Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements (unaudited)

For the period ended March 31, 2013

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 Canadian Dollars)

As at	Notes	March 31, 2013 $	December 31, 2012 $
ASSETS			
Current Assets			
Cash and cash equivalents		1,632,442	2,460,078
Trade and other receivables		72,753,135	63,570,409
Prepaid expenses		1,567,274	1,346,016
Inventories		2,757,566	2,087,289
		78,710,417	69,463,792
Non-current Assets			
Property, plant and equipment		158,615,940	149,568,105
Intangible assets		6,550,511	6,550,511
		165,166,451	156,118,616
Total Assets		243,876,868	225,582,408
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		23,682,186	20,998,787
Income taxes payable		1,247,999	3,421,007
Dividends payable		1,109,937	1,109,397
		26,040,122	25,529,191
Non-current Liabilities			
Long-term debt	4	40,456,828	29,773,229
Deferred income tax		32,891,112	30,572,216
		73,347,940	60,345,445
Shareholders' Equity			
Shareholders' capital	5	80,774,811	80,640,111
Contributed surplus	5	547,504	2,060,607
Accumulated other comprehensive loss	5	(735,107)	(2,239,192)
Retained earnings		63,901,598	59,246,246
		144,488,806	139,707,772
Total Liabilities and Shareholders' Equity		243,876,868	225,582,408

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 Canadian Dollars)

For the three months ended	Notes	March 31, 2013 $	March 31, 2012 $
Revenues	7	69,154,050	54,034,368
Direct costs		46,432,821	37,571,305
Gross profit		22,721,229	16,463,063
Depreciation of property, plant and equipment		5,332,880	4,168,919
Amortization of intangible assets		-	49,002
Selling, general and administrative		4,782,625	3,206,655
Operating profit		12,605,724	9,038,487
Gain on sale of property, plant and equipment		(28,314)	(17,795)
Finance cost		297,946	333,248
Profit before tax		12,336,092	8,723,034
Income tax expense		4,350,929	2,607,982
Net profit for the period		7,985,163	6,115,052
Other comprehensive income (loss):			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		1,504,085	(1,221,362)
Total comprehensive income for the period attributable to shareholders of the Corporation		9,489,248	4,893,690
Earnings per share			
Basic	8	0.65	0.57
Diluted	8	0.65	0.56

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 Canadian Dollars)

For the three months ended	Notes	Shareholders' capital $	Contributed surplus $	Accumulated other comprehensive loss $	Retained earnings $	Total equity $
As at January 1, 2012		44,473,107	2,657,923	(1,004,022)	43,254,146	89,381,154
Net profit for the period		-	-	-	6,115,052	6,115,052
Other comprehensive loss for the period		-	-	(1,221,362)	-	(1,221,362)
Share-based payment transactions	5,6	-	38,000	-	-	38,000
Share options exercised	5,6	164,100	-	-	-	164,100
Dividends		-	-	-	(2,760,036)	(2,760,036)
As at March 31, 2012		44,637,207	2,695,923	(2,225,384)	46,609,162	91,716,908
As at January 1, 2013		80,640,111	2,060,607	(2,239,192)	59,246,246	139,707,772
Net profit for the period		-	-	-	7,985,163	7,985,163
Other comprehensive income for the period		-	-	1,504,085	-	1,504,085
Share options exercised	5,6	134,700	-	-	-	134,700
Options surrendered for cash	5,6	-	(1,513,103)	-	-	(1,513,103)
Dividends		-	-	-	(3,329,811)	(3,329,811)
As at March 31, 2013		80,774,811	547,504	(735,107)	63,901,598	144,488,806

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 Canadian Dollars)

For the three months ended	Notes	March 31, 2013 S	March 31, 2012 S
Operating activities			
Net profit for the period		7,985,163	6,115,052
Non-cash adjustments to reconcile profit from operations to net cash flows:			
Depreciation of property, plant and equipment		5,332,880	4,168,919
Amortization of intangible assets		-	49,002
Deferred income tax		1,849,220	725,000
Share-based payment transaction expense	5,6	-	38,000
Equity-settled share plan settled in cash	5,6	(1,513,103)	-
Gain on sale of property plant and equipment		(28,314)	(17,795)
Unrealized foreign exchange (gain) loss on deferred tax		469,676	(322,236)
		14,095,522	10,755,942
Net change in non-cash working capital relating to operating activities		(9,546,602)	(1,295,814)
Net cash flows from operating activities		4,548,920	9,460,128
Investing activities			
Purchase of property, plant and equipment		(12,922,999)	(12,513,239)
Proceeds from sale of property, plant and equipment		57,415	20,604
Net cash flows used in investing activities		(12,865,584)	(12,492,635)
Financing activities			
Proceeds received on the exercise of share options		134,700	164,100
Proceeds from long-term debt		10,683,599	7,054,536
Dividends paid to owners		(3,329,271)	(2,759,176)
Net cash flows from financing activities		7,489,028	4,459,460
Net (decrease) increase in cash and cash equivalents		(827,636)	1,426,953
Cash and cash equivalents, beginning of period		2,460,078	2,622,191
Cash and cash equivalents, end of period		1,632,442	4,049,144
Supplemental cash flow information:			
Interest paid		297,946	333,248
Income tax paid		4,786,557	6,281,652

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

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, 2013 were authorised for issue in accordance with a resolution of the directors on May 10, 2013.

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, 2012.

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.

Standards and amendments to existing standards effective January 1, 2013

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended December 31, 2012, except for the adoption of new International Financial Reporting Standards ("IFRSs") and interpretations as of January 1, 2013, noted below:

i) Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

   The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never by reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Corporation's financial condition or performance.

2 Basis of Preparation (continued)

ii) Application of new and revised IFRSs on consolidation, joint arrangements, associates and disclosures

The Corporation has applied the requirements of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities as well as the consequential amendments to IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures in the current period.

The impact of the application of these standards is set out below.

<u>Impact of the application of IFRS 10</u>
As a result of the adoption of IFRS 10, the Corporation has changed its accounting policies with respect to determining whether it has control over and consequently consolidates its investees. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In accordance with the transitional provisions of IFRS 10, the Corporation has re-assessed the control conclusion for its investees at January 1, 2013 and concluded that the new standard does not change its previous conclusion.

<u>Impact of the application of IFRS 11</u>
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. The application of IFRS 11 has no impact on the interim condensed consolidated financial statements as the Corporation has no interests in joint arrangements.

<u>Impact of the application of IFRS 12</u>
IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in additional disclosures in the interim condensed consolidated financial statements.

iii) Application of IFRS 13 Fair Value Measurement

The Corporation has applied the requirements of IFRS 13 Fair Value Measurement in the current period. IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. In general, the application of IFRS 13 has resulted in additional disclosures in the interim condensed consolidated financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Corporation. Further, the Corporation has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(Unaudited – Expressed in Canadian Dollars)

3 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:

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Corporation will assess the impact of this standard in conjunction with the other phases, when the final standard including all phases is issued.

4 Long-term debt

	March 31, 2013 $	December 31, 2012 $
Extendable revolving credit facility	40,456,828	29,773,229

The Corporation has established a $55,000,000 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 (December 31, 2012 – 3.00%) or bankers' acceptance rate plus 1.25% (December 31, 2012 – 2.44%). An additional stand-by fee calculated at an annual rate of 0.275% 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 23, 2013 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 2013, and as at March 31, 2013, the Corporation was in compliance with all of these covenants.

As at March 31, 2013, the Corporation has issued letters of credit in the amount of approximately $635,000. The outstanding letters of credit reduce the amount available under the extendable revolving credit facility.

At March 31, 2013, the Corporation had available $13,908,172 (December 31, 2012 - $24,591,771) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

(Unaudited – Expressed in Canadian Dollars)

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, 2011	10,813,631	44,473,107
Shares issued pursuant to equity financing, net of issuance costs	1,500,000	35,961,834
Shares issued pursuant to the share option plan	13,000	205,170
At December 31, 2012	12,326,631	80,640,111
Shares issued pursuant to the share option plan	6,000	134,700
At March 31, 2013	12,332,631	80,774,811

C) Accumulated other comprehensive loss

The accumulated other comprehensive 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. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. Refer to Note 6 for further details of these plans.

	March 31, 2013 $	December 31, 2012 $
Opening balance	2,060,607	2,657,923
Share-based payment transactions	-	58,000
Equity-settled share plan settled in cash	(1,513,103)	(655,316)
Closing balance	547,504	2,060,607

6 Share-based payment plans

Share plan (equity-settled)

Under the Share Plan, directors, officers, employees and consultants of the Corporation are eligible to receive share options to acquire ordinary shares of the Corporation, with terms not to exceed 10 years from the date of the grant. The exercise price shall not be less than the closing price of the shares traded on the Toronto Stock Exchange on the first date preceding the date of the grant. Under the Share Plan, vesting periods are determined by the directors of the Corporation at the time of the grant. All share options granted through to March 31, 2013 vest equally over a period of three years from the date of grant. The maximum number of shares to be issued under this plan may not exceed 250,000 shares.

(Unaudited – Expressed in Canadian Dollars)

6 Share-based payment plans (continued)

A summary of the share-based payment transactions for the period ended March 31, 2013 and the year ended December 31, 2012 are as follows:

	March 31, 2013		December 31, 2012	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at beginning of period	110,375	21.54	187,750	19.00
Share options exercised	(6,000)	22.45	(13,000)	15.78
Options surrendered for cash	(92,375)	22.45	(52,375)	13.69
Forfeited	-	-	(12,000)	22.45
Outstanding at end of period	12,000	14.07	110,375	21.54

Pursuant to the share plan during the first quarter of 2013, the Corporation had 92,375 vested share options surrendered by employees in return for a cash settlement of $1,513,103

Deferred Unit Plan (cash-settled)

In May 2011, the Corporation established the Deferred Unit Plan ("DUP"), which was approved by the shareholders at the September 22, 2011 Annual General Meeting. The 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. 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. 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 and recognized using graded vesting throughout the term of the vesting period, with a corresponding credit to liabilities. The Corporation has recorded a compensation expense of $1,763,000 (2012 - $605,000), which is included in selling, general and administrative expenses.

The liability of deferred units outstanding as at March 31, 2013 is $5,686,000 (December 31, 2012 - $3,923,000). The intrinsic value of deferred units exercisable as at March 31, 2013 is $1,906,004 (December 31, 2012 is $1,437,644). Changes in the number of deferred units under the Badger DUP were as follows:

	Units
At December 31, 2011	131,178
Granted	48,170
Dividends earned	4,067
Redeemed	(5,003)
Forfeited	(12,287)
At December 31, 2012	**166,125**
Dividends earned	2,212
Forfeited	(2,207)
At March 31, 2013	**166,130**
Exercisable at March 31, 2013	**47,190**

(Unaudited – Expressed in Canadian Dollars)

7 Revenues

	For the three months ended March 31, 2013 $	March 31, 2012 $
Rendering of services	68,712,263	53,959,669
Truck placement fees	441,787	74,699
	69,154,050	54,034,368

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.

The calculation of basic earnings per share for the three months ended March 31, 2013, was based on the net profit available to common shareholders of $7,985,163 (2012 - $6,115,052), and a weighted average number of common shares outstanding of 12,331,631 (2012 – 10,820,334).

Weighted average number of common shares

	For the three months ended March 31, 2013 $	March 31, 2012 $
Issued common shares outstanding, beginning of period	12,326,631	10,813,631
Effect of share options exercised	5,000	6,703
Weighted average number of common shares, end of period	12,331,631	10,820,334

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.

The calculation of diluted earnings per share for the three months ended March 31, 2013, was based on a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 12,338,763 (2012 – 10,857,503), calculated as follows:

	For the three months ended March 31, 2013 $	March 31, 2012 $
Weighted average number of common shares (basic)	12,331,631	10,820,334
Effect of share options	7,132	37,169
Weighted average number of common shares (diluted)	12,338,763	10,857,503

The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

(Unaudited – Expressed in Canadian Dollars)

9 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 March 31, 2013 and 2012 based on these geographic segments.

For three months ended:	March 31, 2013			March 31, 2012		
	Canada ($)	U.S. ($)	Total ($)	Canada ($)	U.S. ($)	Total ($)
Revenues	39,398,207	29,755,843	69,154,050	30,942,860	23,091,508	54,034,368
Direct costs	25,262,804	21,170,017	46,432,821	19,623,235	17,948,070	37,571,305
Depreciation of property, plant and equipment	2,612,535	2,720,345	5,332,880	2,110,005	2,058,914	4,168,919
Amortization of intangible assets	-	-	-	49,002	-	49,002
Selling, general and administrative	4,118,767	663,858	4,782,625	2,608,312	598,343	3,206,655
Profit before tax	7,163,865	5,172,227	12,336,092	6,248,839	2,474,195	8,723,034

For three months ended:	March 31, 2013			March 31, 2012		
	Canada ($)	U.S. ($)	Total ($)	Canada ($)	U.S. ($)	Total ($)
Additions to non-current assets:						
Property, plant and equipment	4,017,128	8,905,871	12,922,999	6,403,254	6,109,985	12,513,239

	Canada ($)	U.S. ($)	Total ($)
As at March 31, 2013			
Property, plant and equipment	80,358,850	78,257,090	158,615,940
Intangible assets	6,550,511	-	6,550,511
Total assets	135,874,153	108,002,715	243,876,868
As at December 31, 2012			
Property, plant and equipment	77,969,436	71,598,669	149,568,105
Intangible assets	6,550,511	-	6,550,511
Total assets	126,315,547	99,266,861	225,582,408

(Unaudited – Expressed in Canadian Dollars)

10 Subsidiaries

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

		% equity interest	
Name	**Country of Incorporation**	**March 31, 2013**	**December 31, 2012**
Badger Daylighting (Fort McMurray) Inc.	Canada	100%	100%
Badger Edmonton Ltd.	Canada	100%	100%
1095909 Alberta 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 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values. The three fair value hierarchy levels are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and,
- Level 3 inputs are unobservable inputs for the asset or liability.

Financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, 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 carrying value of the long-term debt approximates fair value because each of the long-term facilities has a floating interest rate.

12 Subsequent event

During April, 2013 the Corporation executed an agreement whereby it will acquire service rights and operating assets from certain of its operating partners for cash consideration of $2,550,000. It is anticipated the transaction will be finalized sometime in May 2013.