

Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited)

For the period ended March 31, 2016

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

As at	Notes	March 31, 2016	December 31, 2015
ASSETS			
Current Assets			
Cash and cash equivalents		31,474	24,991
Trade and other receivables		77,075	83,402
Prepaid expenses		3,807	2,734
Income taxes receivable		6,453	9,486
Inventories		3,392	3,300
		122,201	123,913
Non-current Assets			
Property, plant and equipment		291,662	313,666
Goodwill and intangible assets		9,106	9,106
		300,768	322,772
Total Assets		422,969	446,685
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		24,996	30,765
Share-based plan liability	5	8,033	8,381
Dividends payable		1,113	1,113
		34,142	40,259
Non-current Liabilities			
Long-term debt	3	97,276	103,852
Deferred income tax		31,417	34,888
		128,693	138,740
Shareholders' Equity			
Shareholders' capital	4	82,724	82,724
Contributed surplus		548	548
Accumulated other comprehensive income		25,336	33,218
Retained earnings		151,526	151,196
		260,134	267,686
Total Liabilities and Shareholders' Equity		422,969	446,685

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

BADGER DAYLIGHTING LTD.**Interim Consolidated Statement of Comprehensive Income**

(Unaudited - Expressed in thousands of Canadian Dollars)

For the three months ended	March 31, 2016	March 31, 2015
Revenues	88,157	101,689
Direct costs	64,635	70,616
Gross profit	23,522	31,073
Depreciation of property, plant and equipment	11,276	10,176
Amortization of intangible assets	-	319
General and administrative	3,930	3,317
Share-based compensation	(348)	345
Operating profit	8,664	16,916
Loss (gain) on sale of property, plant and equipment	2,236	(91)
Finance cost	1,348	1,068
Foreign exchange gain	(47)	(590)
Profit before tax	5,127	16,529
Current income tax expense	3,363	5,067
Deferred income tax (recovery) expense	(1,904)	19
Income tax expense	1,459	5,086
Net profit for the period	3,668	11,443
Other comprehensive income:		
Exchange differences on translation of foreign operations	(14,458)	16,750
Unrealized foreign exchange gain (loss) on net investment hedge	6,576	(8,153)
Other comprehensive income	(7,882)	8,597
Total comprehensive income	(4,214)	20,040
Earnings per share		
Basic and diluted	0.10	0.31

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

For the three months ended	Shareholders' capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
As at January 1, 2015	80,944	548	16,700	126,056	224,248
Net profit for the period	-	-	-	11,443	11,443
Other comprehensive income for the period	-	-	8,597	-	8,597
Shares issued on exercise of deferred share units	280	-	-	-	280
Dividends	-	-	-	(3,334)	(3,334)
As at March 31, 2015	81,224	548	25,297	134,165	241,234
As at January 1, 2016	82,724	548	33,218	151,196	267,686
Net profit for the period	-	-	-	3,668	3,668
Other comprehensive income for the period	-	-	(7,882)	-	(7,882)
Dividends	-	-	-	(3,339)	(3,339)
As at March 31, 2016	82,724	548	25,336	151,525	260,133

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

BADGER DAYLIGHTING LTD.
Interim Consolidated Statement of Cash Flows
(Unaudited - Expressed in thousands of Canadian Dollars)

For the three months ended	March 31, 2016	March 31, 2015
Operating activities		
Net profit for the period	3,668	11,443
Non-cash adjustments to reconcile profit from operations to net cash flows:		
Depreciation of property, plant and equipment	11,276	10,175
Amortization of intangible assets	-	319
Deferred income tax	(1,904)	19
Loss (gain) on sale of property plant and equipment	2,236	(91)
Unrealized foreign exchange (gain) loss	(10)	90
Cash flow from operating activities before working capital adjustments	15,266	21,955
Change in non-cash working capital	(307)	1,425
Cash flows from operating activities	14,959	23,380
Investing activities		
Purchase of property, plant and equipment	(4,241)	(21,989)
Purchase of property, plant and equipment as work in process	(184)	-
Proceeds from sale of property, plant and equipment	141	124
Change in non-cash working capital	567	(985)
Cash flows used in investing activities	(3,717)	(22,850)
Financing activities		
Repayment of long-term debt	-	(2,426)
Proceeds from issuance of shares on exercise of deferred units	-	280
Dividends paid to owners	(3,339)	(3,334)
Change in non-cash working capital	(1,312)	(1,257)
Unrealized foreign exchange gain	(58)	
Cash flows used in financing activities	(4,709)	(6,737)
Effect of foreign exchange rate changes on cash	(50)	108
(Decrease) increase in cash and cash equivalents	6,483	(6,099)
Cash and cash equivalents, beginning of period	24,991	19,152
Cash and cash equivalents, end of period	31,474	13,053
Supplemental cash flow information:		
Interest paid	2,563	2,505
Income tax paid	597	9,398

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

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2016

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

1 Incorporation and operations

Badger Daylighting Ltd. and its subsidiaries (together “Badger” or the “Corporation”) 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 interim condensed consolidated financial statements of the Corporation for the period ended March 31, 2016 were authorised for issue in accordance with a resolution of the directors on May 9, 2016.

2 Basis of preparation

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”).

The interim condensed consolidated financial statements should be read in conjunction with the Corporation’s annual consolidated financial statements for the year ended December 31, 2015.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention.

Functional and presentation currency

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

3 Long-term debt

	March 31, 2016	December 31, 2015
Syndicated revolving credit facility	-	-
Senior secured notes	97,276	103,852
	<u>97,276</u>	<u>103,852</u>

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2016

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

3 Long-term debt (continued)

Syndicated revolving credit facility

The Corporation has established a \$125 million 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 March 31, 2016, the Corporation was in compliance with all of these covenants. A complete listing and definition of the debt covenants is found in the Corporation's annual consolidated financial statements for the year ended December 31, 2015.

As at March 31, 2016, the Corporation has issued letters of credit of approximately \$3.1 million. The outstanding letters of credit support the U.S. insurance program and certain performance bonds and reduce the amount available under the syndicated credit facility.

At March 31, 2016, the Corporation had available \$121.9 million (December 31, 2015 - \$121.6 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

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. The Canadian dollar equivalent on January 24, 2014 was \$82,912. 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.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2016

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

4 Shareholders' capital

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, 2015	37,100,681	82,724
Shares issued on redemption of deferred share units	-	-
At March 31, 2016	37,100,681	82,724

5 Share-based payment plans

A) Deferred Share Unit Plan

The Deferred Share Unit ("DSU") Plan 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 DSU Plan.

The DSU Plan 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 as at March 31, 2016 is \$7,516 (December 31, 2015 - \$8,039). The fair value of deferred units exercisable as at March 31, 2016 is \$6,306 (December 31, 2015 - \$6,936). Changes in the number of deferred units under the DSU Plan 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
Dividends earned	2,235
Redeemed	-
Forfeited	-
At March 31, 2016	359,743
Exercisable at March 31, 2016	285,150

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2016

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

5 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.

The PSU Plan has been accounted for as a cash-settled plan. The compensation expense is based on the estimated fair value of the PSUs 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 March 31, 2016 is \$517. There are no PSUs exercisable as at March 31, 2016. 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	-
Redeemed	-
Forfeited	-
At March 31, 2016	56,043
Exercisable at March 31, 2016	-

6 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 period. The denominator is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

The calculation of basic earnings per share for the three months ended March 31, 2016, was based on the profit available to common shareholders of \$3,668 (2015 - \$11,443), and a weighted average number of common shares outstanding of 37,100,681 (2015 – 37,044,337).

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:

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2016

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

6 Earnings per share (continued)

	For the three months ended	
	March 31, 2016	March 31, 2015
Issued common shares outstanding, beginning of period	37,100,681	37,033,893
Effect of shares issued on exercise of deferred share units	-	10,444
Basic and diluted weighted average number of common shares, end of period	<u>37,100,681</u>	<u>37,044,337</u>

7 Segment reporting

The Corporation operates in two geographic/reportable segments providing non-destructive excavating services in each of these segments. None of the corporate head office expenses are allocated to the United States. The following is selected information for the periods ended March 31, 2016 and 2015 based on these geographic segments.

For three months ended:	March 31, 2016			March 31, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	31,175	56,982	88,157	46,227	55,462	101,689
Direct costs	24,732	39,903	64,635	32,488	38,128	70,616
Depreciation of property, plant and equipment	3,465	7,811	11,276	3,890	6,286	10,176
Amortization of intangible assets	-	-	-	319	-	319
General and administrative	1,837	2,093	3,930	1,992	1,325	3,317
Share-based compensation	(348)	-	(348)	345	-	345
Profit before tax	543	4,584	5,127	6,857	9,672	16,529

For three months ended:	March 31, 2016			March 31, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Additions to non-current assets:						
Property, plant and equipment	1,345	3,080	4,425	11,399	10,590	21,989

	Canada	U.S.	Total
As at March 31, 2016			
Property, plant and equipment	103,431	188,231	291,662
Intangible assets	9,106	-	9,106
Total assets	169,327	253,642	422,969
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

8 Purchase commitments

At March 31, 2016, the Corporation has commitments to purchase approximately \$1.4 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.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2016

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

9 Subsequent events

On May 9, 2016, the Board of Directors decided to increase the monthly dividend from \$0.03 per common share by 10 percent, to \$0.033 starting with the May 2016 dividend payable in June 2016.