Financial Statements of

# Decisive Dividend Corporation

For the six months ended June 30, 2024

## Consolidated Statements of Financial Position

(Unaudited - Expressed in thousands of Canadian dollars)

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| **Assets** | | |
| Cash | $ **2,026** | $ 4,050 |
| Accounts receivable | **21,158** | 22,647 |
| Inventory | **26,359** | 24,351 |
| Prepaid expenses and deposits | **2,340** | 1,399 |
| Total current assets | **51,883** | 52,447 |
| Property and equipment | **30,444** | 23,776 |
| Intangible assets | **33,619** | 32,648 |
| Goodwill | **47,880** | 43,696 |
| **Total assets** | $ **163,826** | $ 152,567 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | $ **22,099** | $ 26,107 |
| Dividends payable (note 8) | **873** | 756 |
| Warranty provision | **500** | 700 |
| Customer deposits | **487** | 1,281 |
| Current portion of lease obligations (note 5) | **2,453** | 1,693 |
| Current portion of long-term debt (note 6) | **233** | 224 |
| Total current liabilities | **26,645** | 30,761 |
| Lease obligations (note 5) | **11,985** | 9,014 |
| Long-term debt (note 6) | **58,743** | 45,037 |
| Deferred income taxes | **10,265** | 10,004 |
| Total liabilities | **107,638** | 94,816 |
| **Equity** | | |
| Share capital (note 7) | **70,401** | 66,611 |
| Contributed surplus | **1,563** | 1,378 |
| Cumulative profit | **14,394** | 15,202 |
| Cumulative dividends (note 8) | **(32,521)** | (27,418) |
| | **53,837** | 55,773 |
| Accumulated other comprehensive income | **2,351** | 1,978 |
| Total equity | **56,188** | 57,751 |
| **Total liabilities and equity** | $ **163,826** | $ 152,567 |

Approved on behalf of the Board of Directors:

*"James Paterson"* Director *"Michael Conway"* Director

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

## Consolidated Statements of Profit (Loss) and Comprehensive Income (Loss)

(Unaudited - Expressed in thousands of Canadian dollars, except per share amounts)

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| **June 30,** | **2024** | 2023 | **2024** | 2023 |
| **Sales** (note 9) | **$ 28,699** | $ 30,706 | **$ 58,049** | $ 61,559 |
| **Manufacturing costs** (note 10) | **18,698** | 19,207 | **36,813** | 38,939 |
| **Gross profit** | **10,001** | 11,499 | **21,236** | 22,620 |
| **Expenses** | | | | |
| Amortization and depreciation | **1,649** | 1,170 | **3,128** | 2,102 |
| Financing costs (note 11) | **1,454** | 881 | **2,670** | 1,636 |
| Occupancy costs | **533** | 523 | **1,108** | 999 |
| Professional fees | **694** | 907 | **1,204** | 1,303 |
| Salaries, wages and benefits | **4,877** | 4,197 | **10,069** | 8,368 |
| Selling, general and administration | **2,003** | 1,900 | **4,171** | 3,736 |
| | **11,210** | 9,578 | **22,350** | 18,144 |
| **Operating profit (loss)** | **(1,209)** | 1,921 | **(1,114)** | 4,476 |
| **Other items** | | | | |
| Interest income | **13** | 8 | **29** | 26 |
| Foreign exchange gains (losses) | **112** | (18) | **343** | 24 |
| Gain on sale of equipment | **31** | - | **34** | 69 |
| | **156** | (10) | **406** | 119 |
| **Profit (loss) before income taxes** | **(1,053)** | 1,911 | **(708)** | 4,595 |
| **Income taxes** | | | | |
| Current expense | **67** | 929 | **468** | 1,836 |
| Deferred recovery | **(126)** | (219) | **(368)** | (408) |
| | **(59)** | 710 | **100** | 1,428 |
| **Profit (loss)** | **$ (994)** | $ 1,201 | **$ (808)** | $ 3,167 |
| **Other comprehensive income (loss)** | | | | |
| Foreign operation currency translation differences | **40** | (210) | **373** | 52 |
| **Total comprehensive income (loss)** | **$ (954)** | $ 991 | **$ (435)** | $ 3,219 |
| **Profit (loss) per share** | | | | |
| Basic | **(0.05)** | 0.07 | **(0.04)** | 0.20 |
| Diluted | **n/a** | 0.06 | **n/a** | 0.18 |
| **Weighted average number of shares outstanding (000s):** | | | | |
| Basic | **19,375** | 17,100 | **19,210** | 16,050 |
| Diluted | **20,685** | 18,576 | **20,520** | 17,490 |

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

## Consolidated Statements of Changes in Equity

(Unaudited - Expressed in thousands of Canadian dollars)

| | Share Capital | | | Deficit | | Accumulated Other | |
|---|---|---|---|---|---|---|---|
| For the Six Months Ended June 30, 2024 and 2023 | Number (000s) | Amount | Contributed Surplus | Cumulative Dividends | Cumulative Profit | Comprehensive Income | Total Equity |
| Balance, January 1, 2023 | 14,888 | $ 44,094 | $ 1,028 | $ (19,686) | $ 6,869 | $ 1,825 | $ 34,130 |
| Shares issued under ESPP | 76 | 430 | 58 | - | - | - | 488 |
| Shares issued under DRIP | 152 | 863 | - | - | - | - | 863 |
| Exercise of stock options and RSUs | 107 | 354 | (152) | - | - | - | 202 |
| Exercise of warrants | 13 | 76 | 312 | - | - | - | 388 |
| Share-based payment awards | - | - | 296 | - | - | - | 296 |
| Shares issued to vendors on business acquisitions | 269 | 1,837 | - | - | - | - | 1,837 |
| Shares issued for cash proceeds | 1,964 | 11,294 | - | - | - | - | 11,294 |
| Share issuance costs | - | (1,118) | - | - | - | - | (1,118) |
| Total comprehensive income for the period | - | - | - | - | 3,167 | 52 | 3,219 |
| Dividends declared | - | - | - | (3,255) | - | - | (3,255) |
| Balance, June 30, 2023 | 17,469 | $ 57,830 | $ 1,542 | $ (22,941) | $ 10,036 | $ 1,877 | $ 48,344 |
| **Balance, January 1, 2024** | 18,911 | 66,611 | 1,378 | (27,418) | 15,202 | 1,978 | 57,751 |
| Shares issued under ESPP (note 7) | 57 | 629 | 93 | - | - | - | 722 |
| Shares issued under DRIP (note 7) | 138 | 1,234 | - | - | - | - | 1,234 |
| Exercise of stock options and RSUs (note 7) | 148 | 587 | (321) | - | - | - | 266 |
| Exercise of warrants (note 7) | 107 | 796 | (35) | - | - | - | 761 |
| Share-based payment awards (note 7) | - | - | 448 | - | - | - | 448 |
| Shares purchased and cancelled under NCIB (note 7) | (8) | (55) | - | - | - | - | (55) |
| Shares issued to vendors on business acquisitions (note 7) | 58 | 603 | - | - | - | - | 603 |
| Share issuance costs (note 7) | - | (4) | - | - | - | - | (4) |
| Total comprehensive loss for the period | - | - | - | - | (808) | 373 | (435) |
| Dividends declared (note 8) | - | - | - | (5,103) | - | - | (5,103) |
| **Balance, June 30, 2024** | **19,411** | **$ 70,401** | **$ 1,563** | **$ (32,521)** | **$ 14,394** | **$ 2,351** | **$ 56,188** |

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

## Consolidated Statements of Cash Flows

(Unaudited - Expressed in thousands of Canadian dollars)

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| **June 30,** | **2024** | 2023 | **2024** | 2023 |
| **Operating activities** | | | | |
| Profit (loss) | **$ (994)** | $ 1,201 | **$ (808)** | $ 3,167 |
| Adjusted by: | | | | |
| Amortization and depreciation | **2,419** | 1,771 | **4,576** | 3,091 |
| Financing costs | **1,454** | 881 | **2,670** | 1,636 |
| Share-based compensation | **241** | 115 | **552** | 354 |
| Foreign exchange (gains) losses | **(112)** | 18 | **(343)** | (24) |
| Inventory write-downs and obsolescence allowance | **3** | - | **3** | - |
| Gain on sale of equipment | **(31)** | - | **(34)** | (69) |
| Income tax expense (recovery) | **(59)** | 709 | **100** | 1,428 |
| | **2,921** | 4,695 | **6,716** | 9,583 |
| Changes in non-cash working capital (note 12) | **(1,228)** | 2,311 | **(4,741)** | (1,286) |
| | **1,693** | 7,006 | **1,975** | 8,297 |
| Income taxes paid | **(1,466)** | (11) | **(2,188)** | (1,333) |
| Cash provided by (used in) operating activities | **227** | 6,995 | **(213)** | 6,964 |
| **Financing activities** | | | | |
| Proceeds from issuance of shares | **(30)** | 10,685 | **1,638** | 11,205 |
| Dividends paid (note 8) | **(2,112)** | (1,257) | **(3,771)** | (2,236) |
| Proceeds from long-term debt | **8,307** | 5,981 | **59,507** | 5,981 |
| Repayment of long-term debt | **(57)** | (1,337) | **(45,205)** | (1,944) |
| Debt issuance costs | **(142)** | - | **(703)** | - |
| Lease payments | **(524)** | (373) | **(958)** | (689) |
| Interest paid | **(1,389)** | (836) | **(2,581)** | (1,547) |
| Cash provided by financing activities | **4,053** | 12,863 | **7,927** | 10,770 |
| **Investing activities** | | | | |
| Acquisitions (note 4) | **(5,028)** | (17,389) | **(7,817)** | (17,389) |
| Purchase of property and equipment | **(1,493)** | (932) | **(2,051)** | (1,653) |
| Proceeds from sale of property and equipment | **31** | - | **51** | 81 |
| Cash used in investing activities | **(6,490)** | (18,321) | **(9,817)** | (18,961) |
| **Increase (decrease) in cash during the period** | **(2,210)** | 1,537 | **(2,103)** | (1,227) |
| **Cash, beginning of period** | **4,211** | 2,041 | **4,050** | 4,734 |
| **Effect of movements in exchange rates** | **25** | 11 | **79** | 82 |
| **Cash, end of period** | **$ 2,026** | $ 3,589 | **$ 2,026** | $ 3,589 |

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

## Notes to the Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2024 and 2023
(Unaudited -Expressed in thousands of Canadian dollars, except per share amounts)

### 1. Nature and Operations

Decisive Dividend Corporation (the "Company") was incorporated under the British Columbia Business Corporations Act on October 2, 2012 and is listed on the TSX Venture Exchange, trading under the symbol "DE". The address of the Company's head office is #260 – 1855 Kirschner Road, Kelowna, B.C. V1Y 4N7.

Decisive Dividend Corporation is an acquisition-oriented company, focused on opportunities in manufacturing. The Company's purpose is to be the sought-out choice for exiting legacy-minded business owners, while supporting the long-term success of the businesses acquired, and through that, creating sustainable and growing shareholder returns. The Company uses a disciplined acquisition strategy to identify already profitable, well-established, high quality manufacturing companies that have a sustainable competitive advantage, a focus on non-discretionary products, steady cash flows, growth potential and established, strong leadership.

The principal wholly-owned operating subsidiaries of the Company, as at June 30, 2024, are managed through two reportable segments and were acquired as follows:

*Finished Product Segment*

- Valley Comfort Systems Inc. and its wholly-owned subsidiary Blaze King Industries Inc. ("Blaze King USA"), collectively referred to herein as "Blaze King"; acquired in February 2015.
- Slimline Manufacturing Ltd. ("Slimline"); acquired in May 2018.
- Marketing Impact Limited ("Marketing Impact"); acquired in April 2022.
- ACR Heat Products Limited ("ACR"); acquired in October 2022.
- Capital I Industries Inc. and its sister company, Irving Machine Inc. (together, "Capital I"); acquired in April 2023.
- Innovative Heating Technologies Inc. ("IHT"); acquired in July 2023.

*Component Manufacturing Segment*

- Unicast Inc. ("Unicast"); acquired in June 2016.
- Hawk Machine Works Ltd. ("Hawk"); acquired in June 2018.
- Northside Industries Inc. ("Northside"); acquired in August 2019.
- Micon Industries Ltd. ("Micon"); acquired in April 2023.
- Procore International Radiators Ltd. ("Procore"); acquired in April 2023.
- Techbelt Limited ("Techbelt"); acquired in April 2024.

These consolidated financial statements comprise the Company and its subsidiaries, collectively referred to as the "Group". The consolidated financial statements include the results of acquired subsidiaries from their dates of acquisition.

The Group's interim results are impacted by seasonality factors primarily driven by weather patterns, including the impact thereof on heating, planting and harvesting seasons, as well as the timing of ground freeze and thaw in Western Canada and the effect thereof on the oil and gas industry, including the cost of energy. Blaze King and ACR's businesses historically experience lower demand in the first and second quarters of the calendar year, Slimline's business historically experiences lower demand in the third and fourth quarters and Hawk's business historically experiences lower demand in the second quarter. Seasonality does not have a significant impact on the businesses of the Company's other subsidiaries. In each subsidiary, there are substantial fixed costs that do not meaningfully fluctuate with product demand in the short-term.

## 2. Basis of Preparation and Statement of Compliance

a) *Statement of compliance*

These interim condensed consolidated financial statements (the "financial statements") for the period ended June 30, 2024 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting.

These financial statements were approved by the Audit Committee of the Company for issue on August 8, 2024.

b) *Judgments, accounting estimates and assumptions*

The preparation of financial statements requires management to make judgments that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period.

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make estimates based on assumptions about future events that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates.

There were no changes to the Group's critical accounting estimates and judgments from those described in the most recent annual financial statements.

## 3. Material Accounting Policies

The material accounting policies and methods of computation used in the preparation of these financial statements are the same as those disclosed in Note 3 to the Company's 2023 audited consolidated financial statements.

During Q1 2024 the Company adopted the amendments to IAS 1, Presentation of Financial Statements covering non-current liabilities with covenants, which are effective for annual periods beginning on or after January 1, 2024. The amendments clarify that covenants of loan arrangements which an entity must comply with only after the reporting date do not affect classification of a liability at the reporting date. Covenants that an entity is required to comply with on or before the reporting date do affect the classification as current or non-current, even if the covenant is only assessed after the reporting date. The amendments also introduce new disclosure requirements for non-current liabilities with covenants. The adoption of these amendments did not impact the Company's presentation or disclosures.

## 4. Acquisitions

In 2024, the Company completed two acquisitions as described below. The assets of Alberta Production Machining Ltd. (“APM”) were acquired on March 14, 2024. Techbelt was acquired on April 10, 2024. The consideration paid on these acquisitions is as follows:

| | APM | Techbelt | Total |
|---|---|---|---|
| Cash (net of cash acquired) | $ 2,789 | $ 5,028 | $ 7,817 |
| Common shares | - | 603 | 603 |
| Contingent consideration | - | 484 | 484 |
| | $ 2,789 | $ 6,115 | $ 8,904 |

The preliminary allocation of the purchase prices, to the fair value of the assets acquired and liabilities assumed on these acquisitions is as follows:

| | APM | Techbelt | Total |
|---|---|---|---|
| Accounts receivable | $ 240 | $ 504 | $ 744 |
| Prepaid expenses and deposits | - | 27 | 27 |
| Inventory | 37 | 447 | 484 |
| Property and equipment | 3,289 | 643 | 3,932 |
| Intangible assets | - | 2,038 | 2,038 |
| Goodwill | - | 3,967 | 3,967 |
| Accounts payable and accrued liabilities | (266) | (611) | (877) |
| Lease obligation | (511) | (306) | (817) |
| Deferred income taxes | - | (594) | (594) |
| | $ 2,789 | $ 6,115 | $ 8,904 |

Subsequent adjustments to the purchase price allocations, if any, can be recognized if they occur within twelve months of the acquisition date. After twelve months, adjustments are recognized through profit or loss. The adjustments made as a result of finalizing the provisional accounting are retrospectively recognized from the acquisition date. The Company incurred acquisition-related costs of $424 relating to legal fees, accounting fees, and due diligence costs. These costs are included in professional fees in the consolidated statement of profit and comprehensive income.

a) APM

On March 14, 2024, the Company acquired, through Hawk, all of the assets of APM. The assets of APM are operated out of a leased facility in Edmonton, Alberta, and provides Hawk with increased machining capabilities and access to additional equipment and people to service the demand from its growing customer base.

The APM asset purchase agreement contains negotiated representations, warranties, indemnities and closing conditions. The purchase price (which is subject to customary post-closing adjustments) was settled in cash and funded through the Company’s syndicated credit facility (Note 6).

b) Techbelt

On April 10, 2024, the Company acquired all of the shares of Techbelt. Techbelt, which is located in Huddersfield in the United Kingdom, is a manufacturer of polytetrafluoroethylene (“PTFE”) conveyor belts, PTFE tapes, and PTFE materials which are used in a wide range of end markets including food and beverage, packaging, textiles, agriculture, and fast-moving consumer goods.

The Techbelt purchase agreement contains negotiated representations, warranties, indemnities and closing conditions. The purchase price included a payment of cash (which is subject to customary post-closing adjustments) and the issuance of common shares to the vendors. The cash portion of the consideration was funded through the Company's syndicated credit facility (Note 6). The share portion of the consideration was funded through the issuance of 57,879 common shares to the vendors of Techbelt (Note 7).

The consolidated statement of profit (loss) includes revenue, gross profit, and profit of APM and Techbelt from their acquisition dates to June 30, 2024 as outlined in the table below. Had the acquisitions been effective from January 1, 2024, the Group would have recognized revenue, gross profit, and profit (loss) for the six months ended June 30, 2024 as outlined in the table below.

| For the six months ended June 30, 2024 | Consolidated Reported | Reported for Acquisitions from Acquisition Dates | Results for Acquisitions from January 1, 2024 | Consolidated Pro forma |
|---|---|---|---|---|
| Sales | $ 58,049 | $ 2,133 | $ 3,948 | $ 59,864 |
| Gross profit | 21,236 | 635 | 1,400 | 22,001 |
| Profit (loss) | (808) | 169 | 485 | (492) |

**5. Lease Obligations**

The Group's right of use assets and associated lease obligations are related to lease commitments for office and shop premises. The maturity dates of the lease obligations are between October 2025 and March 2036. As at June 30, 2024, minimum lease payments required over the next five years were as follows:

| For the twelve month periods ending June 30, | 2024 |
|---|---|
| 2025 | **3,058** |
| 2026 | **2,991** |
| 2027 | **2,830** |
| 2028 | **2,520** |
| 2029 | **1,710** |
| thereafter | **3,778** |
| | **16,887** |
| Less: interest portion | **(2,449)** |
| Less: current portion | **(2,453)** |
| | **$ 11,985** |

## 6. Long-term Debt

| | Interest Rate | Effective Interest Rate | Maturity Date | Authorized | **June 30, 2024 Outstanding** | December 31, 2023 Outstanding |
|---|---|---|---|---|---|---|
| Syndicated credit facility | see below | 7.6% | Mar-27 | $ 100,000 | **$ 59,507** | $ - |
| Equipment loans | 2.6% | 2.6% | Dec-25 | 328 | **328** | 415 |
| Previous credit agreement | | | | | | |
| Revolving term operating facility | P+1.0% | NA | NA | - | **-** | 10,491 |
| Revolving term acquisition | P+2.5% | NA | NA | - | **-** | 6,600 |
| Non-amortizing term loan | 6.9% | NA | NA | - | **-** | 28,000 |
| | | | | 100,328 | **59,835** | 45,506 |
| Less: current portion | | | | | **(233)** | (224) |
| Long-term portion | | | | | **59,602** | 45,282 |
| Less: debt issuance costs | | | | | **(859)** | (245) |
| Total long-term debt | | | | | **$ 58,743** | $ 45,037 |

*"P" in the table above denotes prime rate*

In March 2024, the Company entered into a syndicated credit facility providing for a committed $100,000 senior secured revolving term loan and a $75,000 accordion, which the Company can request as an increase, in whole or in part, to the total amount available under the syndicated credit facility. The syndicate lenders include National Bank of Canada, CWB Maxium Financial (a wholly owned division of Canadian Western Bank), Royal Bank of Canada and Fédération des caisses Desjardins du Québec, with National Bank of Canada acting as administrative agent on behalf of the syndicate.

The syndicated credit facility replaced the credit agreement the Company had in place with Canadian Western Bank, the details of which are outlined in the table above. The syndicated credit facility consists of a single senior secured revolving term loan, compared to the three separate loan tranches outlined under previous credit agreement in the table above. There are no required principal payments for the committed three-year term of the syndicated credit facility, which also provides for annual extension provisions, and all drawn amounts will mature in March 2027.

Borrowings under the syndicated credit facility may be made by way of Canadian prime rate, U.S. base rate, Canadian overnight repo rate average (“CORRA”) or United States Federal reserve secured overnight financing rate (“SOFR”) advances. The syndicated credit facility bears interest at the Canadian prime rate or U.S. base rate plus 0.75% to 2.25%, or at CORRA or SOFR plus 2.00% to 3.50%. These interest rate ranges are dependent on certain financial ratios of the Company. In addition, standby fees ranging from 0.40% to 0.70% per annum are paid quarterly on the unused portion of the syndicated credit facility depending on certain financial ratios of the Company. There are no fees paid on the accordion until amounts are made available.

The syndicated credit facility is secured by a general security agreement, assignment of insurance, and unlimited corporate cross guarantees. Additionally, the Group has agreed to maintain the following ratios (as defined in the credit agreement) on a consolidated trailing twelve-month basis, otherwise outstanding facilities are due on demand:

- Maximum total debt to adjusted EBITDA of 3.25:1
- Minimum interest coverage ratio of 1.50:1

As at June 30, 2024, the Company was in compliance with these ratios.

As at June 30, 2024, principal payments required over the next three years on the Company's long-term debt were estimated as follows:

| For the twelve month periods ending June 30, | | |
|---|---|---|
| 2025 | $ | 233 |
| 2026 | | 95 |
| 2027 | | 59,507 |
| | $ | 59,835 |

## 7. Share Capital

*a) Shares issued and outstanding*

| | Shares (000s) | | Amount |
|---|---|---|---|
| Balance as at, January 1, 2024 | 18,911 | $ | 66,611 |
| Shares issued under ESPP | 57 | | 629 |
| Shares issued under DRIP | 138 | | 1,234 |
| Exercise of stock options and RSUs | 148 | | 587 |
| Exercise of warrants | 107 | | 796 |
| Shares purchased and cancelled under NCIB | (8) | | (55) |
| Shares issued to vendors on business acquisitions | 58 | | 603 |
| Share issuance costs | - | | (4) |
| **Balance as at, June 30, 2024** | **19,411** | **$** | **70,401** |

The Company had the following share capital transactions for the six months ended June 30, 2024:

(i) The Company issued 56,995 common shares pursuant to the employee share purchase plan (the "ESPP").

(ii) The Company issued 138,011 common shares pursuant to the dividend reinvestment and cash purchase plan (the "DRIP")

(iii) The Company issued 147,617 common shares on the exercise of stock options and RSUs.

(iv) The Company issued 107,354 common shares on the exercise of warrants

(v) The Company purchased and cancelled 7,900 common shares pursuant to its normal course issuer bid.

(vi) As part of the consideration paid for the acquisition of Techbelt described in Note 4, on April 10, 2024, the Company issued an aggregate 57,879 common shares to the vendors of Techbelt at a price of $10.41 per share.

Common shares that remained in escrow as at June 30, 2024 are as follows:

| In (000s) | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| In relation to the acquisition of: | | |
| Marketing Impact | **78** | 157 |
| ACR | **111** | 111 |
| Capital I | **83** | 124 |
| Micon | **37** | 55 |
| Procore | **59** | 89 |
| IHT | **315** | 315 |
| Techbelt | **58** | - |
| | **741** | 851 |

*b) Warrants*

The Company had the following warrants outstanding and exercisable:

| Warrants | Number of warrants (000s) | Weighted average exercise price ($) | Weighted average grant date fair value ($) | Weighted average years remaining |
|---|---|---|---|---|
| Outstanding and exercisable, January 1, 2024 | 968 | $ 6.92 | $ 0.32 | 1.21 |
| Warrants exercised | (107) | 7.09 | 0.32 | - |
| **Outstanding and exercisable, June 30, 2024** | **861** | **$ 6.90** | **$ 0.32** | **0.71** |

*c) Equity Incentives*

The Company has an equity incentive plan for the purpose of developing the interest of directors, officers and employees in the growth and development of the Company and its subsidiaries, by providing them with the opportunity, through equity awards, to obtain an increased effective interest in the Company.

The equity incentive plan enables the Company to grant deferred share units (“DSUs”), restricted share units (“RSUs”), performance share units (“PSUs”) and stock options to the directors, officers, and employees of the Company or any of its affiliates. Under the plan, the aggregate of all stock option, DSU, RSU, and PSU grants cannot exceed 10% of the issued and outstanding common shares of the Company.

The Company had granted stock options to various directors, officers, and employees of the Group as follows:

| Stock Options | Number of options (000s) | Weighted average exercise price ($) | Weighted average grant date fair value ($) | Weighted average years remaining |
|---|---|---|---|---|
| Outstanding and exercisable, January 1, 2024 | 400 | $ 4.12 | $ 0.98 | 5.44 |
| Options issued | 5 | 10.36 | 2.78 | - |
| Options exercised | (155) | 3.69 | 1.06 | - |
| Options expired | (1) | 4.06 | 0.74 | - |
| **Outstanding and exercisable, June 30, 2024** | **249** | **$ 4.51** | **$ 0.97** | **5.39** |

In the six months ended June 30, 2024, the Company recorded $22 of share-based compensation expense related to stock options. This share-based compensation expense represents the estimated fair value of stock options granted, amortized over the options’ vesting periods.

To value the options granted in 2024, the Company used the Black-Scholes option–pricing model with the following assumptions: dividend yield of 5.2%; expected volatility of 44%; risk-free interest rate of 3.6%; forfeiture rate of 0%; market price of $10.36 and weighted average life of five years.

The Company had granted DSUs to directors of the Company as follows:

| Deferred Share Units | Number of DSUs (000s) | Number of DSUs exercisable (000s) | Weighted average grant date fair value ($) | Weighted average years remaining |
|---|---|---|---|---|
| Outstanding, January 1, 2024 | 44 | - | $ 5.01 | NA |
| DSUs issued | 51 | - | 8.25 | - |
| DSUs from reinvested dividends | 3 | - | 6.59 | - |
| **Outstanding, June 30, 2024** | **98** | **-** | **$ 6.74** | **NA** |

In the six months ended June 30, 2024, the Company recorded $157 of share-based compensation expense related to DSUs. This share-based compensation expense represents the estimated fair value of DSUs granted, amortized over the DSUs vesting periods.

The Company had granted RSUs to officers and employees of the Group as follows:

| Restricted Share Units | Number of RSUs (000s) | Number of RSUs exercisable (000s) | Weighted average grant date fair value ($) | Weighted average years remaining |
|---|---|---|---|---|
| Outstanding, January 1, 2024 | 70 | - | $ 6.62 | 2.25 |
| RSUs issued | 82 | - | 10.12 | - |
| RSUs from reinvested dividends | 3 | - | 8.35 | - |
| RSUs exercised | (24) | - | 6.62 | - |
| RSUs forfeited | (5) | - | 8.46 | - |
| **Outstanding, June 30, 2024** | **126** | **-** | **$ 8.86** | **2.34** |

In the six months ended June 30, 2024, the Company recorded $279 of share-based compensation expense related to RSUs. This share-based compensation expense represents the estimated fair value of RSUs granted, amortized over the RSUs vesting periods.

## 8. Dividends

The Company's Board of Directors regularly examines the dividends paid to shareholders. The following dividends were declared during the periods ended June 30, 2024 and December 31, 2023:

| | **2024** | | 2023 | |
|---|---|---|---|---|
| **Month** | **Per share ($)** | **Dividend Amount ($)** | Per share ($) | Dividend Amount ($) |
| January | $ **0.040** | $ **758** | $ 0.030 | $ 448 |
| February | **0.045** | **860** | 0.030 | 450 |
| March | **0.045** | **864** | 0.035 | 528 |
| April | **0.045** | **875** | 0.035 | 608 |
| May | **0.045** | **873** | 0.035 | 610 |
| June | **0.045** | **873** | 0.035 | 611 |
| July | **-** | **-** | 0.040 | 712 |
| August | **-** | **-** | 0.040 | 746 |
| September | **-** | **-** | 0.040 | 752 |
| October | **-** | **-** | 0.040 | 755 |
| November | **-** | **-** | 0.040 | 755 |
| December | **-** | **-** | 0.040 | 757 |
| **Total** | $ **0.265** | $ **5,103** | $ 0.440 | $ 7,732 |

The above dividends were paid on or about the 15th of the month following their declaration. Of the dividends paid during the six months ended June 30, 2024, $3,771 (2023 - $2,236) were settled in cash and $1,215 (2023 - $855) were reinvested in additional common shares of the Company, pursuant to the DRIP.

Subsequent to June 30, 2024, and before these financial statements were authorized, the Company undertook the following dividend actions:

- A dividend of $0.045 per share was declared on July 15, 2024, for shareholders of record on July 31, 2024, which is payable on August 15, 2024.

## 9. Sales

The following is a breakdown of sales by type of product:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30, 2024** | June 30, 2023 | **June 30, 2024** | June 30, 2023 |
| Agricultural products | **$ 2,789** | $ 1,339 | **$ 6,603** | $ 3,419 |
| Hearth products | **4,769** | 9,356 | **11,190** | 20,689 |
| Industrial products | **9,603** | 9,768 | **18,478** | 14,709 |
| Machined products | **3,705** | 2,827 | **8,268** | 7,454 |
| Merchandising products | **4,207** | 3,317 | **7,206** | 7,219 |
| Wear-part products | **3,867** | 4,343 | **7,167** | 8,382 |
| Inter-segment eliminations | **(241)** | (244) | **(863)** | (313) |
| | **$ 28,699** | $ 30,706 | **$ 58,049** | $ 61,559 |

The following is the geographic breakdown of revenue based on the location of the customer:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30, 2024** | June 30, 2023 | **June 30, 2024** | June 30, 2023 |
| Canada | **$ 12,509** | $ 12,587 | **$ 24,877** | $ 25,493 |
| United States | **12,557** | 14,187 | **26,382** | 26,814 |
| Other | **3,633** | 3,932 | **6,790** | 9,252 |
| | **$ 28,699** | $ 30,706 | **$ 58,049** | $ 61,559 |

## 10. Manufacturing Costs

Details of the items included in manufacturing costs are as follows:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30, 2024** | June 30, 2023 | **June 30, 2024** | June 30, 2023 |
| Labour and materials | **$ 16,965** | $ 17,257 | **$ 33,164** | $ 34,827 |
| Freight and shipping | **920** | 1,305 | **2,053** | 3,038 |
| Depreciation | **770** | 600 | **1,448** | 989 |
| Inventory write-downs and obsolescence allowance | **3** | - | **3** | - |
| Warranty charges | **40** | 45 | **145** | 85 |
| | **$ 18,698** | $ 19,207 | **$ 36,813** | $ 38,939 |

## 11. Financing Costs

Details of the items included in financing costs are as follows:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30 2024** | June 30 2023 | **June 30 2024** | June 30 2023 |
| Interest and bank charges | **$ 184** | $ 110 | **$ 274** | $ 214 |
| Interest on lease obligations | **135** | 66 | **260** | 117 |
| Interest on long-term debt | **1,135** | 705 | **2,136** | 1,305 |
| | **$ 1,454** | $ 881 | **$ 2,670** | $ 1,636 |

## 12. Supplemental Cash Flow Information

The changes in non-cash operating working capital items are as follows:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30, 2024** | June 30, 2023 | **June 30, 2024** | June 30, 2023 |
| Accounts receivable | **$ 707** | 1,202 | **$ 2,215** | $ 34 |
| Inventory | **(40)** | (1,418) | **(1,502)** | (2,848) |
| Prepaid expenses and deposits | **(603)** | 320 | **(905)** | 874 |
| Accounts payable and accrued liabilities | **(884)** | 1,488 | **(3,565)** | (968) |
| Customer deposits | **(218)** | 715 | **(784)** | 1,608 |
| Warranty provision | **(190)** | 4 | **(200)** | 14 |
| | **$ (1,228)** | $ 2,311 | **$ (4,741)** | $ (1,286) |

## 13. Financial Instruments and Risk Management

The Group’s financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, dividends payable, and long-term debt. There were no changes in the classification or in the fair value measurement basis of the Group’s financial instruments since December 31, 2023.

At June 30, 2024, the carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities, and dividends payable, approximate their fair value due to their short-term nature.

Management determined that the fair value of the Group’s long-term debt (note 6) was not materially different than their carrying amounts as they are based on market interest rates.

There were no changes in the Company’s assessment of risks from the use of financial instruments or in the financial risk management policies of the Company since December 31, 2023.

The cash flows arising from the contractual maturities of financial instruments are as follows:

| **June 30, 2024** | **Carrying value** | **Total contractual cash flows** | **Within one year** | **Two to five years** | **More than five years** |
|---|---|---|---|---|---|
| **Accounts payable** | **$ 22,099** | $ 22,099 | $ 12,170 | $ 9,929 | $ - |
| **Dividends payable** | **873** | 873 | 873 | - | - |
| **Long-term debt** | **58,976** | 73,402 | 4,764 | 68,638 | - |
| **Lease obligations** | **14,437** | 16,888 | 3,058 | 10,052 | 3,778 |
| | **$ 96,385** | $ 113,262 | $ 20,865 | $ 88,619 | $ 3,778 |

Liquidity risk management involves maintaining sufficient cash or cash equivalents and availability of funding through an adequate amount of committed credit facilities. The Group's cash is held in business accounts which are available on demand for the Group's programs. The Company also attempts to maintain flexibility in funding by securing committed and available credit facilities. The Company has a credit facility in place with its senior lenders that provides the Group access to a revolving term loan and an available accordion facility (note 6). The Group continues to manage its financial position in accordance with its capital management objectives and in light of its current operating environment.

The following details the aging of the Company's trade accounts receivable and expected credit losses:

| | June 30, 2024 | |
|---|---|---|
| Not yet due | **$ 11,514** | **56%** |
| 31-60 days overdue | **3,997** | **19%** |
| 61-90 days overdue | **1,053** | **5%** |
| >90 days overdue | **4,142** | **20%** |
| Trade accounts receivable | **20,706** | **100%** |
| Less: expected credit losses | **(211)** | |
| Net trade accounts receivable | **$ 20,495** | |

At June 30, 2024, the Group expected to recover the full amount of its trade receivables, less any expected credit losses. Subsequent to June 30, 2024, and before these financial statements were authorized, the Group collected 80% of the amounts over 90 days overdue.

The functional currency for Blaze King USA and Unicast is the United States dollar ("USD"), the functional currency for ACR is the British pound sterling ("GBP"), while all other entities in the Group have a Canadian dollar ("CAD") functional currency. The Company's reporting currency is the Canadian dollar; therefore, the Group's profit or loss and total comprehensive income are in part impacted by fluctuations in the value of each foreign currency ("FC") in which it transacts in relation to the CAD.

The table below summarizes the quantitative data about the Group's exposure to currency risk:

| | **Entities with a CAD functional currency** | | **Entities with a USD functional currency** | | **Entities with a GBP functional currency** | | |
|---|---|---|---|---|---|---|---|
| **As at June 30, 2024** | **CAD** | **USD** | **CAD** | **USD** | **CAD** | **GBP** | **Total** |
| Cash | $ 85 | $ 532 | $ (248) | $ 165 | $ - | $ 1,492 | **$ 2,026** |
| Accounts receivable | 14,664 | 3,898 | 54 | 1,407 | - | 1,135 | **21,158** |
| Accounts payable | (16,682) | (3,734) | (164) | (442) | - | (1,076) | **(22,098)** |
| Dividend payable | (873) | - | - | - | - | - | **(873)** |
| Inter-company amounts | 7,750 | - | (6,239) | 3,399 | (4,910) | - | **-** |
| Long-term debt | (52,368) | (6,608) | - | - | - | - | **(58,976)** |
| Net exposure | (47,424) | (5,912) | (6,597) | 4,529 | (4,910) | 1,551 | **(58,763)** |
| Effect of 5% strengthening of FC versus CAD: | | | | | | | |
| Profit (loss) | - | (296) | 330 | - | 245 | - | **279** |
| OCI | $ - | $ - | $ - | $ (226) | $ - | $ (78) | **$ (304)** |

The Group is at times exposed to interest rate risk on its long-term debt (note 6) due to the interest rate on certain of its credit facilities being variable. Of the Group's interest-bearing debt outstanding at June 30, 2024, 99% was variable rate. The Group does not enter into derivative contracts to manage this risk. The table below summarizes the quantitative data about the Group's exposure to interest rate risk:

| **Interest rate risk** | | **June 30, 2024** |
|---|---|---|
| Floating instruments | **$** | **59,507** |
| Average balance | | **36,484** |
| Impact on profit (loss) of a change in interest rates: | | |
| -1% | | **365** |
| +1% | **$** | **(365)** |

## 14. Related Party Transactions

The Group's related parties consist of directors, officers and key management or companies associated with them. Key management, including directors and officers of the Company, are those personnel having the authority and responsibility for planning, directing, and controlling the Company.

Salaries and benefits, directors fees and share-based compensation are included in salaries, wages and benefits expense. Key management compensation for the six month period ended June 30, 2024 included $829 of salaries, benefits and directors fees (2023 - $847) and $316 of share-based compensation expense (2023 - $261).

## 15. Segmented Information

The Group's reporting is prepared on a consolidated basis as determined by the requirements of the Chief Executive Officer as the chief operating decision maker for the Group. The Company's reportable segments, as determined by management, sell similar product types to similar types of customers and share similar processes and distribution methods. The reportable segments are as follows:

- The finished product segment, which manufactures and sells products that are purchased and used by end customers as designed. Within the finished product segment are five separate businesses: ACR, Blaze King, Capital I, Marketing Impact and Slimline.
- The component manufacturing segment, which manufactures and sells products based on specifications determined by its customers for use in its customers' processes. Within the component manufacturing segment are five separate businesses: Hawk, Micon, Northside, Procore and Unicast.
- In addition, the Canadian public company parent ("Head Office") is considered a third and separate segment, as its function is as an investment holding and management company. Inter-segment eliminations of sales and manufacturing costs are also reported within this segment.

The Group's reporting of segment performance for the three and six month periods ended June 30, 2024 and 2023 is as follows:

| **For the three months ended June 30, 2024** | | **Finished Product** | | **Component Manufacturing** | | **Head Office** | | **Total** |
|---|---|---|---|---|---|---|---|---|
| Sales | $ | 15,596 | $ | 13,342 | $ | (239) | $ | **28,699** |
| Manufacturing costs | | 9,681 | | 9,256 | | (239) | | **18,698** |
| Gross profit | | 5,915 | | 4,086 | | - | | **10,001** |
| Profit (loss) before taxes | | 531 | | 1,172 | | (2,756) | | **(1,053)** |
| Income tax expense (recovery) | | (159) | | 77 | | 23 | | **(59)** |
| Profit (loss) | | 690 | | 1,095 | | (2,779) | | **(994)** |
| Total comprehensive income (loss) | $ | 722 | $ | 1,103 | $ | (2,779) | $ | **(954)** |

| For the three months ended June 30, 2023 | | Finished Product | | Component Manufacturing | | Head Office | | Total |
|---|---|---|---|---|---|---|---|---|
| Sales | $ | 17,963 | $ | 12,987 | $ | (244) | $ | 30,706 |
| Manufacturing costs | | 10,900 | | 8,551 | | (244) | | 19,207 |
| Gross profit | | 7,063 | | 4,436 | | - | | 11,499 |
| Profit (loss) before taxes | | 2,312 | | 1,966 | | (2,367) | | 1,911 |
| Income tax expense | | 311 | | 363 | | 36 | | 710 |
| Profit (loss) | | 2,001 | | 1,603 | | (2,403) | | 1,201 |
| Total comprehensive income (loss) | $ | 1,978 | $ | 1,416 | $ | (2,403) | $ | 991 |

| **For the six months ended June 30, 2024** | | **Finished Product** | | **Component Manufacturing** | | **Head Office** | | **Total** |
|---|---|---|---|---|---|---|---|---|
| Sales | $ | 31,941 | $ | 26,972 | $ | (864) | $ | **58,049** |
| Manufacturing costs | | 19,631 | | 18,046 | | (864) | | **36,813** |
| Gross profit | | 12,310 | | 8,926 | | - | | **21,236** |
| Profit (loss) before taxes | | 1,166 | | 3,435 | | (5,309) | | **(708)** |
| Income tax expense (recovery) | | (296) | | 346 | | 50 | | **100** |
| Profit (loss) | | 1,462 | | 3,089 | | (5,359) | | **(808)** |
| Total comprehensive income (loss) | $ | 1,807 | $ | 3,117 | $ | (5,359) | $ | **(435)** |

| For the six months ended June 30, 2023 | | Finished Product | | Component Manufacturing | | Head Office | | Total |
|---|---|---|---|---|---|---|---|---|
| Sales | $ | 35,357 | $ | 26,514 | $ | (312) | $ | 61,559 |
| Manufacturing costs | | 21,599 | | 17,652 | | (312) | | 38,939 |
| Gross profit | | 13,758 | | 8,862 | | - | | 22,620 |
| Profit (loss) before taxes | | 4,773 | | 4,091 | | (4,269) | | 4,595 |
| Income tax expense | | 619 | | 794 | | 15 | | 1,428 |
| Profit (loss) | | 4,154 | | 3,297 | | (4,284) | | 3,167 |
| Total comprehensive income (loss) | $ | 4,439 | $ | 3,064 | $ | (4,284) | $ | 3,219 |

The Group's reporting of segment financial condition as at June 30, 2024 and December 31, 2023 is as follows:

| **June 30, 2024** | | **Finished Product** | | **Component Manufacturing** | | **Head Office** | | **Total** |
|---|---|---|---|---|---|---|---|---|
| Total current assets | $ | 29,740 | $ | 17,906 | $ | 4,237 | $ | **51,883** |
| Total current liabilities | | 4,795 | | 8,473 | | 13,377 | | **26,645** |
| Total assets | | 94,179 | | 65,067 | | 4,580 | | **163,826** |
| Total liabilities | $ | 19,387 | $ | 16,236 | $ | 72,015 | $ | **107,638** |

| December 31, 2023 | | Finished Product | | Component Manufacturing | | Head Office | | Total |
|---|---|---|---|---|---|---|---|---|
| Total current assets | $ | 36,266 | $ | 15,992 | $ | 189 | $ | 52,447 |
| Total current liabilities | | 10,344 | | 7,779 | | 12,638 | | 30,761 |
| Total assets | | 101,880 | | 50,112 | | 575 | | 152,567 |
| Total liabilities | $ | 25,729 | $ | 11,631 | $ | 57,456 | $ | 94,816 |

For the six months ended June 30, 2024, the Group's largest customer accounted for 15% of sales. Sales from this customer are included in the component manufacturing segment. Other than this customer, the Group was not dependent on any other customer for more than 10% of its sales.