

Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited)

For the period ended June 30, 2014

REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation have been prepared by Badger Daylighting Ltd. management.

The Corporation's independent auditor has not performed a review of the accompanying unaudited interim condensed consolidated financial statements in accordance with standards established by the CICA for a review of interim financial statements by an entity's auditor.

BADGER DAYLIGHTING LTD.**Unaudited Interim Consolidated Statement of Financial Position**

(Expressed in thousands of Canadian Dollars)

As at	Notes	June 30, 2014 \$	December 31, 2013 \$
ASSETS			
Current Assets			
Cash and cash equivalents		3,347	8,623
Trade and other receivables		89,001	92,115
Prepaid expenses		1,383	1,459
Income taxes receivable		-	-
Inventories		4,461	3,300
		98,192	105,497
Non-current Assets			
Property, plant and equipment		249,945	211,614
Goodwill and intangible assets		16,149	16,787
		266,094	228,401
Total Assets		364,286	333,898
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		27,128	23,657
Deferred unit plan liability	6	15,735	13,933
Income taxes payable		2,087	4,952
Dividends payable		1,111	1,111
		46,061	43,653
Non-current Liabilities			
Long-term debt	4	95,804	82,319
Deferred income tax		38,245	36,857
		134,049	119,176
Shareholders' Equity			
Shareholders' capital	5	80,944	80,944
Contributed surplus	5	548	548
Accumulated other comprehensive income (loss)	5	3,085	3,291
Retained earnings		99,599	86,286
		184,176	171,069
Total Liabilities and Shareholders' Equity		364,286	333,898

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

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

(Expressed in thousands of Canadian Dollars)

		For the six months ended		For the three months ended	
		June 30,	June 30,	June 30,	June 30,
		2014	2013	2014	2013
	Notes	\$	\$	\$	\$
Revenues	7	200,748	142,812	100,726	73,658
Direct costs		139,978	94,511	70,394	48,078
Gross profit		60,770	48,301	30,332	25,580
Depreciation of property, plant and equipment		15,676	11,102	8,108	5,769
Amortization of intangible assets		638	-	319	-
Selling, general and administrative		11,310	6,312	5,239	3,292
Deferred unit plan		4,914	3,708	(2,522)	1,945
Operating profit		28,232	27,179	19,188	14,574
Gain on sale of property, plant and equipment		(216)	(52)	(159)	(23)
Finance cost		2,319	688	1,419	390
Unrealized foreign exchange (gain) loss		(2,592)	-	(2,407)	-
Profit before tax		28,721	26,543	20,335	14,207
Income tax expense		8,742	9,187	6,086	4,836
Net profit for the period		19,979	17,356	14,249	9,371
Other comprehensive income (loss):					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		(206)	4,146	(4,214)	2,642
Total comprehensive income for the period attributable to shareholders of the Corporation		19,773	21,502	10,035	12,013
Earnings per share					
Basic	8	0.54	0.47	0.38	0.25
Diluted	8	0.54	0.47	0.38	0.25

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

BADGER DAYLIGHTING LTD.**Unaudited Interim Consolidated Statement of Changes in Equity**

(Expressed in thousands of Canadian Dollars)

	Notes	Shareholders' capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total equity \$
As at January 1, 2013		80,640	2,061	(2,239)	59,246	139,708
Net profit for the period		-	-	-	17,356	17,356
Other comprehensive income for the period		-	-	4,146	-	4,146
Share options exercised	5	135	-	-	-	135
Options surrendered for cash	5	-	(1,513)	-	-	(1,513)
Dividends		-	-	-	(6,660)	(6,660)
As at June 30, 2013		80,775	548	1,907	69,942	153,172
As at January 1, 2014		80,944	548	3,291	86,286	171,069
Net profit for the period		-	-	-	19,979	19,979
Other comprehensive income for the period		-	-	(206)	-	(206)
Dividends		-	-	-	(6,666)	(6,666)
As at June 30, 2014		80,944	548	3,085	99,599	184,176

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

BADGER DAYLIGHTING LTD.**Unaudited Interim Consolidated Statement of Cash Flows**

(Expressed in thousands of Canadian Dollars)

	Notes	For the six months ended		For the three months ended	
		June 30, 2014 \$	June 30, 2013 \$	June 30, 2014 \$	June 30, 2013 \$
Operating activities					
Net profit for the period		19,979	17,356	14,249	9,371
Non-cash adjustments to reconcile profit from operations to net cash flows:					
Depreciation of property, plant and equipment		15,676	11,102	8,108	5,769
Amortization of intangible assets		638	-	319	-
Deferred income tax		873	3,088	524	1,239
Equity-settled share plan settled in cash	5	-	(1,513)	-	-
Gain on sale of property plant and equipment		(216)	(52)	(159)	(23)
Unrealized foreign exchange (gain) loss		(2,592)	-	(2,407)	-
Unrealized foreign exchange (gain) loss on deferred tax		515	1,234	(985)	763
		34,873	31,215	19,649	17,119
Net change in non-cash working capital relating to operating activities		3,267	(3,641)	8,220	5,906
Net cash flows from operating activities		38,140	27,574	27,869	23,025
Investing activities					
Purchase of property, plant and equipment		(53,168)	(32,276)	(27,110)	(19,353)
Purchase of intangible assets		-	(2,555)	-	(2,555)
Proceeds from sale of property, plant and equipment		341	187	260	130
Net cash flows used in investing activities		(52,827)	(34,644)	(27,438)	(21,778)
Financing activities					
Proceeds received on the exercise of share options			135		-
Proceeds from long-term debt		98,989	14,258	3,289	3,575
Repayment of long-term debt		(82,912)	-	-	-
Dividends paid to owners		(6,666)	(6,659)	(3,333)	(3,330)
Net cash flows from financing activities		9,411	7,734	(44)	245
Net (decrease) increase in cash and cash equivalents		(5,276)	664	975	1,492
Cash and cash equivalents, beginning of period		8,623	2,460	2,372	1,632
Cash and cash equivalents, end of period		3,347	3,124	3,347	3,124
Supplemental cash flow information:					
Interest paid		2,319	688	1,419	390
Income tax paid		10,513	7,443	2,055	2,657

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

Six months ended June 30, 2014

(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 June 30, 2014 were authorised for issue in accordance with a resolution of the directors on August 12, 2014.

All current and comparative share capital and profit per share amounts have been adjusted to reflect the three-for-one share split that was completed in January 2014.

2 Basis of Preparation

Statement of compliance

These interim 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, 2013, as well as the Corporation’s interim consolidated financial statements for the period ended March 31, 2014.

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 Recent accounting pronouncements

The Corporation adopted amendments to IFRS 7, IAS 32, IAS 36, and IFRIC 21 on January 1, 2014. There was no material impact to the Corporation's interim condensed consolidated financial statements as a result of the adoption of those standards.

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 in November 2009 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 Corporation will assess the impact of this standard in conjunction with the other phases, when the final standard including all phases is issued.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2014

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

4 Long-term debt

	June 30, 2014 \$	December 31, 2013 \$
Extendable revolving credit facility	15,764	82,319
Senior secured notes	80,040	-
	<u>95,804</u>	<u>82,319</u>

Extendable revolving credit facility

The Corporation has established a \$75,000 extendable revolving 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 (June 30, 2014 – 3.25%) or bankers' acceptance rate plus 1.25% (June 30, 2014 – 2.748%). An additional stand-by fee calculated at an annual rate of 0.25% per annum is also required on the unused portion of the credit facility. This fee is expensed as incurred.

The credit facility has no required principal repayment. The credit facility expires on June 21, 2015 and is renewable by mutual agreement of the Corporation and the lender for an additional 364 day period, after which the entire amount must be repaid. If not renewed, interest is payable monthly on the facility for 364 days after which the entire amount is to be repaid.

The extendable revolving 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 facilities, the Corporation must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2014, and as at June 30, 2014, the Corporation was in compliance with all of these covenants.

As at June 30, 2014, the Corporation has issued letters of credit in the amount of approximately \$1,180. The outstanding letters of credit reduce the amount available under the extendable revolving credit facility.

At June 30, 2014, the Corporation had available \$63,000 (December 31, 2013 - \$16,321) 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.

For the six months ended June 30, 2014, Badger recorded an unrealized foreign exchange gain of \$2,592. This was due to the impact of the change over the period in the value of the Canadian dollar relative to the US dollar on the Corporation's \$75,000 of US dollar denominated debt.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2014

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

5 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, 2012	36,979,893	80,640
Shares issued pursuant to the share option plan	54,000	304
At December 31, 2013 and June 30, 2014	37,033,893	80,944

Share amounts have been restated to reflect the impact of the three-for-one common share split completed in January 2014.

C) Accumulated other comprehensive income (loss)

The accumulated other comprehensive income (loss) is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

D) Contributed surplus

The contributed surplus reserve is used to recognise the fair value of share options granted to employees, including key management personnel, as part of their remuneration.

	For the six months ended		For the three months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	\$	\$	\$	\$
Opening balance	548	2,061	548	548
Equity-settled share plan settled in cash	-	(1,513)	-	-
Closing balance	548	548	548	548

6 Deferred Unit Plan

The Deferred Unit Plan ("DUP") 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 DUP, participants are granted deferred units with a value equivalent to the value of a Badger share. Subsequent to the January 2014 three-for-one common share split, each unit under the plan was amended to provide three units, each with a value of one post-split 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.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2014

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

6 Deferred Unit Plan (continued)

The DUP 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 (share price \$ June 30, 2014; share price \$28.42 December 31, 2013) 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, 2014 is \$15,735 (December 31, 2013 - \$13,933). The fair value of deferred units exercisable as at June 30, 2014 is \$14,201 (December 31, 2013 - \$10,799). Changes in the number of deferred units under the Badger DUP were as follows:

	Units
At December 31, 2012	498,375
Granted	101,550
Dividends earned	14,418
Redeemed	(34,002)
Forfeited	(13,323)
At December 31, 2013	567,018
Granted	40,415
Dividends earned	2,532
Redeemed	(90,178)
Forfeited	(4,451)
At June 30, 2014	515,426
Exercisable at June 30, 2014	403,323

7 Revenues

	For the six months ended		For the three months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	\$	\$	\$	\$
Rendering of services	199,522	141,868	100,234	73,156
Truck placement fees	1,226	944	492	502
	200,748	142,812	100,726	73,658

8 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. Earnings per share and share amounts have been retroactively restated to reflect the three-for-one share split completed in January 2014.

The calculation of basic earnings per share for the six months ended June 30, 2014, was based on the net profit available to common shareholders of \$19,979 (2013 - \$17,356), and a weighted average number of common shares outstanding of 37,033,893 (2013 - 36,996,402).

The calculation of basic earnings per share for the three months ended June 30, 2014, was based on the net profit available to common shareholders of \$14,249 (2013 - \$9,371), and a weighted average number of common shares outstanding of 37,033,893 (2013 - 36,997,893).

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2014

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

8 Earnings per share (continued)

The weighted average number of common shares is calculated as follows:

	For the six months ended		For the three months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Issued common shares outstanding, beginning of period	37,033,893	36,979,893	37,033,893	36,997,893
Effect of share options exercised	-	16,509	-	-
Weighted average number of common shares, end of period	37,033,893	36,996,402	37,033,893	36,997,893

Diluted EPS

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted EPS. All options are considered anti-dilutive when the Corporation is in a loss position. Diluted earnings per share and share amounts have been retroactively restated to reflect the three-for-one share split completed in January 2014.

The calculation of diluted earnings per share for the six months ended June 30, 2014, was based on a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 37,033,893 (2013 – 37,020,291).

The calculation of diluted earnings per share for the three months ended June 30, 2014, was based on a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 37,033,893 (2013 – 37,022,760).

The weighted average number of dilutive potential common shares is calculated as follows:

	For the six months ended		For the three months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Weighted average number of common shares (basic)	37,033,893	36,996,402	37,033,893	36,997,893
Effect of share options	-	23,889	-	24,867
Weighted average number of common shares (diluted)	37,033,893	37,020,291	37,033,893	37,022,760

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2014

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

9 Segment reporting

The Corporation operates in two geographic/reportable segments providing non-destructive excavating services to each of these segments. The following is selected information for the periods ended June 30, 2014 and 2013 based on these geographic segments.

For six months ended:	June 30, 2014			June 30, 2013		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	109,092	91,656	200,748	76,363	66,449	142,812
Direct costs	74,758	65,220	139,978	48,968	45,543	94,511
Depreciation of property, plant and equipment	7,068	8,608	15,676	5,338	5,764	11,102
Amortization of intangible assets	638	-	638	-	-	-
Selling, general and administrative	8,626	2,684	11,310	4,796	1,516	6,312
Deferred unit plan	4,914	-	4,914	3,708	-	3,708
Profit before tax	13,620	15,101	28,721	12,971	13,572	26,543

For three months ended:	June 30, 2014			June 30, 2013		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	53,050	47,676	100,726	36,965	36,693	73,658
Direct costs	36,963	33,431	70,394	23,705	24,373	48,078
Depreciation of property, plant and equipment	3,633	4,475	8,108	2,725	3,044	5,769
Amortization of intangible assets	319	-	319	-	-	-
Selling, general and administrative	3,918	1,321	5,239	2,440	852	3,292
Deferred unit plan	(2,522)	-	(2,522)	1,945	-	1,945
Profit before tax	11,891	8,444	20,335	5,808	8,399	14,207

Selected Consolidated Statement of Financial Position Information

	Canada (\$)	U.S. (\$)	Total (\$)
As at June 30, 2014			
Property, plant and equipment	122,104	127,841	249,945
Intangible assets	16,149	-	16,149
Total assets	193,255	171,031	364,286
As at December 31, 2013			
Property, plant and equipment	103,740	107,874	211,614
Intangible assets	16,787	-	16,787
Total assets	178,703	155,195	333,898

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2014

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

9 Segment reporting (continued)

Selected Consolidated Statement of Cash Flows Information

For six months ended:	June 30, 2014			June 30, 2013		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Additions to non-current assets:						
Property, plant and equipment	25,465	27,703	53,168	11,536	20,740	32,276
Intangible assets	-	-	-	2,555	-	2,555

For three months ended:	June 30, 2014			June 30, 2013		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Additions to non-current assets:						
Property, plant and equipment	13,287	13,823	27,110	7,519	11,834	19,353
Intangible assets	-	-	-	2,555	-	2,555

10 Subsidiaries

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	
		June 30, 2014	December 31, 2013
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 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. There are no significant restrictions on the Corporation's or its subsidiaries ability to access or use the assets, and settle the liabilities, of the Corporation.

11 Subsequent events

- a) In connection with the extendable revolving credit facility, subsequent to June 30, 2014 the Corporation increased and extended this facility through a syndication effort led by TD Bank. Two additional institutions joined the facility, which was increased to \$125,000 with an optional \$50,000 accordion feature. The maturity date was extended to July 22, 2018.