Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements (unaudited)

For the period ended March 31, 2012

REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation have been prepared by Badger Daylighting Ltd. management.

The Corporation’s independent auditor has not performed a review of the accompanying unaudited interim condensed consolidated financial statements in accordance with standards established by the CICA for a review of interim financial statements by an entity’s auditor.

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

As at	Notes	March 31, 2012 $	December 31, 2011 $
ASSETS			
Current Assets			
Cash and cash equivalents		4,049,144	2,622,191
Trade and other receivables		54,722,551	56,170,776
Prepaid expenses		1,381,292	1,183,571
Inventories		2,616,712	2,288,716
		62,769,699	62,265,254
Non-current Assets			
Property, plant and equipment		121,872,163	115,002,042
Intangible assets		6,550,511	6,599,513
		128,422,674	121,601,555
Total Assets		191,192,373	183,866,809
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		15,594,610	13,290,835
Income taxes payable		780,836	5,186,568
Dividends payable		920,009	919,159
Provisions	4	2,760,177	3,126,560
		20,055,632	22,523,122
Non-current Liabilities			
Long-term debt	5	53,608,990	46,554,454
Deferred taxation		25,810,843	25,408,079
		79,419,833	71,962,533
Shareholders' Equity			
Shareholders' capital	6	44,637,207	44,473,107
Contributed surplus	6	2,695,923	2,657,923
Accumulated other comprehensive loss	6	(2,225,384)	(1,004,022)
Retained earnings		46,609,162	43,254,146
		91,716,908	89,381,154
Total Liabilities and Shareholders' Equity		191,192,373	183,866,809

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

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

For the three months ended	Notes	March 31, 2012 $	March 31, 2011 $
Revenues	8	54,034,368	40,970,978
Direct costs		37,571,305	28,147,994
Gross profit		16,463,063	12,822,984
Depreciation of property, plant and equipment		4,168,919	3,324,329
Amortization of intangible assets		49,002	49,000
Selling, general and administrative		3,206,655	2,697,642
Operating profit		9,038,487	6,752,013
Gain on sale of property, plant and equipment		(17,795)	(26,808)
Finance cost		333,248	297,599
Profit before tax		8,723,034	6,481,222
Income tax expense		2,607,982	2,099,396
Net profit for the period		6,115,052	4,381,826
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations		(1,221,362)	(1,418,492)
Total comprehensive income for the period attributable to shareholders of the Corporation		4,893,690	2,963,334
Earnings per share			
Basic	9	0.57	0.41
Diluted	9	0.56	0.40

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

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

For the three months ended	Notes	Shareholders' capital $	Contributed surplus $	Accumulated other comprehensive loss $	Retained earnings $	Total equity $
As at January 1, 2011		44,473,107	4,578,771	(2,112,889)	28,480,897	75,419,886
Net profit for the period		-	-	-	4,381,826	4,381,826
Other comprehensive income for the period		-	-	(1,418,492)	-	(1,418,492)
Share-based payment transactions		-	117,800	-	-	117,800
Dividends		-	-	-	(2,757,477)	(2,757,477)
As at March 31, 2011		44,473,107	4,696,571	(3,531,381)	30,105,246	75,743,543
As at January 1, 2012		44,473,107	2,657,923	(1,004,022)	43,254,146	89,381,154
Net profit for the period		-	-	-	6,115,042	6,115,042
Other comprehensive income for the period		-	-	(1,221,362)	-	(1,221,362)
Share-based payment transactions	6, 7	-	38,000	-	-	38,000
Share options exercised		164,100	-	-	-	164,100
Dividends		-	-	-	(2,760,026)	(2,760,026)
As at March 31, 2012		44,637,207	2,695,923	(2,225,384)	46,609,162	91,716,908

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

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

For the three months ended	Notes	March 31, 2012 $	March 31, 2011 $
Operating activities			
Net profit for the period		6,115,052	4,381,826
Non-cash adjustments to reconcile profit from operations to net cash flows:			
Depreciation of property, plant and equipment		4,168,919	3,324,329
Amortization of intangible assets		49,002	49,000
Deferred income taxes		725,000	604,900
Share-based payment transaction expense	6, 7	38,000	117,800
Gain on sale of property plant and equipment		(17,795)	(26,808)
Unrealized foreign exchange (gain) loss on deferred tax		(322,236)	(375,203)
		10,755,942	8,075,844
Net change in non-cash working capital relating to operating activities		(1,295,814)	(167,708)
Net cash flows from operating activities		9,460,128	7,908,136
Investing activities			
Purchase of property, plant and equipment		(12,513,239)	(5,108,099)
Purchase of intangible assets		-	(275,000)
Proceeds from sale of property, plant and equipment		20,604	33,554
Net cash flows used in investing activities		(12,492,635)	(5,349,545)
Financing activities			
Proceeds received on the exercise of share options		164,100	-
Proceeds from long-term debt		7,054,536	896,525
Repayment of long-term debt		-	(80,940)
Dividends paid to owners		(2,759,176)	(2,973,749)
Net cash flows from (used in) financing activities		4,459,460	(2,158,164)
Net increase in cash and cash equivalents		1,426,953	400,427
Cash and cash equivalents, beginning of period		2,622,191	11,890,341
Cash and cash equivalents, end of period		4,049,144	12,290,768
Supplemental cash flow information:			
Interest paid		333,248	297,599
Income tax paid (recovered)		6,281,652	(35,684)

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

1 Incorporation and Operations

Badger Daylighting Ltd. and its subsidiaries (together "Badger" or the "Corporation") provide non-destructive excavating services to the utility, transportation, industrial, engineering, construction and petroleum industries in Canada and the United States. Badger is a publicly traded corporation. The address of the registered office is 1000, 635 – 8th Avenue SW, Calgary, Alberta T2P 3M3.

The consolidated financial statements of the Corporation for the period ended March 31, 2012 were authorised for issue in accordance with a resolution of the directors on May 11, 2012.

2 Basis of Preparation

Statement of compliance
These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies the Corporation used in its consolidated financial statements as at and for the year ending December 31, 2011.

The interim condensed consolidated financial statements should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2011.

Basis of measurement
These consolidated financial statements have been prepared under the historical cost convention.

Functional and presentation currency
These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

3 Recent accounting pronouncements

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation:

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.

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 financial statements.

(Unaudited - Expressed in Canadian Dollars)

3 Recent accounting pronouncements (continued)

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.

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 1 January 2013, with earlier application permitted. The Corporation has assessed this standard and determined that the standard will result in additional disclosure relating to the Corporation's subsidiaries.

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 has assessed this standard and determined that the standard may result in additional disclosure.

4 Provisions

	Bonus	Performance Trust Share Plan	Deferred Unit Plan	Legal	Total
	$	$	$	$	$
As at January 1, 2011	677,850	773,000	-	800,000	2,250,850
Arising during the year	2,035,830	214,865	1,603,000	-	3,853,695
Utilised	(1,190,120)	(987,865)	-	(800,000)	(2,977,985)
As at December 31, 2011	1,523,560	-	1,603,000	-	3,126,560
Arising during the period	530,572	-	605,000	-	1,135,572
Utilised	(1,501,955)	-	-	-	(1,501,955)
As at March 31, 2012	552,177	-	2,208,000	-	2,760,177

Upon the implementation of the Deferred Unit Plan, on November 10, 2011 the Performance Trust Share Plan was terminated (note 7).

5 Long-term debt

	March 31, 2012	December 31, 2011
	$	$
Extendable revolving credit facility	53,608,990	46,554,454

The Corporation has established a $60,000,000 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, 2011 – 3.00%] or bankers' acceptance rate plus 1.25% [December 31, 2011 – 2.41%]. 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.

(Unaudited - Expressed in Canadian Dollars)

5 Long-term debt (continued)

The credit facility has no required principal repayment. The credit facility expires on June 24, 2012 and is renewable at the Corporation's option for an additional 364 day period, after which the entire amount must be repaid. If not renewed, interest is payable 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 March 31, 2012, the Corporation was in compliance with all of these covenants.

As at March 31, 2012, the Corporation has issued letters of credit in the amount of approximately $240,000. The outstanding letters of credit reduce the amount available under the extendable revolving credit facility.

At March 31, 2012, the Corporation had available $6,151,010 (December 31, 2011 - $13,445,546) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

6 Shareholders' capital and reserves

A) Authorized shares

An unlimited number of voting common shares are authorized without nominal or par value.

B) Issued and outstanding

	Number of Shares	Amount $
At January 1, 2011 and December 31, 2011	10,813,631	44,473,107
Shares issued pursuant to the share option plan	10,000	164,100
At March 31, 2012	10,823,631	44,637,207

C) Accumulated other comprehensive loss

The accumulated other comprehensive loss is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

D) Contributed surplus

The contributed surplus reserve is used to recognise the fair value of share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. Refer to Note 7 for further details of these plans.

	March 31, 2012 $	December 31, 2011 $
Opening balance	2,657,923	4,578,771
Share-based payment transactions	38,000	270,800
Equity-settled share plan settled in cash	-	(2,191,648)
Closing balance	2,695,923	2,657,923

(Unaudited - Expressed in Canadian Dollars)

7 Share-based payment plans

Share plan (equity-settled)

Under the Share Plan, directors, officers, employees and consultants of the Corporation are eligible to receive share options to acquire ordinary shares of the Corporation, with terms not to exceed 10 years from the date of the grant. The exercise price shall not be less than the closing price of the shares traded on the Toronto Stock Exchange on the first date preceding the date of the grant. Under the Share Plan, vesting periods are determined by the directors of the Corporation at the time of the grant. All share options granted through to March 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 (previously 850,000 shares).

A summary of the share-based payment transactions for the period ended March 31, 2012 and the year ended December 31, 2011 are as follows:

	March 31, 2012		December 31, 2011	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at beginning of period	187,750	19.00	768,280	16.96
Share options exercised	(10,000)	16.41	-	-
Options surrendered for cash	-	-	(568,530)	16.27
Forfeited	-	-	(12,000)	18.07
Outstanding at end of period	177,750	19.16	187,750	19.00

For the period ended March 31, 2012 the Corporation recorded compensation expense, included as part of selling, general and administrative expense, of $38,000 (2011 - $117,800) with an offsetting increase to contributed surplus in respect of the share options granted and outstanding as of March 31, 2012.

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 increase to provisions. 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 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.

(Unaudited - Expressed in Canadian Dollars)

7 Share-based payment plans (continued)

The compensation expense is based on the estimated fair value of the deferred units outstanding at the end of each quarter and recognised using graded vesting throughout the term of the vesting period, with a corresponding increase to provisions. The Corporation has recorded a compensation expense of $605,000 for the period ended March 31, 2012 (December 31, 2011 - $1,034,865), which is included in selling, general and administrative expenses.

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**
Dividends earned	736
Forfeited	(3,948)
At March 31, 2012	**127,966**
Exercisable at March 31, 2012	**7,311**

8 Revenues

	For the three months ended March 31, 2012 $	**March 31, 2011 $**
Rendering of services	53,959,669	40,847,225
Truck placement fees	74,699	123,753
	54,034,368	40,970,978

9 Earnings per share

Basic earnings per share ("EPS")

Basic EPS is calculated by dividing profit or loss attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

The calculation of basic earnings per share for the three months ended March 31, 2012, was based on the profit available to common shareholders of $6,115,052 (2011 - $4,381,826), and a weighted average number of common shares outstanding of 10,820,334 (2011 – 10,813,631).

Weighted average number of common shares

	For the three months ended March 31, 2012 $	**March 31, 2011 $**
Issued common shares outstanding, beginning of period	10,813,631	10,813,631
Effect of share options exercised	6,703	-
Weighted average number of common shares, end of period	10,820,334	10,813,631

(Unaudited - Expressed in Canadian Dollars)

9 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 three months ended March 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 10,857,503 (2011 – 10,959,380), calculated as follows:

	For the three months ended	
	March 31, 2012 $	March 31, 2011 $
Weighted average number of common shares (basic)	10,820,334	10,813,631
Effect of share options	37,169	145,749
Weighted average number of common shares (diluted)	10,857,503	10,959,380

For the three months ended March 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 period during which the options were outstanding.

10 Segment reporting

The Corporation operates in two geographic/reportable segments providing non-destructive excavating services to each of these segments. The following is selected information for the periods ended March 31, 2012 and 2011 based on these geographic segments.

Each segment is responsible for its operating results.

For three months ended:	March 31, 2012			March 31, 2011		
	Canada ($)	U.S. ($)	Total ($)	Canada ($)	U.S. ($)	Total ($)
Revenues	30,942,860	23,091,508	54,034,368	26,204,116	14,766,862	40,970,978
Direct costs	19,623,235	17,948,070	37,571,305	16,794,814	11,353,180	28,147,994
Depreciation of property, plant and equipment	2,110,005	2,058,914	4,168,919	1,994,239	1,330,090	3,324,329
Amortization of intangible assets	49,002	-	49,002	49,000	-	49,000
Selling, general and administrative	2,608,312	598,343	3,206,655	2,228,686	468,956	2,697,642
Profit before tax	6,248,839	2,474,195	8,723,034	4,869,572	1,611,650	6,481,222

(Unaudited - Expressed in Canadian Dollars)

10 Segment reporting (continued)

Selected Consolidated Statement of Financial Position Information

	Canada ($)	U.S. ($)	Total ($)
As at March 31, 2012			
Property, plant and equipment	62,279,320	59,592,843	121,872,163
Intangible assets	6,550,511	-	6,550,511
Total assets	105,747,618	85,444,755	191,192,373
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

Selected Consolidated Statement of Cash Flows Information

For three months ended:	**March 31, 2012**			**March 31, 2011**		
	Canada ($)	U.S. ($)	Total ($)	Canada ($)	U.S. ($)	Total ($)
Additions to non-current assets:						
Property, plant and equipment	6,403,254	6,109,985	12,513,239	1,308,941	3,799,158	5,108,099
Intangible assets	-	-	-	275,000	-	275,000

11 Subsequent events

Subsequent to March 31, 2012 the Corporation executed a non-binding letter of intent whereby it will acquire service rights and operating assets from certain of its agents for cash consideration of $2,635,000. The date the transaction will be completed is not known at this time.