

Badger Daylighting Ltd.

**Interim Condensed Consolidated Financial Statements
(unaudited)**

For the period ended June 30, 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	June 30, 2013 \$	December 31, 2012 \$
ASSETS			
Current Assets			
Cash and cash equivalents		3,124,143	2,460,078
Trade and other receivables		70,976,229	63,570,409
Prepaid expenses		853,457	1,346,016
Inventories		2,176,355	2,087,289
		77,130,184	69,463,792
Non-current Assets			
Property, plant and equipment		174,626,813	149,568,105
Intangible assets		9,105,511	6,550,511
		183,732,324	156,118,616
Total Assets		260,862,508	225,582,408
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		25,554,326	20,998,787
Income taxes payable		2,101,386	3,421,007
Dividends payable		1,109,937	1,109,397
		28,765,649	25,529,191
Non-current Liabilities			
Long-term debt	5	44,031,214	29,773,229
Deferred income tax		34,893,855	30,572,216
		78,925,069	60,345,445
Shareholders' Equity			
Shareholders' capital	6	80,774,811	80,640,111
Contributed surplus	6	547,504	2,060,607
Accumulated other comprehensive income (loss)	6	1,907,004	(2,239,192)
Retained earnings		69,942,471	59,246,246
		153,171,790	139,707,772
Total Liabilities and Shareholders' Equity		260,862,508	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)

	Notes	For the six months ended		For the three months ended	
		June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
		\$	\$	\$	\$
Revenues	8	142,811,790	108,018,503	73,657,740	53,984,135
Direct costs		94,510,793	74,683,914	48,077,972	37,112,609
Gross profit		48,300,997	33,334,589	25,579,768	16,871,526
Depreciation of property, plant and equipment		11,102,181	8,636,155	5,769,301	4,467,236
Amortization of intangible assets		-	49,002	-	-
Selling, general and administrative	7	10,019,667	6,363,505	5,237,042	3,156,850
Operating profit		27,179,149	18,285,927	14,573,425	9,247,440
Gain on sale of property, plant and equipment		(51,774)	(82,856)	(23,460)	(65,061)
Finance cost		688,350	695,633	390,404	362,385
Profit before tax		26,542,573	17,673,150	14,206,481	8,950,116
Income tax expense		9,186,727	5,413,469	4,835,798	2,805,487
Net profit for the period		17,355,846	12,259,681	9,370,683	6,144,629
Other comprehensive income (loss)					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		4,146,196	222,785	2,642,111	1,444,147
Total comprehensive income for the period attributable to shareholders of the Corporation		21,502,042	12,482,466	12,012,794	7,588,776
Earnings per share					
Basic	9	1.41	1.12	0.76	0.56
Diluted	9	1.41	1.12	0.76	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)

	Notes	Shareholders' capital \$	Contributed surplus \$	Accumulated other comprehensive income (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		-	-	-	12,259,681	12,259,681
Other comprehensive income for the period		-	-	222,785	-	222,785
Share-based payment transactions	6,7	-	58,000	-	-	58,000
Share options exercised	6,7	205,170	-	-	-	205,170
Options surrendered for cash	6,7	-	(655,316)	-	-	(655,316)
Shares issued pursuant to equity financing	6	35,961,834	-	-	-	35,961,834
Dividends		-	-	-	(5,647,809)	(5,647,809)
As at June 30, 2012		80,640,111	2,060,607	(781,237)	49,866,018	131,785,499
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		-	-	-	17,355,846	17,355,846
Other comprehensive income for the period		-	-	4,146,196	-	4,146,196
Share options exercised	6,7	134,700	-	-	-	134,700
Options surrendered for cash	6,7	-	(1,513,103)	-	-	(1,513,103)
Dividends		-	-	-	(6,659,621)	(6,659,621)
As at June 30, 2013		80,774,811	547,504	1,907,004	69,942,471	153,171,790

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)

	Notes	For the six months ended		For the three months ended	
		June 30, 2013 \$	June 30, 2012 \$	June 30, 2013 \$	June 30, 2012 \$
Operating activities					
Net profit for the period		17,355,846	12,259,681	9,370,683	6,144,629
Non-cash adjustments to reconcile profit from operations to net cash flows:					
Depreciation of property, plant and equipment		11,102,181	8,636,155	5,769,301	4,467,236
Amortization of intangible assets		-	49,002	-	-
Deferred income tax		3,088,200	1,823,000	1,238,980	1,098,000
Share-based payment transaction expense	6,7	-	58,000	-	20,000
Equity-settled share plan settled in cash	6,7	(1,513,103)	(655,316)	-	(655,316)
Gain on sale of property plant and equipment		(51,774)	(82,856)	(23,460)	(65,061)
Unrealized foreign exchange (gain) loss on deferred tax		1,233,439	(483,100)	763,763	(160,864)
		31,214,789	21,604,566	17,119,267	10,848,624
Net change in non-cash working capital relating to operating activities		(3,640,555)	3,406,378	5,906,047	4,702,192
Net cash flows from operating activities		27,574,234	25,010,944	23,025,314	15,550,816
Investing activities					
Purchase of property, plant and equipment		(32,276,201)	(25,225,344)	(19,353,202)	(12,712,105)
Purchase of intangible assets	4	(2,555,000)	-	(2,555,000)	-
Proceeds from sale of property, plant and equipment		187,428	94,923	130,013	74,319
Net cash flows used in investing activities		(34,643,773)	(25,130,421)	(21,778,189)	(12,637,786)
Financing activities					
Proceeds from issuance of shares, net of issuance costs	6	-	35,961,834	-	35,961,834
Proceeds received on the exercise of share options	6,7	134,700	205,170	-	41,070
Proceeds from long-term debt		14,257,985	-	3,574,386	-
Repayment of long-term debt		-	(1,339,697)	-	(8,394,233)
Dividends paid to owners		(6,659,081)	(5,519,204)	(3,329,810)	(2,760,028)
Net cash flows from financing activities		7,733,604	29,308,103	244,576	24,848,643
Net increase in cash and cash equivalents		664,065	29,188,626	1,491,701	27,761,673
Cash and cash equivalents, beginning of period		2,460,078	2,622,191	1,632,442	4,049,144
Cash and cash equivalents, end of period		3,124,143	31,810,817	3,124,143	31,810,817
Supplemental cash flow information:					
Interest paid		688,350	695,633	390,404	362,385
Income tax paid		7,443,287	7,174,222	2,656,730	892,570

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, 2013
(Unaudited – Expressed in Canadian Dollars)

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, 2013 were authorised for issue in accordance with a resolution of the directors on August 12, 2013.

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, 2012, as well as the Corporation’s interim consolidated financial statements for the period ended March 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 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 Purchase of intangible assets

In May 2013, the Corporation acquired the service rights from certain of its Canadian agents for cash consideration of \$2,555,000. The entire purchase price was allocated to intangible assets (service rights). Service rights have an indefinite life and therefore are not amortized.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2013

(Unaudited – Expressed in Canadian Dollars)

5 Long-term debt

	June 30, 2013	December 31, 2012
	\$	\$
Extendable revolving credit facility	44,031,214	29,773,229

The Corporation has established a \$70,000,000 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 0.25% 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 22, 2014 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 June 30, 2013, the Corporation was in compliance with all of these covenants.

As at June 30, 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 June 30, 2013, the Corporation had available \$25,333,786 (December 31, 2012 - \$24,591,771) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

6 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 June 30, 2013	12,332,631	80,774,811

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.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2013

(Unaudited – Expressed in Canadian Dollars)

6 Shareholders' capital and reserves (continued)

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 7 for further details of these plans.

	June 30, 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

7 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 June 30, 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.

A summary of the share-based payment transactions for the period ended June 30, 2013 and the year ended December 31, 2012 are as follows:

	June 30, 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.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2013

(Unaudited – Expressed in Canadian Dollars)

7 Share-based payment plans (continued)

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 \$3,708,000 for the six months ended June 30, 2013 (June 30, 2012 - \$934,000), which is included in selling, general and administrative expenses.

The liability of deferred units outstanding as at June 30, 2013 is \$7,631,000 (December 31, 2012 - \$3,923,000). The intrinsic value of deferred units exercisable as at June 30, 2013 is \$6,516,399 (December 31, 2012 - \$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
Granted	33,850
Dividends earned	1,014
Redeemed	(5,036)
At June 30, 2013	195,953
Exercisable at June 30, 2013	131,432

8 Revenues

	For the six months ended		For the three months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	\$	\$	\$	\$
Rendering of services	141,867,682	107,112,311	73,155,419	53,152,642
Truck placement fees	944,108	906,192	502,321	831,493
	142,811,790	108,018,503	73,657,740	53,984,135

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2013

(Unaudited – Expressed in Canadian Dollars)

9 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 (number of units) 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, 2013, was based on the net profit available to common shareholders of \$17,355,846 (2012 - \$12,259,681), and a weighted average number of common shares outstanding of 12,332,134 (2012 – 10,913,005).

The calculation of basic earnings per share for the three months ended June 30, 2013, was based on the net profit available to common shareholders of \$9,370,683 (2012 - \$6,144,629), and a weighted average number of common shares outstanding of 12,332,631 (2012 – 11,005,675).

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

	For the six months ended		For the three months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Issued common shares outstanding, beginning of period	12,326,631	10,813,631	12,332,631	10,823,631
Effect of equity financing	-	90,659	-	181,319
Effect of share options exercised	5,503	8,715	-	725
Weighted average number of common shares, end of period	12,332,134	10,913,005	12,332,631	11,005,675

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 six months ended June 30, 2013, was based on a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 12,340,097 (2012 – 10,927,198).

The calculation of diluted earnings per share for the three months ended June 30, 2013, was based on a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 12,340,920 (2012 – 11,021,738).

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2013

(Unaudited – Expressed in Canadian Dollars)

9 Earnings per share (continued)

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, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Weighted average number of common shares (basic)	12,332,134	10,913,005	12,332,631	11,005,675
Effect of share options	7,963	14,193	8,289	16,063
Weighted average number of common shares (diluted)	12,340,097	10,927,198	12,340,920	11,021,738

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.

10 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, 2013 and 2012 based on these geographic segments.

Each segment is responsible for its operating results.

For six months ended:	June 30, 2013			June 30, 2012		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	76,363,292	66,448,498	142,811,790	58,673,672	49,344,831	108,018,503
Direct costs	48,967,433	45,543,360	94,510,793	37,103,081	37,580,833	74,683,914
Depreciation of property, plant and equipment	5,337,894	5,764,287	11,102,181	4,319,949	4,316,206	8,636,155
Amortization of intangible assets	-	-	-	49,002	-	49,002
Selling, general and administrative	8,503,852	1,515,815	10,019,667	5,061,816	1,301,689	6,363,505
Profit before tax	12,970,870	13,571,703	26,542,573	11,542,524	6,130,626	17,673,150

For three months ended:	June 30, 2013			June 30, 2012		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	36,965,085	36,692,655	73,657,740	27,730,812	26,253,323	53,984,135
Direct costs	23,704,629	24,373,343	48,077,972	17,479,846	19,632,763	37,112,609
Depreciation of property, plant and equipment	2,725,359	3,043,942	5,769,301	2,209,944	2,257,292	4,467,236
Selling, general and administrative	4,385,085	851,957	5,237,042	2,453,504	703,346	3,156,850
Profit before tax	5,807,005	8,399,476	14,206,481	5,293,685	3,656,431	8,950,116

BADGER DAYLIGHTING LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Six months ended June 30, 2013

(Unaudited – Expressed in Canadian Dollars)

10 Segment reporting (continued)

Selected Consolidated Statement of Financial Position Information

	Canada (\$)	U.S. (\$)	Total (\$)
As at June 30, 2013			
Property, plant and equipment	84,080,085	90,546,728	174,626,813
Intangible assets	9,105,511	-	9,105,511
Total assets	136,312,618	124,549,890	260,862,508
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

Selected Consolidated Statement of Cash Flows Information

For six months ended:	June 30, 2013			June 30, 2012		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Additions to non-current assets:						
Property, plant and equipment	11,536,211	20,739,990	32,276,201	12,561,723	12,663,621	25,225,344
Intangible assets	2,555,000	-	2,555,000	-	-	-
For three months ended:						
	June 30, 2013			June 30, 2012		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Additions to non-current assets:						
Property, plant and equipment	7,519,083	11,834,119	19,353,202	6,158,469	6,553,636	12,712,105
Intangible assets	2,555,000	-	2,555,000	-	-	-