



Strad Inc.

Unaudited Condensed Consolidated Interim Financial Statements
As at and for the three and six months ended June 30, 2019 and 2018

Strad Inc.
Interim Consolidated Statement of Financial Position
(Unaudited)

(in thousands of Canadian dollars)	Note	As at June 30, 2019 \$	As at December 31, 2018 \$
Assets			
Current assets			
Trade receivables		22,250	32,013
Inventories		529	1,839
Prepays and deposits		755	2,063
Lease receivable - current portion	7	341	—
Income taxes receivable		522	710
Total current assets		24,397	36,625
Non-current assets			
Property, plant and equipment	4	134,167	136,978
Intangible assets	5	1,289	1,448
Right of use assets	6	12,455	—
Income tax receivable		292	305
Lease receivable	7	271	—
Deferred income tax assets		119	121
Total non-current assets		148,593	138,852
Total assets		172,990	175,477
Liabilities			
Current liabilities			
Bank indebtedness	8	991	762
Accounts payable and accrued liabilities		12,184	16,373
Income taxes payable		14	—
Lease liabilities - current portion	7	5,151	157
Total current liabilities		18,340	17,292
Non-current liabilities			
Long-term debt	9	6,460	12,934
Lease liabilities	7	7,982	156
Deferred income tax liabilities		7,443	9,151
Total liabilities		40,225	39,533
Equity			
Share capital	10	146,461	147,664
Contributed surplus	10	13,208	13,068
Accumulated other comprehensive income		20,774	23,439
Deficit		(47,678)	(48,227)
Total equity		132,765	135,944
Total liabilities and equity		172,990	175,477

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

Strad Inc.

Interim Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2019	2018	2019	2018
		\$	\$	\$	\$
Revenue	13	26,676	28,035	57,556	56,399
Expenses					
Operating expenses	15	16,627	20,002	34,188	39,011
Depreciation	4	7,569	5,196	13,205	10,583
Amortization of intangible assets	5	132	44	266	89
Amortization of right of use assets	6	1,296	—	2,677	—
Selling, general and administration	15	4,292	3,793	8,428	7,549
Share-based payments	10	51	95	140	178
Gain on disposal of property, plant and equipment		(19)	(729)	(132)	(477)
(Gain) loss on foreign exchange		(58)	44	(47)	45
Interest expense		310	157	661	347
Loss before income tax		(3,524)	(567)	(1,830)	(926)
Income tax recovery	11	(1,820)	(4,428)	(1,688)	(4,390)
(Loss) income for the period		(1,704)	3,861	(142)	3,464
Other comprehensive (loss) income					
Items that may be reclassified subsequently to net income					
Cumulative translation adjustment		(1,359)	1,118	(2,665)	2,680
Deferred tax expense on foreign exchange gain		—	(4,344)	—	(4,344)
Total comprehensive (loss) income		(3,063)	635	(2,807)	1,800
(Loss) income per share:					
Basic		(\$0.03)	\$0.07	\$0.00	\$0.06
Diluted		(\$0.03)	\$0.07	\$0.00	\$0.06

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Strad Inc.

Interim Consolidated Statement of Changes in Equity

For the six months ended June 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

	Note	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Total equity \$
Balance - January 1, 2019		147,664	13,068	23,439	(48,227)	135,944
Impact of change in accounting policy	3	—	—	—	96	96
Restated balance - January 1, 2019		147,664	13,068	23,439	(48,131)	136,040
Net income for the period		—	—	—	(142)	(142)
Other comprehensive income:						
Cumulative translation adjustment		—	—	(2,665)	—	(2,665)
Shareholder loans (net)		91	—	—	(18)	73
Normal course issuer bid	10	(1,294)	—	—	613	(681)
Employee share options:						
Value of services recognized	10	—	140	—	—	140
Balance - June 30, 2019		146,461	13,208	20,774	(47,678)	132,765
Balance - January 1, 2018		154,763	12,736	22,635	(50,211)	139,923
Net income for the period		—	—	—	3,464	3,464
Other comprehensive income (net of tax):						
Cumulative translation adjustment		—	—	2,680	—	2,680
Deferred tax expense on foreign exchange gain		—	—	(4,344)	—	(4,344)
Normal course issuer bid		(6,756)	—	—	2,846	(3,910)
Employee share options:						
Value of services recognized		—	178	—	—	178
Balance - June 30, 2018		148,007	12,914	20,971	(43,901)	137,991

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Strad Inc.

Interim Consolidated Statement of Cash Flow

For the six months ended June 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

	Note	Six months ended June 30, 2019 \$	2018 \$
Cash flow provided by (used in)			
Operating activities			
Net (loss) income for the period		(142)	3,464
Adjustments for items not affecting cash:			
Depreciation and amortization		16,148	10,672
Deferred income tax recovery		(1,707)	(4,400)
Share-based payments	10	140	178
Interest expense		661	347
Unrealized foreign exchange loss		110	94
Gain on disposal of property, plant and equipment		(132)	(477)
Book value of used fleet sales in operating activities		4,098	3,702
Changes in items of non-cash working capital	12	7,400	2,543
Net cash generated from operating activities		26,576	16,123
Investing activities			
Purchase of property, plant and equipment	4	(17,121)	(10,298)
Proceeds from sale of property, plant and equipment		158	1,395
Purchase of intangible assets	5	(107)	(747)
Changes in items of non-cash working capital	12	1,017	793
Net cash used in investing activities		(16,053)	(8,857)
Financing activities			
Repayment of long-term debt		(6,474)	(4,406)
Repayment of lease liabilities	7	(2,571)	(250)
Repayment of shareholder loan		91	—
Normal course issuer bid		(681)	(3,910)
Interest expense		(661)	(347)
Changes in items of non-cash working capital	12	(10)	2
Net cash used in financing activities		(10,306)	(8,911)
Effect of exchange rate changes on cash and cash equivalents		(446)	359
Increase (decrease) in cash and cash equivalents		(229)	(1,286)
Cash and cash equivalents (including bank indebtedness) - beginning of year		(762)	1,859
Cash and cash equivalents (including bank indebtedness) - end of period		(991)	573
Cash paid for income tax		120	—
Cash paid for interest		696	254

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Strad Inc.

Notes to the Interim Consolidated Financial Statements For the three and six months ended June 30, 2019 and 2018 (Unaudited)

(in thousands of Canadian dollars)

1. General information

Strad Inc. (the "Company"), is a North American services company that specializes in industrial matting and equipment rentals in many industrial sectors. Strad focuses on providing customer solutions in Canada and the United States.

The Company is a publicly listed company incorporated and domiciled in Canada under the legislation of the Province of Alberta. The condensed interim consolidated financial statements of the Company for the period ended June 30, 2019 and 2018, comprise the Company and its subsidiaries.

The head office, principal address and records office of the Company are located at 440 2nd Avenue SW, Suite 1200, Calgary, Alberta, Canada, T2P 5E9.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on July 31, 2019.

2. Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34, "*Interim Financial Reporting*", and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2018, with the exception of new standards applicable for the first time effective January 1, 2019 as disclosed in note 3. In addition, income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

The policies applied in these condensed interim consolidated financial statements are based on applicable IFRS issued, effective and outstanding as of July 31, 2019, the date the Board approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2018, could result in restatement of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Company's IFRS annual consolidated financial statements at December 31, 2018.

3. Changes in Accounting Policies and Disclosures

New standards, amendments and interpretations issued:

IFRS 16 "Leases"

On January 1, 2019, the Company adopted IFRS 16, "Leases" ("**IFRS 16**"), which was issued by the IASB on January 13, 2016 to replace International Accounting Standard 17 "Leases" ("**IAS 17**"). This standard has been adopted using the modified retrospective approach, which does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings (deficit) and applies the standard prospectively.

On adoption of IFRS 16, the Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018. Under IFRS 16, the Company utilized the practical expedient for low-value leases, such as tablets and personal computers, small items of office furniture and telephones. The Company also utilized the short-term practical expedient for leases related to facilities. The recognized lease liabilities are discounted using the Company's incremental borrowing rate as of January 1, 2019. The associated right of use ("**ROU**") assets were measured at the amount equal to the lease liability on January 1, 2019, adjusted by the amount of the present value of the sublease payments, with a small impact on retained earnings (deficit).

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There was no impact to lessor accounting from the adoption of IFRS 16.

Below is the opening balance sheet impact as a result of the adoption of IFRS 16.

Condensed consolidated balance sheet adjustments	As at December 31, 2018	Adjustments	As at January 1, 2019
Property, plant and equipment ⁽¹⁾	\$ 313	\$ (313)	\$ —
ROU assets	—	13,218	13,218
Lease receivable - current portion	—	441	441
Lease receivable	—	366	366
Lease liabilities - current portion	(157)	(4,944)	(5,101)
Lease liabilities	(156)	(8,672)	(8,828)
Retained earnings (deficit)	(48,227)	(96)	(48,131)

⁽¹⁾ Balance relates to leased capital assets included in property, plant and equipment at December 31, 2018

Changes in significant accounting policies:

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as "Operating Leases". All leases are recognized as a right of use asset and corresponding liability at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the lease term on a straight-line basis.

The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments on short term leases with lease terms of less than twelve months or leases on which the underlying asset is of low value are accounted for as expenses in the consolidated statement of income.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option. These lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable.

Operating lease commitment as at December 31, 2018	\$	17,360
Discounted using incremental borrowing rate		15,624
Less short term leases		(1,695)
Lease liabilities recognized at January 1, 2019		13,929

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4. Property, plant and equipment**Cost**

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other ⁽¹⁾	Total
As at December 31, 2018	\$ 282,527	\$ 8,608	\$ 3,785	\$ 2,886	\$ 2,508	\$ 300,314
Capital expenditures	16,634	169	300	—	18	17,121
Divestitures and transfers	(19,938)	(1,207)	(60)	—	—	(21,205)
Reclassification	(5)	—	5	—	—	—
Foreign currency translation	(5,166)	(101)	(36)	(49)	(16)	(5,368)
As at June 30, 2019	274,052	7,469	3,994	2,837	2,510	290,862

Accumulated depreciation and impairment

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other ⁽¹⁾	Total
As at December 31, 2018	\$ 146,871	\$ 8,329	\$ 3,255	\$ 2,648	\$ 2,233	\$ 163,336
Depreciation	12,620	387	88	30	80	13,205
Divestitures and transfers	(15,933)	(788)	(60)	—	—	(16,781)
Reclassification	983	(920)	(152)	89	—	—
Foreign currency translation	(2,899)	(77)	(28)	(46)	(15)	(3,065)
As at June 30, 2019	141,642	6,931	3,103	2,721	2,298	156,695

Net Book Value

As at December 31, 2018	\$ 135,656	\$ 279	\$ 530	\$ 238	\$ 275	\$ 136,978
As at June 30, 2019	132,410	538	891	116	212	134,167

⁽¹⁾ Other includes computer hardware

5. Intangible assets**Cost**

	Patent and technology asset	Computer software	Total
As at December 31, 2018	\$ 3,287	\$ 3,590	\$ 6,877
Capital expenditures	—	107	107
Foreign currency translation	(18)	(25)	(43)
As at June 30, 2019	3,269	3,672	6,941

Accumulated amortization

	Patent and technology asset	Computer software	Total
As at December 31, 2018	\$ 2,933	\$ 2,496	\$ 5,429
Amortization	106	160	266
Foreign currency translation	(17)	(26)	(43)
As at June 30, 2019	3,022	2,630	5,652

Net Book Value

As at December 31, 2018	\$ 354	\$ 1,094	\$ 1,448
As at June 30, 2019	247	1,042	1,289

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6. Right of use assets

Right of use assets are measured at a cost comprising of the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date, any initial direct costs, and restoration costs.

Cost

As at January 1, 2019	\$	13,218
Additions		1,917
Disposal		(15)
Foreign currency translation		(128)
As at June 30, 2019		14,992

Accumulated amortization

As at January 1, 2019	\$	—
Depreciation		2,677
Disposal		(15)
Foreign currency translation		(125)
As at June 30, 2019		2,537

Net Book Value

As at January 1, 2019	\$	13,218
As at June 30, 2019		12,455

7. Leases

The Company incurs lease payments related to head office facilities, yard and branch locations, and vehicles and equipment. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related lease assets. The Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at June 30, 2019 at an incremental borrowing rate of 4.5% for facilities and an average implicit rate of 6.3% for fleet. As at June 30, 2019, there were lease additions of \$1.9 million.

Facility related short-term leases are leases with a lease term of twelve months or less while low-value assets are comprised of information technology and miscellaneous equipment. Such items are charged to operating expenses and selling and general and administrative expenses in the condensed consolidated statement of income.

As at December 31, 2018	\$	313
Adoption of IFRS 16		13,616
Additions		1,917
Interest expense		341
Lease payments		(2,571)
Foreign currency translation		(483)
Lease liabilities		13,133
Less lease liabilities - current portion		(5,151)
Lease liabilities		7,982

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The leases bear interest ranging from 1% to 6% at June 30, 2019. Minimum lease payments for equipment and facilities under lease for the next four years and thereafter are as follows:

	As at June 30, 2019	As at December 31, 2018
2019 \$	3,843	\$ 182
2020	4,807	160
2021	3,247	—
2022	1,394	—
2023 and thereafter	1,136	—
Total minimum lease payments	14,427	342
Less: Amounts representing future interest at annual rates between 1% and 6%	(1,294)	(29)
	13,133	313

Lease receivables consist of sub lease rent related to a U.S. facility. The portion of the right of use asset related to this facility has been classified as a lease receivable, with a current and long term portion. The receivable is measured at the present value of the remaining sub lease payments.

	As at June 30, 2019
Lease receivable	\$ 612
Less lease receivable - current portion	(341)
Lease receivable	271

8. Bank indebtedness

The Company's syndicated banking facility consists of an operating facility with a maximum principal amount of \$7.0 million CAD, \$5.0 million USD and a \$36.5 million CAD revolving facility, which are subject to certain limitations on accounts receivable, inventory and net book value of fixed assets and are secured by a general security agreement over the Company's assets. As at June 30, 2019, the Company had access to the maximum credit facilities. The syndicated banking facility bears interest at a variable rate, which is dependent on the Company's funded debt to covenant Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Funded debt is defined in the credit facility agreement as bank indebtedness plus long-term debt less cash.

Based on the Company's current funded debt to covenant EBITDA ratio at June 30, 2019, the interest rate on the syndicated credit facility is bank prime plus 0.50% on prime rate advances and at the prevailing rate plus a stamping fee of 1.50% on bankers' acceptances. The current debt agreement will mature on September 29, 2021. For the six months ended June 30, 2019, the overall effective rate on the operating facility was 3.66% (December 31, 2018 - 4.24%). At June 30, 2019, \$1.0 million (December 31, 2018 - \$0.8 million) was drawn on the operating facility. All bank covenants were in compliance as at June 30, 2019.

9. Long-term debt

	As at June 30, 2019	As at December 31, 2018
Revolving facility	\$ 6,460	\$ 12,934

As at June 30, 2019, the Company has access to all of the \$36.5 million revolving facility (see note 8) of which \$6.5 million was drawn as compared to \$12.9 million at December 31, 2018. Required monthly payments are interest only with the principal due September 29, 2021. The overall effective rate on the revolving facility for the six months ended June 30, 2019, was 3.75% (December 31, 2018 - 4.60%).

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10. Share capital**a) Authorized**

An unlimited number of Classes A, B, C, D, E and F shares without nominal or par value.
 As at June 30, 2019, there are no Class B, C, D, E or F shares outstanding.

b) Issued and outstanding

	Six months ended June 30, 2019		Year-ended December 31, 2018	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	57,244,420	\$ 147,664	59,905,640	\$ 154,763
Shareholder loan - repayment	—	91	—	—
Normal course issuer bid	(563,047)	(1,294)	(2,661,220)	(7,099)
Total common shares, end of period	56,681,373	146,461	57,244,420	147,664

On November 26, 2018, the Company obtained approval from the Toronto Stock Exchange to renew the normal course issuer bid ("**NCIB**") until November 27, 2019 with the number of common shares the Company can buy back limited to a maximum of 4,067,205 common shares. Under the previous NCIB, which ended on September 9, 2018, the Company purchased and canceled 2,768,320 common shares. Since the inception of the renewed NCIB, the Company purchased 563,047 common shares.

c) Stock options

Options to purchase common shares may be granted by the Board of Directors to directors, officers and employees of the Company. Options granted vest one-third on each of the first, second and third anniversary dates of the grant date. Options can be exercised for shares or net shares.

	As at June 30, 2019		As at December 31, 2018	
	Outstanding Options	Weighted average exercise price	Outstanding Options	Weighted average exercise price
Balance, beginning of year	1,980,000	\$1.96	2,054,670	\$2.23
Granted	518,500	\$1.42	456,000	\$1.56
Naturally expired - vested	(220,500)	\$3.68	(229,670)	\$3.41
Expired - vested	—	\$0.00	(141,674)	\$2.60
Forfeited - unvested	—	\$0.00	(159,326)	\$1.57
Balance, end of period	2,278,000	\$1.67	1,980,000	\$1.96

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Details of the exercise prices and expiry dates of options outstanding and exercisable as at June 30, 2019, are as follows:

Exercise price	Outstanding options	As at June 30, 2019				Weighted average exercise price
		Remaining contractual life (years)	Vested options	Remaining contractual life (years)	Weighted average exercise price	
\$1.00 - \$1.50	523,500	4.67	3,333	2.77	\$1.42	\$1.43
\$1.51 - \$1.60	1,110,000	2.91	546,177	2.76	\$1.55	\$1.54
\$1.61 - \$2.25	408,500	1.73	408,500	1.73	\$1.69	\$1.69
\$2.25 - \$5.00	236,000	0.67	236,000	0.67	\$2.79	\$2.79
	2,278,000	2.87	1,194,010	1.99	\$1.67	\$1.84

The Company recognized share-based compensation expense of \$0.1 million during the six months ended June 30, 2019 (June 30, 2018 - \$0.2 million). During the period ended June 30, 2019, the fair value of options granted were calculated based on the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate - 1.79%, expected volatility - 47%, expected term - 5 years and forfeiture rate of 14%.

d) Performance, restricted and director awards

The Company has a Retention Award Plan ("RAP") which authorizes the Board of Directors to grant performance awards ("PAs"), restricted awards ("RAs") and director awards ("DAs") to directors, officers, employees, consultants and other service providers of the Company.

The number of PAs, RAs, and DAs outstanding are as follows:

Performance awards

	Six months ended June 30, 2019	Year-ended December 31, 2018
	Number of awards	Number of awards
Balance, beginning of year	503,500	706,819
Exercised	(220,500)	(123,404)
Forfeited	—	(79,915)
Total awards, end of period	283,000	503,500

Restricted awards

	Six months ended June 30, 2019	Year-ended December 31, 2018
	Number of awards	Number of awards
Balance, beginning of year	407,500	—
Granted	535,000	422,500
Vested	(139,166)	—
Forfeited	—	(15,000)
Total awards, end of period	803,334	407,500

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Director awards

	Six months ended June 30, 2019	Year-ended December 31, 2018
	Number of awards	Number of awards
Balance, beginning of year	341,554	268,217
Granted	181,121	213,229
Exercised	—	(139,892)
Total awards, end of period	522,675	341,554

Under the RAP, the Company recognized an expense of \$0.9 million during the six months ended June 30, 2019 (year-ended December 31, 2018 - \$0.1 million) included in selling, general and administration expenses and a liability of \$1.4 million at June 30, 2019 (as at December 31, 2018 - \$1.1 million) included in accounts payable.

e) Contributed surplus

	Six months ended June 30, 2019	Year-ended December 31, 2018
Balance, beginning of year	\$ 13,068	\$ 12,736
Share-based payments expense	140	332
Balance, end of period	13,208	13,068

f) Per share amounts

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Basic weighted average shares outstanding	56,711,96	57,623,25	56,817,87	58,663,81
Diluted weighted average shares outstanding	56,711,96 ⁴	57,946,54 ³	56,817,87 ⁹	58,987,10 ⁷
	4	0	0	5

For the six months ended June 30, 2019, there were nil potentially dilutive securities outstanding (0.3 million - June 30, 2018).

11. Income tax

On May 28, 2019, the Government of Alberta substantively enacted a reduction in the provincial corporate tax rate from 12% to 8% over four years. As a result, the Company recognized an additional \$1.3 million of deferred tax recovery as at June 30, 2019.

Strad Inc.**Notes to the Interim Consolidated Financial Statements
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12. Changes in non-cash working capital

	For the six months ended	
	June 30, 2019	June 30, 2018
Trade receivables	\$ 9,763	\$ 2,068
Inventories	1,310	(817)
Prepays and deposits	1,308	(280)
Income taxes receivable	201	(2)
Accounts payable and accrued liabilities	(4,189)	2,369
Income taxes payable	14	—
Changes in items of non-cash working capital	8,407	3,338
Changes in items of non-cash working capital - operating	\$ 7,400	\$ 2,543
Changes in items of non-cash working capital - investing	1,017	793
Changes in items of non-cash working capital - financing	(10)	2
Changes in items of non-cash working capital	8,407	3,338

13. Segment information

The Executive Management Team, comprised of the Chief Executive Officer, the Chief Financial Officer, and the Chief Operating Officer, is the Company's chief operating decision-maker ("**CODM**"). Industrial Matting and Equipment Rentals are monitored as the reportable segments by the Company's Executive Management Team.

Industrial Matting and Equipment Rentals operating segments consist of revenue and expenses generated from the Company's core business of providing equipment and matting solutions to many industrial sectors, including Pipeline, Oil & Gas, Transmission and Distribution, as well as Construction. Corporate consists of costs incurred to operate a public company, including a portion of the Executive Management Team, rent and utilities and external professional services. Interest expense and income tax expense are not reviewed by the CODM as a part of Industrial Matting and Equipment Rentals segmented information and are therefore not allocated between the two segments.

Strad Inc.

Notes to the Interim Consolidated Financial Statements
For the three and six months ended June 30, 2019 and 2018
(Unaudited)

(in thousands of Canadian dollars)

Information regarding the Company's reportable operating segments is as follows:

Three months ended June 30, 2019	Industrial Matting	Equipment Rentals	Corporate	Total
Revenue from operating leases	\$ 8,717	\$ 6,522	\$ —	\$ 15,239
Revenue from customer contracts	7,598	3,839	—	11,437
Operating expenses	8,669	7,958	—	16,627
Selling, general and administrative	1,400	1,903	989	4,292
Share payments	20	29	2	51
Gain on property, plant and equipment disposals	—	(19)	—	(19)
Gain on foreign exchange	(22)	(36)	—	(58)
Earnings (loss) before interest, taxes, depreciation and amortization	6,248	526	(991)	5,783
Depreciation and amortization	5,437	3,415	145	8,997
Earnings (loss) before interest and tax	811	(2,889)	(1,136)	(3,214)
Interest expense			310	310
Income tax recovery			(1,820)	(1,820)
Net loss			374	(1,704)
Capital expenditures ⁽¹⁾	\$ 10,352	\$ 184	\$ —	\$ 10,536
Property, plant and equipment	69,301	64,710	156	134,167

⁽¹⁾ Capital expenditures do not include purchases of intangible assets.

Three months ended June 30, 2018	Industrial Matting	Equipment Rentals	Corporate	Total
Revenue from operating leases	\$ 7,537	\$ 6,755	\$ —	\$ 14,292
Revenue from customer contracts	7,599	6,144	—	13,743
Operating expenses	9,379	10,623	—	20,002
Selling, general and administrative	1,242	1,659	892	3,793
Share payments	33	47	15	95
Gain on property, plant and equipment disposals	(310)	(413)	(6)	(729)
Loss (gain) on foreign exchange	22	32	(10)	44
Earnings (loss) before interest, taxes, depreciation and amortization	4,770	951	(891)	4,830
Depreciation and amortization	1,269	3,901	70	5,240
Earnings (loss) before interest and tax	3,501	(2,950)	(961)	(410)
Interest expense			157	157
Income tax recovery			(4,428)	(4,428)
Net income			3,310	3,861
Capital expenditures ⁽¹⁾	\$ 5,304	\$ 587	\$ 58	\$ 5,949
Property, plant and equipment	49,396	89,502	299	139,197

⁽¹⁾ Capital expenditures do not include purchases of intangible assets.

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(in thousands of Canadian dollars)

Six months ended June 30, 2019	Industrial Matting	Equipment Rentals	Corporate	Total
Revenue from operating leases	\$ 19,349	\$ 15,041	\$ —	\$ 34,390
Revenue from customer contracts	14,711	8,455	—	23,166
Operating expenses	17,486	16,702	—	34,188
Selling, general and administrative	2,772	3,802	1,854	8,428
Share payments	54	70	16	140
Gain on property, plant and equipment disposals	(47)	(85)	—	(132)
Gain on foreign exchange	(18)	(29)	—	(47)
Earnings (loss) before interest, taxes, depreciation and amortization	13,813	3,036	(1,870)	14,979
Depreciation and amortization	8,822	7,035	291	16,148
Earnings (loss) before interest and tax	4,991	(3,999)	(2,161)	(1,169)
Interest expense			661	661
Income tax recovery			(1,688)	(1,688)
Net loss			(1,134)	(142)
Capital expenditures ⁽¹⁾	\$ 16,937	\$ 184	\$ —	\$ 17,121
Property, plant and equipment	69,301	64,710	156	134,167

⁽¹⁾ Capital expenditures do not include purchases of intangible assets.

Six months ended June 30, 2018	Industrial Matting	Equipment Rentals	Corporate	Total
Revenue from operating leases	\$ 13,529	\$ 15,420	\$ —	\$ 28,949
Revenue from customer contracts	12,073	15,377	—	27,450
Operating expenses	15,552	23,459	—	39,011
Selling, general and administrative	2,438	3,261	1,850	7,549
Share payments	61	87	30	178
Gain on property, plant and equipment disposals	(193)	(276)	(8)	(477)
Loss (gain) on foreign exchange	22	33	(10)	45
Earnings (loss) before interest, taxes, depreciation and amortization	7,722	4,233	(1,862)	10,093
Depreciation and amortization	2,596	7,935	141	10,672
Earnings (loss) before interest and tax	5,126	(3,702)	(2,003)	(579)
Interest expense			347	347
Income tax recovery			(4,390)	(4,390)
Net income			2,040	3,464
Capital expenditures ⁽¹⁾	\$ 9,254	\$ 986	\$ 58	\$ 10,298
Property, plant and equipment	49,396	89,502	299	139,197

⁽¹⁾ Capital expenditures do not include purchases of intangible assets.

Strad Inc.

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Revenue by Geography

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Canada	\$ 14,972	\$ 17,251	\$ 35,328	\$ 36,915
U.S.	11,704	10,784	22,228	19,484
Total	26,676	28,035	57,556	56,399

Revenue is allocated to each geographic location based on the country in which the revenue is generated.

	As at June 30, 2019			As at December 31, 2018		
	Capital, ROU, and intangible assets	Other assets	Total assets	Capital, ROU, and intangible assets	Other assets	Total assets
Canada	\$ 92,769	\$ 14,670	\$ 107,439	\$ 84,894	\$ 24,100	\$ 108,994
U.S.	55,142	10,409	65,551	53,532	12,951	66,483
Total	147,911	25,079	172,990	138,426	37,051	175,477

14. Related party transactions

The share purchase loans outstanding with key management are shown below:

	As at June 30, 2019	As at December 31, 2018
Opening balance	\$ 691	\$ 691
Repayment of share purchase loan	(73)	—
	618	691

Certain key management personnel and directors have loans outstanding totaling \$0.6 million from the Company. Proceeds of the loans were used to purchase common shares in the Company. The loan balances are non-interest bearing for the first three years the loan balances are outstanding unless further extensions are approved by the Board of Directors. During the first quarter of 2018, an extension of the non-interest bearing period for the loans was approved by the Board of Directors. After the interest free period, the notes bear interest at the prime lending rate per annum established by the Company's bank, plus 1% interest. The loans are required to be repaid in full on the maturity date, being 10 years from the date of issuance.

For the period ended June 30, 2019, there were loan advances of \$nil made to key management (year-ended December 31, 2018 - \$nil) and \$0.1 million of shareholder loans were repaid (year-ended December 31, 2018 - \$nil).

For the period ended June 30, 2019, interest of \$nil was charged by the Company on loans to key management (year-ended December 31, 2018 - \$nil) and interest repayments of \$nil were received (year-ended December 31, 2018 - \$nil).

The Company has entered into a consulting services agreement and lease agreements with an entity wholly owned by Lyle Wood, a member of the Company's Board of Directors. The Company makes payments of \$56,500 per month to Mr. Wood for advisory services related to ongoing business development activities and for rent related to yard and office space in Fort St. John, B.C. For the six months ended June 30, 2019, the total amount paid for these services was \$0.3 million (June 30, 2018 - \$0.4 million) with \$nil owing at June 30, 2019 (year-ended December 31, 2018 - \$nil).

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15. Expenses by Nature

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Operating Expenses				
Direct Expenses:				
Rental expenses	\$ 4,705	\$ 4,974	\$ 9,452	\$ 11,220
Service and trucking	6,161	7,159	12,382	13,514
Cost of sales and consumables	3,018	3,369	6,494	4,995
Total direct expenses	13,884	15,502	28,328	29,729
Indirect expenses:				
Personnel costs	\$ 1,344	\$ 1,700	\$ 2,733	\$ 3,575
Occupancy and other	1,399	2,800	3,127	5,707
Total indirect expenses	2,743	4,500	5,860	9,282
Total operating expenses	16,627	20,002	34,188	39,011
Selling, general and administrative expenses				
Personnel costs	\$ 2,157	\$ 2,307	\$ 4,348	\$ 4,549
Occupancy and other	2,135	1,486	4,080	3,000
Total selling, general and administrative expenses	4,292	3,793	8,428	7,549