Management's Discussion and Analysis

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 were prepared in accordance with International Financial Reporting Standards (IFRS). Readers should also refer to the December 31, 2011 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, 2011, may be found on SEDAR at www.sedar.com.

Revenue and expense variance analysis in the MD&A focuses primarily on the year-over-year changes during the second quarter. Year-over-year variances for the six months ended June 30, 2012 and 2011 are explained by the same general factors as those contributing to the second-quarter variance, unless otherwise indicated.

This MD&A has been prepared taking into consideration information available to August 10, 2012.

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:

- That internal preparations for anticipated growth in 2012 will be completed;
- That as long as overall activity in the economy and the oil and natural gas industry remains relatively constant, Badger will be able to continue to grow the business in 2012;
- That Badger in 2012 can further develop the organization to position itself to be able to handle the planned future growth;
- That the new locations opened in the United States will provide an increased contribution to cash flows from operations and net profit during 2012;
- That the current business development initiative will provide Badger with the additional new customers necessary to grow the business in 2012 and the future;

- That Eastern Canada will continue with steady growth, driven by activity levels in the utility and construction segments, which are forecast to be stable in 2012; and
- That there will be an increase in Western Canada revenue during 2012 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 profit and cash flow forecasts for 2012;
- There will be long-term demand for hydrovac services from oil refineries, petro-chemical 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 strategy.

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: price 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 securities regulatory authorities in Canada and may be accessed through the SEDAR website (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 dividends" 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 growth and/or 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. It 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 the results are taxed in various jurisdictions. EBITDA is calculated from the consolidated statement of comprehensive income as gross profit less selling, general and administrative costs. It is calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
$	2012	2011	2012	2011
Gross profit	16,871,526	13,848,462	33,334,589	26,671,446
Selling, general and administrative costs	(3,156,850)	(2,720,984)	(6,363,505)	(5,418,626)
EBITDA	13,714,676	11,127,478	26,971,084	21,252,820

"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 help management and investors analyze 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 profit or other measures of financial performance calculated in accordance with IFRS. Funds generated from operations is derived from the consolidated statement of cash flows and is calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
$	2012	2011	2012	2011
Cash provided by operating activities	15,550,816	3,048,754	25,010,944	10,956,890
Add (deduct):				
Net change in non-cash working capital relating to operating activities	(4,702,192)	3,935,697	(3,406,378)	4,103,405
Equity-settled share plan settled in cash	655,316	2,191,648	655,316	2,191,648
Funds generated from operations	11,503,940	9,176,099	22,259,882	17,251,943

"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. They generally represent 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 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 dividends, 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 share and total shares outstanding information)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenues	53,984	42,805	108,019	83,776
EBITDA	13,715	11,127	26,971	21,253
Profit before tax	8,950	6,204	17,673	12,686
Income tax expense				
Current	1,707	655	3,590	2,149
Deferred	1,098	985	1,823	1,591
Net profit	6,145	4,564	12,260	8,946
Profit per share – diluted ($)	0.56	0.42	1.12	0.83
Funds generated from operations	11,504	9,176	22,260	17,252
Funds generated from operations per share – diluted ($)	1.04	0.85	2.04	1.59
Maintenance capital expenditures	356	32	1,054	449
Required long-term debt repayments	-	3,178	-	3,259
Cash available for growth and dividends	11,223	6,006	21,301	13,617
Dividends declared	2,888	2,757	5,648	5,515
Growth capital expenditures	12,357	6,535	24,171	11,226
Total shares outstanding (end of period)	12,326,631	10,813,631	12,326,631	10,813,631

OVERVIEW

Highlights for the three months ended June 30, 2012:

- Revenues increased by approximately 26 percent to $54.0 million from $42.8 million for the comparable quarter of 2011, due to an 11 percent increase in Canadian revenues and a 46 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 2011;

- EBITDA increased by approximately 23 percent to $13.7 million from $11.1 million in the same quarter of 2011;
- Funds generated from operations increased by approximately 25 percent period-over-period to $11.5 million from $9.2 million in the comparable quarter of 2011. Expenses in the second quarter of 2011 included a $1.1 million payment to Clean Harbors, Inc., reducing funds generated from operations in that period. Excluding the impact of this item, funds generated from operations increased by 12 percent period-over-period;
- EBITDA margins in Canada decreased to 28 percent from 31 percent for the comparable period of last year, due to a wetter-than-normal spring in Western Canada, which reduced operating efficiency, plus some project delays. EBITDA margins in the United States increased to 23 percent from 19 percent in the second quarter of 2011, due to the newer corporate locations generating more revenue, allowing Badger to leverage off the prior costs of starting these locations;
- In June 2012, Badger completed an equity financing for gross proceeds of $37.5 million through the issuance of 1,500,000 common shares at a price of $25.00 per share; and
- Badger had 570 daylighting units at the end of the second quarter of 2012, reflecting the addition of 69 daylighting units to the fleet to date in 2012 and the retirement of three units. Of the total, 277 units were operating in Canada and 293 in the United States at quarter-end. Badger had 504 daylighting units at December 31, 2011. The new units were financed from cash generated from operations and existing credit facilities.

OUTLOOK

Growth continued for Badger in the second quarter of 2012 even though weakness was experienced in oil and natural gas markets throughout the Company’s operating regions and a wet quarter in western Canada slowed activity.

Major initiatives for the remainder of 2012 remain as follows:

1. Work to improve the profitability of new locations and underperforming locations. Some progress was made on this in the United States in the second quarter.
2. In the first two quarters of 2012 Badger made good progress in filling gaps in the organization’s human resources. The focus now is to turn these new hires into effective and productive employees.
3. Business development as a whole at Badger has been enhanced, through increased focus on this critical function and investment in new business development people. This initiative is expected to help Badger continue to implement its growth plans for the future.
4. Streamline Badger’s administration system through the use of electronic forms and other measures to transfer data electronically from the field to offices and from offices to Badger's customers.
5. The build of Badger units is forecast to continue at the same pace as in the first two quarters. This build rate is just over two per week. Badger expects to retire 10 to 15 trucks in 2012.

Regional comments:

1. As was the case last quarter, the United States operations continue to grow by adding customers and locations. Although there has been a reduction of work in the oilfield service areas, Badger has been able to get work for those trucks elsewhere. Big projects are still important in this area.
2. The United States West struggled a bit during the last quarter. With the slower pace in the oil and natural gas industry, a few areas that concentrate on this industry were affected. Badger has, however, been able to find work for these trucks in other segments and areas to keep utilization at a reasonable level. The United States business development efforts are expected to help increase revenue in the future.
3. In Eastern Canada, revenue and margins were slightly lower than in the same quarter of last year due to weather and operational issues caused by managerial changes. With construction season commencing, however, Badger expects business to improve.
4. Badger's Western Canada business continues to provide good results for the Company. Badger experienced a somewhat slower second quarter, due to a prolonged wet spring and slightly lower activity in some areas of the oil and natural gas sector. Badger expects Western Canada to have a good year.

Badger is optimistic that growth will continue for the rest of the year provided the North American economy stays at the same level of strength and there are no major changes in oil and natural gas industry activity in the regions where Badger operates.

Results of Operations

Revenues

Revenues of $54.0 million for the three months ended June 30, 2012 were 26 percent greater than the $42.8 million generated during the comparable period in 2011. The increase is attributable to the following:

- Canadian revenues increased by 11 percent from $24.9 million in the second quarter of 2011 to $27.7 million in the second quarter of 2012. Western Canada hydrovac revenue increased by 15 percent due to an expanded coverage area, more Badger hydrovac units in the region and some good project work. Eastern Canada revenue was relatively unchanged quarter-over-quarter; and
- United States revenue went from $17.9 million for the three months ended June 30, 2011 to $26.3 million for the three months ended June 30, 2012, an increase of 46 percent. Removing the effect of the change in the foreign exchange rate, revenues increased by 42 percent quarter-over-quarter. The increase is due to more work in the United States West and East generated by the addition of more locations and expansion of the customer base.

Badger's average revenue per truck per month during the three months ended June 30, 2012 was $30,000, versus $29,600 for the three months ended June 30, 2011. The increase is due to the above.

Direct Costs

Direct costs for the quarter ended June 30, 2012 were $37.1 million compared to $29.0 million for the quarter ended June 30, 2011. The increase of 28 percent is greater than the increase in revenues of 26 percent due to a wetter-than-normal spring in Western Canada, which reduced operating efficiency, plus some project delays. In Eastern Canada, revenue and margins were slightly lower than in the same quarter of last year due to weather and operational issues caused by managerial changes.

Gross Profit

The gross profit percentage was 31.3 percent for the quarter ended June 30, 2012, a decrease from the 32.4 percent generated for the quarter ended June 30, 2011. The Canadian gross profit percentage decreased from 40.4 percent for the three months ended June 30, 2011 to 37.0 percent for the three months ended June 30, 2012, due to the reasons outlined above under “Direct Costs”. United States gross profit percentage increased from 21.2 percent for the three months ended June 30, 2011 to 25.2 percent for the three months ended June 30, 2012, due to the newer corporate locations generating more revenue, allowing Badger to leverage off the prior costs of starting these locations.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was $4.5 million for the three months ended June 30, 2012, $1.0 million higher than the $3.5 million incurred for the three months ended June 30, 2011, due to the increased number of hydrovac units in the fleet.

Financing Cost

Financing cost was $0.3 million for the quarter ended June 30, 2012, unchanged from the quarter ended June 30, 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 16 percent to $3.2 million for the quarter ended June 30, 2012 from $2.7 million for the quarter ended June 30, 2011. The main reason for the increase was an increase in personnel costs as a result of the growth in Badger’s business. As a percentage of revenues, selling, general and administrative expenses decreased to 5.8 percent for the second quarter of 2012 from 6.4 percent for the second quarter of 2011.

Income Taxes

The effective tax rate for the six months ended June 30, 2012 was 31 percent versus 29 percent for the six months ended June 30, 2011. Profit before tax in the United States for the six months ended June 30, 2012 increased relative to Canadian profit before tax in the same period, resulting in the increase in the effective tax rate given that corporate income tax rates are higher in the United States.

Exchange Differences on Translation of Foreign Operations

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

Liquidity and Dividends

Funds generated from operations increased to $11.5 million for the quarter ended June 30, 2012 from $9.2 million for the comparable period in 2011 (excluding the $1.1 million payment to Clean Harbors, Inc. funds generated from operations were $10.3 million in the second quarter of 2011), due primarily to increased revenues and 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 $65.5 million at June 30, 2012 compared to $39.7 million at December 31, 2011. The increase was due to the closing of the equity financing in June 2012.

The following table outlines the cash available to fund growth and pay dividends to shareholders for the three months and six months ended June 30, 2012:

($)	Three months ended June 30, 2012	Six months ended June 30, 2012
Funds generated from operations	11,503,940	22,259,882
Add: proceeds from sale of property, plant and equipment	74,319	94,923
Deduct: required repayments of long-term debt	-	-
Deduct: maintenance capital expenditures	(355,529)	(1,053,974)
Cash available for growth capital expenditures and dividends	11,222,730	21,300,831
Growth capital expenditures	12,356,576	24,171,370
Dividends declared	2,887,783	5,647,809

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 are 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 six months ended June 30, 2012 and 2011 and the year ended December 31, 2011:

($)	Six months ended June 30 30, 2012	Six months ended June 30, 2011	Year ended December 31, 2011
Cash provided by operating activities	25,010,944	10,956,890	33,469,398
Net profit	12,259,681	8,946,093	25,803,156
Dividends declared	5,647,809	5,514,954	11,029,907
Excess of cash provided by operating activities over dividends declared	19,363,135	5,441,936	22,439,491
Excess of net profit over dividends declared	6,611,872	3,431,139	14,773,249

The Company pays cash dividends monthly to its shareholders. They may be reduced, increased or suspended 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 six months ended June 30, 2012 was used to finance 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 four years. As a result, Badger is currently experiencing relatively low maintenance capital expenditures. Over time, Badger would expect to incur annual maintenance capital expenditures approximately equalling the year's depreciation expense. Badger estimates it will remove approximately 10 to 15 hydrovac units from the fleet in 2012. Badger expects that cash provided by operations and cash available for growth capital expenditures and dividends will be sufficient to fund its 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 its credit facilities as well as declare dividends. Badger does not have a stability rating.

Capital Resources

Investing

The Company spent $12.7 million on property, plant and equipment for the three months ended June 30, 2012 compared to $6.6 million for the three months ended June 30, 2011. The Company built 36 hydrovac units during the three months ended June 30, 2012 compared to 22 hydrovac units during the

three months ended June 30, 2011. The costs to build a hydrovac unit remained consistent with the average for 2011.

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 business. This amount will fluctuate from period-to-period depending on the number of units retired from the fleet. During the first six months of 2012 only three hydrovac units were removed from the fleet and, therefore, maintenance capital expenditures were minimal.

Financing

On June 19, 2012 the Company completed an equity financing pursuant to a prospectus dated June 13, 2012 for gross proceeds of $37.5 million through the issuance of 1,500,000 common shares at a price of $25.00 per share. Badger intends to use the net proceeds to fund growth initiatives (i.e., to fund its capital expenditure program and other growth initiatives it may pursue from time to time), for working capital, and for other general corporate purposes. It is currently anticipated that the full amount of the net proceeds from the equity financing will be used, over time, to finance the manufacture by Badger of additional hydrovacs. The exact timing of the build of these additional hydrovacs, however, and the number of additional hydrovacs to be built, will depend on (i) Badger's assessments from time to time of the economy and the need for Badger's hydrovac services, and (ii) any increase or decrease in the cost of parts and labour over time associated with the manufacture of hydrovacs. The net proceeds will initially be used to pay down amounts drawn under the extendable revolving credit facility; however, $45 million drawn under the facility is represented by a bankers' acceptance note which matures on August 13, 2012. Consequently, until such time as Badger is able to pay down that portion of the facility, the balance of the net proceeds will be invested in short-term deposits.

In June 2012 the Company's extendable revolving credit facility was renewed. The principal amount was decreased from $60 million to $55 million at Badger's request. The facility was used and will continue to be used to help finance Badger's capital expenditure program and support corporate activities. There was $45.2 million drawn at June 30, 2012. As discussed above, of this amount $45 million is represented by a bankers' acceptance note which matures on August 13, 2012. Upon maturity Badger will use any Canadian cash balances to reduce the amount owing under the credit facility. The facility has no required principal repayments. It expires on June 23, 2013 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.

The Company's net debt decreased by 69 percent during the first six months of 2012. As at June 30, 2012 Badger's cash and cash equivalents were $31.8 million, resulting in net debt of $13.4 million, versus cash and cash equivalents of $2.6 million and net debt of $43.9 million at December 31, 2011. The main reason for the decrease was the funds received on closing the June 2012 equity financing.

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. Financial performance relative to the financial ratio covenants under the extendable revolving credit facility is reflected in the table below:

Ratio	**June 30, 2012**	December 31, 2011	Threshold
Funded Debt[(1)] to EBITDA[(2)]	**0.23:1**	0.85:1	2.25:1 maximum
Fixed-Charge Coverage[(3)]	**3.76:1**	2.11:1	1.00:1 minimum

1 Funded debt is long-term debt less cash and cash equivalents.

2 Funded debt to EBITDA 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.

3 Fixed-charge coverage ratio means the ratio of 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 dividends.

The Company has committed to certain capital expenditures totalling approximately $12.4 million. These 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

Shareholders' capital increased from $44.5 million at December 31, 2011 to $80.6 million at June 30, 2012 due to the June 2012 equity financing and certain employees exercising their options. Shares outstanding at June 30, 2012 were 12,326,631. There was no change to the balance as of August 10, 2012.

SELECTED QUARTERLY FINANCIAL INFORMATION

($)	**2012**		2011				2010	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	53,984,135	54,034,368	56,548,569	53,853,710	42,804,832	40,970,978	41,175,494	38,727,159
Net profit	6,144,629	6,115,052	8,704,497	8,152,566	4,564,267	4,381,826	5,668,694	6,371,129
Net profit per share – basic	0.56	0.57	0.80	0.75	0.42	0.41	0.52	0.59
Net profit per share – diluted	0.56	0.56	0.80	0.75	0.42	0.40	0.52	0.59

ACCOUNTING STANDARDS PENDING ADOPTION

New IFRS pronouncements have been issued but are not in effect as at June 30, 2012. The pronouncements may, however, have a future impact on the measurement and/or presentation of the Company's financial statements. The pronouncements are as follows:

i) IFRS 9, "Financial Instruments", was issued in November 2009 as the first step in the project to replace International Accounting Standard (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 International Accounting Standards Board (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 Company 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 Standing Interpretations Committee (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 Company has assessed this standard and determined that it will not have a material impact on the Company's financial statements.

iii) IFRS 11, "Joint Arrangements" was issued in May 2011 and will supersede 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 Company has assessed this standard and determined that it is not applicable to the Company.

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 Company has assessed this standard and determined it will result in additional disclosure relating to the Company's subsidiaries.

v) IFRS 13, "Fair Value Measurement", 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 Company has assessed this standard and determined that it may result in additional disclosure.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to critical accounting estimates since December 31, 2011.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

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, 2011 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

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, 2011 and, as a result of identifying the material weakness outlined below, have concluded the internal controls over financial reporting are not effective.

Material Weakness

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 disclosure that would not be prevented or detected.

Changes in Internal Control over Financial Reporting

No changes were made to the design of Badger's internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Inherent Limitations

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, 2011, which was 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 2011 Annual Information Form.