

Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited)

For the three and nine months ended September 30, 2016

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

As at	Notes	September 30, 2016	December 31, 2015
ASSETS			
Current Assets			
Cash and cash equivalents		46,076	24,991
Trade and other receivables		99,757	83,402
Prepaid expenses		4,569	2,734
Income taxes receivable		-	9,486
Inventories		3,374	3,300
		153,776	123,913
Non-current Assets			
Property, plant and equipment		284,926	313,666
Goodwill and intangible assets		9,106	9,106
		294,032	322,772
Total Assets		447,808	446,685
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		32,792	30,765
Share-based plan liability	5	10,271	8,381
Income taxes payable		1,505	-
Dividends payable		1,224	1,113
		45,792	40,259
Non-current Liabilities			
Long-term debt	3	98,374	103,852
Deferred income tax		31,454	34,888
		129,828	138,740
Shareholders' Equity			
Shareholders' capital	4	82,724	82,724
Contributed surplus		548	548
Accumulated other comprehensive income		26,730	33,218
Retained earnings		162,186	151,196
		272,188	267,686
Total Liabilities and Shareholders' Equity		447,808	446,685

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

BADGER DAYLIGHTING LTD.**Interim Consolidated Statement of Comprehensive Income**

(Unaudited - Expressed in thousands of Canadian Dollars)

	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
Revenues		113,167	111,431	293,306	303,556
Direct costs		76,481	74,228	205,991	211,082
Gross profit		36,686	37,203	87,315	92,474
Depreciation of property, plant and equipment		10,648	10,801	32,457	31,372
Amortization of intangible assets		-	319	-	957
General and administrative		3,169	3,460	10,985	10,911
Share-based compensation		3,454	(1,931)	4,593	(324)
Operating profit		19,415	24,554	39,280	49,558
Loss (gain) on sale of property, plant and equipment		(17)	(24)	2,375	(82)
Finance cost		1,317	1,289	3,943	3,622
Legal provision		-	-	-	21,620
Foreign exchange gain		93	(2)	35	(550)
Profit before tax		18,022	23,291	32,927	24,948
Current income tax expense		8,192	13,540	13,400	11,125
Deferred income tax (recovery) expense		(2,114)	(7,339)	(2,036)	(4,179)
Income tax expense		6,078	6,201	11,364	6,946
Net profit for the period		11,944	17,090	21,563	18,002
Other comprehensive income (loss):					
Exchange differences on translation of foreign operations		1,883	14,028	(11,966)	26,382
Unrealized foreign exchange gain (loss) on net investment hedge		(806)	(6,870)	5,479	(13,500)
Other comprehensive income (loss)		1,077	7,158	(6,487)	12,882
Total comprehensive income		13,021	24,248	15,076	30,884
Earnings per share					
Basic and diluted	6	0.32	0.46	0.58	0.49

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

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

For the nine months ended	Shareholders' capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
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
Shares issued on exercise of deferred share units	1,780	-	-	-	1,780
Dividends	-	-	-	(10,009)	(10,009)
As at September 30, 2015	82,724	548	29,582	134,049	246,903
As at January 1, 2016	82,724	548	33,217	151,197	267,686
Net profit for the period	-	-	-	21,563	21,563
Other comprehensive income for the period	-	-	(6,487)	-	(6,487)
Dividends	-	-	-	(10,574)	(10,574)
As at September 30, 2016	82,724	548	26,730	162,186	272,188

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Operating activities				
Net profit for the period	11,944	17,090	21,563	18,002
Non-cash adjustments to reconcile profit from operations to net cash flows:				
Depreciation of property, plant and equipment	10,648	10,801	32,457	31,372
Amortization of intangible assets	-	319	-	957
Deferred income tax	(2,114)	(7,339)	(2,036)	(4,179)
Loss (gain) on sale of property plant and equipment	(17)	(24)	2,375	(82)
Legal provision	-	-	-	21,620
Unrealized foreign exchange (gain) loss	4	10	(5)	(25)
Cash flow from operating activities before working capital adjustments	20,465	20,857	54,354	67,665
Change in non-cash working capital	(5,464)	(133)	(5,594)	904
Cash flows from operating activities	15,001	20,724	48,760	68,569
Investing activities				
Purchase of property, plant and equipment	(7,394)	(5,968)	(17,618)	(33,538)
Purchase of property, plant and equipment as work in process	1,862	-	122	-
Proceeds from sale of property, plant and equipment	168	157	525	389
Change in non-cash working capital	1,101	(165)	1,247	(1,138)
Cash flows used in investing activities	(4,263)	(5,976)	(15,724)	(34,287)
Financing activities				
Repayment of long-term debt	-	(8,976)	-	(37,425)
Proceeds from issuance of shares on exercise of deferred units	-	86	-	1,780
Dividends paid to owners	(3,673)	(3,339)	(10,574)	(10,009)
Change in non-cash working capital	(1,171)	(1,130)	(1,303)	(1,271)
Unrealized foreign exchange gain	7	-	(47)	-
Cash flows used in financing activities	(4,837)	(13,359)	(11,924)	(46,925)
Effect of foreign exchange rate changes on cash	16	33	(27)	166
Increase (decrease) in cash and cash equivalents	5,917	1,422	21,085	(12,477)
Cash and cash equivalents, beginning of period	40,158	5,253	24,991	19,152
Cash and cash equivalents, end of period	46,076	6,675	46,076	6,675
Supplemental cash flow information:				
Interest paid	2,649	2,356	5,306	4,990
Income tax paid	1,754	2,583	2,409	20,243

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

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2016

(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 and related services to the utility, transportation, industrial, engineering, communications, 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 September 30, 2016 were authorised for issue in accordance with a resolution of the directors on November 10, 2016.

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, 2015.

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

	September 30, 2016	December 31, 2015
Syndicated revolving credit facility	-	-
Senior secured notes	98,374	103,852
	<u>98,374</u>	<u>103,852</u>

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2016

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

3 Long-term debt (continued)

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 tiers range 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 2016, and as at September 30, 2016, 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, 2015.

As at September 30, 2016, the Corporation has issued letters of credit of approximately \$3.6 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, 2016, the Corporation had available \$121.4 million (December 31, 2015 - \$121.6 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 \$75.0 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 \$25.0 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 Interim Consolidated Financial Statements

Nine months ended September 30, 2016

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

4 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, 2015	37,100,681	82,724
Shares issued on redemption of deferred share units	-	-
At September 30, 2016	37,100,681	82,724

5 Share-based payment plans

A) Deferred Share Unit Plan

The Deferred Share Unit ("DSU") Plan was established to promote a greater alignment of interests between the executive officers and the Shareholders of the Corporation. Directors may also participate in the plan whereby they are paid 60% to 100% of the annual retainer in the form of deferred units. Pursuant to the terms of the DSU, participants are granted deferred units with a value equivalent to the value of a Badger share. The deferred units granted earn additional deferred units at the same rate as dividends on Badger common shares. 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. A maximum of 1,500,000 Common Shares have been reserved for issuance pursuant to the DSU Plan.

The DSU Plan 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, 2016 is \$8,391 (December 31, 2015 - \$8,039). The fair value of deferred units exercisable as at September 30, 2016 is \$7,755 (December 31, 2015 - \$6,936). Changes in the number of deferred units under the DSU Plan were as follows:

	Units
At December 31, 2014	511,806
Granted	63,086
Dividends earned	6,846
Redeemed	(221,262)
Forfeited	(2,968)
At December 31, 2015	357,508
Granted	78,529
Dividends earned	4,620
Redeemed	(97,445)
Forfeited	(10,739)
At September 30, 2016	332,473
Exercisable at September 30, 2016	273,555

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2016

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

5 Share-based payment plans (continued)

B) Performance Share Unit Plan

The Corporation introduced a Performance Share Unit (PSU) Plan for officers of the Corporation 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 DSUs. 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.

In June 2016, the Corporation committed to matching shares purchased by the Chief Executive Officer (CEO) with an equivalent number of PSUs, up to an amount equal to the CEO's annual base salary. Purchases of common shares have to be made by the CEO prior to December 31, 2016. These PSUs will be forfeited if the common shares purchased are sold prior to vesting of the corresponding PSUs.

The PSU Plan has been accounted for as a cash-settled plan. The compensation expense is based on the estimated fair value of the PSUs 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, 2016 is \$1,880 (December 31, 2015 - \$342). There are no PSUs exercisable as at September 30, 2016 (December 31, 2015 – nil). Changes in the number of PSUs under the PSU plan were as follows:

	Units
At December 31, 2014	-
Granted	56,043
Redeemed	-
Forfeited	-
At December 31, 2015	56,043
Granted	134,427
Redeemed	-
Forfeited	-
At September 30, 2016	190,470
Exercisable at September 30, 2016	-

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2016

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

6 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.

The calculation of basic earnings per share for the nine months ended September 30, 2016, was based on the net profit available to common shareholders of \$21,563 (2015 - \$18,002), and a weighted average number of common shares outstanding of 37,100,681 (2015 – 37,045,997).

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.

Weighted average number of common shares:

	For the nine months ended		For the three months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Issued common shares outstanding, beginning of period	37,100,681	37,097,537	37,100,681	37,033,893
Effect of shares issued on exercise of deferred share units	-	3,076	-	30,509
Basic and diluted weighted average number of common shares, end of period	37,100,681	37,100,613	37,100,681	37,064,402

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2016

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

7 Segment reporting

The Corporation operates in two geographic/reportable segments providing non-destructive excavating and related services in each of these segments. The following is selected information for the periods ended September 30, 2016 and 2015 based on these geographic segments.

For nine months ended:	September 30, 2016			September 30, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	100,646	192,660	293,306	118,182	185,374	303,556
Direct costs	74,873	131,118	205,991	85,822	125,260	211,082
Depreciation of property, plant and equipment	10,243	22,214	32,457	11,661	19,711	31,372
Amortization of intangible assets	-	-	-	957	-	957
General and administrative	4,062	6,923	10,985	5,588	5,323	10,911
Share-based compensation	3,937	656	4,593	(324)	-	(324)
Legal Provision	-	-	-	-	21,620	21,620
Profit before tax	3,371	29,556	32,927	11,548	13,400	24,948

For three months ended:	September 30, 2016			September 30, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	38,258	74,909	113,167	38,023	73,408	111,431
Direct costs	26,968	49,513	76,481	27,250	46,978	74,228
Depreciation of property, plant and equipment	3,373	7,275	10,648	3,831	6,970	10,801
Amortization of intangible assets	-	-	-	319	-	319
General and administrative	1,266	1,903	3,169	1,511	1,949	3,460
Share-based compensation	2,832	622	3,454	(1,931)	-	(1,931)
Profit before tax	2,427	15,595	18,022	5,815	17,476	23,291

	Canada	U.S.	Total
As at September 30, 2016			
Property, plant and equipment	99,491	185,435	284,926
Intangible assets	9,106	-	9,106
Total assets	175,208	272,600	447,808
As at December 31, 2015			
Property, plant and equipment	105,555	208,111	313,666
Intangible assets	9,106	-	9,106
Total assets	157,285	289,400	446,685

8 Purchase commitments

At September 30, 2016, the Corporation has commitments to purchase approximately \$2.2 million (December 31, 2015: \$1.2 million) worth of capital assets and various parts and materials. There are no set terms for remitting payment for these financial obligations.