021.

	Clinton	Satellite	Pacer	SC	Hi-Tec	Total
	$	$	$	$	$	$
Cost						
Balance, December 31, 2021	474,428	136,446	2,284,327	883,275	-	3,778,476
Additions	-	-	-	-	2,956,023	2,956,023
Balance, December 31, 2022	474,428	136,446	2,284,327	883,275	2,956,023	6,734,499
Additions	-	-	-	-	-	-
Balance, June 30, 2023	474,428	136,446	2,284,327	883,275	2,956,023	6,734,499

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 impairments indicators throughout the year. The Company has determined that there was no impairment to goodwill as at June 30, 2023.

9. Accounts payable and accrued liabilities

	June 30, 2023	December 31, 2022
	$	$
Trade accounts payable	1,359,291	573,251
Sales taxes payable	357,142	356,162
Salaries and vacation payable	608,358	488,603
Other accounts payable	56,804	112,353
Accrued liabilities	922,765	1,305,627
	3,304,360	2,835,996

10. Intangible liability

	Over-Market Lease Agreement	Total
	$	$
Cost		
Balance, December 31, 2021	172,000	172,000
Additions	-	-
Balance, December 31, 2022	172,000	172,000
Additions	-	-
Balance, June 30, 2023	172,000	172,000
Accumulated amortization		
Balance, December 31, 2021	106,079	106,079
Additions	34,404	34,404
Balance, December 31, 2022	140,483	140,483
Additions	17,202	17,202
Balance, June 30, 2023	157,685	157,685
Carrying amount at December 31, 2022	31,517	31,517
Carrying amount at June 30, 2023	14,315	14,315

(Unaudited - expressed in Canadian dollars)

10. Intangible liability (continued)

Amortization for intangible liability during the three and six months ended June 30, 2023 was $8,601 and $17,202 (June 30, 2022 - $8,601 and $17,202).

As at June 30, 2023, the Company completed an annual assessment of the intangible liability and determined there were no circumstances leading to an adjustment of the intangible liability.

11. Lease obligations

Certain buildings and equipment of the Company's' are held as right-of-use assets under lease obligations. The terms and the outstanding balances of the lease obligations as at June 30, 2023 and December 31, 2022 are as follows:

	June 30, 2023	**December 31, 2022**
	$	**$**
Building under right-of-use asset lease repayable in monthly instalments of $24,500 inclusive of implied interest of 5.78% per annum, residual value of $nil, maturing in December 2025 (Note 16).	715,923	846,090
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. Renewal at 6.7% with monthly instalments of $67,160. Maturing in October 2028.	3,928,819	544,221
Building under right-of-use asset lease repayable in monthly instalments of $6,646 inclusive of implied interest of 3.95% per annum, residual value of $nil, maturing in June 2027.	295,023	328,802
Building under right-of-use asset lease repayable in monthly instalments of $6,543 inclusive of implied interest of 5.2% per annum, residual value of $nil, maturing in July 2023. Renewal at 6.7% with monthly instalments of $9,074 Maturing in July 2025.	208,317	42,160
Total lease obligation	5,148,082	1,761,273
Current portion	(1,088,235)	(918,593)
Non-current portion	4,059,847	842,680

(Unaudited - expressed in Canadian dollars)

11. Lease obligations (continued)

The following is a schedule of the total lease payments made during the three and six months ended June 30, 2023 and 2022:

	Three months ended		**Six months ended**	
	June 30, 2023	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
	$	**$**	**$**	**$**
Principal payment	255,002	247,078	506,366	501,316
Interest expense	20,543	38,129	44,724	74,229
Total lease payments	275,545	285,207	551,090	575,545

During the three and six months ended June 30, 2023 no assets were purchased under a right-of-use lease (June 30, 2022 – no assets were purchased under a right-of-use lease).

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

	June 30, 2023
	$
2023	629,752
2024	1,305,678
2025	1,287,085
2026	946,286
2027	932,828
2028	762,920
Total minimum lease payments	5,864,549
Less: imputed interest	(716,467)
Total present value of minimum lease payments	5,148,082

During the six months ended June 30, 2023 – the Company renewed two leases for the total of $4,137,137 (June 30, 2022 – the Company entered into a low value lease for office equipment for $4,740).

(Unaudited - expressed in Canadian dollars)

12. Long-term debt

The long-term debt consists of the following:

	June 30, 2023	December 31, 2022
	$	$
BDC loan[1]	758,268	780,570
BDC loan[2]	675,840	760,320
Scotiabank assumed loan[3]	8,920	13,786
TD term loan[4]	3,157,325	3,500,906
TD term loan[5]	963,091	963,091
TD mortgage[6]	2,307,500	2,356,250
TD term loan[7]	4,695,238	5,109,524
	12,566,182	13,484,447
Less current portion of term debt	(1,850,184)	(1,818,966)
Total long-term portion of term debt	10,715,998	11,665,481

1. A term loan with a major Canadian bank bearing interest at a floating base rate (6.10% as at June 30, 2023) repayable at approximately $3,717 per month with maturity being June 2040. The loan was interest only payments until January 9, 2020 and is amortized over 256 months. The loan is secured by a general security interest granted by the Company, with a security on the land and building of SC.
2. A term loan with a major Canadian bank bearing interest at a floating base rate (7.64% as at June 30, 2023) repayable at approximately $14,080 per month with maturity being June 2027. The loan was interest only payments until January 9, 2020 and is amortized over 100 months. The loan is secured by a general security interest granted by the Company, with a security on the equipment of SC.
3. A financing loan with a major Canadian bank bearing interest at 0.00% as at June 30, 2023, repayable at approximately $811 per month with maturity being May 2024. The loan was assumed on the acquisition of SC and remaining life is amortized over 72 months. The loan is secured by a specific piece of equipment.
4. A term loan with a major Canadian bank bearing interest at a floating rate (6.95% as at June 30, 2023) repayable at $58,469 per month with maturity December 2027. The loan is amortized over 84 months. The loan is secured by a general security interest granted by the Company and an assignment of share pledge agreement.
5. A term loan with a major Canadian bank bearing interest at a floating rate (6.95% as at June 30, 2023) with principal repayable at the Company's discretion within 36 months from date of drawdown. The term of the loan is 36 months from the date of drawdown with monthly interest payments of 1,972 per month. The loan is secured by a general security interest granted by the Company and an assignment of share pledge agreement.
6. A mortgage with a major Canadian bank bearing interest at a floating rate (6.95% as at June 30, 2023) repayable at $8,125 per month with maturity February 2047. The loan is amortized over 300 months. The loan is secured by a general security interest granted by the Company and an assignment of share pledge agreement.
7. A term loan with a major Canadian bank bearing interest at a floating rate (6.95% as at June 30, 2023) repayable at $69,047.62 per month with maturity February 2029. The term of the loan is 84 months. The loan is secured by a general security interest granted by the Company and an assignment of share pledge agreement.

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. All loans are either no interest loans or have fluctuating payments that would change as the interest rate changes and the principal portion of those payments would remain constant.

The Company has a credit facility agreement with TD Canada Trust. The agreement has three facilities. The first facility is an operating line of credit and the second facility is a committed revolving facility which was used to refinance the purchase of equipment in January 2021. The third facility is a committed reducing term loan used to pay off other debt obligations.

12. Long-term debt (continued)

The credit facility with TD Canada Trust contains two financial covenants. A total leverage ratio of less than or equal to 2.50 to 1 which is tested quarterly on a twelve-month rolling basis. The second financial covenant is a fixed charge coverage ratio of greater than or equal to 1.15 to 1 to be tested quarterly on a twelve-month rolling basis. As at June 30, 2023, the Company was in compliance with their covenants.

13. Share capital

a) Authorized

Unlimited common shares without par value.

b) Share capital transactions

On December 1, 2022, the Company renewed the Normal Course Issuer Bid (NCIB) which is effective until the earlier of December 1, 2023 and the date on which the Company has purchased the maximum permitted number of shares. Pursuant to the NCIB, the Company may purchase up to 4,732,015 of its outstanding common shares as at November 2, 2022 representing approximately 10% of the public float of shares outstanding at market prices.

During the six months ended June 30, 2023 the Company purchased for cancellation 738,000 of shares pursuant to its NCIB for a total of $269,745. The Company’s share capital was reduced by the average carrying value of shares repurchased for cancellation.

On February 3, 2023, 200,000 options were exercised at $0.60 for 200,000 common shares.

On February 6, 2023, 50,000 options were exercised at $0.60 for 50,000 common shares.

On February 15, 2023, 3,334 options were exercised at $0.60 for 3,334 common shares.

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.

(Unaudited - expressed in Canadian dollars)

13. Share capital (continued)

c) Options (continued)

The Company's share options outstanding as at June 30, 2023 and December 31, 2022 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		$
Balance as at December 31, 2021	2,712,500	0.45
Granted	1,525,000	0.67
Exercised	(880,000)	0.48
Forfeited	(350,000)	0.49
Balance as at December 31, 2022	3,007,500	0.55
Granted	400,000	0.74
Exercised	(253,334)	0.60
Forfeited	(287,500)	0.58
Balance as at June 30, 2023	2,866,666	0.57

The total share-based payments recorded during the three and six months ended June 30, 2023 was $174,467 and $340,585 (June 30, 2022 - $80,112 and $141,804).

The following table summarizes information about the share options outstanding as at June 30, 2023:

Exercise price per share of options outstanding	Number of options outstanding	Weighted average remaining life (years) of options outstanding	Weighted exercise price of options exercisable	Number of options exercisable	Expiry date
$0.30	495,000	0.68	$0.30	495,000	March 3, 2024
$0.49	100,000	2.52	$0.49	100,000	January 4, 2026
$0.29	350,000	2.81	$0.29	350,000	April 21, 2026
$0.60	421,666	3.52	$0.60	279,999	January 4, 2027
$0.64	200,000	3.81	$0.64	133,332	April 21, 2027
$0.60	100,000	4.40	$0.60	-	November 22, 2027
$0.73	800,000	4.47	$0.73	266,660	December 20, 2027
$0.74	400,000	4.52	$0.74	-	January 4, 2028
$0.57	2,866,666	3.36	$0.46	1,624,991	

(Unaudited - expressed in Canadian dollars)

13. 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
March 3, 2019	5.00	1.80%	Nil	165%	25.45%	$0.28
January 4, 2021	5.00	0.39%	Nil	127%	24.39%	$0.42
April 21, 2021	5.00	0.94%	Nil	118%	24.26%	$0.24
January 4, 2022	5.00	1.39%	Nil	94%	22.85%	$0.43
April 21, 2022	5.00	2.78%	Nil	67%	22.08%	$0.37
November 22, 2022	5.00	3.23%	Nil	66%	20.58%	$0.35
December 20, 2022	5.00	3.05%	Nil	66%	20.42%	$0.42
January 4, 2023	5.00	3.25%	Nil	66%	20.03%	$0.43

The expected volatility is based on the historic volatility and adjusted for any expected material changes to future volatility due to publicly available information. Historical volatility is based on the daily volatility from the five years prior to the grant date due to the remaining life of the options at the grant date.

d) Warrants

The Company’s warrants outstanding as at June 30, 2023 and December 31, 2022 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		$
Balance as at December 31, 2021	12,148,019	0.60
Granted	-	-
Exercised	(2,102,819)	0.60
Forfeited	(10,045,200)	0.60
Balance as at December 31, 2022	-	-
Granted	-	-
Exercised	-	-
Forfeited	-	-
Balance as at June 30, 2023	-	-

The total warrant reserve recorded for the three and six months ended June 30, 2023 was $Nil and $Nil (June 30, 2022: $Nil and $Nil).

(Unaudited - expressed in Canadian dollars)

14. Revenue

The Company has three distinct revenue streams: trusses, engineered wood products and walls. The Company's revenues by these revenue streams for the three and six months ended June 30, 2023 and 2022 is as follows:

Three months ended June 30, 2023

	Trusses	Engineered wood products	Walls	Total
	$	$	$	$
Total revenue	8,866,395	2,331,239	19,702	11,217,336

Three months ended June 30, 2022

	Trusses	Engineered wood products	Walls	Total
	$	$	$	$
Total revenue	12,274,339	4,453,634	108,356	16,836,329

Six months ended June 30, 2023

	Trusses	Engineered wood products	Walls	Total
	$	$	$	$
Total revenue	16,148,237	4,678,765	19,702	20,846,704

Six months ended June 30, 2022

	Trusses	Engineered wood products	Walls	Total
	$	$	$	$
Total revenue	21,699,392	7,462,995	108,356	29,270,743

15. Cost of sales

Cost of sales for the three and six months ended June 30, 2023 and 2022 is as follows:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	$	$	$	$
Materials	4,502,298	8,159,929	8,201,026	13,197,403
Labour	2,206,242	2,784,853	4,188,964	5,253,539
Maintenance and overhead	706,128	764,795	1,405,930	1,443,942
Amortization	404,381	382,911	796,716	745,661
Total cost of sales	7,819,049	12,092,488	14,592,636	20,640,545

(Unaudited - expressed in Canadian dollars)

16. 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, ABS, Pacer, SC, Novum, and Hi-Tec.

The Company incurred the following charges as part of the Company's consolidated statement of income and comprehensive income during the three and six months ended June 30, 2023 and 2022:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	$	$	$	$
Salaries and benefits	631,515	570,731	895,839	790,485
Administrative and office	37,000	35,000	65,500	63,500
Finance charge on lease obligations[1]	11,067	14,655	22,832	29,836
Share-based compensation	103,494	67,238	202,368	118,041
Total related party transactions	783,076	687,624	1,186,539	1,001,862

Due from/to related parties

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

	June 30, 2023	December 31, 2022
	$	$
Due from related party		
Accounts receivable and prepaid expenses	6,613	12,076
Total due from related party	6,613	12,076
Due to related parties		
Accounts payable and accrued liabilities	(22,751)	(23,372)
Lease obligation (Note 11)[1]	(715,922)	(846,090)
Total due to related parties	(738,673)	(869,462)

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.

17. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on the current cash flows are excluded from the cash flow statements. During the three and six months ended June 30, 2023 and 2022, the Company had the following non-cash investing and financing activities:

(Unaudited - expressed in Canadian dollars)

17. Supplemental cash flow information (continued)

Three and six months ended June 30, 2023

- A Building lease was renewed under a right-of-use asset for $3,688,421.

- A Building lease was renewed under a right-of-use asset for $204,754.

Three and six months ended June 30, 2022

During the three and six months ended June 30, 2022, the Company had no investing or financing activities identified that did not have a direct impact on the current cash flows.

18. 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, 2022	13,484,447	1,761,273	15,245,720
Repayments	(918,265)	(506,366)	(1,424,631)
Issuance	-	-	-
Non-cash – lease obligation	-	3,893,175	3,893,175
Non-cash – lease adjustment	-	-	-
Balance June 30, 2023	12,566,182	5,148,082	17,714,264

	Long-term debt	Lease obligations	Total
	$	$	$
Balance December 31, 2021	6,970,656	2,419,350	9,390,006
Repayments	(1,723,709)	(1,025,849)	(2,749,558)
Issuance	8,237,500	-	8,237,500
Non-cash – lease obligation	-	363,053	363,053
Non-cash – lease adjustment	-	4,719	4,719
Balance December 31, 2022	13,484,447	1,761,273	15,245,720

19. 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.

19. Financial instruments (continued)

Market risk

The Company is exposed to various market risks, including foreign exchange rates, interest rates, and the COVID-19 pandemic. To date, the outbreak and continuing spread of COVID-19 and the related disruption to the economy have not significantly affected the Company's operations.

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 based on previous sales to the US, this is estimated by management to increase sales by $47,800 annually. The Company did not sell into the US during 2022 but has previously and anticipates selling into the US again.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's policy is to minimize interest rate risk exposures on term financing. All leases and exchangeable notes have fixed rates. As at June 30, 2023, 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 $7,600 over the next quarter.

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 as at June 30, 2023 and December 31, 2022 summarized below:

	June 30, 2023	December 31, 2022
	$	$
Classes of financial assets – carrying amounts		
Cash and cash equivalents	14,552,256	16,118,601
Trade accounts receivable, net of loss allowance	5,979,518	5,785,108
	20,531,774	21,903,709

(Unaudited - expressed in Canadian dollars)

19. 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 June 30, 2023 and December 31, 2022 is summarized below:

	June 30, 2023	December 31, 2022
	$	$
Trade accounts receivable, net of loss allowance		
Current	4,018,850	2,911,858
Past due 1 to 30 days	882,936	1,518,422
Past due 31 to 60 days	251,857	648,293
Past due over 60 days	825,875	706,535
	5,979,518	5,785,108

The loss allowance as at June 30, 2023 and December 31, 2022 was determined as follows for trade accounts receivable:

As at June 30, 2023

	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%	0.19%	0.04%
Trade accounts receivable	4,018,850	882,936	252,488	827,469	5,981,743
Loss allowance	-	-	631	1,594	2,225

As at December 31, 2022

	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%	0.46%	0.08%
Trade accounts receivable	2,911,858	1,518,422	649,918	709,824	5,790,022
Loss allowance	-	-	1,625	3,289	4,914

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.

(Unaudited - expressed in Canadian dollars)

19. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk 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 4.11:1. Cash flows from trade accounts receivable are all contractually due within thirty days.

As at June 30, 2023, 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	629,752	650,279	4,584,518	-
Accounts payable and accrued liabilities	3,304,360	-	-	-
Income taxes payable	-	-	-	-
Long-term debt	1,348,730	1,315,642	10,404,514	3,442,351
Total	5,282,842	1,965,921	14,989,032	3,442,351

As at December 31, 2022, 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	551,091	440,988	897,134	-
Accounts payable and accrued liabilities	2,835,996	-	-	-
Income taxes payable	912,371	-	-	-
Long-term debt	1,260,431	1,243,283	11,075,882	3,647,725
Total	5,559,889	1,684,271	11,973,016	3,647,725

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

(Unaudited - expressed in Canadian dollars)

20. 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:

	June 31, 2023	December 31, 2022
	$	$
Long-term debt	12,566,182	13,484,447
Lease obligations	5,148,082	1,761,273
Less: Cash and cash equivalents	(14,552,256)	(16,118,601)
Net debt	3,162,008	(872,881)
Total equity	30,425,080	28,872,703
	33,587,088	27,999,822

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. From time to time, the Company purchases its own shares in the open market under a defined NCIB. All repurchased common shares are cancelled.

Management reviews its capital management policies on an ongoing basis.

21. Subsequent events

a) Acquisition of Léon Chouinard et Fils Co. Ltd./Ltée.

On August 23, 2023, the Company completed its acquisition of Léon Chouinard et Fils Co. Ltd./Ltée. ("LCF") whereby the Company acquired all the issued and outstanding shares of LCF for $26,000,000 in cash and stock plus $2,884,737 in cash for net closing adjustments for LCF's cash, income taxes receivable and payable and working capital excluding inventory as at June 30, 2023. A working capital adjustment including inventory will also be calculated and finalized subsequent to closing for up to the date of closing. LCF is located in Eel River Crossing, NB. LCF, a manufacturer of roof, floor trusses and wall panels and a supplier of engineered wood products aligns with the core business of the Company.

In accordance with IFRS 3, the LCF acquisition will be accounted for as a business combination. Due to the recent nature of the transaction, the PPA calculations are still preliminary and have not been finalized.