

Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited – prepared by management)

For the period ended March 31, 2015

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 thousands of Canadian Dollars)

As at	Notes	March 31, 2015 \$	December 31, 2014 \$
ASSETS			
Current Assets			
Cash and cash equivalents		13,053	19,152
Trade and other receivables		109,269	111,964
Prepaid expenses		3,814	2,872
Income taxes receivable		3,701	4,381
Inventories		3,818	4,400
		<u>133,655</u>	<u>142,769</u>
Non-current Assets			
Property, plant and equipment		313,408	286,019
Goodwill and intangible assets		15,192	15,511
		<u>328,600</u>	<u>301,530</u>
Total Assets		<u>462,255</u>	<u>444,299</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		27,474	30,440
Deferred unit plan liability	6	12,953	12,887
Income taxes payable		-	5,423
Dividends payable		1,111	1,111
		<u>41,538</u>	<u>49,861</u>
Non-current Liabilities			
Long-term debt	3	130,085	124,358
Deferred income tax		49,398	45,832
		<u>179,483</u>	<u>170,190</u>
Shareholders' Equity			
Shareholders' capital	5	81,224	80,944
Contributed surplus		548	548
Accumulated other comprehensive income		25,297	16,700
Retained earnings		134,165	126,056
		<u>241,234</u>	<u>224,248</u>
Total Liabilities and Shareholders' Equity		<u>462,255</u>	<u>444,299</u>

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 thousands of Canadian Dollars)

For the three months ended	Notes	March 31, 2015 \$	March 31, 2014 \$
Revenues		101,689	100,022
Direct costs		70,616	73,105
Gross profit		31,073	26,917
Depreciation of property, plant and equipment		10,176	7,568
Amortization of intangible assets		319	319
Selling, general and administrative		3,317	2,550
Deferred unit plan		345	7,436
Operating profit		16,916	9,044
Gain on sale of property, plant and equipment		(91)	(57)
Finance cost		1,068	900
Foreign exchange gain		(590)	(185)
Profit before tax		16,529	8,386
Current income tax expense		5,067	2,307
Deferred income tax expense		19	349
Income tax expense		5,086	2,656
Net profit for the period		11,443	5,730
Other comprehensive income:			
Gain on translation of foreign operations		16,750	4,008
Unrealized foreign exchange loss on net investment hedge	4	(8,153)	-
Other comprehensive income		8,597	4,008
Total comprehensive income		20,040	9,738
Earnings per share			
Basic	7	0.31	0.15
Diluted	7	0.31	0.15

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 thousands of Canadian Dollars)

For the three months ended	Notes	Shareholders' capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total equity \$
As at January 1, 2014		80,944	548	3,291	86,286	171,069
Net profit for the period		-	-	-	5,730	5,730
Other comprehensive income for the period		-	-	4,008	-	4,008
Dividends		-	-	-	(3,333)	(3,333)
As at March 31, 2014		80,944	548	7,299	88,683	177,474
As at January 1, 2015		80,944	548	16,700	126,056	224,248
Net profit for the period		-	-	-	11,443	11,443
Other comprehensive income for the period		-	-	8,597	-	8,597
Shares issued on exercise of deferred share units	6	280	-	-	-	280
Dividends		-	-	-	(3,334)	(3,334)
As at March 31, 2015		81,224	548	25,297	134,165	241,234

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 thousands of Canadian Dollars)

For the three months ended	Notes	March 31, 2015 \$	March 31, 2014 \$
Operating activities			
Net profit for the period		11,443	5,730
Non-cash adjustments to reconcile profit from operations to net cash flows:			
Depreciation of property, plant and equipment		10,175	7,568
Amortization of intangible assets		319	319
Deferred income tax		19	349
Gain on sale of property plant and equipment		(91)	(57)
Unrealized foreign exchange (gain) loss		90	1,315
Cash flow from operating activities before working capital adjustments		21,955	15,224
Change in non-cash working capital		1,425	(4,953)
Cash flows from operating activities		23,380	10,271
Investing activities			
Purchase of property, plant and equipment		(21,989)	(26,058)
Proceeds from sale of property, plant and equipment		124	81
Change in non-cash working capital		(985)	-
Cash flows used in investing activities		(22,850)	(25,977)
Financing activities			
Proceeds from long-term debt		-	95,700
Repayment of long-term debt		(2,426)	(82,912)
Proceeds from issuance of shares on exercise of deferred units	6	280	-
Dividends paid to owners		(3,334)	(3,333)
Change in non-cash working capital		(1,257)	-
Cash flows from financing activities		(6,737)	9,455
Effect of foreign exchange rate changes on cash		108	-
(Decrease) increase in cash and cash equivalents		(6,099)	(6,251)
Cash and cash equivalents, beginning of period		19,152	8,623
Cash and cash equivalents, end of period		13,053	2,372
Supplemental cash flow information:			
Interest paid		2,505	245
Income tax paid		9,398	8,458

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

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2015

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

1 Incorporation and operations

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

The interim condensed consolidated financial statements of the Corporation for the period ended March 31, 2014 were authorised for issue in accordance with a resolution of the directors on May 12, 2014.

Reclassification

Beginning in the first quarter of 2015, selling, general and administrative expenses include only those costs related to the Corporation’s three main administrative centers – the Corporate office in Calgary, the Canadian administration center in Red Deer, and the United States administration center in Pittsboro. Costs that are incurred outside these centers have been classified as direct costs. Historical results were reclassified to match the current period presentation. This reclassification did not impact net earnings, earnings per share, financial position or cash flows.

2 Basis of preparation

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”).

The interim condensed consolidated financial statements should be read in conjunction with the Corporation’s annual consolidated financial statements for the year ended December 31, 2014.

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 Long-term debt

	March 31, 2015	December 31, 2014
	\$	\$
Extendable revolving credit facility	35,000	37,426
Senior secured notes	95,085	86,932
	<u>130,085</u>	<u>124,358</u>

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2015

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

3 Long-term debt (continued)

Extendable revolving credit facility

The Corporation has established a \$125 million syndicated extendable revolving credit facility (the “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 plus a tiered set of basis points or bankers' acceptance rate also with a tiered structure. A stand-by fee is also required on the unused portion of the credit facility on a tiered basis. The prime rate tiers range between zero and 125 basis points. The bankers' acceptance tier ranges from 125 to 250 basis points. The stand-by fee tiers range between 25 and 50 basis points. All of the tiers are based on the Corporation's Funded Debt to EBITDA ratio. The stand-by fee is expensed as incurred.

The credit facility expires on July 22, 2018.

The 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 facility, the Corporation must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2015, and as at March 31, 2015, the Corporation was in compliance with all of these covenants.

As at March 31, 2015, the Corporation has issued letters of credit of approximately \$2.7 million. The outstanding letters of credit support the U.S. insurance program and certain performance bonds and reduce the amount available under the syndicated credit facility.

At March 31, 2015, the Corporation had available \$87.3 million (December 31, 2014 - \$86.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Senior secured notes

On January 24, 2014 Badger closed a private placement of senior secured notes. The notes, which rank pari passu with the extendable revolving credit facility, have a principal amount of US \$75,000, and an interest rate of 4.83% per annum and mature on January 24, 2022. The Canadian dollar equivalent on January 24, 2014 was \$82,912. Amortizing principal repayments of US \$25,000 are due under the notes on January 24, 2020, January 24, 2021 and January 24, 2022. Interest is paid semi-annually in arrears.

For the three months ended March 31, 2015, the Corporation recorded an unrealized foreign exchange loss of \$8,153 (March 31, 2014 – gain of \$185). This was due to the impact of the change over the period in the value of the Canadian dollar relative to the US dollar on the Corporation's \$75,000 of US dollar denominated debt.

4 Financial instruments

The Company's U.S. dollar denominated senior secured notes has been designated as a hedge of the net investment in its U.S. operations. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedge is highly effective in offsetting foreign exchange fluctuations of its net investment. The effective portion of the change in fair value of the hedging instrument is recorded in OCI; any ineffectiveness is recorded immediately in earnings. Amounts included in foreign currency translation reserve will be recognized in earnings when there is a reduction of the hedged net investment.

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(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

5 Shareholders' capital

A) Authorized shares

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

B) Issued and outstanding

	Number of Shares	Amount \$
At December 31, 2014	37,033,893	80,944
Shares issued pursuant to the deferred unit plan	11,898	280
At March 31, 2015	37,045,791	81,224

Share amounts have been restated to reflect the impact of the three-for-one common share split completed in January 2014.

6 Deferred Unit Plan

The Deferred Unit Plan ("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. Subsequent to the January 2014 three-for-one common share split, each unit under the plan was amended to provide three units, each with a value of one post-split Badger share. The deferred units granted earn additional deferred units for the dividends that would otherwise have been paid on the deferred units as if they instead had been issued as Badger shares on the date of the grant. The deferred units granted other than to the directors, which vest immediately, vest equally over a period of three years from the date of the grant. Upon vesting, the participant receives an equal number of Badger shares or may elect to receive the cash equivalent with Board approval.

The DUP has been accounted for as a cash-settled plan. The compensation expense is based on the estimated fair value of the deferred units outstanding at the end of each quarter using a volume weighted average share price and recognized using graded vesting throughout the term of the vesting period, with a corresponding credit to liabilities.

The liability of deferred units outstanding as at March 31, 2015 is \$12,953 (December 31, 2014 - \$12,887). The fair value of deferred units exercisable as at March 31, 2015 is \$10,371 (December 31, 2014 - \$14,025). Changes in the number of deferred units under the Badger DUP were as follows:

	Units
At December 31, 2013	567,018
Granted	53,196
Dividends earned	5,555
Redeemed	(94,373)
Forfeited	(19,590)
At December 31, 2014	511,806
Dividends earned	1,861
Redeemed	(11,898)
Forfeited	(655)
At March 31, 2015	501,114
Exercisable at March 31, 2015	401,213

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2015

(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

7 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 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. Earnings per share and share amounts have been retroactively restated to reflect the three-for-one share split completed in January 2014.

The calculation of basic earnings per share for the three months ended March 31, 2015, was based on the profit available to common shareholders of \$4,397 (2014 - \$5,730), and a weighted average number of common shares outstanding of 37,044,337 (2014 – 37,033,893).

Diluted EPS

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of any dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted EPS. Diluted earnings per share and share amounts have been retroactively restated to reflect the three-for-one share split completed in January 2014.

Weighted average number of common shares

	For the three months ended	
	March 31, 2015	March 31, 2014
Issued common shares outstanding, beginning of period	37,033,893	37,033,893
Effect of shares issued on exercise of deferred share units	10,444	-
Basic and diluted weighted average number of common shares, end of period	<u>37,044,337</u>	<u>37,033,893</u>

8 Segment reporting

The Corporation operates in two geographic/reportable segments providing non-destructive excavating services in each of these segments. None of the corporate head office expenses are allocated to the United States. The following is selected information for the periods ended March 31, 2014 and 2013 based on these geographic segments.

For three months ended:	March 31, 2015			March 31, 2014		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	46,227	55,462	101,689	56,042	43,980	100,022
Direct costs	32,488	38,128	70,616	41,316	31,789	73,105
Depreciation of property, plant and equipment	3,890	6,286	10,176	3,435	4,133	7,568
Amortization of intangible assets	319	-	319	319	-	319
Selling, general and administrative	1,992	1,325	3,317	1,187	1,363	2,550
Deferred unit plan	345	-	345	7,436	-	7,436
Profit before tax	6,857	9,672	16,529	1,729	6,657	8,386

For three months ended:	March 31, 2015			March 31, 2014		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Additions to non-current assets:						
Property, plant and equipment	11,399	10,590	21,989	12,178	13,880	26,058

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

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(Unaudited – Expressed in thousands of Canadian Dollars unless stated otherwise)

8 Segment reporting (continued)

	Canada (\$)	U.S. (\$)	Total (\$)
As at March 31, 2015			
Property, plant and equipment	128,057	185,351	313,408
Intangible assets	15,192	-	15,192
Total assets	181,354	280,901	462,255
As at December 31, 2014			
Property, plant and equipment	120,561	165,458	286,019
Intangible assets	15,511	-	15,511
Total assets	215,251	229,048	444,299

9 Purchase commitments

At March 31, 2015, the Corporation has commitments to purchase approximately \$1,621 (December 31, 2014: \$15,815) worth of capital assets and various parts and materials. There are no set terms for remitting payment for these financial obligations.