

Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited)

For the three and nine months ended September 30, 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 for the three and nine months ending Sept 30, 2014 in accordance with standards established by the CPA for a review of interim financial statements by an entity's auditor.

BADGER DAYLIGHTING LTD.**Unaudited Condensed Consolidated Statement of Financial Position**

(Expressed in thousands of Canadian Dollars)

As at	Notes	September 30, 2015	December 31, 2014
ASSETS			
Current Assets			
Cash		6,675	19,152
Trade and other receivables		104,422	111,964
Prepaid expenses		4,299	2,872
Income taxes receivable		8,760	4,381
Inventories		2,935	4,400
		127,091	142,769
Non-current Assets			
Property, plant and equipment		314,135	286,019
Goodwill and intangible assets		14,554	15,511
		328,689	301,530
Total Assets		455,780	444,299
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		30,251	30,440
Share-based plan liability	6	6,346	12,887
Legal provision	3	23,434	-
Income taxes payable		-	5,423
Dividends payable		1,113	1,111
		61,144	49,861
Non-current Liabilities			
Long-term debt	4	100,432	124,358
Deferred income tax		47,301	45,832
		147,733	170,190
Shareholders' Equity			
Shareholders' capital	7	82,724	80,944
Contributed surplus		548	548
Accumulated other comprehensive income		29,582	16,700
Retained earnings		134,049	126,056
		246,903	224,248
Total Liabilities and Shareholders' Equity		455,780	444,299

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

BADGER DAYLIGHTING LTD.**Unaudited Condensed Consolidated Statement of Comprehensive Income**

(Expressed in thousands of Canadian Dollars)

	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2015	2014	2015	2014
Revenues		111,431	113,121	303,556	313,869
Direct costs		74,228	73,699	211,082	219,430
Gross profit		37,203	39,422	92,474	94,439
Depreciation of property, plant and equipment		10,801	8,600	31,372	24,276
Amortization of intangible assets		319	319	957	957
Selling, general and administrative		3,460	3,500	10,911	9,057
Share-based compensation (recovery) expense	6	(1,931)	(2,560)	(324)	2,354
Operating profit		24,554	29,563	49,558	57,795
Gain on sale of property, plant and equipment		(24)	(36)	(82)	(252)
Finance cost		1,289	1,893	3,622	4,212
Legal provision		-	-	21,620	-
Foreign exchange (gain) loss		(2)	3,765	(550)	1,173
Profit before tax		23,291	23,941	24,948	52,662
Current income tax expense		13,540	7,113	11,125	14,982
Deferred income tax (recovery) expense		(7,339)	750	(4,179)	1,623
Total tax expense		6,201	7,863	6,946	16,605
Net profit		17,090	16,078	18,002	36,057
Other comprehensive income:					
Gain on translation of foreign operations		14,028	7,313	26,382	7,107
Unrealized foreign exchange loss on net investment hedge		(6,870)	-	(13,500)	-
Other comprehensive income		7,158	7,313	12,882	7,107
Total comprehensive income		24,248	23,392	30,884	43,164
Earnings per share					
Basic and diluted	8	0.46	0.43	0.49	0.97

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

BADGER DAYLIGHTING LTD.**Unaudited Condensed Consolidated Statement of Changes in Equity**

(Expressed in thousands of Canadian Dollars)

	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	-	-	-	36,057	36,057
Other comprehensive income for the period	-	-	7,107	-	7,107
Dividends	-	-	-	(9,999)	(9,999)
As at September 30, 2014	80,944	548	10,398	112,344	204,234
As at January 1, 2015	80,944	548	16,700	126,056	224,248
Net profit for the period	-	-	-	18,002	18,002
Other comprehensive income for the period	-	-	12,882	-	12,882
Deferred share units redeemed for equity	1,780	-	-	-	1,780
Dividends	-	-	-	(10,009)	(10,009)
As at September 30, 2015	82,724	548	29,582	134,049	246,903

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

BADGER DAYLIGHTING LTD.**Unaudited Condensed Consolidated Statement of Cash Flows**

(Expressed in thousands of Canadian Dollars)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Operating activities				
Net profit for the period	17,090	16,078	18,002	36,057
Non-cash adjustments to reconcile profit from operations to net cash flows:				
Depreciation of property, plant and equipment	10,801	8,600	31,372	24,276
Amortization of intangible assets	319	319	957	957
Deferred income tax	(7,339)	750	(4,179)	1,623
Gain on sale of property, plant and equipment	(24)	(36)	(82)	(252)
Legal provision	-	-	21,620	-
Unrealized foreign exchange gain	10	5,241	(25)	3,164
Cash flow from operating activities before non-cash working capital adjustments	20,857	30,952	67,665	65,825
Change in non-cash working capital	(133)	(15,683)	904	(12,416)
Cash flows from operating activities	20,724	15,269	68,569	53,409
Investing activities				
Purchase of property, plant and equipment	(5,968)	(21,929)	(33,538)	(75,097)
Proceeds from sale of property, plant and equipment	157	65	389	406
Change in non-cash working capital	(165)	-	(1,138)	-
Cash flows used in investing activities	(5,976)	(21,864)	(34,287)	(74,691)
Financing activities				
Proceeds from long-term debt	-	17,218	-	116,207
Repayment of long-term debt	(8,976)	-	(37,425)	(82,912)
Proceeds from issuance of shares on redemption of deferred share units	86	-	1,780	-
Dividends paid	(3,339)	(3,333)	(10,009)	(9,999)
Change in non-cash working capital	(1,130)	-	(1,271)	-
Cash flows from financing activities	(13,359)	13,885	(46,925)	23,296
Effect of foreign exchange rate changes on cash	33	-	166	-
Increase (decrease) in cash	1,422	7,290	(12,477)	2,014
Cash, beginning of period	5,253	3,347	19,152	8,623
Cash, end of period	6,675	10,637	6,675	10,637
Supplemental cash flow information:				
Interest paid	2,356	1,893	4,990	4,212
Income tax paid	2,583	4,502	20,243	15,015

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

BADGER DAYLIGHTING LTD.

Notes to the Condensed Consolidated Financial Statements

Nine months ended September 30, 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 unaudited condensed consolidated financial statements of the Corporation for the period ended September 30, 2015 were authorised for issue in accordance with a resolution of the directors on November 12, 2015.

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, Alberta and the United States administration center in Brownsburg, Indiana. Costs that are incurred outside these centers have been classified as direct costs. In the three and nine months ending September 30, 2014, \$842 and \$6,595 in selling, general and administrative expenses have been reclassified as direct costs. This reclassification did not impact net earnings, earnings per share, financial position or cash flows.

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”).

The unaudited 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 unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

Functional and presentation currency

These unaudited condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

3 Legal provision

On June 16, 2015, a jury in the District Court of Creek County, Oklahoma, Bristow Division, entered a verdict of approximately USD \$13.7 million in favor of a former franchisee and his franchise against a subsidiary of Badger for breach of contract and other causes of action. On July 27, 2015, Badger filed an appeal to the Supreme Court of the State of Oklahoma and provided a standby letter of credit of USD \$8.0 million. The date the case will be heard has not been determined. Badger recorded a legal provision of USD \$17.5 million (CAD \$21.6 million) in the second quarter of 2015 which represents the full amount of the award as well as an estimate of legal costs and interest.

BADGER DAYLIGHTING LTD.

Notes to the Condensed Consolidated Financial Statements

Nine months ended September 30, 2015

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

4 Long-term debt

	September 30, 2015 \$	December 31, 2014 \$
Extendable revolving credit facility	-	37,426
Senior secured notes	100,432	86,932
	<u>100,432</u>	<u>124,358</u>

Syndicated revolving credit facility

The Corporation has established a \$125 million syndicated 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 “Bank EBITDA” ratio. Bank EBITDA is defined as earnings before interest, taxes, depreciation and amortization. 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 September 30, 2015, the Corporation was in compliance with all of these covenants. A complete listing and definition of the debt covenants is found in the Corporation's annual consolidated financial statements for the year ended December 31, 2014.

As at September 30, 2015, the Corporation has issued letters of credit of approximately \$3.3 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 September 30, 2015, the Corporation had available \$119.9 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 million, 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 million are due under the notes on January 24, 2020, January 24, 2021 and January 24, 2022. Interest is paid semi-annually in arrears.

BADGER DAYLIGHTING LTD.

Notes to the Condensed Consolidated Financial Statements

Nine months ended September 30, 2015

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

4 Long-term debt (continued)

Due to the decision of Badger to appeal the verdict in favour of a former franchisee and his franchise as described in note 3, and therefore to not discharge that judgment within 30 days of the date of entry of the judgment, Badger was in default of its Extendable Revolving Credit Facility and Senior Secured Notes, as the judgment exceeded 2.5% of the Consolidated Tangible Assets. Badger has obtained waivers of this default from all lenders of both the Credit Facility and the Senior Secured Notes conditional upon (a) procuring a stay of execution of the judgment on or before December 31, 2015 and, within such period, appealing the verdict and causing the execution thereof to be stayed during such appeal (which condition has been satisfied); and (b) obtaining a final determination from Oklahoma courts on appeal for an absolute discharge of the verdict or a final judgment of not more than US \$17.5 million.

5 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.

6 Share-based Compensation Plans

A) 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 may elect to redeem the deferred units for an equal number of Badger shares or the cash equivalent.

The DUP has been accounted for as a cash-settled plan. The compensation expense is based on the estimated fair value of the deferred units outstanding at the end of each quarter 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 September 30, 2015 is \$6,164 (December 31, 2014 - \$12,887). The fair value of deferred units exercisable as at September 30, 2015 is \$5,504 (December 31, 2014 - \$14,025). Changes in the number of deferred units under the DUP were as follows:

BADGER DAYLIGHTING LTD.

Notes to the Condensed Consolidated Financial Statements

Nine months ended September 30, 2015

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

6 Share-based Compensation Plans (continued)

	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
Granted	63,086
Dividends earned	5,373
Redeemed	(221,262)
Forfeited	(2,968)
At September 30, 2015	356,035
Exercisable at September 30, 2015	282,929

B) Performance Share Unit Plan

The Company introduced a performance share unit (PSU) plan for officers of the Company in the second quarter of 2015. Officers must elect to have at least half, but may elect to have all of their annual long-term incentive compensation awarded in PSUs, with the remainder awarded in DUPs. The PSUs will be granted annually and represent rights to share value based on the number of PSUs issued and achieving certain performance criteria as set out by the Board of Directors. Subject to achievement of performance criteria, under the terms of the plan, PSUs awarded will vest following a three-year term on their anniversary date and are recognized over their vesting period. PSUs, which meet the performance and other vesting criteria, will be settled in cash upon exercise.

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

The liability for PSUs outstanding as at September 30, 2015 is \$182. There are no PSUs exercisable as at September 30, 2015. Changes in the number of PSUs under the Badger PSU plan were as follows:

	Units
Granted	56,043
Redeemed	-
Forfeited	-
At September 30, 2015	56,043
Exercisable at September 30, 2015	-

BADGER DAYLIGHTING LTD.

Notes to the Condensed Consolidated Financial Statements

Nine months ended September 30, 2015

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

7 Shareholders' capital and reserves

C) Authorized shares

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

D) Issued and outstanding

	Number of Shares	Amount \$
At December 31, 2014	37,033,893	80,944
Shares issued pursuant to the deferred unit plan	66,788	1,780
At September 30, 2015	37,100,681	82,724

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

8 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 nine months ended September 30, 2015, was based on the net profit available to common shareholders of \$18,002 (2014 - \$36,057), and a weighted average number of common shares outstanding of 37,064,402 (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		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Issued common shares outstanding, beginning of period	37,097,537	37,033,893	37,033,893	37,033,893
Effect of shares issued on redemption of deferred share units	3,076	-	30,509	-
Basic and diluted weighted average number of common shares, end of period	37,100,613	37,033,893	37,064,402	37,033,893

BADGER DAYLIGHTING LTD.

Notes to the Condensed Consolidated Financial Statements

Nine months ended September 30, 2015

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

9 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 September 30, 2015 and 2014 based on these geographic segments.

For nine months ended:	September 30, 2015			September 30, 2014		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	118,182	185,374	303,556	166,299	147,570	313,869
Direct costs	85,822	125,260	211,082	118,097	101,333	219,430
Depreciation of property, plant and equipment	11,661	19,711	31,372	10,843	13,433	24,276
Amortization of intangible assets	957	-	957	957	-	957
Selling, general and administrative	5,588	5,323	10,911	5,265	3,792	9,057
Share-based compensation	(324)	-	(324)	2,354	-	2,354
Legal provision	-	21,620	21,620	-	-	-
Profit before tax	11,548	13,400	24,948	26,248	26,413	52,662

For three months ended:	September 30, 2015			September 30, 2014		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	38,023	73,408	111,431	57,207	55,914	113,121
Direct costs	27,250	46,978	74,228	37,776	35,923	73,699
Depreciation of property, plant and equipment	3,831	6,970	10,801	3,775	4,825	8,600
Amortization of intangible assets	319	-	319	319	-	319
Selling, general and administrative	1,511	1,949	3,460	2,203	1,297	3,500
Share-based compensation	(1,931)	-	(1,931)	(2,560)	-	(2,560)
Legal provision	-	-	-	-	-	-
Profit before tax	5,815	17,476	23,291	12,629	11,312	23,941

Selected Consolidated Statement of Financial Position Information

	Canada	U.S.	Total
As at September 30, 2015			
Property, plant and equipment	113,456	200,679	314,135
Intangible assets	14,554	-	14,554
Total assets	174,920	280,860	455,780
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

BADGER DAYLIGHTING LTD.

Notes to the Condensed Consolidated Financial Statements

Nine months ended September 30, 2015

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

9 Segment reporting (continued)

Selected Consolidated Statement of Cash Flows Information

For nine months ended:	September 30, 2015			September 30, 2014		
	Canada	U.S.	Total	Canada	U.S.	Total
Additions to non-current assets:						
Property, plant and equipment	9,087	24,451	33,538	29,072	46,025	75,097
For three months ended:	September 30, 2015			September 30, 2014		
	Canada	U.S.	Total	Canada	U.S.	Total
Additions to non-current assets:						
Property, plant and equipment	805	5,163	5,968	3,607	18,322	21,929

10 Purchase commitments

At September 30, 2015, the Corporation has commitments to purchase approximately \$1,220 (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.