



Strad Inc.

Unaudited Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2019 and 2018

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

| (in thousands of Canadian dollars) | Note | As at September 30, 2019 \$ | As at December 31, 2018 \$ |
|--|------|-----------------------------------|----------------------------------|
| Assets | | | |
| Current assets | | | |
| Trade receivables | | 26,347 | 32,013 |
| Inventories | | 409 | 1,839 |
| Prepays and deposits | | 951 | 2,063 |
| Lease receivable - current portion | 7 | 351 | — |
| Income taxes receivable | | 42 | 710 |
| Total current assets | | 28,100 | 36,625 |
| Non-current assets | | | |
| Property, plant and equipment | 4 | 138,487 | 136,978 |
| Intangible assets | 5 | 1,176 | 1,448 |
| Right of use assets | 6 | 11,542 | — |
| Income tax receivable | | 293 | 305 |
| Lease receivable | 7 | 184 | — |
| Deferred income tax assets | | — | 121 |
| Total non-current assets | | 151,682 | 138,852 |
| Total assets | | 179,782 | 175,477 |
| Liabilities | | | |
| Current liabilities | | | |
| Bank indebtedness | 8 | 2,480 | 762 |
| Accounts payable and accrued liabilities | | 16,197 | 16,373 |
| Income taxes payable | | 94 | — |
| Lease liabilities - current portion | 7 | 5,168 | 157 |
| Total current liabilities | | 23,939 | 17,292 |
| Non-current liabilities | | | |
| Long-term debt | 9 | 6,498 | 12,934 |
| Lease liabilities | 7 | 7,051 | 156 |
| Deferred income tax liabilities | | 7,073 | 9,151 |
| Total liabilities | | 44,561 | 39,533 |
| Equity | | | |
| Share capital | 10 | 146,334 | 147,664 |
| Contributed surplus | 10 | 13,251 | 13,068 |
| Accumulated other comprehensive income | | 21,529 | 23,439 |
| Deficit | | (45,893) | (48,227) |
| Total equity | | 135,221 | 135,944 |
| Total liabilities and equity | | 179,782 | 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 nine months ended September 30, 2019 and 2018

(Unaudited)

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

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|--|------|-------------------------------------|------------|------------------------------------|------------|
| | | 2019 \$ | 2018 \$ | 2019 \$ | 2018 \$ |
| Revenue | 13 | 33,298 | 31,220 | 90,854 | 87,619 |
| Expenses | | | | | |
| Operating expenses | 15 | 18,477 | 21,137 | 52,665 | 60,148 |
| Depreciation | 4 | 6,779 | 5,373 | 19,984 | 15,956 |
| Amortization of intangible assets | 5 | 138 | 71 | 404 | 160 |
| Amortization of right of use assets | 6 | 1,328 | — | 4,005 | — |
| Selling, general and administration | 15 | 4,593 | 3,633 | 13,022 | 11,182 |
| Share-based payments | 10 | 44 | 70 | 183 | 248 |
| Gain on disposal of property, plant and equipment | | (65) | (93) | (197) | (570) |
| (Gain) loss on foreign exchange | | — | (29) | (47) | 16 |
| Interest expense | | 344 | 230 | 1,005 | 577 |
| Income (loss) before income tax | | 1,660 | 828 | (170) | (98) |
| Income tax recovery | 11 | (76) | (62) | (1,763) | (4,452) |
| Income for the period | | 1,736 | 890 | 1,593 | 4,354 |
| Other comprehensive income (loss) | | | | | |
| Items that may be reclassified subsequently to net income | | | | | |
| Cumulative translation adjustment | | 755 | (1,085) | (1,910) | 1,595 |
| Deferred tax expense on foreign exchange gain | | — | — | — | (4,344) |
| Total comprehensive income (loss) | | 2,491 | (195) | (317) | 1,605 |
| Income per share: | | | | | |
| Basic | | \$0.03 | \$0.02 | \$0.03 | \$0.07 |
| Diluted | | \$0.03 | \$0.02 | \$0.03 | \$0.07 |

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

Strad Inc.

Interim Consolidated Statement of Changes in Equity
 For the nine months ended September 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 | | — | — | — | 1,593 | 1,593 |
| Other comprehensive income: | | | | | | |
| Cumulative translation adjustment | | — | — | (1,910) | — | (1,910) |
| Shareholder loans (net) | | 91 | — | — | (18) | 73 |
| Normal course issuer bid | 10 | (1,421) | — | — | 663 | (758) |
| Employee share options: | | | | | | |
| Value of services recognized | 10 | — | 183 | — | — | 183 |
| Balance - September 30, 2019 | | 146,334 | 13,251 | 21,529 | (45,893) | 135,221 |
| Balance - January 1, 2018 | | 154,763 | 12,736 | 22,635 | (50,211) | 139,923 |
| Net income for the period | | — | — | — | 4,354 | 4,354 |
| Other comprehensive income (net of tax): | | | | | | |
| Cumulative translation adjustment | | — | — | 1,595 | — | 1,595 |
| Deferred tax expense on foreign exchange gain | | — | — | (4,344) | — | (4,344) |
| Normal course issuer bid | | (6,886) | — | — | 2,896 | (3,990) |
| Employee share options: | | | | | | |
| Value of services recognized | | — | 248 | — | — | 248 |
| Balance - September 30, 2018 | | 147,877 | 12,984 | 19,886 | (42,961) | 137,786 |

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

Strad Inc.

Interim Consolidated Statement of Cash Flow

For the nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

| | Note | Nine months ended September | |
|--|------|-----------------------------|-----------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| Cash flow provided by (used in) | | | |
| Operating activities | | | |
| Net income for the period | | 1,593 | 4,354 |
| Adjustments for items not affecting cash: | | | |
| Depreciation and amortization | | 24,393 | 16,116 |
| Deferred income tax recovery | | (1,958) | (4,021) |
| Share-based payments | 10 | 183 | 248 |
| Interest expense | | 1,005 | 577 |
| Unrealized foreign exchange loss | | 89 | 56 |
| Gain on disposal of property, plant and equipment | | (197) | (570) |
| Book value of used fleet sales in operating activities | | 5,456 | 5,454 |
| Changes in items of non-cash working capital | 12 | 6,669 | 1,357 |
| Net cash generated from operating activities | | 37,233 | 23,571 |
| Investing activities | | | |
| Purchase of property, plant and equipment | 4 | (28,974) | (20,516) |
| Proceeds from sale of property, plant and equipment | | 225 | 1,595 |
| Purchase of intangible assets | 5 | (132) | (1,039) |
| Proceeds from sale of other assets | | — | 1,272 |
| Changes in items of non-cash working capital | 12 | 2,141 | 1,184 |
| Net cash used in investing activities | | (26,740) | (17,504) |
| Financing activities | | | |
| Repayment of long-term debt | | (6,436) | (4,362) |
| Repayment of lease liabilities | 7 | (3,873) | (252) |
| Repayment of shareholder loan | | 91 | — |
| Normal course issuer bid | | (758) | (3,990) |
| Interest expense | | (1,005) | (577) |
| Changes in items of non-cash working capital | 12 | (4) | 10 |
| Net cash used in financing activities | | (11,985) | (9,171) |
| Effect of exchange rate changes on cash and cash equivalents | | (226) | 289 |
| Decrease in cash and cash equivalents | | (1,718) | (2,815) |
| Cash and cash equivalents (including bank indebtedness) - beginning of year | | (762) | 1,859 |
| Cash and cash equivalents (including bank indebtedness) - end of period | | (2,480) | (956) |
| Cash paid for income tax | | 120 | 377 |
| Cash paid for interest | | 1,019 | 393 |

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

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 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 September 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 November 6, 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 November 6, 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, 2019, 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).

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

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

For the nine months ended September 30, 2019, the following is a summary of material impacts on the results from operations:

- Operating expenses decreased \$3.9 million related to monthly lease and rent payments, which resulted in a total increase in EBITDA of \$3.9 million.
- This was offset by the additional depreciation charge on the ROU assets of \$4.0 million and interest expense of \$0.5 million for the lease liabilities.

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 |

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

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 | 28,419 | 169 | 346 | — | 40 | 28,974 |
| Divestitures and transfers | (28,077) | (1,569) | (60) | — | — | (29,706) |
| Reclassification | (5) | — | 5 | — | — | — |
| Foreign currency translation | (3,820) | (82) | (26) | (35) | (11) | (3,974) |
| As at September 30, 2019 | 279,044 | 7,126 | 4,050 | 2,851 | 2,537 | 295,608 |

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 | 19,238 | 451 | 131 | 43 | 121 | 19,984 |
| Divestitures and transfers | (22,709) | (1,151) | (60) | — | — | (23,920) |
| Reclassification | 983 | (920) | (152) | 89 | — | — |
| Foreign currency translation | (2,155) | (60) | (20) | (33) | (11) | (2,279) |
| As at September 30, 2019 | 142,228 | 6,649 | 3,154 | 2,747 | 2,343 | 157,121 |

Net Book Value

| | | | | | | |
|--------------------------|------------|--------|--------|--------|--------|------------|
| As at December 31, 2018 | \$ 135,656 | \$ 279 | \$ 530 | \$ 238 | \$ 275 | \$ 136,978 |
| As at September 30, 2019 | 136,816 | 477 | 896 | 104 | 194 | 138,487 |

⁽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 | — | 132 | 132 |
| Foreign currency translation | (13) | (18) | (31) |
| As at September 30, 2019 | 3,274 | 3,704 | 6,978 |

Accumulated amortization

| | Patent and technology asset | Computer software | Total |
|------------------------------|--------------------------------|----------------------|----------|
| As at December 31, 2018 | \$ 2,933 | \$ 2,496 | \$ 5,429 |
| Amortization | 162 | 242 | 404 |
| Foreign currency translation | (12) | (19) | (31) |
| As at September 30, 2019 | 3,083 | 2,719 | 5,802 |

Net Book Value

| | | | |
|--------------------------|--------|----------|----------|
| As at December 31, 2018 | \$ 354 | \$ 1,094 | \$ 1,448 |
| As at September 30, 2019 | 191 | 985 | 1,176 |

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

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 | | 2,271 |
| Disposal | | (15) |
| Foreign currency translation | | (91) |
| As at September 30, 2019 | | 15,383 |

Accumulated amortization

| | | |
|------------------------------|----|-------|
| As at January 1, 2019 | \$ | — |
| Depreciation | | 4,005 |
| Disposal | | 15 |
| Foreign currency translation | | (179) |
| As at September 30, 2019 | | 3,841 |

Net Book Value

| | | |
|--------------------------|----|--------|
| As at January 1, 2019 | \$ | 13,218 |
| As at September 30, 2019 | | 11,542 |

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 September 30, 2019 at an incremental borrowing rate of 4.5% for facilities and an average implicit rate of 6.3% for fleet. For the period ending September 30, 2019, there were lease additions of \$2.3 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 | | 2,271 |
| Interest expense | | 506 |
| Lease payments | | (3,873) |
| Foreign currency translation | | (614) |
| Lease liabilities | | 12,219 |
| Less lease liabilities - current portion | | (5,168) |
| Lease liabilities | | 7,051 |

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

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

| | As at September 30, 2019 | As at December 31, 2018 |
|--|-----------------------------|----------------------------|
| 2019 | \$ 1,444 | \$ 182 |
| 2020 | 5,392 | 160 |
| 2021 | 3,549 | — |
| 2022 | 1,567 | — |
| 2023 and thereafter | 1,173 | — |
| Total minimum lease payments | 13,125 | 342 |
| Less: Amounts representing future interest at annual rates between 1% and 6% | (906) | (29) |
| | 12,219 | 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 September 30, 2019 |
|---|--------------------------|
| Lease receivable | \$ 535 |
| Less lease receivable - current portion | (351) |
| Lease receivable | 184 |

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 September 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 September 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 nine months ended September 30, 2019, the overall effective rate on the operating facility was 3.93% (December 31, 2018 - 4.24%). At September 30, 2019, \$2.5 million (December 31, 2018 - \$0.8 million) was drawn on the operating facility. All bank covenants were in compliance as at September 30, 2019.

9. Long-term debt

| | As at September 30, 2019 | As at December 31, 2018 |
|--------------------|-----------------------------|----------------------------|
| Revolving facility | \$ 6,498 | \$ 12,934 |

As at September 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 (December 31, 2018 - \$12.9 million). Required monthly payments are interest only with the principal due September 29, 2021. The overall effective rate on the revolving facility for the nine months ended September 30, 2019, was 3.85% (December 31, 2018 - 4.60%).

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

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 September 30, 2019, there are no Class B, C, D, E or F shares outstanding.

b) Issued and outstanding

| | Nine months ended September 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 | (623,847) | (1,421) | (2,661,220) | (7,099) |
| Total common shares, end of period | 56,620,573 | 146,334 | 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 623,847 common shares.

Subsequent to the quarter, the Company purchased 1,686,224 class A shares (Common Shares) at \$1.60 under the current NCIB for \$2.7 million. This purchase is pursuant to the block purchase exemption available under the rules of the Toronto Stock Exchange. The Company may purchase up to an additional 1,734,834 Common Shares until the end of the program on November 27, 2019.

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 September 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 | (8,333) | \$1.48 | (159,326) | \$1.57 |
| Balance, end of period | 2,269,667 | \$1.67 | 1,980,000 | \$1.96 |

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

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

| Exercise price | Outstanding options | As at September 30, 2019 | | | | Remaining contractual life (years) | Weighted average exercise price |
|-----------------|---------------------|------------------------------------|---------------------------------|----------------|---------------------------------|------------------------------------|---------------------------------|
| | | Remaining contractual life (years) | Weighted average exercise price | Vested options | Weighted average exercise price | | |
| \$1.00 - \$1.50 | 518,500 | 4.41 | \$1.42 | 3,333 | 2.52 | \$1.43 | |
| \$1.51 - \$1.60 | 1,106,667 | 2.65 | \$1.55 | 599,676 | 2.45 | \$1.54 | |
| \$1.61 - \$2.25 | 408,500 | 1.48 | \$1.69 | 408,500 | 1.48 | \$1.69 | |
| \$2.26 - \$5.00 | 236,000 | 0.42 | \$2.79 | 236,000 | 0.42 | \$2.79 | |
| | 2,269,667 | 2.61 | \$1.67 | 1,247,509 | 1.75 | \$1.83 | |

The Company recognized share-based compensation expense of \$0.2 million during the nine months ended September 30, 2019 (September 30, 2018 - \$0.2 million). During the period ended September 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

| | Nine months ended September 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

| | Nine months ended September 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 |

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

Director awards

| | Nine months ended September 30, 2019 | Year-ended December 31, 2018 |
|------------------------------------|---|---|
| | Number of awards | Number of awards |
| Balance, beginning of year | 341,554 | 268,217 |
| Granted | 227,626 | 213,229 |
| Exercised | — | (139,892) |
| Total awards, end of period | 569,180 | 341,554 |

Under the RAP, the Company recognized an expense of \$1.1 million during the nine months ended September 30, 2019 (year-ended December 31, 2018 - \$0.1 million) included in selling, general and administration expenses and a liability of \$1.6 million at September 30, 2019 (as at December 31, 2018 - \$1.1 million) included in accounts payable.

e) Contributed surplus

| | Nine months ended September 30, 2019 | | Year-ended December 31, 2018 | |
|-------------------------------|---|--|---|--|
| | \$ | | \$ | |
| Balance, beginning of year | 13,068 | | 12,736 | |
| Share-based payments expense | 183 | | 332 | |
| Balance, end of period | 13,251 | | 13,068 | |

f) Per share amounts

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|-------------|--|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Basic weighted average shares outstanding | 56,650,028 | 57,271,268 | 56,761,308 | 58,194,533 |
| Diluted weighted average shares outstanding | 57,272,402 | 57,595,100 | 57,383,682 | 58,518,365 |

For the nine months ended September 30, 2019, there were 0.5 million potentially dilutive securities outstanding (0.3 million - September 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 September 30, 2019.

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

12. Changes in non-cash working capital

| | For the nine months ended | |
|--|---------------------------|-----------------------|
| | September 30, 2019 | September 30, 2018 |
| Trade receivables | \$ 5,666 | \$ (700) |
| Inventories | 1,430 | 623 |
| Prepays and deposits | 1,112 | (162) |
| Income taxes receivable | 680 | (620) |
| Accounts payable and accrued liabilities | (176) | 3,410 |
| Income taxes payable | 94 | — |
| Changes in items of non-cash working capital | 8,806 | 2,551 |
| Changes in items of non-cash working capital - operating | \$ 6,669 | \$ 1,357 |
| Changes in items of non-cash working capital - investing | 2,141 | 1,184 |
| Changes in items of non-cash working capital - financing | (4) | 10 |
| Changes in items of non-cash working capital | 8,806 | 2,551 |

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 nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

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

| Three months ended September 30, 2019 | Industrial Matting | Equipment Rentals | Corporate | Total |
|---|-------------------------------|------------------------------|------------------|--------------|
| Revenue from operating leases | \$ 11,793 | \$ 7,732 | \$ — | \$ 19,525 |
| Revenue from customer contracts | 10,087 | 3,686 | — | 13,773 |
| Operating expenses | 11,295 | 7,182 | — | 18,477 |
| Selling, general and administrative | 1,582 | 2,165 | 846 | 4,593 |
| Share payments | 18 | 25 | 1 | 44 |
| Gain on property, plant and equipment disposals | (21) | (44) | — | (65) |
| Loss (gain) on foreign exchange | 8 | 12 | (20) | — |
| Earnings (loss) before interest, taxes, depreciation and amortization | 8,998 | 2,078 | (827) | 10,249 |
| Depreciation and amortization | 4,648 | 3,443 | 154 | 8,245 |
| Earnings (loss) before interest and tax | 4,350 | (1,365) | (981) | 2,004 |
| Interest expense | | | 344 | 344 |
| Income tax recovery | | | (76) | (76) |
| Net (loss) income | | | (1,249) | 1,736 |
| Capital expenditures ⁽¹⁾ | \$ 11,703 | \$ 118 | \$ 32 | \$ 11,853 |
| Property, plant and equipment | 76,096 | 62,247 | 144 | 138,487 |

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

| Three months ended September 30, 2018 | Industrial Matting | Equipment Rentals | Corporate | Total |
|---|-------------------------------|------------------------------|------------------|--------------|
| Revenue from operating leases | \$ 7,965 | \$ 8,799 | \$ — | \$ 16,764 |
| Revenue from customer contracts | 8,403 | 6,053 | — | 14,456 |
| Operating expenses | 9,599 | 11,538 | — | 21,137 |
| Selling, general and administrative | 1,337 | 1,764 | 532 | 3,633 |
| Share payments | 23 | 31 | 16 | 70 |
| Gain on property, plant and equipment disposals | (46) | (47) | — | (93) |
| (Gain) loss on foreign exchange | (19) | (14) | 4 | (29) |
| Earnings (loss) before interest, taxes, depreciation and amortization | 5,474 | 1,580 | (552) | 6,502 |
| Depreciation and amortization | 1,368 | 3,992 | 84 | 5,444 |
| Earnings (loss) before interest and tax | 4,106 | (2,412) | (636) | 1,058 |
| Interest expense | | | 230 | 230 |
| Income tax recovery | | | (62) | (62) |
| Net (loss) income | | | (804) | 890 |
| Capital expenditures ⁽¹⁾ | \$ 10,059 | \$ 142 | \$ 17 | \$ 10,218 |
| Property, plant and equipment | 56,245 | 84,777 | 203 | 141,225 |

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

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

| Nine months ended September 30, 2019 | Industrial Matting | Equipment Rentals | Corporate | Total |
|---|-------------------------------|------------------------------|------------------|--------------|
| Revenue from operating leases | \$ 31,142 | \$ 22,773 | \$ — | \$ 53,915 |
| Revenue from customer contracts | 24,798 | 12,141 | — | 36,939 |
| Operating expenses | 28,781 | 23,884 | — | 52,665 |
| Selling, general and administrative | 4,355 | 5,967 | 2,700 | 13,022 |
| Share payments | 71 | 95 | 17 | 183 |
| Gain on property, plant and equipment disposals | (68) | (129) | — | (197) |
| Gain on foreign exchange | (10) | (17) | (20) | (47) |
| Earnings (loss) before interest, taxes, depreciation and amortization | 22,811 | 5,114 | (2,697) | 25,228 |
| Depreciation and amortization | 13,470 | 10,478 | 445 | 24,393 |
| Earnings (loss) before interest and tax | 9,341 | (5,364) | (3,142) | 835 |
| Interest expense | | | 1,005 | 1,005 |
| Income tax recovery | | | (1,763) | (1,763) |
| Net (loss) income | | | (2,384) | 1,593 |
| Capital expenditures ⁽¹⁾ | \$ 28,640 | \$ 302 | \$ 32 | \$ 28,974 |
| Property, plant and equipment | 76,096 | 62,247 | 144 | 138,487 |

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

| Nine months ended September 30, 2018 | Industrial Matting | Equipment Rentals | Corporate | Total |
|---|-------------------------------|------------------------------|------------------|--------------|
| Revenue from operating leases | \$ 21,601 | \$ 25,475 | \$ — | \$ 47,076 |
| Revenue from customer contracts | 20,369 | 20,174 | — | 40,543 |
| Operating expenses | 25,151 | 34,997 | — | 60,148 |
| Selling, general and administrative | 3,775 | 5,025 | 2,382 | 11,182 |
| Share payments | 84 | 118 | 46 | 248 |
| Gain on property, plant and equipment disposals | (239) | (323) | (8) | (570) |
| Loss (gain) on foreign exchange | 3 | 19 | (6) | 16 |
| Earnings (loss) before interest, taxes, depreciation and amortization | 13,196 | 5,813 | (2,414) | 16,595 |
| Depreciation and amortization | 3,993 | 11,927 | 196 | 16,116 |
| Earnings (loss) before interest and tax | 9,203 | (6,114) | (2,610) | 479 |
| Interest expense | | | 577 | 577 |
| Income tax recovery | | | (4,452) | (4,452) |
| Net income | | | 1,265 | 4,354 |
| Capital expenditures ⁽¹⁾ | \$ 19,366 | \$ 1,074 | \$ 76 | \$ 20,516 |
| Property, plant and equipment | 56,245 | 84,777 | 203 | 141,225 |

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

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

Revenue by Geography

| | Three months ended | | Nine months ended | |
|--------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2019 | September 30, 2018 | September 30, 2019 | September 30, 2018 |
| Canada | \$ 19,591 | \$ 19,502 | \$ 54,919 | \$ 56,417 |
| U.S. | 13,707 | 11,718 | 35,935 | 31,202 |
| Total | 33,298 | 31,220 | 90,854 | 87,619 |

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

| | As at September 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 | \$ 111,712 | \$ 17,323 | \$ 129,035 | \$ 84,894 | \$ 24,100 | \$ 108,994 |
| U.S. | 39,493 | 11,254 | 50,747 | 53,532 | 12,951 | 66,483 |
| Total | 151,205 | 28,577 | 179,782 | 138,426 | 37,051 | 175,477 |

14. Related party transactions

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

| | As at September 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 unless extensions are approved by the Board of Directors.

For the period ended September 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 September 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 nine months ended September 30, 2019, the total amount paid for these services

Strad Inc.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

(in thousands of Canadian dollars)

was \$0.5 million (December 31, 2018 - \$0.7 million) with \$0.1 million owing at September 30, 2019 (year-ended December 31, 2018 - \$nil).

15. Expenses by Nature

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|---------------|---------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Operating Expenses | | | | |
| Direct Expenses: | | | | |
| Rental expenses | \$ 4,046 | \$ 4,710 | \$ 13,499 | \$ 15,930 |
| Service and trucking | 8,725 | 7,682 | 21,107 | 21,196 |
| Cost of sales and consumables | 2,429 | 3,746 | 8,923 | 8,741 |
| Total direct expenses | 15,200 | 16,138 | 43,529 | 45,867 |
| Indirect expenses: | | | | |
| Personnel costs | \$ 1,650 | \$ 1,864 | \$ 4,383 | \$ 5,439 |
| Occupancy and other | 1,627 | 3,135 | 4,753 | 8,842 |
| Total indirect expenses | 3,277 | 4,999 | 9,136 | 14,281 |
| Total operating expenses | 18,477 | 21,137 | 52,665 | 60,148 |
| Selling, general and administrative expenses | | | | |
| Personnel costs | \$ 2,458 | \$ 1,977 | \$ 6,806 | \$ 6,526 |
| Occupancy and other | 2,135 | 1,656 | 6,216 | 4,656 |
| Total selling, general and administrative expenses | 4,593 | 3,633 | 13,022 | 11,182 |