

Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited)

For the period ended March 31, 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	March 31, 2014 \$	December 31, 2013 \$
ASSETS			
Current Assets			
Cash and cash equivalents		2,372	8,623
Trade and other receivables		99,118	92,115
Prepaid expenses		2,389	1,459
Income taxes receivable		1,082	-
Inventories		4,671	3,300
		<u>109,632</u>	<u>105,497</u>
Non-current Assets			
Property, plant and equipment		234,132	211,614
Goodwill and intangible assets		16,468	16,787
		<u>250,600</u>	<u>228,401</u>
Total Assets		<u>360,232</u>	<u>333,898</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		26,650	23,657
Deferred unit plan liability	6	21,369	13,933
Income taxes payable		-	4,952
Dividends payable		1,111	1,111
		<u>49,130</u>	<u>43,653</u>
Non-current Liabilities			
Long-term debt	4	94,922	82,319
Deferred income tax		38,706	36,857
		<u>133,628</u>	<u>119,176</u>
Shareholders' Equity			
Shareholders' capital	5	80,944	80,944
Contributed surplus	5	548	548
Accumulated other comprehensive income (loss)	5	7,299	3,291
Retained earnings		88,683	86,286
		<u>177,474</u>	<u>171,069</u>
Total Liabilities and Shareholders' Equity		<u>360,232</u>	<u>333,898</u>

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 three months ended	Notes	March 31, 2014 \$	March 31, 2013 \$
Revenues	7	100,022	69,154
Direct costs		69,584	46,433
Gross profit		30,438	22,721
Depreciation of property, plant and equipment		7,568	5,333
Amortization of intangible assets		319	-
Selling, general and administrative		6,071	3,019
Deferred unit plan		7,436	1,763
Operating profit		9,044	12,606
Gain on sale of property, plant and equipment		(57)	(28)
Finance cost		900	298
Unrealized foreign exchange (gain) loss		(185)	-
Profit before tax		8,386	12,336
Income tax expense		2,656	4,351
Net profit for the period		5,730	7,985
Other comprehensive income (loss):			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		4,008	1,504
Total comprehensive income for the period attributable to shareholders of the Corporation		9,738	9,489
Earnings per share			
Basic	8	0.15	0.22
Diluted	8	0.15	0.22

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)

For the three months ended	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		-	-	-	7,985	7,985
Other comprehensive income for the period		-	-	1,504	-	1,504
Share options exercised	5	135	-	-	-	135
Options surrendered for cash	5	-	(1,513)	-	-	(1,513)
Dividends		-	-	-	(3,330)	(3,330)
As at March 31, 2013		80,775	548	(735)	63,901	144,489
As at January 1, 2014		80,944	548	3,291	86,286	171,069
Net profit for the period		-	-	-	5,730	5,730
Other comprehensive income for the period		-	-	4,008	-	4,008
Share options exercised	5	-	-	-	-	-
Dividends		-	-	-	(3,333)	(3,333)
As at March 31, 2014		80,944	548	7,299	88,683	177,474

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)

For the three months ended	Notes	March 31, 2014 \$	March 31, 2013 \$
Operating activities			
Net profit for the period		5,730	7,985
Non-cash adjustments to reconcile profit from operations to net cash flows:			
Depreciation of property, plant and equipment		7,568	5,333
Amortization of intangible assets		319	-
Deferred income tax		349	1,849
Equity-settled share plan settled in cash	5	-	(1,513)
Gain on sale of property plant and equipment		(57)	(28)
Unrealized foreign exchange (gain) loss		(185)	-
Unrealized foreign exchange (gain) loss on deferred tax		1,500	470
		<u>15,224</u>	<u>14,096</u>
Net change in non-cash working capital relating to operating activities		(4,953)	(9,547)
Net cash flows from operating activities		<u>10,271</u>	<u>4,549</u>
Investing activities			
Purchase of property, plant and equipment		(26,058)	(12,923)
Proceeds from sale of property, plant and equipment		81	57
Net cash flows used in investing activities		<u>(25,977)</u>	<u>(12,866)</u>
Financing activities			
Proceeds received on the exercise of share options		-	135
Proceeds from long-term debt		95,700	10,683
Repayment of long-term debt		(82,912)	-
Dividends paid to owners		(3,333)	(3,329)
Net cash flows from financing activities		<u>9,455</u>	<u>7,489</u>
Net (decrease) increase in cash and cash equivalents		(6,251)	(828)
Cash and cash equivalents, beginning of period		8,623	2,460
Cash and cash equivalents, end of period		<u>2,372</u>	<u>1,632</u>
Supplemental cash flow information:			
Interest paid		245	298
Income tax paid		8,458	4,787

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, 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 March 31, 2014 were authorised for issue in accordance with a resolution of the directors on May 13, 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 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, 2013.

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

Three months ended March 31, 2014

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

4 Long-term debt

	March 31, 2014 \$	December 31, 2013 \$
Extendable revolving credit facility	12,069	82,319
Senior secured notes	82,853	-
	<u>94,922</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 (March 31, 2014 – 3.00%) or bankers' acceptance rate plus 1.25% (March 31, 2014 – 2.41%). 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 March 31, 2014, the Corporation was in compliance with all of these covenants.

As at March 31, 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 March 31, 2014, the Corporation had available \$61,751 (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 three months ended March 31, 2014, Badger recorded an unrealized foreign exchange gain of \$185. 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

Three months ended March 31, 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 March 31, 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 three months ended	
	March 31, 2014	March 31, 2013
	\$	\$
Opening balance	548	2,061
Equity-settled share plan settled in cash	-	(1,513)
Closing balance	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

Three months ended March 31, 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 \$41.55 March 31, 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 March 31, 2014 is \$21,369 (December 31, 2013 - \$13,933). The fair value of deferred units exercisable as at March 31, 2014 is \$15,831 (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
Dividends earned	1,490
Forfeited	-
At March 31, 2014	568,508
Exercisable at March 31, 2014	381,015

7 Revenues

	For the three months ended	
	March 31,	March 31,
	2014	2013
	\$	\$
Rendering of services	99,288	68,712
Truck placement fees	734	442
	<u>100,022</u>	<u>69,154</u>

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 three months ended March 31, 2014, was based on the profit available to common shareholders of \$5,730 (2013 - \$7,985), and a weighted average number of common shares outstanding of 37,033,893 (2013 - 36,994,893).

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2014

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

8 Earnings per share (continued)

Weighted average number of common shares

	For the three months ended	
	March 31, 2014	March 31, 2013
Issued common shares outstanding, beginning of period	37,033,893	36,979,893
Effect of share options exercised	-	15,000
Weighted average number of common shares, end of period	37,033,893	36,994,893

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 three months ended March 31, 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 – 37,016,289), calculated as follows:

	For the three months ended	
	March 31, 2014	March 31, 2013
Weighted average number of common shares (basic)	37,033,893	36,994,893
Effect of share options exercised	-	21,396
Weighted average number of common shares (diluted)	37,033,893	37,016,289

9 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, 2014 and 2013 based on these geographic segments.

For three months ended:	March 31, 2014			March 31, 2013		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	56,042	43,980	100,022	39,398	29,756	69,154
Direct costs	37,795	31,789	69,584	25,263	21,170	46,433
Depreciation of property, plant and equipment	3,435	4,133	7,568	2,613	2,720	5,333
Amortization of intangible assets	319	-	319	-	-	-
Selling, general and administrative	4,708	1,363	6,071	2,355	664	3,019
Deferred unit plan	7,436	-	7,436	1,763	-	1,763
Profit before tax	1,729	6,657	8,386	7,164	5,172	12,336

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2014

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

9 Segment reporting (continued)

For three months ended:	March 31, 2014			March 31, 2013		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Additions to non-current assets:						
Property, plant and equipment	12,178	13,880	26,058	4,017	8,906	12,923

	Canada (\$)	U.S. (\$)	Total (\$)
As at March 31, 2014			
Property, plant and equipment	113,615	120,517	234,132
Intangible assets	16,468	-	16,468
Total assets	195,781	164,451	360,232
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

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	
		March 31, 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.