

Badger Daylighting Ltd.
Consolidated Financial Statements
For the year ended December 31, 2016

Independent Auditor's Report

To the Shareholders of Badger Daylighting Ltd.

We have audited the accompanying consolidated financial statements of Badger Daylighting Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

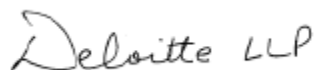
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Badger Daylighting Ltd. as at December 31, 2016, and December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
March 17, 2017
Calgary, Alberta

BADGER DAYLIGHTING LTD.
Consolidated Statement of Financial Position
(Expressed in thousands of Canadian Dollars)

As at December 31	Notes	2016	2015
ASSETS			
Current Assets			
Cash and cash equivalents		62,875	24,991
Trade and other receivables	6	92,467	83,402
Prepaid expenses		3,013	2,734
Inventories		3,617	3,300
Income taxes receivable		2,969	9,486
		164,941	123,913
Non-current Assets			
Property, plant and equipment	7	284,300	313,666
Goodwill and intangible assets	8	9,106	9,106
		293,406	322,772
Total Assets		458,347	446,685
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	10	28,999	30,765
Share-based plan liability	16	12,381	8,381
Income taxes payable		1,206	-
Dividends payable	12	1,224	1,113
		43,810	40,259
Non-current Liabilities			
Long-term debt	13	100,698	103,852
Deferred income tax	11	34,768	34,888
		135,466	138,740
Shareholders' Equity			
Shareholders' capital	15	82,724	82,724
Contributed surplus		548	548
Accumulated other comprehensive income		29,937	33,218
Retained earnings		165,862	151,196
		279,071	267,686
Total Liabilities and Shareholders' Equity		458,347	446,685

The accompanying notes are an integral part of these consolidated financial statements. These consolidated financial statements were approved by the Board on March 17, 2017 and were signed on its behalf.

Signed: Catherine Best
Director

Signed: Glen D. Roane
Director

BADGER DAYLIGHTING LTD.
Consolidated Statement of Comprehensive Income
(Expressed in thousands of Canadian Dollars)

For the year ended December 31	Notes	2016	2015
Revenues		404,202	404,620
Direct costs	17	284,297	283,105
Gross profit		119,905	121,515
Depreciation of property, plant and equipment		43,425	42,366
Amortization of intangible assets		-	1,276
Impairment of Fieldtek oil tank cleaning assets		-	6,508
General and administrative	17	15,142	13,756
Share-based compensation expense	16	6,904	1,710
Operating profit		54,434	55,899
Loss (gain) on sale of property, plant and equipment		2,410	(159)
Finance cost		4,952	5,915
Legal settlement and related costs		-	9,711
Foreign exchange gain		(59)	(811)
Profit before tax		47,131	41,243
Current income tax expense		17,561	20,747
Deferred income tax expense (recovery)		658	(17,992)
Total tax expense	11	18,219	2,755
Net profit		28,912	38,488
Exchange differences on translation of foreign operations		(6,434)	33,437
Unrealized foreign exchange loss on net investment hedge		3,153	(16,919)
Other comprehensive income		(3,281)	16,518
Total comprehensive income		25,631	55,006
Earnings per share			
Basic and diluted	18	0.78	1.04

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

BADGER DAYLIGHTING LTD.
Consolidated Statement of Changes in Equity
(Expressed in thousands of Canadian Dollars)

For the year ended	Shareholders' capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity
As at December 31, 2014	80,944	548	16,700	126,056	224,248
Net profit for the year	-	-	-	38,488	38,488
Other comprehensive income for the year	-	-	16,518	-	16,518
Shares issued on redemption of deferred share units	1,780	-	-	-	1,780
Dividends declared	-	-	-	(13,348)	(13,348)
As at December 31, 2015	82,724	548	33,218	151,196	267,686
Net profit for the year	-	-	-	28,912	28,912
Other comprehensive loss for the year	-	-	(3,281)	-	(3,281)
Dividends declared	-	-	-	(14,246)	(14,246)
As at December 31, 2016	82,724	548	29,937	165,862	279,071

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

BADGER DAYLIGHTING LTD.

Consolidated Statement of Cash Flows

For the years ended December 31, 2016 and December 31, 2015
(Expressed in thousands of Canadian Dollars unless stated otherwise)

For the year ended December 31	Notes	2016	2015
Operating activities			
Net profit for the year		28,912	38,488
Non-cash adjustments to reconcile profit from operations to net cash flows:			
Depreciation of property, plant and equipment		43,425	42,366
Amortization of intangible assets		-	1,276
Impairment of Fieldtek oil tank cleaning assets		-	6,508
Deferred income tax		658	(17,992)
Loss (gain) on sale of property plant and equipment		2,410	(159)
Legal settlement		-	5,048
Finance cost	24	4,884	6,048
Current tax expense		17,561	20,747
Share-based compensation expense		6,904	1,710
Unrealized foreign exchange loss (gain)		3	(19)
Cash flow from operating activities before changes in working capital		104,757	104,021
Changes in non-cash working capital		(13,038)	32,870
Current tax paid		(9,740)	(30,403)
Share-based compensation paid in cash		(2,904)	(6,217)
Cash flows from operating activities		79,075	100,271
Investing activities			
Purchase of property, plant and equipment		(23,488)	(38,967)
Proceeds from sale of property, plant and equipment		567	737
Change in non-cash working capital		874	(1,453)
Cash flows used in investing activities		(22,047)	(39,683)
Financing activities			
Proceeds from issuance of shares on redemption of deferred share units		-	1,780
Repayment of long-term debt		-	(37,426)
Dividends paid		(14,247)	(13,348)
Interest paid	24	(4,950)	(5,914)
Unrealized foreign exchange (gain) loss		(12)	(112)
Cash flows from financing activities		(19,209)	(55,020)
Effect of foreign exchange rate changes on cash		65	271
Net increase in cash		37,884	5,839
Cash, beginning of year		24,991	19,152
Cash, end of year		62,875	24,991

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

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

1 Incorporation and Operations

Badger Daylighting Ltd. and its subsidiaries (together “Badger” or the “Corporation”) primarily provide non-destructive excavating services to the utility, transportation, industrial, engineering, construction and petroleum industries in Canada and the United States. Badger is a publicly traded corporation. The address of the registered office is 1000, 635 – 8th Avenue SW, Calgary, Alberta T2P 3M3. The consolidated financial statements of the Corporation were authorised for issue by the Board of Directors on March 17, 2017.

2 Basis of Preparation

Statement of compliance

These consolidated financial statements of the Corporation are prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value consideration given in exchange for goods and services.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

3 Significant Accounting Judgements, Estimates and Assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit (“CGU”) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset’s performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

3 Significant Accounting Judgements, Estimates and Assumptions (continued)

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by tax authorities of the respective jurisdictions in which it operates. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Useful lives of property, plant and equipment

The Corporation estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

Allowance for doubtful accounts

The Corporation makes allowance for doubtful accounts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance of doubtful accounts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

4 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

A) Basis of consolidation

The consolidated financial statements include the accounts of Badger Daylighting Ltd. and its subsidiaries, all of which are wholly owned. Subsidiaries are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. All intra-company balances, income and expenses, unrealized gains and losses and dividends resulting from intra-company transactions are eliminated in full.

B) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being defined to include laid-down cost for materials on a weighted average basis.

C) Leases

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the balance of the liability. Finance charges are recognized in the consolidated statement of comprehensive income. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Corporation's consolidated statement of financial position. Operating lease payments are recognized as either a direct cost or general and administrative expense in the consolidated statement of comprehensive income.

D) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses if any. Repair and maintenance costs are recognized in the consolidated statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis to recognize the cost less estimated residual value over the estimated useful life of the assets as follows:

	Useful life	Residual Value
Land improvements	2 years	None
Buildings	20 years	None
Shoring equipment	10 years	10-15%
Shop and office equipment	4 to 10 years	None
Trucks and trailers	6 to 10 years	0-5%

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

4 Summary of Significant Accounting Policies (continued)

D) Property, plant and equipment (continued)

Depreciation of equipment under construction is not recorded until such time as the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Gains or losses arising from derecognition of an item of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

E) Intangible assets

Intangible assets represent service rights acquired, customer relationships, trade name and non-compete agreements. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

A summary of the policies applied to the Corporation's intangible assets is as follows:

	Service rights	Other intangibles
Useful lives	Indefinite	5 years
Amortization method	No amortization	Straight-line

F) Impairment of non-financial assets excluding goodwill

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

4 Summary of Significant Accounting Policies (continued)

F) Impairment of non-financial assets excluding goodwill (continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

G) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

H) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Corporation's CGU's expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

I) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income except to the extent it relates to items recognized directly in equity.

Current income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

4 Summary of Significant Accounting Policies (continued)

I) Taxes (continued)

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

J) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. Specific factors that the Corporation refers to includes the fact that the Corporation is ultimately responsible for the provision of services, it holds the contracts with customers, bills and collects all revenue and therefore bears credit risk and the Corporation retains ownership of all service vehicles. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of services

The Corporation recognizes revenue from services when the services are provided.

Truck placement fees

Truck placement fees are recognized when the truck is delivered to the operating partner. There were no material truck placement fees recognized in either 2016 or 2015.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

4 Summary of Significant Accounting Policies (continued)

K) Finance costs

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method. No borrowing costs were capitalized in either year presented.

L) Share-based plans

The Corporation has cash-settled share-based compensation plans under which it receives services from employees as consideration for cash payments.

The Corporation uses the market price of its shares to estimate the fair value of cash-settled awards. Fair value is established initially at the grant date and the obligation is revalued each reporting period until the awards are settled with any changes in the obligation recognized in the consolidated statement of comprehensive income.

M) Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by the Corporation's President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

N) Foreign currency translation

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statement of comprehensive income.

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in the accumulated other comprehensive income when settlement of which is neither planned nor likely to occur in the foreseeable future.

When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gain or losses related to such items are recognized in other comprehensive income, and presented in accumulated other comprehensive income in equity.

O) Financial assets

The Corporation classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Corporation's loans and receivables comprise 'trade and other receivables' and cash in the consolidated statement of financial position.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

4 Summary of Significant Accounting Policies (continued)

O) Financial assets (continued)

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest rate method.

A provision for impairment of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

P) Financial liabilities

The Corporation classifies its financial liabilities as other financial liabilities. Management determines the classification of its financial liabilities at initial recognition. Other financial liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

Other financial liabilities include trade and other payables, deferred unit plan liability, performance share unit plan, dividends payable and long-term debt. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Financial liabilities are classified as current liabilities if payment is due within one year or less, if not, they are presented as non-current liabilities.

Q) Equity instruments

Equity instruments issued by the Corporation are recorded at the proceeds received net of direct issue costs.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

5 Recent accounting pronouncements

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation:

- i) IFRS 9, 'Financial Instruments' was issued as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial instruments that must be applied starting January 1, 2018, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The extent of the impact of adoption of the standard has not yet been determined.
- ii) IFRS 15, 'Revenue from Contracts with Customers' replaces IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and SIC-31, Revenue – Barter Transactions Involving Advertising Services and is effective for annual periods beginning on or after January 1, 2017. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. The new standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions.
 - a. Identify the contract(s) with the customer;
 - b. Identify the performance obligation(s) in the contract;
 - c. Determine the transaction price;
 - d. Allocate the transaction price to each performance obligation in the contract;
 - e. Recognize revenue when (or as) the entity satisfies a performance obligation.

The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The Corporation has not yet selected a transition method nor determined the effect of the standard on the consolidated financial reporting.

- iii) IFRS 16, 'Leases' will supersede the current IAS 17, 'Leases' standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Corporation is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and have the option to either:
 - apply IFRS 16 with full retrospective effect; or
 - recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

As a practical matter, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The extent of the impact of adoption of the standard has not yet been determined.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and December 31, 2015

(Expressed in thousands of Canadian Dollars unless stated otherwise)

6 Trade and other receivables

	2016	2015
Trade receivables	89,847	81,981
Other sundry receivables	2,620	1,421
	92,467	83,402

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

The aging analysis of trade receivables is as follows:

	Past due but not impaired				
	Total	Not past due	31-60 days	61-90 days	Greater than 90 days
December 31, 2016	89,847	36,485	28,297	11,672	13,393
December 31, 2015	81,981	31,607	23,653	11,772	14,949

The allowance for doubtful accounts as at December 31, 2016 is \$1,492 (2015 - \$2,100). The changes in this account for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Balance, beginning of the year	2,100	1,023
Net change in allowance	(336)	1,474
Net amounts recovered (written off as uncollectible)	(259)	(489)
Exchange differences	(13)	92
Balance, end of the year	1,492	2,100

BADGER DAYLIGHTING LTD.

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For the year ended December 31, 2016

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7 Property, plant and equipment

	Land	Land	Buildings	Equipment	Shoring	Shop and	Trucks and	Total
	Land	improvements		under	equipment	office	trailers	
				construction		equipment		
Cost								
At December 31, 2014	5,481	634	17,114	7,484	2,825	1,290	404,520	439,348
Additions/transfers	548	-	3,727	242	-	1,119	33,331	38,967
Disposals	-	-	-	-	(603)	-	(10,618)	(11,221)
Exchange differences	114	-	786	-	-	120	48,673	49,693
At December 31, 2015	6,143	634	21,627	7,726	2,222	2,529	475,906	516,787
Additions/transfers	-	-	29	(1,901)	22	1,096	24,242	23,488
Disposals	-	-	-	-	(55)	(51)	(13,318)	(13,424)
Exchange differences	(31)	-	(202)	-	-	(28)	(9,374)	(9,635)
At December 31, 2016	6,112	634	21,454	5,825	2,190	3,546	477,456	517,217
Depreciation and impairment								
At December 31, 2014	-	453	4,755	-	1,704	590	145,827	153,329
Depreciation charge for the year	-	169	798	-	175	212	41,012	42,366
Disposals	-	-	-	-	(496)	-	(10,147)	(10,643)
Impairment of Fieldtek oil tank cleaning assets	-	-	-	-	-	-	1,379	1,379
Exchange differences	-	-	15	-	-	49	16,626	16,690
At December 31, 2015	-	622	5,568	-	1,383	851	194,697	203,121
Depreciation charge for the year	-	12	1,006	-	154	424	41,829	43,425
Disposals	-	-	-	-	(41)	(51)	(10,355)	(10,447)
Exchange differences	-	-	(1)	-	-	(9)	(3,174)	(3,182)
At December 31, 2016	-	634	6,574	-	1,496	1,215	222,997	232,917
Net book value								
At December 31, 2015	6,143	12	16,059	7,726	839	1,678	281,209	313,666
At December 31, 2016	6,112	-	14,880	5,825	694	2,331	254,459	284,300

BADGER DAYLIGHTING LTD.

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For the year ended December 31, 2016

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8 Goodwill and intangible assets

	Service rights	Other intangibles	Goodwill	Total
Cost				
At December 31, 2015 and December 31, 2016	7,485	7,359	3,136	17,980
Amortization and impairment				
At December 31, 2014	-	2,469	-	2,469
Impairment of Fieldtek oil tank cleaning assets	-	3,614	1,515	5,129
Amortization	-	1,276	-	1,276
At December 31, 2015	-	7,359	1,515	8,874
Amortization	-	-	-	-
At December 31, 2016	-	7,359	1,515	8,874
Net book value				
At December 31, 2015	7,485	-	1,621	9,106
At December 31, 2016	7,485	-	1,621	9,106

Impairment testing of goodwill and intangibles with indefinite lives

For impairment testing purposes, goodwill acquired through business combinations and service rights with indefinite lives have been allocated to the Western Canada and Eastern Canada CGUs respectively. Western United States, Eastern United States and Fieldtek CGUs have no goodwill or intangible assets allocated to them.

The Corporation performed the annual impairment tests of goodwill and service rights at December 31. The recoverable amount of the Eastern Canada, Western Canada and Fieldtek CGUs have been determined based on a value in use calculation using post-tax cash flow projections from financial budgets approved by senior management for 2017, forecasts over a five year period based on management's best estimates, a terminal rate of growth beyond five years of 2.0 %, and uses a post-tax discount rate of 12.0% (2015 – 12.0%).

No impairment was recorded for 2016. In 2015 the Corporation recorded an impairment charge of \$6,508 against goodwill, other intangibles, and carrying value of trucks and trailers used in the oil tank cleaning business (Fieldtek CGU).

The most significant assumptions used in the impairment calculation is the discount rate and the estimates used in determining future expected cash flows. The Corporation performed a sensitivity analysis and noted no possible impact in either the Western Canada or Eastern Canada CGU under any of the following situations:

- post tax discount rates increased by 1%
- cash flows decreased by 5%

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

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8 Goodwill and intangible assets (continued)

The following table shows the carrying values and impairment by CGU for intangible assets as at December 31, 2016 and 2015:

	December 31, 2016		Impairment	December 31, 2015	
	Service rights	Goodwill		Service rights	Goodwill
Fieldtek	-	-	5,129	-	-
Western Canada	4,930	-	-	4,930	-
Eastern Canada	2,555	1,621	-	2,555	1,621
Total	7,485	1,621	5,129	7,485	1,621

9 Legal settlement

On December 29, 2015, Badger entered into an agreement with a former franchisee who had filed a legal action against a subsidiary of Badger in Creek County, Oklahoma to pay USD \$7.5 million to settle a jury award of approximately USD \$13.7 million in favor of the former franchisee and his franchise. Badger paid USD \$2.5 million in December, 2015, and the remaining USD \$5.0 million was paid in January, 2016. Badger had initially accrued a total of USD \$17.5 million in the second quarter of 2015 to reflect the jury award plus an estimate of legal costs and interest in connection to this matter and the over-accrual being reversed in the fourth quarter of 2015. Directly related costs of \$1.5 million were also incurred by the Corporation in relation to this legal dispute in 2015.

10 Trade and other payables

	2016	2015
Current		
Trade payables	14,309	10,714
Bonuses payable	3,171	3,260
Accrued expenses	11,519	9,867
Legal settlement payable	-	6,924
	<u>28,999</u>	<u>30,765</u>

Trade payables are non-interest bearing and are normally settled on 45 day terms.

BADGER DAYLIGHTING LTD.

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11 Income taxes

The provision for income taxes, including deferred taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 26.8% (2015 – 26.2%). The Corporation's U.S. subsidiaries are subject to federal and state statutory tax rates of approximately 40% for both 2016 and 2015. The main differences are as follows:

	2016	2015
Profit before tax	47,131	41,243
Income tax expense at the Canadian statutory rate	12,645	10,818
Increase (decrease) resulting from:		
Tax rates in foreign jurisdictions	4,599	2,378
Tax rate changes	(83)	-
Transfer pricing adjustment from prior years	-	(9,211)
True-up of prior period taxes	998	-
Exchange differences	(126)	(945)
Other items	186	(285)
Income tax expense	18,219	2,755

During 2015 the Corporation undertook a review of past transfer pricing policies with respect to the sale of hydrovac and other vehicles from Canada to the US subsidiaries. Based on this review and underlying facts the Corporation has amended tax filings for the 2009 to 2013 taxation years in Canada and has made the required applications to the appropriate taxation authorities. Based on the amended tax returns the Corporation recognized a \$9,211 tax benefit in 2015 as the Corporation assessed the likelihood of realization of this benefit as being probable. Review by the respective taxation authorities is on-going.

All deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. In addition, deferred tax assets and liabilities have been offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

BADGER DAYLIGHTING LTD.

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11 Income taxes (continued)

	As at December 31, 2014	Recognized in profit or loss	As at December 31, 2015	Recognized in profit or loss	As at December 31, 2016
Deferred tax assets					
Tax loss carry-forwards	2,651	(2,651)	-	-	-
Share-based compensation plan(s)	3,308	(1,038)	2,270	1,073	3,343
Share issue costs	211	(100)	111	(111)	-
Legal settlement	-	2,769	2,769	(2,769)	-
	<u>6,170</u>	<u>(1,020)</u>	<u>5,150</u>	<u>(1,807)</u>	<u>3,343</u>
Deferred tax liabilities					
Property, plant and equipment	48,477	(9,556)	38,921	(909)	38,012
Intangible assets	422	(1,079)	(657)	174	(483)
Partnership income	2,009	(835)	1,174	(1,174)	-
Reserve	502	98	600	(18)	582
Unrealized foreign exchange gain	592	(592)	-	-	-
	<u>52,002</u>	<u>(11,964)</u>	<u>40,038</u>	<u>(1,924)</u>	<u>38,111</u>
Exchange differences in OCI		(7,048)		775	
Net deferred tax liability	<u>45,832</u>	<u>(17,992)</u>	<u>34,888</u>	<u>658</u>	<u>34,768</u>

A deferred tax asset of \$2.4 million (2015: \$2.8 million) related to allowable capital losses has not been recognized on unrealized foreign exchange losses arising from the translation of US dollar-denominated senior secured notes.

12 Dividends payable

During the year ended December 31, 2016, the Corporation paid cash dividends of \$14,135 (2015 - \$13,348) (or \$0.384 per common share (2015 - \$0.36 per common share) and declared a \$1,224 cash dividend (2015 - \$1,113) (or \$0.033 per common share (2015 - \$0.03 per common share) to its shareholders of record at the close of business on December 31, 2016 that was paid January 16, 2017.

The Corporation declares dividends monthly to its shareholders. Determination of the amount of cash dividends for any period is at the sole discretion of the directors and is based on certain criteria including financial performance as well as the projected liquidity and capital resource position of the Corporation. Dividends are declared to shareholders of the Corporation on the last business day of each month and paid on the 15th day of the month following the declaration (or if such day is not a business day, the next following business day).

BADGER DAYLIGHTING LTD.

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13 Long-term debt

	2016	2015
Syndicated revolving credit facility	-	-
Senior secured notes	100,698	103,852
	<u>100,698</u>	<u>103,852</u>

Syndicated revolving credit facility

The Corporation has established a \$125,000 syndicated revolving credit facility (the "credit facility"). The purpose of the credit facility is to finance the Corporation's capital expenditure program and for general corporate purposes. The credit facility bears interest, at the Corporation's option, at either the bank's prime rate plus a tiered set of basis points or bankers' acceptance rate also with a tiered structure. A stand-by fee is also required on the unused portion of the credit facility on a tiered basis. The prime rate tiers range between zero and 125 basis points. The bankers' acceptance tier ranges from 125 to 250 basis points. The stand-by fee tiers range between 25 and 50 basis points. All of the tiers are based on the Corporation's Funded Debt to Bank EBITDA ratio. Bank EBITDA is defined as earnings before interest, taxes, depreciation and amortization. The stand-by fee is expensed as incurred.

The credit facility expires on July 22, 2018.

The credit facility is collateralized by a general security interest over the Corporation's assets, property and undertaking, present and future.

Under the terms of the credit facility, the Corporation must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2016, and as at December 31, 2016, the Corporation was in compliance with all of these covenants.

As at December 31, 2016, the Corporation has issued letters of credit of approximately \$3.7 million (December 31, 2015 - \$3.4 million). The outstanding letters of credit support the insurance program in the United States and certain performance bonds and reduce the amount available under the syndicated credit facility.

At December 31, 2016, the Corporation had available \$121.3 million (December 31, 2015 - \$121.6 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

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13 Long term debt (continued)

Senior secured notes

On January 24, 2014 Badger closed a private placement of senior secured notes. The notes, which rank pari passu with the extendable revolving credit facility, have a principal amount of US \$75,000, and an interest rate of 4.83% per annum and mature on January 24, 2022. Amortizing principal repayments of US \$25,000 are due under the notes on January 24, 2020, January 24, 2021 and January 24, 2022. Interest is paid semi-annually in arrears.

The senior secured notes are collateralized by a general security interest over the Corporation's assets, property and undertaking, present and future.

Under the terms of the senior secured notes, the Corporation must comply with certain financial and non-financial covenants, as defined by the senior secured note agreement. See note 22 for a description of the financial covenants. Throughout 2016, and as at December 31, 2016, the Corporation was in compliance with all of these covenants.

14 Financial instruments

The Corporation's U.S. dollar denominated senior secured notes has been designated as a hedge of the net investment in its U.S. operations. At the inception of the hedge and on an ongoing basis, the Corporation documents whether the hedge is highly effective in offsetting foreign exchange fluctuations of its net investment. The effective portion of the change in fair value of the hedging instrument is recorded in other comprehensive income; any ineffectiveness is recorded immediately in earnings. Amounts included in foreign currency translation reserve will be recognized in earnings when there is a reduction of the hedged net investment.

15 Shareholders' capital and reserves

A) Authorized shares

An unlimited number of voting common shares are authorized without nominal or par value.

B) Issued and outstanding

	Number of Shares	Amount (\$)
At December 31, 2014	37,033,893	80,944
Shares issued on redemption of deferred share units	66,788	1,780
At December 31, 2015 and December 31, 2016	37,100,681	82,724

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

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16 Share-based payment plans

A) Deferred Share Unit Plan

The Deferred Share Unit Plan (“DSU”) was established to reward officers and employees. Directors may also participate in the plan whereby they will be paid 60% to 100% of the annual retainer in the form of deferred units. Pursuant to the terms of the DSU, participants are granted deferred units with a value equivalent to the value of a Badger share. The deferred units granted earn additional deferred units for the dividends that would otherwise have been paid on the deferred units as if they instead had been issued as Badger shares on the date of the grant. The deferred units granted other than to the directors, which vest immediately, vest equally over a period of three years from the date of the grant. Upon vesting, the participant may elect to redeem the deferred units for an equal number of Badger shares or the cash equivalent. A maximum of 1,500,000 Common Shares have been reserved for issuance pursuant to the Deferred Share Unit Plan.

The DSU has been accounted for as a cash-settled plan. The compensation expense is based on the estimated fair value of the deferred units outstanding at the end of each quarter using a volume weighted average share price and recognized using graded vesting throughout the term of the vesting period, with a corresponding credit to liabilities.

The liability of deferred units outstanding under the plan as at December 31, 2016 is \$9,659 (December 31, 2015 - \$8,039). The fair value of deferred units exercisable as at December 31, 2016 is \$8,693 (December 31, 2015 - \$6,936). Changes in the number of deferred units under the DSU were as follows:

	Units
At December 31, 2014	511,806
Granted	63,086
Dividends earned	6,846
Redeemed	(221,262)
Forfeited	(2,968)
At December 31, 2015	357,508
Granted	78,529
Dividends earned	5,684
Redeemed	(103,945)
Forfeited	(10,739)
At December 31, 2016	327,037
Exercisable at December 31, 2016	268,312

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For the year ended December 31, 2016

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16 Share-based payment plans (continued)

B) Performance Share Unit Plan

The Corporation introduced a performance share unit (PSU) plan for officers of the Corporation in the second quarter of 2015. Officers must elect to have at least half, but may elect to have all of their annual long-term incentive compensation awarded in PSUs, with the remainder awarded in DSUs. The PSUs will be granted annually and represent rights to share value based on the number of PSUs issued and achieving certain performance criteria as set out by the Board of Directors. Subject to achievement of performance criteria, under the terms of the plan, PSUs awarded will vest following a three-year term on their anniversary date and are recognized over their vesting period. PSUs, which meet the performance and other vesting criteria, will be settled in cash upon exercise.

In June 2016, the Corporation committed to matching shares purchased by the Chief Executive Officer (CEO) with an equivalent number of PSUs, up to an amount equal to the CEO's annual base salary. Purchases of common shares were made by the CEO prior to December 31, 2016 and this has resulted in granting 18,599 PSUs. These PSUs will be forfeited if the common shares purchased are sold prior to vesting of the corresponding PSUs.

The PSU Plan has been accounted for as a cash-settled plan. The compensation expense is based on the estimated fair value of the performance share units outstanding at the end of each quarter using a volume weighted average share price and recognized over the vesting period, with a corresponding credit to liabilities.

The liability for PSUs outstanding as at December 31, 2016 is \$2,722 (December 31, 2015 - \$342). There are no PSUs exercisable as at December 31, 2016 (December 31, 2015 – none). Changes in the number of PSUs under the PSU plan were as follows:

	Units
Granted	56,043
Redeemed	-
Forfeited	-
At December 31, 2015	56,043
Granted	142,273
Redeemed	-
Forfeited	-
At December 31, 2016	198,316
Exercisable at December 31, 2016	-

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17 Expenses by nature

Direct costs and general and administrative expenses include the following major expenses by nature:

	2016	2015
Wages, salaries and benefits	177,096	163,907
Fees paid to operating partners	35,812	49,104
Repairs and maintenance	26,311	24,970
Fuel	18,618	19,273

18 Earnings per share

Basic earnings per share ("EPS")

Basic EPS is calculated by dividing profit or loss attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. The denominator is calculated by adjusting the shares in issue at the beginning of the year by the number of shares bought back or issued during the year, multiplied by a time-weighting factor.

The calculation of basic earnings per share for the year ended December 31, 2016, was based on the profit available to common shareholders of \$28,912 (2015 - \$38,488), and a weighted average number of common shares outstanding of 37,100,681 (2015 – 37,073,547).

Diluted EPS

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of any dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted EPS.

Weighted average number of common shares:

	2016	2015
Issued common shares outstanding, beginning of year	37,100,681	37,033,893
Effect of shares issued on redemption of deferred share units	-	39,654
Basic and diluted weighted average number of common shares, end of year	<u>37,100,681</u>	<u>37,073,547</u>

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19 Segment reporting

The Corporation operates in two geographic/reportable segments providing non-destructive excavating services in each of these segments. The following is selected information for the years ended December 31, 2016 and 2015 based on these geographic segments.

For the year ended:	December 31, 2016			December 31, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	135,841	268,361	404,202	153,849	250,771	404,620
Direct costs	101,607	182,690	284,297	113,484	169,621	283,105
Depreciation of property, plant and equipment	13,611	29,814	43,425	15,288	27,078	42,366
Amortization of intangible assets	-	-	-	1,276	-	1,276
Impairment of Fieldtek oil tank cleaning assets	-	-	-	6,508	-	6,508
General and administrative	5,314	9,828	15,142	5,861	7,895	13,756
Profit before tax	3,958	43,173	47,131	4,824	36,419	41,243

For the year ended:	December 31, 2016			December 31, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Additions to non-current assets:						
Property, plant and equipment	1,642	21,846	23,488	2,151	36,816	38,967

	Canada	U.S.	Total
As at December 31, 2016			
Property, plant and equipment	92,917	191,383	284,300
Intangible assets	9,106	-	9,106
Total assets	173,539	284,808	458,347
As at December 31, 2015			
Property, plant and equipment	105,555	208,111	313,666
Intangible assets	9,106	-	9,106
Total assets	157,285	289,400	446,685

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Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

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20 Related party disclosure

The consolidated financial statements include the financial statements of Badger Daylighting Ltd. and the subsidiaries listed in the following table:

Name	Country of Incorporation	% equity interest	
		2016	2015
Badger Daylighting (Fort McMurray) Inc.	Canada	100%	100%
Badger Edmonton Ltd.	Canada	100%	100%
Fieldtek Ltd.	Canada	100%	100%
Badger ULC	Canada	100%	100%
Badger Daylighting Limited Partnership	Canada	100%	100%
Badger Daylighting USA, Inc.	United States of America	100%	100%
Badger Daylighting Corp.	United States of America	100%	100%
Badger, LLC	United States of America	100%	100%

Balances and transactions between Badger Daylighting Ltd. and its subsidiaries have been eliminated on consolidation and are not disclosed in this Note. Details of transactions between the Corporation and other related parties are disclosed below.

Transactions with related parties

During the year ended December 31, 2016, the Corporation received consulting services from an individual related to the CEO in the normal course of business and on an arm's length basis. An expense of \$6 was incurred. In 2015, there were no significant related party transactions.

Related party balances

As at December 31, 2016 and December 31, 2015 there were no significant outstanding balances with related parties.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel were as follows:

	2016	2015
Compensation, including bonuses	3,303	2,953
Share-based payments	4,005	2,667
	<u>7,309</u>	<u>5,620</u>

Key management personnel and director transactions

Key management and directors of the Corporation control 1 percent of the voting shares of the Corporation.

21 Capital management

The Corporation's strategy is to have a sufficient capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Corporation considers the capital structure to consist of net debt and shareholders' equity. The Corporation considers net debt to be total long-term debt less cash. The Corporation seeks to maintain a balance between the level of net debt and shareholders' equity to facilitate access to capital markets to fund growth and working capital. On a historical basis, it has been management's objective and view that the Corporation has maintained a conservative and appropriate ratio of net debt to net debt plus shareholders' equity. The Corporation may occasionally need to increase these levels to facilitate acquisition or expansion activities. This ratio was as follows:

BADGER DAYLIGHTING LTD.

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21 Capital management (continued)

	2016	2015
Long-term debt	100,698	103,852
Cash	(62,875)	(24,991)
Net debt	37,823	78,861
Shareholders' equity	279,071	267,686
Total capitalization	316,894	346,547
Net debt to total capitalization (%)	12%	23%

The Corporation sets the amounts of its various forms of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce net debt.

The Corporation is bound by certain financial and non-financial covenants as defined by both the extendable revolving credit facility and the senior secured note agreement. If the Corporation is in violation of any of these covenants its ability to pay dividends may be inhibited. The Corporation monitors these covenants to ensure it remains in compliance. The financial covenants are as follows:

Ratio	December 31, 2016	December 31, 2015	Threshold
Funded Debt ^[1] to Bank EBITDA ^[2]	0.95:1	1.03:1	2.75:1 maximum
Bank EBITDA ^[2] to Interest Expense ^[3]	19.29:1	15.35:1	3.00:1 minimum
Tangible Net Worth ^[4]	\$240,267	\$243,813	\$153,273

[1] Funded Debt is long-term debt including any current portion thereof, less up to a maximum of \$10,000 of cash.

[2] Funded Debt to Bank EBITDA (earnings before interest, taxes, depreciation and amortization) means the ratio of consolidated Funded Debt to the aggregated Bank EBITDA for the trailing twelve-months.

[3] Interest expense is interest expense as calculated in accordance with IFRS. This covenant was effective upon establishment of the syndicated credit facility (see note 13).

[4] Tangible Net Worth is total consolidated shareholders equity less intangible assets. This covenant was effective upon establishment of the syndicated credit facility (see note 13).

Throughout 2016 and as at December 31, 2016 the Corporation was in compliance with all of these covenants.

There were no changes in the Corporation's approach to capital management during the year.

The Corporation's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Corporation's financial performance.

Risk management is carried out by senior management, and the Board of Directors.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

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22 Financial instruments and risk management

Fair values

The Corporation's financial instruments recognized on the consolidated statement of financial position consist of cash, trade and other receivables, trade and other payables, share-based plan liability, dividends payable and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying values due to their short-term maturity. The fair value of the long-term debt is not materially different from its carrying value.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. A substantial portion of the Corporation's trade receivable balance is with customers in the petroleum and utility industries and is subject to industry credit risks. The Corporation manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Corporation attempts to monitor financial conditions of its customers and the industries in which they operate.

Liquidity risk

Liquidity risk is the risk that, as a result of operational liquidity requirements, the Corporation will not have sufficient funds to settle an obligation on the due date and will be forced to sell financial assets at a price which is less than what they are worth, or will be unable to settle or recover a financial asset.

The Corporation's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Corporation to raise capital by issuing equity or obtaining additional debt financing. The Corporation also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

At December 31, 2016, the Corporation had available \$121.3 million of authorized borrowing capacity on the extendable revolving credit facility. The credit facility expires on July 22, 2018. The Corporation believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

The table below summarizes the maturity profile of the Corporation's financial liabilities at December 31, 2016 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
As at December 31, 2016					
Trade and other payables	28,999	-	-	-	28,999
Share-based plan liability	8,570	3,422	389	-	12,381
Long-term debt	-	-	67,132	33,566	100,698
	37,569	3,422	67,521	33,566	142,058
	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
As at December 31, 2015					
Trade and other payables	30,765	-	-	-	30,765
Share-based plan liability	8,039	-	342	-	8,381
Long-term debt	-	-	34,618	69,234	103,852
	38,804	-	34,960	69,234	142,998

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Expressed in thousands of Canadian Dollars unless stated otherwise)

22 Financial instruments and risk management (continued)

Market risk

The significant market risk exposures affecting the financial instruments held by the Corporation are those related to interest rates and foreign currency exchange rates which are explained as follows:

Interest rate risk

The Corporation is exposed to interest rate risk in relation to interest expense on a portion of its long-term debt. Interest is calculated at prime on its borrowing facilities. There was no balance drawn on these facilities in the year so net profit wouldn't be affected by changes to the prime rate (2015 - \$0.1 million reduction in net profit with a one percent increase in the prime interest rate). The Corporation does not currently use interest rate hedges or fixed interest rate contracts to manage the Corporation's exposure to interest rate fluctuations.

Foreign exchange risk

The Corporation has Canadian operations which purchase certain products in United States dollars and United States operations. As a result, fluctuations in the value of the Canadian dollar relative to the United States dollar can result in foreign exchange gains and losses. In addition, the Corporation's United States subsidiaries are subject to foreign exchange gains and losses on consolidation. Realized foreign exchange gains and losses are included in net earnings while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenue and expenses of the Corporation's United States subsidiaries are included in OCI.

United States dollar denominated balances, subject to exchange rate fluctuations, were as follows (amounts shown in Canadian dollar equivalent):

	2016	2015
Cash	25,721	20,455
Trade and other receivables	61,453	52,046
Income taxes receivable	2,969	7,280
Trade and other payables	(5,430)	(22,942)
Long-term debt	(100,698)	(103,852)
	(15,985)	(47,013)

The following table demonstrates the Corporation's sensitivity for the above noted United States denominated balances to a 10% strengthening in the Canadian dollar against the United States dollar and the increased (decreased) earnings before income taxes and OCI as follows:

For the year ended December 31, 2016	Effect on profit/(loss) before tax 2016	Effect on profit/(loss) before tax 2015
10% strengthening in the Canadian dollar against the US dollar	(2,399)	(4,274)

For a hypothetical 10% weakening of the Canadian dollar against the United States dollar, there would be an equal and opposite effect on earnings before income taxes and OCI to that presented in the tables above.

BADGER DAYLIGHTING LTD.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

(Expressed in thousands of Canadian Dollars unless stated otherwise)

23 Commitments and contingencies

Legal disputes

The Corporation is not involved in any legal disputes that would generate a material impact to the financial results of the Corporation.

Operating leases

The Corporation has entered into operating leases for shop and office premises.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016	2015
Within one year	4,440	4,004
After one year but not more than five years	6,411	6,359
Total	<u>10,851</u>	<u>10,363</u>

Purchase commitments

At December 31, 2016 the Corporation has commitments to purchase approximately \$8.0 million (December 31, 2015: \$1.2 million) worth of capital assets and various parts and materials. There are no set terms for remitting payment for these financial obligations.

24 Change in accounting policy

Cash flow from operating activities and cash flow from financing activities for 2015 have changed in order to separately report an add-back of accrued interest in cash flow from operations, and deduct interest paid as a cash flow from financing activities. In 2015, these two amounts were shown net in cash flow from financing. As a result, \$6,048 was added to cash flow from operations in 2015, and deducted from cash flow from financing. Management believes this change in accounting policy provides readers with more detail and a clearer understanding of the cash flow generated from operations.