

AEP

ATLAS ENGINEERED
PRODUCTS

Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020
(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, 2021 and December 31, 2020
(Unaudited - expressed in Canadian dollars)

| | Note | June 30, 2021 | December 31, 2020 |
|---|-----------|-------------------|----------------------|
| | | \$ | \$ |
| Assets | | | |
| Current | | | |
| Cash | | 1,664,006 | 1,816,989 |
| Accounts receivable | 3, 17, 20 | 7,564,961 | 5,417,112 |
| Inventories | 4 | 4,092,965 | 2,254,280 |
| Prepaid expenditures | | 39,103 | 159,076 |
| Deposits | | 57,814 | 125,586 |
| Assets held for sale | 5 | 264,287 | - |
| | | 13,683,136 | 9,773,043 |
| Non-current | | | |
| Buildings and equipment | 6 | 9,496,502 | 8,125,915 |
| Intangible assets | 7 | 4,255,733 | 4,574,437 |
| Goodwill | 8 | 3,778,476 | 3,778,476 |
| Deferred tax asset | | 828,477 | 840,768 |
| Total Assets | | 32,042,324 | 27,092,639 |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 9, 17 | 5,001,949 | 3,055,067 |
| Customer deposits | | 766,226 | 148,516 |
| Income taxes payable | | 524,556 | 147,489 |
| Lease obligations – current portion | 11 | 1,036,283 | 877,228 |
| Long-term debt – current portion | 12 | 1,007,010 | 1,044,734 |
| | | 8,336,024 | 5,273,034 |
| Non-current | | | |
| Intangible liability | 10 | 83,123 | 100,325 |
| Lease obligations | 11 | 1,916,510 | 1,349,896 |
| Long-term debt | 12 | 5,495,039 | 5,954,899 |
| Deferred tax liability | | 1,541,335 | 1,484,204 |
| | | 17,372,031 | 14,162,358 |
| Shareholders' Equity | | | |
| Share capital | 13 | 19,230,222 | 19,230,222 |
| Contributed surplus | 13 | 1,471,990 | 1,432,545 |
| Deficiency | | (6,031,919) | (7,732,486) |
| | | 14,670,293 | 12,930,281 |
| Total Liabilities and Shareholders' Equity | | 32,042,324 | 27,092,639 |

APPROVED BY THE DIRECTORS ON August 23, 2021

 DON HUBBARD Director

 KEVIN SMITH Director

Atlas Engineered Products Ltd.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) For the three and six months ended June 30, 2021 and 2020

(Unaudited - expressed in Canadian dollars)

| | Note | Three Months Ended | | Six Months Ended | |
|---|------------------|--------------------|------------------|------------------|------------------|
| | | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | | \$ | \$ | \$ | \$ |
| Revenue | 14 | 14,408,430 | 7,900,805 | 23,538,063 | 14,998,784 |
| Cost of sales | 15 | (10,614,204) | (6,031,627) | (18,015,114) | (12,016,932) |
| Gross profit | | 3,794,226 | 1,869,178 | 5,522,949 | 2,981,852 |
| Operating expenses | | | | | |
| Administrative and office | | 408,120 | 460,719 | 651,319 | 1,140,185 |
| Depreciation | 6, 7, 10 | 311,958 | 348,171 | 635,548 | 693,198 |
| Bad debt expense | | 1,068 | 1,026 | 752 | 3,233 |
| Management fees | 17 | - | 63,000 | 24,646 | 135,000 |
| Professional fees | | 58,609 | 93,866 | 121,395 | 219,548 |
| Salaries and benefits | 17 | 794,263 | 630,431 | 1,659,860 | 1,340,529 |
| Share-based payments | 13(c), 17 | 29,044 | 23,290 | 39,446 | 67,568 |
| Operating profit (loss) | | 2,191,164 | 248,675 | 2,389,983 | (617,409) |
| Other income | 16 | 4,421 | 182,906 | 7,886 | 188,414 |
| Interest expense | | (60,508) | (110,722) | (127,236) | (228,943) |
| Finance charge on leases | 11, 17 | (49,045) | (49,956) | (95,201) | (100,356) |
| Foreign exchange (loss) gain | | (10,119) | 2,263 | (17,416) | 22,390 |
| (Loss) gain on disposal of assets | | - | - | (10,963) | 2,592 |
| Income (loss) before income tax | | 2,075,913 | 273,166 | 2,147,053 | (733,312) |
| Income taxes | | | | | |
| Current income tax expense | | (317,008) | (24,852) | (377,064) | (655) |
| Deferred income tax (expense) recovery | | (109,546) | (27,713) | (69,422) | 191,607 |
| | | (426,554) | (52,565) | (446,486) | 190,952 |
| Net income (loss) and comprehensive income (loss) for the period | | 1,649,359 | 220,601 | 1,700,567 | (542,360) |
| Income (loss) per share | | | | | |
| Basic and diluted | | 0.03 | 0.00 | 0.03 | (0.01) |
| Weighted average number of shares outstanding | | | | | |
| Basic and diluted | | 57,725,730 | 57,725,730 | 57,725,730 | 55,318,301 |

Atlas Engineered Products Ltd.
Condensed Interim Consolidated Statements of Cash Flows
For the three and six months ended June 30, 2021 and 2020
(Unaudited - expressed in Canadian dollars)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|--------------------|------------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | \$ | \$ | \$ | \$ |
| Operating activities | | | | |
| Net income (loss) for the period | 1,649,359 | 220,601 | 1,700,567 | (542,360) |
| Depreciation | 646,226 | 670,601 | 1,292,679 | 1,331,433 |
| Unrealized foreign exchange loss | 1,286 | 6,332 | - | - |
| Deferred tax expense (recovery) | 109,546 | 27,714 | 69,422 | (191,606) |
| Loss (gain) on disposal of assets | - | - | 10,963 | (2,592) |
| Share-based payments | 29,044 | 23,290 | 39,446 | 67,568 |
| Changes in non-cash working capital items: | | | | |
| Accounts receivable | (2,560,080) | (688,487) | (2,116,905) | (719,806) |
| Inventories | (1,621,654) | 69,278 | (2,008,896) | 17,411 |
| Prepaid expenditures | 58,543 | (1,200) | 119,973 | (57,017) |
| Deposits | 67,772 | (6,590) | 67,772 | 82,924 |
| Accounts payable and accrued liabilities | 1,819,290 | 38,279 | 1,946,882 | (133,931) |
| Customer deposits | 287,711 | 106,500 | 617,710 | 179,421 |
| Corporate income taxes payable | 317,008 | (60,238) | 377,067 | (496,744) |
| Cash provided by (used in) operations | 804,051 | 406,080 | 2,116,680 | (465,299) |
| Investing activities | | | | |
| Acquisition of equipment | (196,415) | (57,762) | (1,236,563) | (141,300) |
| Proceeds from disposition of equipment | - | - | 3,515 | 25,652 |
| Cash used in investing activities | (196,415) | (57,762) | (1,233,048) | (115,648) |
| Financing activities | | | | |
| Repayment of principal lease obligations | (259,598) | (279,429) | (539,031) | (555,067) |
| Repayment of long-term debt | (246,737) | (279,997) | (497,584) | (453,114) |
| Repayment of bank indebtedness | - | - | - | (1,470,000) |
| Shares issued for cash | - | - | - | 4,597,253 |
| Cash share issue costs | - | - | - | (261,954) |
| Cash (used in) provided by financing activities | (506,335) | (559,426) | (1,036,615) | 1,857,118 |
| Increase (decrease) in cash | 101,301 | (211,108) | (152,983) | 1,276,171 |
| Cash - beginning of period | 1,562,705 | 3,244,684 | 1,816,989 | 1,757,405 |
| Cash - end of period | 1,664,006 | 3,033,576 | 1,664,006 | 3,033,576 |
| Cash paid during the period for: | | | | |
| Interest | 109,553 | 160,678 | 222,437 | 329,299 |
| Income taxes | - | 3,000 | - | 405,203 |

Supplemental cash flow information – Note 18

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, 2019 | 46,232,596 | 14,836,346 | 1,346,747 | (7,961,472) | 8,221,621 |
| Shares issued pursuant to private placement | 11,493,134 | 4,597,253 | - | - | 4,597,253 |
| Less: cash share issue costs | - | (203,377) | - | - | (203,377) |
| Share-based payments | - | - | 67,568 | - | 67,568 |
| Net loss for the period | - | - | - | (542,360) | (542,360) |
| Balance, June 30, 2020 | 57,725,730 | 19,230,222 | 1,414,315 | (8,503,832) | 12,140,705 |
| Share-based payments | - | - | 18,229 | - | 18,229 |
| Net income for the period | - | - | - | 771,346 | 771,346 |
| Balance, December 31, 2020 | 57,725,730 | 19,230,222 | 1,432,544 | (7,732,486) | 12,930,280 |
| Share-based payments | - | - | 39,446 | - | 39,446 |
| Net income for the period | - | - | - | 1,700,567 | 1,700,567 |
| Balance, June 30, 2021 | 57,725,730 | 19,230,222 | 1,471,990 | (6,031,919) | 14,670,293 |

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

Atlas Engineered Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

(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, 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. 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 six months ended June 30, 2021 and 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 period 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 period. 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 Company continues to monitor and assess the impact of the COVID-19 pandemic on its business activities. The impact to date has been minimal compared to other industries; however there may be a material impact on the Company's financial position, results of operations, cash flows, and ability to obtain financing in future periods depending on the progress of the pandemic and any future potential lockdowns. In particular, there may be an increased risk of future goodwill and intangible asset impairments. As at August 23, 2021, 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 August 23, 2021.

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”), Atlas Building Systems Ltd. (“ABS”) (formerly Coastal Windows Ltd.), 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.

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.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2021 and 2020
(Unaudited - expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

Basis of consolidation (continued)

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

3. Accounts receivable

Trade and other receivables were as follows:

| | June 30, 2021 | December 31, 2020 |
|---------------------------|--------------------------|------------------------------|
| | \$ | \$ |
| Trade accounts receivable | 7,488,358 | 5,063,346 |
| Other receivables | 80,809 | 356,610 |
| Loss allowance | (4,206) | (2,844) |
| | 7,564,961 | 5,417,112 |

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, 2021, the estimated credit loss amounted to \$4,206 (June 30, 2020 - \$8,150).

4. Inventories

| | June 30, 2021 | December 31, 2020 |
|------------------|--------------------------|------------------------------|
| | \$ | \$ |
| Raw materials | 2,862,287 | 1,772,506 |
| Work in progress | 281,819 | 106,283 |
| Finished goods | 948,859 | 375,491 |
| | 4,092,965 | 2,254,280 |

During the three and six months ended June 30, 2021, \$7,346,896 and \$11,820,119 (June 30, 2020 - \$3,671,549 and \$7,044,586) 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, 2021.

5. Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

As of February 2021, the Company is no longer manufacturing windows. Atlas Building Systems Ltd. ("ABS") (formally Coastal Windows Ltd.) has transitioned to wall panel manufacturing which is more aligned with the Company's core products in the wood products industry. The window production equipment has been transitioned to assets held for sale at the assets' carrying value of \$94,077 as at February 28, 2021. The carrying value is management's estimate of its sale value and actual sale prices may differ. The Company expects to sell these assets in fiscal 2021. The remaining inventory related to window production is also held for sale at its book value of \$170,210 as at February 28, 2021.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2021 and 2020
(Unaudited - expressed in Canadian dollars)

6. Buildings and equipment

| | Land and Buildings | Office Furniture and Equipmen t | Vehicles | Production Equipment | Computer Equipment and Software | Signage and Land Improvemen t | Total |
|---|-----------------------|---|------------------|-------------------------|--|--|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | | |
| Balance, December 31, 2019 | 6,401,616 | 209,782 | 3,119,655 | 4,577,209 | 265,736 | 201,611 | 14,775,609 |
| Additions | 265,212 | 7,682 | 185,076 | 12,646 | 42,675 | 30,360 | 543,651 |
| Additions through business combination | - | 2,140 | 20,116 | 164,994 | - | - | 187,250 |
| Related party transfers | - | - | (220,440) | (24,303) | - | - | (244,743) |
| Disposals | - | - | (77,500) | (12,000) | - | - | (89,500) |
| Balance, December 31, 2020 | 6,666,828 | 219,604 | 3,026,907 | 4,718,546 | 308,411 | 231,971 | 15,172,267 |
| Additions | 1,338,882 | 16,934 | 109,739 | 1,057,635 | 27,765 | - | 2,550,955 |
| Disposals | (1,341,228) | (9,161) | - | (186,945) | - | - | (1,537,334) |
| Balance, June 30, 2021 | 6,664,482 | 227,377 | 3,136,646 | 5,589,236 | 336,176 | 231,971 | 16,185,888 |
| Accumulated depreciation | | | | | | | |
| Balance, December 31, 2019 | 1,669,160 | 115,194 | 1,293,665 | 1,726,907 | 216,486 | 131,182 | 5,152,594 |
| Additions | 951,189 | 19,900 | 591,259 | 582,241 | 21,177 | 6,897 | 2,172,663 |
| Related party transfers | - | - | (220,440) | (24,303) | - | - | (244,743) |
| Disposals | - | - | (29,997) | (4,165) | - | - | (34,162) |
| Balance, December 31, 2020 | 2,620,349 | 135,094 | 1,634,487 | 2,280,680 | 237,663 | 138,079 | 7,046,352 |
| Additions | 483,983 | 8,437 | 230,056 | 253,876 | 11,050 | 3,775 | 991,177 |
| Disposals | (1,284,846) | (1,375) | - | (61,922) | - | - | (1,348,143) |
| Balance, June 30, 2021 | 1,819,486 | 142,156 | 1,864,543 | 2,472,634 | 248,713 | 141,854 | 6,689,386 |
| Carrying amount at December 31, 2020 | 4,046,479 | 84,510 | 1,392,420 | 2,437,866 | 70,748 | 93,892 | 8,125,915 |
| Carrying amount at June 30, 2021 | 4,844,996 | 85,221 | 1,272,103 | 3,116,602 | 87,463 | 90,117 | 9,496,502 |

Depreciation for tangible assets during the three and six months ended June 30, 2021 was \$495,475 and \$991,177 (June 30, 2020 - \$520,676 and \$1,031,583). During the three and six months ended June 30, 2021, \$334,269 and \$657,131 (June 30, 2020 - \$322,430 and 638,235) of the depreciation was included in cost of sales.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2021 and 2020
(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, 2021 and December 31, 2020.

| | Building | Office Furniture and Equipment | Vehicles | Production Equipment | Total |
|------------------------------------|------------------|---|-----------------|---------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2019 | 2,434,222 | - | 922,031 | - | 3,356,253 |
| Additions | 200,809 | - | - | - | 200,809 |
| Disposals, net | - | - | (204,288) | - | (204,288) |
| Depreciation charge for the year | (856,890) | - | (300,441) | - | (1,157,331) |
| Balance, December 31, 2020 | 1,778,141 | - | 417,302 | - | 2,195,443 |
| Additions | 1,326,505 | - | - | - | 1,326,505 |
| Disposals, net | (56,383) | - | - | - | (56,383) |
| Depreciation charge for the period | (429,989) | - | (78,252) | - | (508,241) |
| Balance, June 30, 2021 | 2,618,274 | - | 339,050 | - | 2,957,324 |

7. Intangible assets

| | Customer Relationships | Brand | Certifications | Non-Compete Agreements | Total |
|---|-----------------------------------|------------------|-----------------------|-----------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | |
| Balance, December 31, 2019 | 4,039,000 | 1,206,000 | 142,000 | 477,000 | 5,864,000 |
| Additions | 175,000 | - | - | - | 175,000 |
| Impairment | - | - | (142,000) | - | (142,000) |
| Balance, December 31, 2020 | 4,214,000 | 1,206,000 | - | 477,000 | 5,897,000 |
| Additions | - | - | - | - | - |
| Impairment | - | - | - | - | - |
| Balance, June 30, 2021 | 4,214,000 | 1,206,000 | - | 477,000 | 5,897,000 |
| Accumulated Depreciation | | | | | |
| Balance, December 31, 2019 | 463,502 | 130,180 | 17,745 | 101,681 | 713,108 |
| Additions | 411,188 | 120,612 | 14,196 | 95,400 | 641,396 |
| Impairment | - | - | (31,941) | - | (31,941) |
| Balance, December 31, 2020 | 874,690 | 250,792 | - | 197,081 | 1,322,563 |
| Additions | 210,698 | 60,306 | - | 47,700 | 318,704 |
| Impairment | - | - | - | - | - |
| Balance, June 30, 2021 | 1,085,388 | 311,098 | - | 244,781 | 1,641,267 |
| Carrying amount at December 31, 2020 | 3,339,310 | 955,208 | - | 279,919 | 4,574,437 |
| Carrying amount at June 30, 2021 | 3,128,612 | 894,902 | - | 232,219 | 4,255,733 |

As at June 30, 2021, the Company has determined that there was no impairment to the intangible assets.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2021 and 2020
(Unaudited - expressed in Canadian dollars)

8. Goodwill

The following summarizes the Company's goodwill as at June 30, 2021 and December 31, 2020.

| | Clinton | Satellite | Pacer | SC | Total |
|-------------------------------|----------------|------------------|------------------|----------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | |
| Balance, December 31, 2019 | 474,428 | 136,446 | 2,284,327 | 883,275 | 3,778,476 |
| Additions | - | - | - | - | - |
| Balance, December 31, 2020 | 474,428 | 136,446 | 2,284,327 | 883,275 | 3,778,476 |
| Additions | - | - | - | - | - |
| Balance, June 30, 2021 | 474,428 | 136,446 | 2,284,327 | 883,275 | 3,778,476 |

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 impairments indicators throughout the year. The Company has determined that there was no impairment to goodwill as at June 30, 2021.

9. Accounts payable and accrued liabilities

| | June 30, 2021 | December 31, 2020 |
|-------------------------------|--------------------------|------------------------------|
| | \$ | \$ |
| Trade accounts payable | 3,653,063 | 1,938,610 |
| Sales taxes payable | 289,561 | 193,312 |
| Salaries and vacation payable | 492,711 | 490,840 |
| Other accounts payable | 78,698 | 129,512 |
| Accrued liabilities | 487,916 | 302,793 |
| | 5,001,949 | 3,055,067 |

10. Intangible liability

| | Over-Market Lease Agreement | Total |
|---|--|----------------|
| | \$ | \$ |
| Cost | | |
| Balance, December 31, 2019 | 172,000 | 172,000 |
| Additions | - | - |
| Balance, December 31, 2020 | 172,000 | 172,000 |
| Additions | - | - |
| Balance, June 30, 2021 | 172,000 | 172,000 |
| Accumulated Depreciation | | |
| Balance, December 31, 2019 | 37,271 | 37,271 |
| Additions | 34,404 | 34,404 |
| Balance, December 31, 2020 | 71,675 | 71,675 |
| Additions | 17,202 | 17,202 |
| Balance, June 30, 2021 | 88,877 | 88,877 |
| Carrying amount at December 31, 2020 | 100,325 | 100,325 |
| Carrying amount at June 30, 2021 | 83,123 | 83,123 |

As at June 30, 2021, the Company determined that there was no impairment to the intangible liability.

Atlas Engineered Products Ltd.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2021 and 2020
(Unaudited - expressed in Canadian dollars)

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, 2021 and December 31, 2020 are as follows:

| | June 30, 2021 | December 31, 2020 |
|--|------------------|----------------------|
| | \$ | \$ |
| 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 17). | 1,197,349 | - |
| 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. | 1,392,254 | 1,655,286 |
| 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 October 2021. | 18,834 | 46,509 |
| 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. | 50,474 | 79,889 |
| 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 | 37,126 | 51,413 |
| 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. | 95,170 | 126,892 |
| 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. | 21,615 | 29,142 |
| Building under right-of-use asset lease repayable in monthly instalments of \$6,000 inclusive of implied interest of 5.2% per annum, residual value of \$nil, maturing in July 2023. | 139,971 | 171,956 |
| 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). | - | 21,888 |
| 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. | - | 44,149 |
| Total lease obligation | 2,952,793 | 2,227,124 |
| Current portion | (1,036,283) | (877,228) |
| Non-current portion | 1,916,510 | 1,349,896 |

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11. Lease obligations (continued)

The following is a schedule of the total lease payments made during the three and six months ended June 30, 2021 and 2020:

| | Three months ended | | Six months ended | |
|-----------------------------|--------------------|------------------|------------------|------------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | \$ | \$ | \$ | \$ |
| Principal payment | 259,598 | 279,429 | 539,031 | 555,067 |
| Interest expense | 49,045 | 48,283 | 95,201 | 100,357 |
| Total lease payments | 308,643 | 327,712 | 634,232 | 655,424 |

During the three and six months ended June 30, 2021 a building lease was renewed under a right-of-use asset for \$1,314,391 (June 30, 2020 - no assets were purchased under a right-of-use asset 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, 2021 |
|--|------------------|
| | \$ |
| 2021 | 620,992 |
| 2022 | 1,110,923 |
| 2023 | 909,168 |
| 2024 | 306,000 |
| 2025 | 312,000 |
| Total minimum lease payments | 3,259,083 |
| Less: imputed interest | (306,290) |
| Total present value of minimum lease payments | 2,952,793 |

During the six months ended June 30, 2021 – the Company entered into a low value lease for office equipment for \$3,366 (June 30, 2020 – a low value lease for multiple office equipment items for \$13,200).

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12. Long-term debt

The long-term debt consists of the following:

| | June 30, 2021 | December 31, 2020 |
|---|------------------|----------------------|
| | \$ | \$ |
| BDC loan ¹ | 847,476 | 869,778 |
| BDC loan ² | 1,013,760 | 1,098,240 |
| Scotiabank assumed loan ³ | 28,384 | 33,249 |
| Saw financing ⁴ | 135,724 | 198,366 |
| TD term loan ⁵ | 4,476,705 | 4,800,000 |
| | 6,502,049 | 6,999,633 |
| Less current portion of term debt | (1,007,010) | (1,044,734) |
| Total long-term portion of term debt | 5,495,039 | 5,954,899 |

1. A term loan with a major Canadian bank bearing interest at a floating base rate (6.10% as at June 30, 2021) 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, 2021) 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, 2021, 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. An equipment financing with a major equipment supplier, Mitek Canada Inc. bearing interest at 0.00% as at June 30, 2021 and repayable at principal of \$10,440 plus tax per month, amortized over 37 months with maturity July 2022. The loan is secured by a specific piece of equipment.
5. A term loan with a major Canadian bank bearing interest at a fixed rate (2.19% as at June 30, 2021) repayable at \$61,630.43 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.

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. Loan 5 of the Company's debt obligations has consistent payments and a change in the interest rate would affect the principal portion as the overall payment was set for the term. The remaining 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.

During December 2020, The Company signed a new credit facility agreement with TD Canada Trust. The new agreement has three facilities. The first facility was an operating line of credit and the second facility is a committed revolving facility that the Company has not used any funds. The third facility is a committed reducing term facility used to pay off other debt obligations.

The credit facility with TD Canada Trust contains two financial covenants. A total leverage ratio of less than or equal to 3.00 to 1 which is tested quarterly on a twelve-month rolling basis. This total leverage ratio steps down to less than or equal to 2.75 to 1 on December 31, 2021 and 2.50 to 1 on December 31, 2022. 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, 2021, the Company was in compliance with their covenants.

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13. Share capital

a) Authorized

Unlimited common shares without par value.

b) Share capital transactions

As at June 30, 2020 there were no share capital transactions.

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 June 30, 2021 and December 31, 2020 and the changes for the periods then ended are as follows:

| | Number | Weighted average exercise price \$ |
|------------------------------------|------------------|--|
| Balance as at December 31, 2019 | 3,085,000 | 0.43 |
| Granted | - | - |
| Forfeited | (150,000) | 0.42 |
| Balance as at December 31, 2020 | 2,935,000 | 0.44 |
| Granted | 450,000 | 0.33 |
| Forfeited | (615,000) | 0.30 |
| Balance as at June 30, 2021 | 2,770,000 | 0.45 |

The total share-based payments recorded during the three and six months ended June 30, 2021 was \$29,044 and \$39,446 (June 30, 2020 - \$23,290 and \$ \$67,568).

The following table summarizes information about the share options outstanding as at June 30, 2021:

| 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 | 1,200,000 | 1.36 | \$0.49 | 1,200,000 | November 8, 2022 |
| \$0.60 | 450,000 | 1.60 | \$0.60 | 450,000 | February 5, 2023 |
| \$0.53 | 145,000 | 1.65 | \$0.53 | 145,000 | February 21, 2023 |
| \$0.30 | 525,000 | 2.68 | \$0.30 | 525,000 | March 3, 2024 |
| \$0.49 | 100,000 | 4.52 | \$0.49 | - | January 4, 2026 |
| \$0.29 | 350,000 | 4.81 | \$0.29 | - | April 21, 2026 |
| \$0.45 | 2,770,000 | 2.21 | \$0.47 | 2,320,000 | |

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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 |
|-------------------|------------------------------|-------------------------|----------------|---------------------|--------------------------|-----------------------------|
| 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 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 |

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

On February 6, 2020, the Company closed 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 and expire two years after they were issued. The warrants issued on October 31, 2018 and December 3, 2018 had an initial expiry term of two years after they were issued, but the TSXV has approved a one year extension to this term. Their updated expiry dates are now October 31, 2021 and December 3, 2021.

The Company's warrants outstanding as at June 30, 2021 and December 31, 2020 and the changes for the periods then ended are as follows:

| | Number | Weighted average exercise price |
|------------------------------------|-------------------|---------------------------------|
| | | \$ |
| Balance as at December 31, 2019 | 5,165,000 | 0.60 |
| Granted | 12,148,019 | 0.60 |
| Forfeited | - | - |
| Balance as at December 31, 2020 | 17,313,019 | 0.60 |
| Granted | - | - |
| Forfeited | - | - |
| Balance as at June 30, 2021 | 17,313,019 | 0.60 |

The total warrant reserve recorded for the three and six months ended June 30, 2021 was \$Nil and \$Nil (June 30, 2020: \$Nil and \$Nil).

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14. Revenue

The Company has four distinct revenue streams: trusses, engineered wood products, windows, and walls. The Company's revenues by these revenue streams for the three and six months ended June 30, 2021 and 2020 is as follows.

Three months ended June 30, 2021

| | Trusses | Engineered wood products | Windows | Walls | Total |
|----------------------|------------|--------------------------|---------|--------|------------|
| | \$ | \$ | \$ | \$ | \$ |
| Total revenue | 10,911,874 | 3,442,115 | 1,064 | 53,377 | 14,408,430 |

Three months ended June 30, 2020

| | Trusses | Engineered wood products | Windows | Walls | Total |
|----------------------|-----------|--------------------------|---------|-------|-----------|
| | \$ | \$ | \$ | \$ | \$ |
| Total revenue | 5,779,130 | 1,800,395 | 321,280 | - | 7,900,805 |

Six months ended June 30, 2021

| | Trusses | Engineered wood products | Windows | Walls | Total |
|----------------------|------------|--------------------------|---------|---------|------------|
| | \$ | \$ | \$ | \$ | \$ |
| Total revenue | 18,072,314 | 5,200,334 | 79,219 | 186,196 | 23,538,063 |

Six months ended June 30, 2020

| | Trusses | Engineered wood products | Windows | Walls | Total |
|----------------------|------------|--------------------------|---------|-------|------------|
| | \$ | \$ | \$ | \$ | \$ |
| Total revenue | 11,046,804 | 3,253,217 | 698,763 | - | 14,998,784 |

15. Cost of sales

Cost of sales for the three and six months ended June 30, 2021 and 2020 is as follows:

| | Three months ended | | Six months ended | |
|----------------------------|--------------------|------------------|-------------------|-------------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | \$ | \$ | \$ | \$ |
| Materials | 7,384,804 | 3,694,208 | 11,883,898 | 7,082,206 |
| Labour | 2,203,794 | 1,616,756 | 4,184,543 | 3,437,622 |
| Maintenance and overhead | 691,337 | 398,235 | 1,289,542 | 858,870 |
| Amortization | 334,269 | 322,428 | 657,131 | 638,234 |
| Total cost of sales | 10,614,204 | 6,031,627 | 18,015,114 | 12,016,932 |

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16. Other income

Other income for the three and six months ended June 30, 2021 and 2020 is as follows:

| | Three months ended | | Six months ended | |
|-------------------------------|--------------------|------------------|------------------|------------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | \$ | \$ | \$ | \$ |
| Interest earned and other | 2,932 | 6,667 | 4,998 | 10,591 |
| Sales tax commission | 1,489 | 1,189 | 2,888 | 2,773 |
| Canada emergency wage subsidy | - | 175,050 | - | 175,050 |
| Total other income | 4,421 | 182,906 | 7,886 | 188,414 |

17. 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, and Novum.

The Company incurred the following charges as part of the Company's consolidated statement of income (loss) and comprehensive income (loss) during the three and six months ended June 30, 2021 and 2020:

| | Three months ended | | Six months ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| | \$ | \$ | \$ | \$ |
| Salaries and benefits | 153,051 | 334,286 | 645,320 | 772,870 |
| Management fees | - | 73,000 | 24,000 | 145,000 |
| Administrative and office | 26,000 | - | 61,550 | - |
| Finance charge on lease obligations ¹ | 17,985 | 5,204 | 29,957 | 6,780 |
| Share-based compensation | 29,044 | 21,943 | 39,446 | 63,659 |
| Total related party transactions | 226,080 | 434,433 | 800,273 | 988,309 |

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17. Related party transactions (continued)

Due from/to related parties

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

| | June 30, 2021 | December 31, 2020 |
|--|------------------|----------------------|
| | \$ | \$ |
| Due from related party | | |
| Accounts receivable | - | 36,391 |
| Total due from related party | - | 36,391 |
| Due to related parties | | |
| Accounts payable and accrued liabilities | (8,259) | (115,066) |
| Lease obligation (Note 11) ¹ | (1,197,349) | (21,888) |
| Total due to related parties | (1,205,608) | (136,954) |

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.

18. 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, 2021 and 2020, the Company had the following non-cash investing and financing activities:

Three and six months ended June 30, 2021

- A building lease was renewed under a right-of-use asset for \$1,314,391. As a result of the renewal there was an adjustment to the lease obligation of \$21,888;
- A building lease was cancelled with no repayment of the residual lease liability. The outstanding principal of \$27,803 was adjusted.

Three and six months ended June 30, 2020

During the three and six months ended June 30, 2020, the Company had no investing or financing activities identified that did not have a direct impact on the current cash flows.

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19. 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, 2020 | 6,999,633 | 2,227,124 | 9,226,757 |
| Repayments | (497,584) | (539,031) | (1,036,615) |
| Issuance | - | - | - |
| Non-cash – lease obligation | - | 1,314,391 | 1,314,391 |
| Non-cash – lease adjustment | - | (49,691) | (49,691) |
| Balance June 30, 2021 | 6,502,049 | 2,952,793 | 9,454,842 |

| | Long-term debt | Lease obligations | Total |
|----------------------------------|------------------|-------------------|------------------|
| | \$ | \$ | \$ |
| Balance December 31, 2019 | 8,275,599 | 3,388,476 | 11,664,075 |
| Repayments | (6,314,005) | (1,362,161) | (7,676,166) |
| Issuance | 5,038,039 | - | 5,038,039 |
| Non-cash – lease obligation | - | 200,809 | 200,809 |
| Balance December 31, 2020 | 6,999,633 | 2,227,124 | 9,226,757 |

20. Financial instruments

Classification of financial instruments

The Company's financial instruments consist of cash, trade accounts receivable, 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 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.

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 approximates 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 its carrying value.

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20. Financial instruments (continued)

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 \$47,800 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 June 30, 2021, 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 \$14,098 over the 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 as at June 30, 2021 and December 31, 2020 summarized below:

| | June 30, 2021 | December 31, 2020 |
|---|--------------------------|------------------------------|
| | \$ | \$ |
| Classes of financial assets – carrying amounts | | |
| Cash | 1,664,006 | 1,816,989 |
| Trade accounts receivable, net of loss allowance | 7,484,152 | 5,060,502 |
| | 9,148,158 | 6,877,491 |

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.

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20. Financial instruments (continued)

Credit risk (continued)

The Company has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The receivables and their aging as at June 30, 2021 and December 31, 2020 is summarized below:

| | June 30, 2021 | December 31, 2020 |
|---|------------------|----------------------|
| | \$ | \$ |
| Trade accounts receivable, net of loss allowance | | |
| Current | 5,569,354 | 3,149,790 |
| Past due 1 to 30 days | 937,327 | 1,347,546 |
| Past due 31 to 60 days | 473,059 | 283,509 |
| Past due over 60 days | 504,412 | 279,657 |
| | 7,484,152 | 5,060,502 |

The loss allowance as at June 30, 2021 and December 31, 2020 was determined as follows for trade accounts receivable:

As at June 30, 2021

| | 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% | 0.60% | 0.06% |
| Trade accounts receivable | 5,569,354 | 937,327 | 474,245 | 507,432 | 7,488,358 |
| Loss allowance | - | - | 1,186 | 3,020 | 4,206 |

As at December 31, 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% | 0.76% | 0.06% |
| Trade accounts receivable | 3,149,790 | 1,347,546 | 284,220 | 281,790 | 5,063,346 |
| Loss allowance | - | - | 711 | 2,133 | 2,844 |

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.

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 1.64:1. Cash flows from trade accounts receivable are all contractually due within thirty days.

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20. Financial instruments (continued)

Liquidity risk (continued)

As at June 30, 2021, 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 | 620,992 | 569,588 | 2,068,503 | - |
| Accounts payable and accrued liabilities | 5,001,949 | - | - | - |
| Income taxes payable | 524,556 | - | - | - |
| Long-term debt | 607,192 | 602,949 | 4,173,540 | 2,178,215 |
| Total | 6,754,689 | 1,172,537 | 6,242,043 | 2,178,215 |

As at December 31, 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 | 553,017 | 458,451 | 1,420,091 | - |
| Accounts payable and accrued liabilities | 3,055,067 | - | - | - |
| Income taxes payable | 147,489 | - | - | - |
| Long-term debt | 663,932 | 654,895 | 5,426,848 | 1,636,661 |
| Total | 4,419,505 | 1,113,346 | 6,846,939 | 1,636,661 |

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

21. 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 30, 2021 | December 31, 2020 |
|---------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Long-term debt | 6,502,049 | 6,999,633 |
| Lease obligations | 2,952,793 | 2,227,124 |
| Less: Cash and cash equivalents | (1,664,006) | (1,816,989) |
| Net debt | 7,790,836 | 7,409,768 |
| Total equity | 14,670,293 | 12,930,281 |
| | 22,461,129 | 20,340,049 |

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21. Management of capital (continued)

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.