

**Badger Daylighting Ltd.**

Interim Condensed Consolidated Financial Statements  
(unaudited)

For the three and six months ended June 30, 2016

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

As at	Notes	June 30, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		40,158	24,991
Trade and other receivables		83,574	83,402
Prepaid expenses		2,563	2,734
Income taxes receivable		4,128	9,486
Inventories		3,146	3,300
		133,569	123,913
<b>Non-current Assets</b>			
Property, plant and equipment		288,794	313,666
Goodwill and intangible assets		9,106	9,106
		297,900	322,772
<b>Total Assets</b>		431,469	446,685
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables		27,009	30,765
Share-based plan liability	5	9,486	8,381
Dividends payable		1,224	1,113
		37,719	40,259
<b>Non-current Liabilities</b>			
Long-term debt	3	97,567	103,852
Deferred income tax		33,342	34,888
		130,909	138,740
<b>Shareholders' Equity</b>			
Shareholders' capital	4	82,724	82,724
Contributed surplus		548	548
Accumulated other comprehensive income		25,654	33,218
Retained earnings		153,915	151,196
		262,841	267,686
<b>Total Liabilities and Shareholders' Equity</b>		431,469	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 June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Revenues	91,981	90,435	180,138	192,124
Direct costs	64,874	66,238	129,509	136,854
<b>Gross profit</b>	<b>27,107</b>	<b>24,197</b>	<b>50,629</b>	<b>55,270</b>
Depreciation of property, plant and equipment	10,533	10,395	21,809	20,571
Amortization of intangible assets	-	319	-	638
General and administrative	3,885	4,134	7,815	7,450
Share-based compensation	1,487	1,261	1,140	1,607
<b>Operating profit</b>	<b>11,201</b>	<b>8,088</b>	<b>19,865</b>	<b>25,004</b>
Loss (gain) on sale of property, plant and equipment	157	33	2,392	(58)
Finance cost	1,279	1,265	2,627	2,333
Legal provision	-	21,620	-	21,620
Foreign exchange gain	(12)	42	(59)	(548)
<b>Profit before tax</b>	<b>9,778</b>	<b>(14,872)</b>	<b>14,905</b>	<b>1,657</b>
Current income tax expense	1,845	(7,480)	5,208	(2,414)
Deferred income tax (recovery) expense	1,981	3,141	78	3,160
<b>Income tax expense</b>	<b>3,827</b>	<b>(4,339)</b>	<b>5,286</b>	<b>746</b>
<b>Net profit for the period</b>	<b>5,951</b>	<b>(10,533)</b>	<b>9,619</b>	<b>911</b>
<b>Other comprehensive income:</b>				
Exchange differences on translation of foreign operations	609	(4,397)	(13,849)	12,354
Unrealized foreign exchange gain (loss) on net investment hedge	(291)	1,523	6,285	(6,630)
<b>Other comprehensive income</b>	<b>318</b>	<b>(2,874)</b>	<b>(7,563)</b>	<b>5,724</b>
<b>Total comprehensive income</b>	<b>6,269</b>	<b>(13,407)</b>	<b>2,056</b>	<b>6,635</b>
<b>Earnings per share</b>				
Basic and diluted	0.16	(0.28)	0.26	0.02

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

<b>For the six months ended</b>	<b>Shareholders' capital</b>	<b>Contributed surplus</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Retained earnings</b>	<b>Total equity</b>
As at January 1, 2015	80,944	548	16,700	126,056	224,248
Net profit for the period	-	-	-	911	911
Other comprehensive income for the period	-	-	5,724	-	5,724
Shares issued on exercise of deferred share units	1,693	-	-	-	1,693
Dividends	-	-	-	(6,669)	(6,669)
<b>As at June 30, 2015</b>	<b>82,637</b>	<b>548</b>	<b>22,424</b>	<b>120,298</b>	<b>225,907</b>
As at January 1, 2016	82,724	548	33,217	151,197	267,686
Net profit for the period	-	-	-	9,619	9,619
Other comprehensive income for the period	-	-	(7,563)	-	(7,563)
Dividends	-	-	-	(6,901)	(6,901)
<b>As at June 30, 2016</b>	<b>82,724</b>	<b>548</b>	<b>25,654</b>	<b>153,915</b>	<b>262,841</b>

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 June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
<b>Operating activities</b>				
Net profit for the period	5,951	(10,533)	9,619	911
Non-cash adjustments to reconcile profit from operations to net cash flows:				
Depreciation of property, plant and equipment	10,533	10,395	21,809	20,571
Amortization of intangible assets	-	319	-	638
Deferred income tax	1,981	3,141	78	3,160
Loss (gain) on sale of property plant and equipment	156	33	2,392	(58)
Legal provision	-	21,620	-	21,620
Unrealized foreign exchange (gain) loss	1	(122)	(9)	(32)
Cash flow from operating activities before working capital adjustments	18,622	24,853	33,889	46,810
Change in non-cash working capital	177	(388)	(131)	1,035
<b>Cash flows from operating activities</b>	<b>18,799</b>	<b>24,465</b>	<b>33,758</b>	<b>47,845</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(5,983)	(5,581)	(10,224)	(27,570)
Purchase of property, plant and equipment as work in process	(1,556)	-	(1,740)	-
Proceeds from sale of property, plant and equipment	216	108	357	232
Change in non-cash working capital	(421)	12	146	(973)
<b>Cash flows used in investing activities</b>	<b>(7,744)</b>	<b>(5,461)</b>	<b>(11,462)</b>	<b>(28,311)</b>
<b>Financing activities</b>				
Repayment of long-term debt	-	(26,024)	-	(28,450)
Proceeds from issuance of shares on exercise of deferred units	-	1,413	-	1,693
Dividends paid to owners	(3,562)	(3,336)	(6,901)	(6,669)
Change in non-cash working capital	1,180	1,108	(131)	(141)
Unrealized foreign exchange gain	4	-	(54)	-
<b>Cash flows used in financing activities</b>	<b>(2,378)</b>	<b>(26,839)</b>	<b>(7,086)</b>	<b>(33,567)</b>
Effect of foreign exchange rate changes on cash	8	26	(43)	125
(Decrease) increase in cash and cash equivalents	8,685	(7,809)	15,167	(13,908)
Cash and cash equivalents, beginning of period	31,473	13,053	24,991	19,152
<b>Cash and cash equivalents, end of period</b>	<b>40,158</b>	<b>5,244</b>	<b>40,158</b>	<b>5,244</b>
Supplemental cash flow information:				
Interest paid	94	140	2,657	2,645
Income tax paid	58	8,261	655	17,660

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

# BADGER DAYLIGHTING LTD.

## Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2016

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

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### 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 – 8<sup>th</sup> Avenue SW, Calgary, Alberta T2P 3M3.

The interim condensed consolidated financial statements of the Corporation for the period ended June 30, 2016 were authorised for issue in accordance with a resolution of the directors on August 11, 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

	June 30, 2016	December 31, 2015
Syndicated revolving credit facility	-	-
Senior secured notes	97,567	103,852
	<u>97,567</u>	<u>103,852</u>

# **BADGER DAYLIGHTING LTD.**

## **Notes to the Interim Consolidated Financial Statements**

Six months ended June 30, 2016

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

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### **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 tiers range 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 June 30, 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 June 30, 2016, the Corporation has issued letters of credit of approximately \$3.6 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 June 30, 2016, the Corporation had available \$121.4 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 Consolidated Financial Statements

Six months ended June 30, 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 June 30, 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 promote a greater alignment of interests between the executive officers and the Shareholders of the Corporation. 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 at the same rate as dividends on Badger common shares. 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 June 30, 2016 is \$8,553 (December 31, 2015 - \$8,039). The fair value of deferred units exercisable as at June 30, 2016 is \$7,946 (December 31, 2015 - \$6,936). Changes in the number of deferred units under the DSU Plan were as follows:

	Units
<b>At December 31, 2014</b>	511,806
Granted	63,086
Dividends earned	6,846
Redeemed	(221,262)
Forfeited	(2,968)
<b>At December 31, 2015</b>	357,508
Granted	78,529
Dividends earned	2,997
Redeemed	(1,544)
Forfeited	(1,826)
<b>At June 30, 2016</b>	435,664
<b>Exercisable at June 30, 2016</b>	236,567



# BADGER DAYLIGHTING LTD.

## Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 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 June 30, 2016 is \$416 (December 31, 2015 - \$342). There are no PSUs exercisable as at June 30, 2016 (December 31, 2015 – nil). Changes in the number of PSUs under the PSU plan were as follows:

	Units
<b>At December 31, 2014</b>	-
Granted	56,043
Redeemed	-
Forfeited	-
<b>At December 31, 2015</b>	<b>56,043</b>
Granted	88,011
Redeemed	-
Forfeited	-
<b>At June 30, 2016</b>	<b>144,054</b>
<b>Exercisable at June 30, 2016</b>	<b>-</b>

### 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 six months ended June 30, 2016, was based on the net profit available to common shareholders of \$9,619 (2015 - \$911), and a weighted average number of common shares outstanding of 37,100,681 (2015 – 37,045,997).

#### 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 Consolidated Financial Statements

Six months ended June 30, 2016

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

### 6 Earnings per share (continued)

	For the six months ended		For the three months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Issued common shares outstanding, beginning of period	37,100,681	37,033,893	37,100,681	37,045,791
Effect of shares issued on exercise of deferred share units	-	12,104	-	1,848
Basic and diluted weighted average number of common shares, end of period	37,100,681	37,045,997	37,100,681	37,047,639

### 7 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 periods ended June 30, 2016 and 2015 based on these geographic segments.

For six months ended:	June 30, 2016			June 30, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	62,387	117,751	180,138	80,159	111,965	192,124
Direct costs	47,905	81,604	129,509	58,572	78,282	136,854
Depreciation of property, plant and equipment	6,870	14,939	21,809	7,830	12,741	20,571
Amortization of intangible assets	-	-	-	638	-	638
General and administrative	2,796	5,019	7,815	4,076	3,374	7,450
Share-based compensation	1,106	34	1,140	1,607	-	1,607
Profit (loss) before tax	944	13,961	14,905	5,733	(4,076)	1,657

For three months ended:	June 30, 2016			June 30, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	31,211	60,770	91,981	33,932	56,503	90,435
Direct costs	23,172	41,702	64,874	26,083	40,155	66,238
Depreciation of property, plant and equipment	3,405	7,128	10,533	3,939	6,456	10,395
Amortization of intangible assets	-	-	-	319	-	319
General and administrative	1,286	2,599	3,885	2,085	2,048	4,133
Share-based compensation	1,454	34	1,488	1,261	-	1,261
Profit (loss) before tax	401	9,377	9,778	(1,124)	(13,748)	(14,872)

	Canada	U.S.	Total
<b>As at June 30, 2016</b>			
Property, plant and equipment	106,629	182,165	288,794
Intangible assets	9,106	-	9,106
Total assets	171,926	259,543	431,469
<b>As at December 31, 2015</b>			
Property, plant and equipment	105,555	208,111	313,666
Intangible assets	9,106	-	9,106
Total assets	157,285	289,400	446,685

## **BADGER DAYLIGHTING LTD.**

### **Notes to the Interim Consolidated Financial Statements**

Six months ended June 30, 2016

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

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#### **8 Purchase commitments**

At June 30, 2016, the Corporation has commitments to purchase approximately \$0.8 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.