

## Management's Discussion and Analysis

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The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the attached unaudited interim consolidated financial statements of Badger Daylighting Ltd. (the "Company" or "Badger"). The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Readers should also refer to the December 31, 2010 audited consolidated financial statements and MD&A, which along with all previous public filings, including the Company's Annual Information Form for the year ended December 31, 2010, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A has been prepared taking into consideration information available to June 13, 2011.

### CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements and information contained in this MD&A and other continuous disclosure documents of the Company referenced herein, including statements related to the Company's capital expenditures, projected growth, view and outlook toward margins, cash dividends, customer pricing, future market opportunities and statements, and information that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions relating to matters that are not historical facts, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Company believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this MD&A should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this MD&A.

In particular, forward-looking information and statements include discussion concerning:

- Internal preparations for anticipated growth in 2011 with the hydrovac build increasing to two units per week;
- That the market for hydrovac services will continue to improve in 2011 in most markets;
- That the economy in Canada and the United States will not be materially different in 2011;
- That the new locations opened in 2010 in the United States will provide an increased contribution to cash flows from operations and net earnings during 2011;
- That Eastern Canada will continue with stable growth through an increase in the overall market for hydrovac services and continued infrastructure spending; and
- That there will be an increase in Western Canada revenue during 2011 due to various projects and spending in the oil and natural gas sector.

The forward-looking statements rely on certain expected economic conditions and overall demand for Badger's services and are based on certain assumptions. The assumptions used to generate forward-looking statements are, among other things, that:

- Badger has the ability to achieve its internal revenue, net earnings and cash flow forecasts for 2011;
- There will be long-term demand for hydrovac services provided in support of oil refineries, petrochemical plants, power plants and other large industrial facilities throughout North America;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;
- The Company will collect customer obligations in a timely manner; and
- Badger will execute its growth strategies.

Risk factors and other uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements include, but are not limited to: supply-demand fluctuations for oil and natural gas and related products and services; political and economic conditions; industry competition; Badger's ability to attract and retain key personnel; the availability of future debt and equity financing; changes in laws or regulations, including taxation and environmental regulations; and fluctuations in foreign exchange or interest rates.

Readers are cautioned that the foregoing factors are not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results is included in reports on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) or at the Company's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

## **NON-IFRS FINANCIAL MEASURES**

This MD&A contains references to certain financial measures, including some that do not have any standardized meaning prescribed by IFRS and that may not be comparable to similar measures presented by other corporations or entities. These financial measures are identified and defined below:

**“Cash available for growth and distribution/dividend”** is used by management to supplement cash flow as a measure of operating performance and leverage. The objective of this measure is to calculate the amount available for dividends to shareholders. It is defined as funds generated from operations less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

**“EBITDA”** is earnings before interest, taxes, depreciation and amortization and is a measure of the Company's operating profitability and is therefore useful to management and investors. EBITDA provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, assets are amortized or how the results are taxed in various jurisdictions. EBITDA is calculated from the Consolidated Statements of Comprehensive Income as gross profit less selling, general and administrative costs. It is calculated as follows:

	Three months ended March 31,	
\$	2011	2010
Gross profit	12,822,984	10,687,676
Selling, general and administrative	(2,697,642)	(2,341,936)
<b>EBITDA</b>	<b>10,125,342</b>	<b>8,345,740</b>

“**Funded debt**” is a measure of Badger’s long-term debt position. Funded debt is long-term debt.

“**Funds generated from operations**” is used to assist management and investors in analyzing operating performance and leverage. It is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. Funds generated from operations are derived from the Consolidated Statement of Cash Flows and is calculated as follows:

	Three months ended March 31,	
\$	2011	2010
Cash provided by operating activities	7,908,136	9,654,099
Add (deduct):		
Net change in non-cash working capital relating to operating activities	167,708	(2,803,611)
<b>Funds generated from operations</b>	<b>8,075,844</b>	<b>6,850,488</b>

“**Growth capital expenditures**” are capital expenditures that are intended to improve Badger’s efficiency, productivity or overall capacity and thereby allow Badger to access new markets. It generally represents any net additions to the daylighting fleet. Growth capital expenditures exclude acquisitions made during the period.

“**Maintenance capital expenditures**” are any amounts incurred during a reporting period to keep the Company’s daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the capacities of the existing business. They also include any costs incurred to extend the operational life of a daylighting unit. The amount will fluctuate from period-to-period depending on the number of units retired from the fleet.

“**Net debt**” is funded debt less cash and cash equivalents. Cash available for growth and distribution/dividend, EBITDA, funded debt, funds generated from operations, growth capital expenditures, maintenance capital expenditures and net debt throughout this document have the meanings set out above.

## FINANCIAL HIGHLIGHTS

(\$ thousands, except per unit and total units outstanding information)

	<b>Three months ended March 31, 2011</b>	<b>Three months ended March 31, 2010</b>
Revenues	40,971	30,334
EBITDA	10,125	8,346
Profit before tax	6,481	5,005
Income tax expense		
Current	1,494	426
Deferred	605	270
Net profit	4,382	4,309
Profit per share – diluted (\$)	0.40	0.40
Funds generated from operations	8,076	6,850
Funds generated from operations per share – diluted (\$)	0.74	0.63
Maintenance capital expenditures	417	1,690
Required long-term debt repayments	81	81
Cash available for growth and dividends/distributions	7,611	5,274
Dividends/distributions declared	2,757	3,405
Growth capital expenditures	4,691	910
Total shares outstanding	10,813,631	10,808,503

## OVERVIEW

Revenues for the three months ended March 31, 2011 increased by approximately 35 percent to \$41.0 million from \$30.3 million for the comparable quarter of 2010 due to a 48 percent increase in Canadian revenues and a 17 percent increase in United States revenues. As a result of the increase in revenues, the Company's quarterly EBITDA and funds generated from operations also increased from the same period in 2010. Badger's EBITDA increased by approximately 21 percent to \$10.1 million for the three months ended March 31, 2011 from \$8.3 million in the same quarter of 2010, while funds generated from operations increased by approximately 18 percent to \$8.1 million from \$6.9 million in the comparable quarter of 2010. EBITDA margins in Canada were similar in each reporting period. The EBITDA margins in the United States decreased from 27 percent in the first quarter of 2010 to 20 percent in the first quarter of 2011 due to less revenue than anticipated from the various corporate locations due to poor weather in a number of areas.

The Company renewed and increased its extendable revolving credit facility to \$60 million in June 2011. It is anticipated this renewal and increase in facility will provide sufficient funds for Badger's 2011 capital expenditure plan.

Badger had 429 daylighting units at the end of the first quarter of 2011, reflecting the addition of 18 daylighting units to the fleet and the retirement of one unit. Of the total, 236 units were operating in Canada and 193 in the United States at quarter-end. Badger had 412 daylighting units at December 31, 2010. The new units were financed from cash generated from operations and existing credit facilities.

## **CORPORATE CONVERSION**

On June 29, 2010, unitholders of the Badger Income Fund (the "Fund") voted in favour of converting the Fund into a corporation, pursuant to a statutory plan of arrangement (the "Conversion") involving, among others, the Fund, Badger, and the securityholders of the Fund. The Conversion was completed on December 31, 2010.

The Conversion was accounted for as a continuity of interests of the Fund since there was no change of control and since Badger continues to operate the business of the Fund. Accordingly, this MD&A and accompanying consolidated financial statements reflect Badger as a corporation at December 31, 2010 and as Badger Income Fund prior thereto. All references to "shares" refer collectively to Badger's common shares on and subsequent to December 31, 2010 and to Fund units prior to the Conversion. All references to "shareholders" refer collectively to holders of Badger's shares on and subsequent to December 31, 2010 and the Fund unitholders prior to the Conversion. References to "stock-based compensation" should be read as references to "unit-based compensation" for all periods prior to December 31, 2010.

As a result of the conversion, unitholders of the Fund received one common share of Badger for one unit of the Fund. The trust structure of Badger was reorganized into a publicly listed corporation, which became the owner of all issued and outstanding Fund units. Badger also now holds all the assets and liabilities previously held, directly or indirectly, by the Fund.

## **ACQUISITION OF BADGER BY CLEAN HARBORS, INC.**

On January 26, 2011 Badger signed an agreement to be acquired by Clean Harbors, Inc. ("Clean Harbors"). Under the terms of the agreement, Clean Harbors was to acquire 100 percent of Badger's outstanding common shares for cash consideration of \$20.50 per 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 of Badger. Badger 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, accordingly, the Transaction was not completed. As a result, pursuant to the terms of the agreement, Badger must pay Clean Harbors up to a maximum of \$1.5 million.

## **OUTLOOK**

Badger began 2011 with a strong quarter which was primarily due to better than forecast results in Eastern and Western Canada. In 2010 Western Canada had an early and prolonged spring breakup – this year Badger was able to work much later into the first quarter due to cold weather. In both Eastern and Western Canada Badger experienced a higher than anticipated level of demand for its services. In general

the United States demand for Badger's services was moderated in the first quarter due to difficult weather conditions in several areas.

Looking ahead, Badger believes that results in 2011 will exceed management's original forecast for the following reasons:

1. Projects and spending in the oil and natural gas sector are currently at good levels for Badger which should allow Western Canada and key areas in the United States to grow.
2. New areas established in the United States last year are beginning to develop customers and work, which should improve United States growth this year.
3. Eastern Canada markets appear to be strong, with good forecast demand for Badger services.
4. Badger is currently very close to its target build rate of two units per week. These new units are primarily for growth purposes and will contribute to increased revenue as they are put into service.
5. The Clean Harbors potential acquisition of Badger and related process was a distraction for management and employees. With this distraction now removed, Badger can focus on improving and growing its business.

The first quarter of 2011 was a good one. Badger believes the rest of the year also looks good and the Company is looking forward to executing its plan for the year.

## **Results of Operations**

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### **Revenues**

Revenues of \$41.0 million for the three months ended March 31, 2011 were 35 percent greater than the \$30.3 million generated during the comparable period in 2010. The increase is attributable to the following:

- Canadian revenues increased by 48 percent from \$17.7 million in the first quarter of 2010 to \$26.2 million in the first quarter of 2011. Western Canada hydrovac revenue increased by 55 percent due to a general increase in the number of days worked due in turn to a later than usual spring break-up plus an increase in demand for hydrovac services in various areas due to increased activity in the oil and natural gas industry. Eastern Canada revenue increased by 36 percent quarter-over-quarter due to a general increase in activity; and
- United States revenue went from \$12.6 million for the three months ended March 31, 2010 to \$14.8 million for the three months ended March 31, 2011. Removing the effect of the change in the foreign exchange rate, revenues increased by 23 percent quarter-over-quarter. The increase is due to more work in the United States West and East due to increased activity in the oil and natural gas industry plus the increase in activity at one large project.

Badger's average revenue per truck per month during the three months ended March 31, 2011 was \$30,000 versus \$22,000 for the three months ended March 31, 2010. The increase is due to increased revenue noted above.

**Direct Costs**

Direct costs for the quarter ended March 31, 2011 were \$28.1 million compared to \$19.6 million for the quarter ended March 31, 2010. This increase of 43 percent is greater than the increase in revenues of 35 percent due to less than anticipated revenues being generated from a number of the United States corporate locations due to poor weather.

**Gross Profit**

The gross profit percentage was 31.3 percent for the quarter ended March 31, 2011, a decrease from the 35.2 percent generated for the quarter ended March 31, 2010. The Canadian gross profit percentage decreased slightly from 37.2 percent for the three months ended March 31, 2010 to 35.9 percent for the three months ended March 31, 2011 due the investment to increase the number of Western Canada corporate locations. United States gross profit percentage decreased from 35.2 percent for the three months ended March 31, 2010 to 23.1 percent for the three months ended March 31, 2011 due to a significant increase in the number of corporate locations in 2010, many of which did not generate the anticipated amount of revenue due to poor weather conditions.

**Depreciation of Property, Plant and Equipment**

Depreciation of property, plant and equipment was \$3.3 million for the three months ended March 31, 2011 or \$0.1 million higher than the \$3.2 million incurred for the three months ended March 31, 2010 due to the increased number of hydrovac units in the fleet.

**Finance Cost**

Finance cost was \$0.3 million for the quarter ended March 31, 2011 versus \$0.2 million for the quarter ended March 31, 2010. The higher finance cost was due to having a higher average debt balance quarter-over-quarter.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by 15 percent to \$2.7 million for the quarter ended March 31, 2011 from \$2.3 million for the quarter ended March 31, 2010. The main reasons for the increase were costs incurred related to the Clean Harbors transaction referred to above and an increase in personnel costs as a result of a growth in the business. As a percentage of revenues, selling, general and administrative expenses decreased to 6.6 percent for the first quarter of 2011 from 7.7 percent for the first quarter of 2010. The main reason for the decrease was the increase in revenues.

**Income Taxes**

The effective tax rate for the quarter ended March 31, 2011 was 32 percent, which is a significant increase from the effective tax rate of 14 percent for the quarter ended March 31, 2010. The main reason for the increase was the conversion to a corporate structure on December 31, 2010, as discussed above. As a trust the distributions made to unitholders were tax deductible.

**Exchange Differences on Translation of Foreign Operations**

The exchange differences results from converting the balance sheet and earnings statement related to the United States operations into Canadian currency.

## Liquidity and Distributions

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Funds generated from operations increased to \$8.1 million for the quarter ended March 31, 2011 from \$6.9 million for the comparable period in 2010 due primarily to increased Canadian EBITDA. The Company uses its cash to pay dividends to shareholders, build additional hydrovac units, invest in maintenance capital expenditures and repay long-term debt.

The Company had working capital of \$38.7 million at March 31, 2011 compared to \$38.1 million at December 31, 2010. The slight increase was due to the cash flow from operations and long-term debt proceeds exceeding capital expenditures and dividends to shareholders and an increase in accounts receivable due to the increase in revenues in each of Canada and the United States in the first quarter of 2011.

The following table outlines the cash available to fund growth and pay dividends to shareholders for the three months ended March 31, 2011:

(\$)

Cash provided by operating activities	7,908,136
Add (deduct): net change in non-cash working capital	<u>167,708</u>
Funds generated from operations	8,075,844
Add: proceeds from sale of property, plant and equipment	33,554
Deduct: required repayments of long-term debt	(80,940)
Deduct: maintenance capital expenditures	<u>(417,363)</u>
Cash available for growth capital expenditures and dividends	<u>7,611,095</u>
Growth capital expenditures	<u>4,690,736</u>
Dividends declared	<u>2,757,477</u>

In determining cash available for dividends the Company excludes non-cash working capital changes for the period as well as growth capital expenditures. Changes in non-cash working capital items have been excluded so as to remove the effects of timing differences in cash receipts and disbursements, which generally reverse themselves and can vary significantly between fiscal periods. Growth capital expenditures have been excluded so as to include only the maintenance capital expenditures required for the sustainability of the existing asset base.

The following table outlines the excess of cash provided by operating activities and net profit for the period over dividends declared during the quarter ended March 31, 2011 and the year ended December 31, 2010:

(\$)	Three months ended March 31, 2011	Year ended December 31, 2010
Cash provided by operating activities	7,908,136	26,104,861
Net profit	4,381,826	19,633,096

Dividends/distributions declared	2,757,477	13,618,879
Excess of cash provided by operating activities over dividends/distributions declared	5,150,659	12,485,982
Excess of net profit over Dividends/distributions declared	1,624,349	6,014,217

The Company pays cash dividends monthly to its shareholders. These cash dividends may be reduced, increased or suspended entirely by the Board of Directors depending on the operations of Badger and the performance of its assets. The actual cash flow available for dividends to shareholders of Badger is a function of numerous factors, including: the Company's financial performance; debt covenants and obligations; working capital requirements; maintenance and growth capital expenditure requirements for the purchase of property, plant and equipment; and number of shares outstanding.

The Company maintains a strong balance sheet. The debt management strategy includes retaining sufficient funds from available distributable cash to finance maintenance capital expenditures as well as working capital needs. Growth capital expenditures will generally be financed through existing debt facilities or cash retained from operating activities. The majority of the cash provided by operating activities in the three months ended March 31, 2011 was used to finance maintenance and growth capital expenditures and to pay dividends to shareholders.

If maintenance capital expenditures increase in future periods, the Company's cash available for growth capital expenditures and dividends will be negatively affected. Due to Badger's growth rate in recent years, the majority of the hydrovac units are relatively new, with an average age of approximately five years. As a result, Badger is currently experiencing relatively low levels of maintenance capital expenditures. Over time, Badger would expect to incur annual maintenance capital expenditures in an amount that approximates the depreciation expense reported in the year. Badger estimates it will remove approximately 30 hydrovac units from the fleet in 2011. Badger is currently looking at the cost of extending the life of certain of these 30 hydrovac units, which could reduce this number significantly. Badger expects that cash provided by operations and cash available for growth capital expenditures and dividends will be sufficient to fund the maintenance capital expenditures in the future.

Badger is restricted from declaring dividends if it is in breach of the covenants under its credit facilities. As at the date of this MD&A the Company is in compliance with all debt covenants and is able to fully utilize all existing credit facilities. Badger does not have a stability rating.

## Capital Resources

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### Investing

The Company spent \$5.1 million on property, plant and equipment for the three months ended March 31, 2011 compared to \$2.6 million for the three months ended March 31, 2010. The Company built 18 hydrovac units during the three months ended March 31, 2011 compared to four hydrovac units during the three months ended March 31, 2010. The costs to build a hydrovac unit decreased by approximately 9 percent from fiscal 2010 to the first quarter of 2011. The main reason for the decrease was the increased build rate resulting in fixed overhead costs being allocated to more units and a lower than expected

average chassis cost due to the purchase of a group of chassis from a dealer who had them in stock from cancelled orders.

Maintenance capital expenditures are incurred during a period to keep the hydrovac fleet at the same number of units plus any other capital expenditures required to maintain the existing business. This amount will fluctuate from period-to-period depending on the number of units retired from the fleet. During the first quarter of 2011 only one hydrovac unit was removed from the fleet and, therefore maintenance capital expenditures were minimal.

During the fourth quarter of 2010 Badger acquired a number of cab and chassis. As at December 31, 2010 these assets were included as “Equipment under construction” of approximately \$5.6 million. Based on the current build rate of the hydrovac units, Badger has enough cab and chassis on hand for the first half of 2011. Badger has committed to additional cab and chassis expenditures in the amount of approximately \$7.3 million.

### **Financing**

In June 2011 the Company’s extendable revolving credit facility was renewed. The principal amount was increased from \$40 million to \$60 million. The facility has been used and will continue to be used to assist in financing Badger’s capital expenditure program and support corporate activities. The facility has no required principal repayments. It expires on June 24, 2012 and is renewable at Badger’s option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days, after which the entire amount must be repaid. The facility bears interest at the bank’s prime rate or bankers’ acceptance rate plus 1.25 percent plus 0 to 0.75 percent depending on Badger’s ratio of funded-debt-to-EBITDA.

In connection with renewing the revolving credit facility the two mortgages outstanding in the amount of \$3.1 million were paid off.

The Company’s net debt outstanding increased slightly during the first quarter of 2011. As at March 31, 2011 Badger’s cash and cash equivalents were \$12.3 million resulting in net debt of \$29.2 million versus cash and cash equivalents of \$11.9 million and net debt of \$28.8 million at December 31, 2010. During the fourth quarter of 2010 the Company made a substantial investment in cab and chassis, which are being used in its 2011 capital expenditure program.

Management believes that the Company’s healthy balance sheet combined with funds generated from operations will provide sufficient capital to fund ongoing operations, pay dividends to shareholders, finance future capital expenditures and execute its strategic plan for the foreseeable future. The Company’s practice is to utilize an appropriate mix of debt and equity to finance its maintenance capital expenditures and growth initiatives.

Badger is in compliance with all financial covenants under the credit facility agreement. There is no material impact on the covenants for changes due to IFRS. Financial performance relative to the financial ratio covenants under the extendable revolving credit facility is reflected in the table below:

Ratio	March 31, 2011	December 31, 2010	Threshold
Current <sup>(1)</sup>	<b>3.22:1</b>	3.58:1	1.20:1 minimum
Funded Debt <sup>(2)</sup> to EBITDA <sup>(3)</sup>	<b>0.80:1</b>	0.83:1	2.00:1 maximum
Fixed Charge Coverage <sup>(4)</sup>	<b>1.91:1</b>	1.91:1	1.00:1 minimum
Distribution/Dividend <sup>(5)</sup>	<b>0.60:1</b>	0.71:1	1.00:1 maximum

- 1 Current ratio means the ratio of the consolidated current assets to consolidated net current liabilities (excluding the current portion of long-term debt).
- 2 Funded debt is long-term debt less cash and cash equivalents.
- 3 Funded debt to EBITDA means the ratio of consolidated funded debt to the aggregated EBITDA for the trailing 12 months. EBITDA is defined as the Company's actual EBITDA for the trailing 12 months.
- 4 Fixed charge coverage ratio means the trailing 12-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 distributions/dividends.
- 5 Distribution/dividend ratio means distributions/dividends for the trailing 12-month period to the sum of funds generated from operations less scheduled long-term debt principal payments and maintenance capital expenditures.

In addition to the above the Company has committed to certain capital expenditures totalling approximately \$12.4 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations. There are no set terms for remitting payment for these financial commitments.

## SHARE CAPITAL

There was no change to shareholders' capital during the first quarter of 2011. Shares outstanding at March 31, 2011 were 10,813,631. There was no change to the balance as of June 13, 2011.

## SELECTED QUARTERLY FINANCIAL INFORMATION

(\$)	2011 Q1	IFRS 2010				Canadian GAAP 2009		
		Q4	Q3	Q2	Q1	Q4	Q3	Q2
		Revenues	40,970,978	41,175,494	38,727,159	29,374,171	30,333,959	33,123,204
Net profit	4,381,826	5,668,694	6,371,129	3,284,227	4,309,046	6,257,324	4,795,804	2,926,670
Net profit per share - basic	0.41	0.52	0.59	0.31	0.40	0.58	0.44	0.27
Net profit per share - diluted	0.40	0.52	0.59	0.30	0.40	0.58	0.44	0.27

## INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

Badger has prepared its March 31, 2011 interim consolidated financial statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standard, and with IAS 34, Interim Financial Reporting, as issued by the IASB. Previously, Badger prepared its financial statements in accordance with Canadian GAAP. The adoption of IFRS has not had a material impact on Badger's operations, strategic decisions, or internal controls.

Badger's IFRS accounting policies are provided in Note 4 to the interim consolidated financial statements. In addition, Note 27 to the interim consolidated financial statements presents reconciliations between the Company's 2010 previous GAAP results and the 2010 IFRS results and an explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows.

### **ACCOUNTING STANDARDS PENDING ADOPTION**

All accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS. New IFRS pronouncements have been issued but are not in effect as at March 31, 2011. However, the pronouncements may have a future impact on the measurement and/or presentation of the Company's financial statements. These are outlined in Note 5 to the quarterly financial statements.

### **CRITICAL ACCOUNTING ESTIMATES**

There have been no material changes to critical accounting estimates since December 31, 2010.

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

#### **Disclosure controls and procedures**

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Badger's President and CEO and the VP Finance and CFO have designed, or caused to be designed under their direct supervision, Badger's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to Badger, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in the annual filings is recorded, processed, summarized and reported on a timely basis. Further, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's disclosure controls and procedures at December 31, 2010 and as a result of identifying the material weakness outlined below have concluded the disclosure controls and procedures are not effective.

#### **Internal control over financial reporting**

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Badger's President and CEO and the VP Finance and CFO have also designed, or caused to be designed under their direct supervision, Badger's internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Further, using the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's internal control over financial reporting at December 31, 2010 and as a result of identifying the material weakness outlined below have concluded the internal controls over financial reporting are not effective.

### **Material weakness**

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Badger has identified that it does not have sufficient accounting personnel with the appropriate tax expertise to allow for an effective review over the accuracy of its accounting for income taxes and the determination of the income tax provision. Management and the Board of Directors have determined that it is not economically feasible to maintain such personnel in-house or to engage an external tax consultant to perform an independent review. This material weakness could result in a misstatement in various tax-related accounts that could result in a material misstatement to Badger's annual consolidated financial statements and disclosures that would not be prevented or detected.

### **Changes in internal control over financial reporting**

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No changes were made to the design of Badger's internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

### **Inherent limitations**

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Notwithstanding the foregoing, because of its inherent limitations a control system can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. In addition, management has attempted to minimize the likelihood of fraud. However, any control system can be circumvented through collusion and illegal acts.

### **BUSINESS RISKS**

The MD&A for the year ended December 31, 2010, which has been filed on SEDAR, includes an overview of business risks associated with the Company. Those business risks remain. The reader is also referred to Badger's 2010 Annual Information Form.