# Badger Daylighting Ltd.

## Consolidated Financial Statements

For the year ended December 31, 2012

# Independent Auditor's Report

**To the Shareholders of Badger Daylighting Ltd.**

We have audited the accompanying consolidated financial statements of Badger Daylighting Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Badger Daylighting Ltd. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Calgary, Canada
March 15, 2013

Chartered Accountants

# BADGER DAYLIGHTING LTD.
## Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)

| As at December 31 | Notes | 2012<br>$ | 2011<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 6 | 2,460,078 | 2,622,191 |
| Trade and other receivables | 7 | 63,570,409 | 56,170,776 |
| Prepaid expenses | | 1,346,016 | 1,183,571 |
| Inventories | 8 | 2,087,289 | 2,288,716 |
| | | 69,463,792 | 62,265,254 |
| **Non-current Assets** | | | |
| Property, plant and equipment | 9 | 149,568,105 | 115,002,042 |
| Intangible assets | 10 | 6,550,511 | 6,599,513 |
| | | 156,118,616 | 121,601,555 |
| **Total Assets** | | 225,582,408 | 183,866,809 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | 20,998,787 | 16,417,395 |
| Income taxes payable | | 3,421,007 | 5,186,568 |
| Dividends payable | 13 | 1,109,397 | 919,159 |
| | | 25,529,191 | 22,523,122 |
| **Non-current Liabilities** | | | |
| Long-term debt | 14 | 29,773,229 | 46,554,454 |
| Deferred income tax | 12 | 30,572,216 | 25,408,079 |
| | | 60,345,445 | 71,962,533 |
| **Shareholders' Equity** | | | |
| Shareholders' capital | 15 | 80,640,111 | 44,473,107 |
| Contributed surplus | 15 | 2,060,607 | 2,657,923 |
| Accumulated other comprehensive loss | 15 | (2,239,192) | (1,004,022) |
| Retained earnings | | 59,246,246 | 43,254,146 |
| | | 139,707,772 | 89,381,154 |
| **Total Liabilities and Shareholders' Equity** | | 225,582,408 | 183,866,809 |
| Commitments and contingencies | 25 | | |

The accompanying notes are an integral part of these consolidated financial statements. These consolidated financial statements were approved by the Board on March 15, 2013 and were signed on its behalf.

Signed: Glen D. Roane
Director

Signed: David M. Calnan
Director

## BADGER DAYLIGHTING LTD.
## Consolidated Statement of Comprehensive Income
(Expressed in Canadian Dollars)

| **For the year ended December 31** | **Notes** | **2012**<br>**$** | **2011**<br>**$** |
|---|---|---|---|
| Revenues | 17 | 239,228,701 | 194,178,089 |
| Direct costs | 18 | 163,673,403 | 129,398,617 |
| **Gross profit** | | 75,555,298 | 64,779,472 |
| Depreciation of property, plant and equipment | 9 | 18,365,480 | 14,575,817 |
| Amortization of intangible assets | 10 | 49,002 | 196,000 |
| Selling, general and administrative | 16, 18 | 14,060,502 | 11,974,119 |
| **Operating profit** | | 43,080,314 | 38,033,536 |
| Gain on sale of property, plant and equipment | | (174,804) | (85,277) |
| Reimbursement to Clean Harbors, Inc. | 19 | - | 1,062,039 |
| Finance cost | | 1,246,636 | 1,243,454 |
| **Profit before tax** | | 42,008,482 | 35,813,320 |
| Income tax expense | 12 | 13,958,723 | 10,010,164 |
| **Net profit for the year** | | 28,049,759 | 25,803,156 |
| **Other comprehensive income (loss)** | | | |
| Exchange differences on translation of foreign operations | | (1,235,170) | 1,108,867 |
| **Total comprehensive income for the year attributable to shareholders of the Corporation** | | 26,814,589 | 26,912,023 |
| **Earnings per share** | | | |
| Basic | 20 | 2.41 | 2.39 |
| Diluted | 20 | 2.41 | 2.38 |

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

# BADGER DAYLIGHTING LTD.
## Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

| For the year ended | Notes | Shareholders' capital $ | Contributed surplus $ | Accumulated other comprehensive loss $ | Retained earnings $ | Total equity $ |
|---|---|---|---|---|---|---|
| **As at December 31, 2010** | | 44,473,107 | 4,578,771 | (2,112,889) | 28,480,897 | 75,419,886 |
| Net profit for the year | | - | - | - | 25,803,156 | 25,803,156 |
| Other comprehensive income for the year | | - | - | 1,108,867 | - | 1,108,867 |
| Share-based payment transactions | 15, 16 | - | 270,800 | - | - | 270,800 |
| Options surrendered for cash | 15, 16 | - | (2,191,648) | - | - | (2,191,648) |
| Dividends | 13 | - | - | - | (11,029,907) | (11,029,907) |
| **As at December 31, 2011** | | 44,473,107 | 2,657,923 | (1,004,022) | 43,254,146 | 89,381,154 |
| Net profit for the year | | - | - | - | 28,049,759 | 28,049,759 |
| Other comprehensive income (loss) for the year | | - | - | (1,235,170) | - | (1,235,170) |
| Share-based payment transactions | 15, 16 | - | 58,000 | - | - | 58,000 |
| Share options exercised | 15, 16 | 205,170 | - | - | - | 205,170 |
| Options surrendered for cash | 15, 16 | - | (655,316) | - | - | (655,316) |
| Shares issued pursuant to equity financing | 15 | 35,961,834 | - | - | - | 35,961,834 |
| Dividends | 13 | - | - | - | (12,057,659) | (12,057,659) |
| **As at December 31, 2012** | | 80,640,111 | 2,060,607 | (2,239,192) | 59,246,246 | 139,707,772 |

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

**BADGER DAYLIGHTING LTD.**
**Consolidated Statement of Cash Flows**
(Expressed in Canadian Dollars)

| For the year ended December 31 | Notes | 2012 $ | 2011 $ |
|---|---|---|---|
| **Operating activities** | | | |
| Net profit for the year | | 28,049,759 | 25,803,156 |
| Non-cash adjustments to reconcile profit from operations to net cash flows: | | | |
| Depreciation of property, plant and equipment | 9 | 18,365,480 | 14,575,817 |
| Amortization of intangible assets | 10 | 49,002 | 196,000 |
| Deferred income tax | 12 | 6,012,873 | 4,852,111 |
| Share-based payment transaction expense | 15, 16 | 58,000 | 270,800 |
| Equity-settled share plan settled in cash | 15, 16 | (655,316) | (2,191,648) |
| Gain on sale of property plant and equipment | | (174,804) | (85,277) |
| Unrealized foreign exchange (gain) loss on deferred tax | | (848,736) | 361,686 |
| | | 50,856,258 | 43,782,645 |
| Net change in non-cash working capital relating to operating activities | | (4,655,475) | (10,313,247) |
| **Net cash flows from operating activities** | | 46,200,783 | 33,469,398 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 9 | (54,092,725) | (37,231,295) |
| Purchase of intangible assets | 10 | - | (275,000) |
| Proceeds from sale of property, plant and equipment | | 211,471 | 131,867 |
| **Net cash flows used in investing activities** | | (53,881,254) | (37,374,428) |
| **Financing activities** | | | |
| Proceeds from issuance of shares, net of issuance costs | 15 | 35,961,834 | - |
| Proceeds received on the exercise of share options | 16 | 205,170 | - |
| Proceeds from long-term debt | | - | 9,141,613 |
| Repayment of long-term debt | | (16,781,225) | (3,258,554) |
| Dividends paid to owners | 13 | (11,867,421) | (11,246,179) |
| **Net cash flows from (used in) financing activities** | | 7,518,358 | (5,363,120) |
| Net decrease in cash and cash equivalents | | (162,113) | (9,268,150) |
| Cash and cash equivalents, beginning of year | 6 | 2,622,191 | 11,890,341 |
| **Cash and cash equivalents, end of year** | 6 | 2,460,078 | 2,622,191 |
| Supplemental cash flow information: | | | |
| Interest paid | | 1,246,636 | 1,234,454 |
| Income tax paid (recovered) | | 9,711,411 | (454,574) |

The accompanying notes are an integral part of these 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 consolidated financial statement of the Corporation were authorised for issue by the Board of Directors on March 15, 2013.

# 2 Basis of Preparation

**Statement of compliance**
These consolidated financial statements of the Corporation are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

**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 Significant Accounting Judgements, Estimates and Assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

**Impairment of non-financial assets**
Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

**Taxes**
Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by tax authorities of the respective jurisdictions in which it operates. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

# 3 Significant Accounting Judgements, Estimates and Assumptions (continued)

**Useful lives of property, plant and equipment**

The Corporation estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

**Allowance for doubtful debts**

The Corporation makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance of doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

# 4 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

## A) Basis of consolidation

The consolidated financial statements include the accounts of Badger Daylighting Ltd. and its subsidiaries, all of which are wholly owned. Subsidiaries are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. All intra-company balances, income and expenses, unrealized gains and losses and dividends resulting from intra-company transactions are eliminated in full.

## B) Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand and short-term investments with original maturities of three months or less and are recorded at cost, which approximates fair market value.

## C) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being defined to include laid-down cost for materials on a weighted average basis.

## D) Leases

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the

# 4 Summary of Significant Accounting Policies (continued)

## D) Leases (continued)

balance of the liability. Finance charges are recognized in the consolidated statement of comprehensive income. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Corporation's consolidated statement of financial position. Operating lease payments are recognized as a direct cost in the consolidated statement of comprehensive income.

## E) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Repair and maintenance costs are recognized in the consolidated statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis to recognize the cost less estimated residual value over the estimated useful life of the assets as follows:

| | |
|---|---|
| Land improvements | 10% |
| Buildings | 5% |
| Shoring equipment | 10% |
| Shop and office equipment | 10%-25% |
| Truck and trailers | 10%-15% |

Depreciation of equipment under construction is not recorded until such time as the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Gains or losses arising from derecogniton of an item of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

## F) Intangible assets

Intangible assets represent service rights acquired, customer relationships, trade name and a non-compete agreement. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits

# 4 Summary of Significant Accounting Policies (continued)

## F) Intangible assets (continued)

embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

A summary of the policies applied to the Corporation's intangible assets is as follows:

| | Service rights | Other intangibles |
|---|---|---|
| **Useful lives** | Indefinite | 5 years |
| **Amortization method** | No amortization | Straight-line |

## G) Impairment of non-financial assets excluding goodwill

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

## H) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

# 4 Summary of Significant Accounting Policies (continued)

## I) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Corporation's CGU's expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

## J) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income except to the extent it relates to items recognized directly in equity.

**Current income tax**

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred tax**

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

# 4 Summary of Significant Accounting Policies (continued)

## K) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

**Rendering of services**
The Corporation recognizes revenue from services when the services are provided.

**Truck placement fees**
Truck placement fees are recognized when the truck is delivered to the operating partner.

## L) Share-based payment

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Corporation or cash payments.

**Equity-settled awards**
The Corporation uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

**Cash-settled awards**
The Corporation uses the market price of its shares to estimate the fair value of cash-settled awards. Fair value is established initially at the grant date and the obligation is revalued each reporting period until the awards are settled with any changes in the obligation recognized in selling, general and administrative expenses in the consolidated statement of comprehensive income.

## M) Finance costs

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method.

## N) Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation’s other components. All operating segments’ operating results are reviewed regularly by the Corporation’s President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

# 4 Summary of Significant Accounting Policies (continued)

## O) Foreign currency translation

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statement of comprehensive income.

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in the accumulated other comprehensive loss when settlement of which is neither planned nor likely to occur in the foreseeable future.

When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gain or losses related to such items are recognized in other comprehensive income, and presented in accumulated other comprehensive loss in equity.

## P) Financial assets

The Corporation classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Corporation's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the consolidated statement of financial position.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest rate method.

A provision for impairment of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

## P) Financial assets (continued)

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

# 4 Summary of Significant Accounting Policies (continued)

### Q) Financial liabilities

The Corporation classifies its financial liabilities as other financial liabilities. Management determines the classification of its financial liabilities at initial recognition. Other financial liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

Other financial liabilities include trade and other payables, dividends payable and long-term debt. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Financial liabilities are classified as current liabilities if payment is due within one year or less, if not, they are presented as non-current liabilities.

### R) Equity instruments

Equity instruments issued by the Corporation are recorded at the proceeds received net of direct issue costs.

# 5 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:

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 assets that must be applied starting January 1, 2015, 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 is currently assessing the impact of this standard on the consolidated financial statements.

ii) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Corporation has assessed this standard and determined that the standard will not have a material impact on the Corporation's consolidated financial statements.

iii) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Corporation has assessed this standard and determined that the standard is not applicable to the Corporation's consolidated financial statements.

iv) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation has assessed this standard and determined that the standard will result in additional disclosures relating to the Corporation's subsidiaries in the consolidated financial statements.

# 5 Recent accounting pronouncements (continued)

v) IFRS 13 'Fair Value Measurement' which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces fair value measurement guidance contained in individual IFRSs, providing a single source of fair value measurement guidance. The standard provides a framework for measuring fair value and establishes new disclosure requirements to enable readers to assess the methods and inputs used to develop fair value measurements and for recurring valuations that are subject to measurement uncertainty and the effect of those measurements on the financial statements. The Corporation is currently assessing the impact of this standard on the consolidated financial statements.

# 6 Cash and cash equivalents

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Cash at banks and on hand | 2,366,950 | 1,509,364 |
| Short-term investments | 93,128 | 1,112,827 |
| | 2,460,078 | 2,622,191 |

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods of between one and three months, depending on the immediate cash requirements of the Corporation, and earn interest at the respective short-term investment rates.

# 7 Trade and other receivables

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Trade receivables | 63,163,216 | 56,056,591 |
| Other sundry receivables | 407,193 | 114,185 |
| | 63,570,409 | 56,170,776 |

Trade receivables are non-interest bearing and are generally on 30-90 day terms. The allowance for doubtful debts as at December 31, 2012 is $123,462 (2011 - $127,080).

The ageing analysis of trade receivables is as follows:

| | | | Past due but not impaired | | |
|---|---|---|---|---|---|
| | **Total**<br>**$** | **Not past due**<br>**$** | **31-60 days**<br>**$** | **61-90 days**<br>**$** | **Greater than 90 days**<br>**$** |
| **December 31, 2012** | 63,163,216 | 35,032,656 | 16,512,276 | 5,896,730 | 5,721,554 |
| **December 31, 2011** | 56,056,591 | 30,954,093 | 12,434,335 | 5,653,622 | 7,014,541 |

# 8 Inventories

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Raw materials | 2,087,289 | 2,288,716 |

## 9 Property, plant and equipment

| | Land | Land improvements | Buildings | Equipment under construction | Shoring equipment | Shop and office equipment | Trucks and trailers | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | | | |
| At December 31, 2010 | 5,127,287 | 366,643 | 8,956,025 | 5,571,565 | 2,287,990 | 735,047 | 135,601,494 | 158,646,051 |
| Additions/transfers | 130,000 | 147,374 | 1,198,813 | (711,785) | 103,831 | 144,194 | 36,218,868 | 37,231,295 |
| Disposals | - | (366,643) | - | - | (136,694) | (323,969) | (2,558,851) | (3,386,157) |
| Exchange differences | 2,600 | - | 6,592 | - | - | 4,046 | 1,690,989 | 1,704,227 |
| At December 31, 2011 | 5,259,887 | 147,374 | 10,161,430 | 4,859,780 | 2,255,127 | 559,318 | 170,952,500 | 194,195,416 |
| Additions/transfers | 35,000 | 79,500 | 1,918,015 | 1,482,088 | 120,109 | 280,859 | 50,177,154 | 54,092,725 |
| Disposals | - | - | - | - | (58,521) | - | (1,878,223) | (1,936,744) |
| Exchange differences | (2,600) | - | (6,592) | - | - | (4,046) | (1,690,989) | (1,704,227) |
| At December 31, 2012 | 5,292,287 | 226,874 | 12,072,853 | 6,341,868 | 2,316,715 | 836,131 | 217,560,442 | 244,647,170 |
| | | | | | | | | |
| **Depreciation** | | | | | | | | |
| At December 31, 2010 | - | 366,643 | 2,461,282 | - | 1,300,365 | 506,638 | 62,677,393 | 67,312,321 |
| Depreciation charge for the year | - | 29,334 | 481,068 | - | 182,733 | 80,585 | 13,802,097 | 14,575,817 |
| Disposals | - | (366,643) | - | - | (95,400) | (348,465) | (2,529,059) | (3,339,567) |
| Exchange differences | - | - | 110 | - | - | 2,019 | 642,674 | 644,803 |
| At December 31, 2011 | - | 29,334 | 2,942,460 | - | 1,387,698 | 240,777 | 74,593,105 | 79,193,374 |
| Depreciation charge for the year | - | 90,551 | 528,613 | - | 160,990 | 104,962 | 17,480,364 | 18,365,480 |
| Disposals | - | - | - | - | (34,228) | - | (1,865,849) | (1,900,077) |
| Exchange differences | - | - | (73) | - | - | (1,755) | (577,884) | (579,712) |
| At December 31, 2012 | - | 119,885 | 3,471,000 | - | 1,514,460 | 343,984 | 89,629,736 | 95,079,065 |
| | | | | | | | | |
| Net book value | | | | | | | | |
| At December 31, 2011 | 5,259,887 | 118,040 | 7,218,970 | 4,859,780 | 867,429 | 318,541 | 96,359,395 | 115,002,042 |
| At December 31, 2012 | 5,292,287 | 106,989 | 8,601,853 | 6,341,868 | 802,255 | 492,147 | 127,930,706 | 149,568,105 |

## 10 Intangible assets

| | Service rights $ | Other intangibles $ | Goodwill $ | Total $ |
|---|---|---|---|---|
| **Cost** | | | | |
| At December 31, 2011 | 4,929,511 | 980,000 | 1,621,000 | 7,530,511 |
| Additions | - | - | - | - |
| At December 31, 2012 | 4,929,511 | 980,000 | 1,621,000 | 7,530,511 |
| **Amortization and impairment** | | | | |
| At December 31, 2011 | - | 930,998 | - | 930,998 |
| Amortization for the year | - | 49,002 | - | 49,002 |
| At December 31, 2012 | - | 980,000 | - | 980,000 |
| **Net book value** | | | | |
| At December 31, 2011 | 4,929,511 | 49,002 | 1,621,000 | 6,599,513 |
| At December 31, 2012 | 4,929,511 | - | 1,621,000 | 6,550,511 |

**Impairment testing of goodwill and intangibles with indefinite lives**
For impairment testing purposes, goodwill acquired through business combinations and service rights with indefinite lives have been allocated to the Eastern Canada and Western Canada cash-generating units respectively.

The Corporation performed the annual impairment tests of goodwill and service rights at December 31. The recoverable amount of the Eastern Canada and Western Canada cash-generating units have been determined based on a value in use calculation using post-tax cash flow projections from financial budgets approved by senior management, and projected over a five year period based on a growth rate of 6%. The post-tax discount rate applied to cash flow projections is 11.05% (2011 - 10.66%). As a result of this analysis, management did not identify any impairment.

## 11 Trade and other payables

| | 2012 $ | 2011 $ |
|---|---|---|
| **Current** | | |
| Trade payables | 12,355,617 | 11,957,190 |
| Deferred unit plan (Note 16) | 3,923,000 | 1,603,000 |
| Bonuses payable | 2,087,835 | 1,523,560 |
| Accrued expenses | 1,873,442 | 1,282,040 |
| Other sundry payables | 758,893 | 51,605 |
| | 20,998,787 | 16,417,395 |

Trade payables are non-interest bearing and are normally settled on 45 day terms.

# 12 Income taxes

The major components of income tax expense for the years are as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Current income tax | 7,945,850 | 5,158,053 |
| Deferred income tax | 6,012,873 | 4,852,111 |
| **Total income tax expense** | 13,958,723 | 10,010,164 |

The provision for income taxes, including deferred taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 25.85% (2011 – 27.35%). The Corporation's U.S. subsidiaries are subject to federal and state statutory tax rates of approximately 40% for both 2012 and 2011. The main differences are as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **Profit before tax** | 42,008,482 | 35,813,320 |
| Income tax expense at the statutory rate | 10,859,193 | 9,794,943 |
| Increase (decrease) resulting from: | | |
| Losses not previously recognized/not recognized | 650,000 | (765,842) |
| Tax rates in other jurisdictions | 2,135,674 | 1,252,915 |
| Reduction of deferred tax balances due to reduced tax rate | - | (258,256) |
| Other items | 313,856 | (13,596) |
| **Income tax expense** | 13,958,723 | 10,010,164 |

All deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. In addition, deferred tax assets and liabilities have been offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

| | As at December 31, 2011 | Recognized in profit or loss | As at December 31, 2012 |
|---|---|---|---|
| | $ | $ | $ |
| **Deferred tax assets** | | | |
| Tax loss carry-forwards | 5,085,852 | (2,661,852) | 2,424,000 |
| Deferred unit plan | 408,765 | 591,600 | 1,000,365 |
| Share issue costs | - | 421,192 | 421,192 |
| | 5,494,617 | (1,649,060) | 3,845,557 |
| **Deferred tax liabilities** | | | |
| Property, plant and equipment | 25,628,817 | 4,198,534 | 29,827,351 |
| Intangible assets | 248,010 | 61,686 | 309,696 |
| Partnership income | 4,583,714 | (736,473) | 3,847,241 |
| Reserve | 442,155 | (8,670) | 433,485 |
| | 30,902,696 | 3,515,077 | 34,417,773 |
| **Net deferred tax liability** | 25,408,079 | 5,164,137 | 30,572,216 |

## 12 Income taxes (continued)

**Tax loss carry forward**

As at December 31, 2012, one of the Corporation's U.S. subsidiaries had net operating losses carried forward of approximately US$5,431,000 which expire in 2032.

## 13 Dividends payable

During the year ended December 31, 2012, the Corporation paid cash dividends of $11,867,421 (or $1.025 per common share) and declared a $1,109,397 cash dividend (or $0.09 per common share) to its shareholders of record at the close of business on December 31, 2012 to be paid January 15, 2013.

The Corporation declares dividends monthly to its shareholders. Determination of the amount of cash dividends for any period is at the sole discretion of the directors and is based on certain criteria including financial performance as well as the projected liquidity and capital resource position of the Corporation. Dividends are declared to shareholders of the Corporation on the last business day of each month and paid on the 15th day of the month following the declaration (or if such day is not a business day, the next following business day).

## 14 Long-term debt

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Extendable revolving credit facility | 29,773,229 | 46,554,454 |

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 2012, and as at December 31, 2012, the Corporation was in compliance with all of these covenants (see Note 23).

As at December 31, 2012, 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 December 31, 2012, the Corporation had available $24,591,771 (December 31, 2011 - $13,445,546) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

# 15 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, 2010 and 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 |

On June 19, 2012, the Corporation completed an equity financing through the issuance of 1,500,000 common shares at a price of $25.00 per common share for gross proceeds of $37,500,000. The Corporation incurred share issue costs of $1,538,166 (net of income taxes of $526,500), in connection with the equity financing, including a commission fee paid to the underwriters of $1,687,500 and professional and miscellaneous fees of $377,166.

## 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 recognize 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 16 for further details of these plans.

| | 2012 $ | 2011 $ |
|---|---|---|
| Opening balance | 2,657,923 | 4,578,771 |
| Share-based payment transactions | 58,000 | 270,800 |
| Equity-settled share plan settled in cash | (655,316) | (2,191,648) |
| Closing balance | 2,060,607 | 2,657,923 |

# 16 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 December 31, 2012 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 years ended December 31, 2012 and 2011 are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Outstanding at beginning of year | 187,750 | 19.00 | 768,280 | 16.96 |
| Share options exercised | (13,000) | 15.78 | - | - |
| Options surrendered for cash | (52,375) | 13.69 | (568,530) | 16.27 |
| Forfeited | (12,000) | 22.45 | (12,000) | 18.07 |
| Outstanding at end of year | 110,375 | 21.54 | 187,750 | 19.00 |

Pursuant to the share plan the Corporation had 52,375 (2011 – 568,530) vested share options surrendered by employees in return for a cash settlement of $655,316 (2011 - $2,191,648).

For the year ended December 31, 2012 the Corporation recorded compensation expense, included as part of selling, general and administrative expense, of $58,000 (2011 - $270,800) with an offsetting increase to contributed surplus in respect of the share options granted and outstanding as of December 31, 2012.

The following provides a summary of the Share Plan as at December 31, 2012:

| Options outstanding | | | Options exercisable | |
|---|---|---|---|---|
| Outstanding at December 31, 2012 | Weighted average remaining contractual life | Weighted average exercise price $ | Number exercisable at December 31, 2012 | Weighted average exercise price $ |
| 98,375 | 0.4 | 22.45 | 98,375 | 22.45 |
| 3,000 | 1.4 | 13.69 | 3,000 | 13.69 |
| 9,000 | 2.7 | 14.20 | 6,000 | 14.20 |

# 16 Share-based payment plans (continued)

### Performance Trust Share Plan (the "PTU Plan")

The Corporation established the PTU Plan to reward officers and employees. The number of shares earned is dependent upon the achievement of certain financial targets over a three-year period. The PTUs are earned over the same three-year period and vest on the third anniversary of the grant, at which time the holder is entitled to cash equal to the aggregate current market value of the number of shares subject to the PTUs. Dividends per PTU are added to the entitlement after the PTUs are earned. Compensation expense is based on the estimated fair value of the award determined at the end of each quarter and recognized on a straight-line basis throughout the term of the vesting period, with a corresponding credit to liabilities. On May 13, 2008, May 15, 2009 and May 11, 2010, the Corporation granted awards pursuant to the plan. Upon implementation of the Deferred Unit Plan the PTU Plan was terminated. PTU's which had been earned were transferred to deferred units.

### 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 $2,320,000 (2011 - $1,034,865), which is included in selling, general and administrative expenses.

The liability of deferred units outstanding as at December 31, 2012 is $3,923,000. The intrinsic value of deferred units exercisable as at December 31, 2012 is $1,437,644. Changes in the number of deferred units under the Badger DUP were as follows:

| | **Units** |
|---|---:|
| At January 1, 2011 | - |
| Granted | 49,313 |
| Transferred from PTU Plan | 79,688 |
| Dividends earned | 2,177 |
| **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 |
| **Exercisable at December 31, 2012** | 46,586 |

## 17 Revenues

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Rendering of services | 237,838,700 | 193,040,976 |
| Truck placement fees | 1,390,001 | 1,137,113 |
| | 239,228,701 | 194,178,089 |

## 18 Expenses by nature

Direct costs and selling, general and administrative expenses include the following major expenses by nature:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Wages, salaries and benefits | 92,953,844 | 65,664,672 |
| Fees paid to operating partners | 42,441,046 | 43,729,653 |
| Fuel | 11,955,708 | 8,408,118 |
| Repairs and maintenance | 14,616,783 | 11,358,307 |

## 19 Reimbursement to Clean Harbors, Inc.

On January 26, 2011, the Corporation signed an agreement to be acquired by Clean Harbors, Inc. ("Clean Harbors"). Under the terms of the agreement, Clean Harbors was to acquire 100% of the Corporation's outstanding common shares for cash consideration of $20.50 per common share (the "Transaction"). The Transaction was conditional on the approval of not less than 66 2/3 percent of the votes cast by the shareholders and optionholders. The Corporation held a meeting to consider the Transaction on April 26, 2011. The shareholder and optionholder vote did not receive the requisite number of votes required to approve the Transaction and as a result the Transaction was not completed. As a result, pursuant to the terms of a settlement agreement, the Corporation reimbursed Clean Harbors $1,062,039.

## 20 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 year. The denominator is calculated by adjusting the shares in issue at the beginning of the year by the number of shares bought back or issued during the year, multiplied by a time-weighting factor.

The calculation of basic earnings per share for the year ended December 31, 2012, was based on the profit available to common shareholders of $28,049,759 (2011 - $25,803,156), and a weighted average number of common shares outstanding of 11,623,680 (2011 – 10,813,631).

Weighted average number of common shares

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Issued common shares outstanding, beginning of year | 10,813,631 | 10,813,631 |
| Effect of share options exercised | 10,869 | - |
| Effect of equity financing | 799,180 | - |
| Weighted average number of common shares, end of year | 11,623,680 | 10,813,631 |

## 20 Earnings per share (continued)

**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 year ended December 31, 2012, was based on a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 11,641,980 (2011 – 10,836,589), calculated as follows:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Weighted average number of common shares (basic) | 11,623,680 | 10,813,631 |
| Effect of share options | 18,300 | 22,958 |
| Weighted average number of common shares (diluted) | 11,641,980 | 10,836,589 |

For the year ended December 31, 2012, there were no options (2011 – 110,375) excluded from the diluted weighted average number of common shares calculation. 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 year during which the options were outstanding.

## 21 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 years ended December 31, 2012 and 2011 based on these geographic segments.

| **For the year ended:** | **December 31, 2012** | | | **December 31, 2011** | | |
|---|---|---|---|---|---|---|
| | **Canada ($)** | **U.S. ($)** | **Total ($)** | **Canada ($)** | **U.S. ($)** | **Total ($)** |
| Revenues | 129,270,392 | 109,958,309 | 239,228,701 | 110,952,822 | 83,225,267 | 194,178,089 |
| Direct costs | 82,193,266 | 81,480,137 | 163,673,403 | 67,986,521 | 61,412,096 | 129,398,617 |
| Depreciation of property, plant and equipment | 9,081,043 | 9,284,437 | 18,365,480 | 8,131,895 | 6,443,922 | 14,575,817 |
| Amortization of intangible assets | 49,002 | - | 49,002 | 196,000 | - | 196,000 |
| Selling, general and administrative | 10,908,573 | 3,151,929 | 14,060,502 | 9,511,602 | 2,462,517 | 11,974,119 |
| Profit before tax | 26,002,118 | 16,006,364 | 42,008,482 | 24,077,585 | 11,735,735 | 35,813,320 |

| **For the year ended:** | **December 31, 2012** | | | **December 31, 2011** | | |
|---|---|---|---|---|---|---|
| | **Canada ($)** | **U.S. ($)** | **Total ($)** | **Canada ($)** | **U.S. ($)** | **Total ($)** |
| Additions to non-current assets: | | | | | | |
| Property, plant and equipment | 30,095,361 | 23,997,364 | 54,092,725 | 13,268,269 | 23,963,026 | 37,231,295 |
| Intangible assets | - | - | - | 275,000 | - | 275,000 |

## 21 Segment reporting (continued)

| | Canada ($) | U.S. ($) | Total ($) |
|---|---|---|---|
| **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 |
| **As at December 31, 2011** | | | |
| Property, plant and equipment | 57,651,769 | 57,350,273 | 115,002,042 |
| Intangible assets | 6,599,513 | - | 6,599,513 |
| Total assets | 100,078,941 | 83,787,868 | 183,866,809 |

## 22 Related party disclosure

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** | **2012** | **2011** |
| 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. Details of transactions between the Corporation and other related parties are disclosed below.

### Transactions with related parties

During the year ended December 31, 2012, the Corporation was charged $201,106 (2011 - $356,128) for professional fees by a partnership in which a director of the Corporation is a partner. These transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### Related party balances

As at December 31, 2012 and December 31, 2011 there were no significant outstanding balances with related parties.

### Compensation of key management personnel

The remuneration of directors and other members of key management personnel were as follows:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Compensation, including bonuses | 1,935,348 | 1,577,416 |
| Share-based payments | 678,940 | 637,789 |
| | 2,614,288 | 2,215,205 |

### Key management personnel and director transactions

Key management and directors of the Corporation control 2.9 percent of the voting shares of the Corporation.

## 23 Capital management

The Corporation's strategy is to carry a capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Corporation considers the capital structure to consist of net debt and shareholders' equity. The Corporation considers net debt to be total long-term debt less cash and cash equivalents. The Corporation seeks to maintain a balance between the level of net debt and shareholders' equity to facilitate access to capital markets to fund growth and working capital. On a historical basis, it is management's objective and view that the Corporation has maintained a conservative and appropriate ratio of net debt to net debt plus shareholders' equity. The Corporation may occasionally need to increase these levels to facilitate acquisition or expansion activities. This ratio was as follows:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Long-term debt | 29,773,229 | 46,554,454 |
| Cash and cash equivalents | (2,460,078) | (2,622,191) |
| Net debt | 27,313,151 | 43,932,263 |
| Shareholders' equity | 139,707,772 | 89,381,154 |
| Total capitalization | 167,020,923 | 133,313,417 |
| Net debt to total capitalization (%) | 16% | 33% |

The Corporation sets the amounts of its various forms of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce net debt.

The Corporation is bound by certain financial and non-financial covenants as defined by its bank. If the Corporation is in violation of any of these covenants its ability to pay dividends may be inhibited. The Corporation monitors these covenants to ensure it remains in compliance. The financial covenants are as follows:

| **Ratio** | **December 31, 2012** | **December 31, 2011** | **Threshold** |
|---|---|---|---|
| Funded Debt[1] to EBITDA[2] | 0.44:1 | 0.85:1 | 2.25:1 maximum |
| Fixed Charge Coverage[3] | 4.58:1 | 2.11:1 | 1.00:1 minimum |

[1] Funded Debt is long-term debt, less cash and cash equivalents.

[2] Funded Debt to EBITDA (earnings before interest, taxes, depreciation and amortization) means the ratio of consolidated Funded Debt to the aggregated EBITDA for the trailing twelve-months. Funded Debt is defined as long-term debt including any current portion thereof. EBITDA is defined as the trailing twelve-months of EBITDA for the Corporation.

[3] Fixed Charge Coverage Ratio means, based on the trailing twelve-month EBITDA less unfinanced capital expenditures and cash taxes, plus the unused portion of the extendable revolving credit facility to the sum of the aggregate of scheduled long-term debt principal payments, interest and dividends.

Throughout 2012 and as at December 31, 2012 the Corporation was in compliance with all of these covenants.

There were no changes in the Corporation's approach to capital management during the year.

The Corporation’s activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Corporation’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Corporation’s financial performance.

Risk management is carried out by senior management, and the Board of Directors.

# 24 Financial instruments and risk management

### Fair values

The Corporation's financial instruments recognized on the consolidated statement of financial position 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.

### Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. A substantial portion of the Corporation's trade receivable balance is with customers in the petroleum and utility industries and is subject to normal industry credit risks. The Corporation manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Corporation attempts to monitor financial conditions of its customers and the industries in which they operate.

### Liquidity risk

Liquidity risk is the risk that, as a result of operational liquidity requirements, the Corporation will not have sufficient funds to settle an obligation on the due date and will be forced to sell financial assets at a price which is less than what they are worth, or will be unable to settle or recover a financial asset.

The Corporation's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Corporation to raise capital by issuing equity or obtaining additional debt financing. The Corporation also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

At December 31, 2012, the Corporation had available $24,591,771 of authorized borrowing capacity on the extendable revolving credit facility. 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. If not renewed, interest is payable monthly on the facility for 364 days after which the entire amount is to be repaid. The Corporation believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

The table below summarizes the maturity profile of the Corporation's financial liabilities at December 31, 2012 based on contractual undiscounted payments.

| | Less than 1 year | 1 to 2 years | 2 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| **As at December 31, 2012** | | | | | |
| Trade and other payables | 20,998,787 | - | - | - | 20,998,787 |
| Long-term debt | - | 29,773,229 | - | - | 29,773,229 |
| | 20,998,787 | 29,773,229 | - | - | 50,772,016 |

# 24 Financial instruments and risk management (continued)

### Market risk

The significant market risk exposures affecting the financial instruments held by the Corporation are those related to interest rates and foreign currency exchange rates which are explained as follows:

**Interest rate risk**

The Corporation is exposed to interest rate risk in relation to interest expense on its long-term debt. Interest is calculated at prime on its borrowing facilities. The prime interest rate is subject to change. A sensitivity analysis would indicate that net profit for the year ended December 31, 2012 would have been affected by approximately $296,000 if the average interest rate changed by one percent. The Corporation does not currently use interest rate hedges or fixed interest rate contracts to manage the Corporation's exposure to interest rate fluctuations.

**Foreign exchange risk**

The Corporation has United States operations and Canadian operations which purchase certain products in United States dollars. As a result, fluctuations in the value of the Canadian dollar relative to the United States dollar can result in foreign exchange gains and losses. The Corporation does not currently have any agreements to fix or hedge the exchange rate of the Canadian dollar to the United States dollar.

United States dollar denominated balances, subject to exchange rate fluctuations, were as follows (amounts shown in Canadian dollar equivalent):

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 2,460,078 | 2,622,191 |
| Trade and other receivables | 24,186,701 | 23,047,656 |
| Trade and other payables | (6,092,815) | (5,796,719) |
| Income taxes payable | (335,000) | - |
| Long-term debt | (25,500,000) | (26,010,000) |
| | (5,281,036) | (6,136,872) |

The following table demonstrates the Corporation's sensitivity to a 10% increase or decrease in the Canadian dollar against the foreign exchange rates. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in the foreign currency rate (amounts shown in Canadian dollar equivalent).

| Increase/decrease in foreign exchange rate | Effect on profit/(loss) before tax 2012 | Effect on profit/(loss) before tax 2011 |
|---|---|---|
| | $ | $ |
| 10% strengthening in the Canadian dollar against the US dollar | (1,365,000) | (1,000,000) |
| 10% weakening in the Canadian dollar against the US dollar | 1,517,000 | 1,150,000 |

## 25 Commitments and contingencies

### Legal disputes

The Corporation is not involved in any legal disputes that would generate a material impact to the financial results of the Corporation.

### Operating leases

The Corporation has entered into operating leases for shop and office premises.

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Within one year | 1,849,000 | 923,000 |
| After one year but not more than five years | 2,401,000 | 1,124,000 |
| Total | 4,250,000 | 2,047,000 |

### Purchase commitments

At December 31, 2012 the Corporation has commitments to purchase approximately $14,204,000 worth of capital assets and various parts and materials. There are no set terms for remitting payment for these financial obligations.

## 26 Subsequent event

During April, 2012 the Corporation executed a non-binding letter of intent whereby it will acquire service rights and operating assets from certain of its operating partners for cash consideration of $2,635,000. The date the transaction will be completed is not known at this time.