

Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2017

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

As at	Notes	June 30, 2017	December 31, 2016
ASSETS			
Current Assets			
Cash and cash equivalents		44,252	62,875
Trade and other receivables	4	109,612	92,467
Prepaid expenses		3,212	3,013
Inventories		5,800	3,617
Income taxes receivable		1,114	2,969
		163,990	164,941
Non-current Assets			
Property, plant and equipment		295,929	284,300
Goodwill and intangible assets		9,381	9,106
		305,310	293,406
Total Assets		469,300	458,347
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		37,115	28,999
Share-based plan liability	7	11,891	12,381
Income taxes payable		3,256	1,206
Dividends payable		1,224	1,224
		53,486	43,810
Non-current Liabilities			
Long-term debt	5	97,328	100,698
Deferred income tax		33,234	34,768
		130,562	135,466
Shareholders' Equity			
Shareholders' capital	6	82,724	82,724
Contributed surplus		548	548
Accumulated other comprehensive income		25,048	29,937
Retained earnings		176,932	165,862
		285,252	279,071
Total Liabilities and Shareholders' Equity		469,300	458,347

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)

	For the three months ended June 30,		For the six months ended June 30,		
	2017	2016	2017	2016	
Revenues	123,351	91,981	225,162	180,138	
Direct costs	86,739	64,874	164,909	129,509	
Gross profit	36,612	27,107	60,253	50,629	
Depreciation of property, plant and equipment	11,337	10,533	22,275	21,809	
General and administrative	4,508	3,885	8,292	7,815	
Share-based compensation	(2,529)	1,487	(416)	1,140	
Operating profit	23,296	11,201	30,102	19,865	
(Gain) loss on sale of property, plant and equipment	(5)	157	(39)	2,392	
Finance cost	1,300	1,279	2,577	2,627	
Foreign exchange gain (loss)	350	(12)	382	(59)	
Profit before tax	21,651	9,778	27,182	14,905	
Current income tax expense	6,095	1,845	9,362	5,208	
Deferred income tax (recovery) expense	838	1,981	(596)	78	
Income tax expense	6,933	3,827	8,766	5,286	
Net profit for the period	14,718	5,951	18,416	9,619	
Other comprehensive income:					
Exchange differences on translation of foreign operations	(6,494)	609	(8,260)	(13,849)	
Unrealized foreign exchange gain (loss) on net investment hedge	2,593	(291)	3,371	6,285	
Other comprehensive (loss) income	(3,901)	318	(4,889)	(7,563)	
Total comprehensive income	10,817	6,269	13,527	2,056	
Net profit per share					
Basic and diluted	8	0.40	0.16	0.50	0.26

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 six months ended	Shareholders' capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
As at January 1, 2016	82,724	548	33,217	151,197	267,686
Net profit for the period	-	-	-	9,619	9,619
Other comprehensive (loss) income for the period	-	-	(7,563)	-	(7,563)
Dividends	-	-	-	(6,901)	(6,901)
As at June 30, 2016	82,724	548	25,654	153,915	262,841
As at January 1, 2017	82,724	548	29,937	165,862	279,071
Net profit for the period	-	-	-	18,416	18,416
Other comprehensive (loss) income for the period	-	-	(4,889)	-	(4,889)
Dividends	-	-	-	(7,346)	(7,346)
As at June 30, 2017	82,724	548	25,048	176,932	285,252

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 June 30,		For the six months ended June 30,	
	Notes	2017	2016	2017	2016
Operating activities					
Net profit for the period		14,718	5,951	18,416	9,619
Non-cash adjustments to reconcile profit from operations to net cash flows:					
Depreciation of property, plant and equipment		11,337	10,533	22,275	21,809
Deferred income tax		838	1,981	(596)	78
Loss (gain) on sale of property plant and equipment		(5)	156	(39)	2,392
Accrued interest	2	1,296	1,180	2,455	2,430
Current tax expense		6,095	1,845	9,362	5,208
Share-based compensation expense		(2,529)	1,487	(416)	1,140
Unrealized foreign exchange (gain) loss		(79)	1	(89)	(9)
Cash flow from operating activities before working capital adjustments		31,671	23,135	51,368	42,667
Change in non-cash working capital	9	(18,245)	(3,563)	(17,385)	(6,336)
Current tax paid		(2,576)	441	(5,383)	(108)
Share-based compensation paid in cash		(75)	(34)	(75)	(34)
Cash flows from operating activities		10,775	19,979	28,525	36,189
Investing activities					
Purchase of property, plant and equipment		(22,861)	(7,539)	(40,647)	(11,964)
Proceeds from sale of property, plant and equipment		431	216	674	357
Acquisition of Operating Partner		(774)	-	(774)	-
Change in non-cash working capital	9	1,754	(421)	3,708	145
Cash flows used in investing activities		(21,450)	(7,744)	(37,039)	(11,462)
Financing activities					
Interest paid	2	(137)	-	(2,519)	(2,562)
Dividends paid		(3,673)	(3,562)	(7,346)	(6,901)
Unrealized foreign exchange gain		-	4	-	(54)
Cash flows used in financing activities		(3,810)	(3,558)	(9,865)	(9,517)
Effect of foreign exchange rate changes on cash		(205)	8	(244)	(43)
(Decrease) increase in cash and cash equivalents		(14,690)	8,685	(18,623)	15,167
Cash and cash equivalents, beginning of period		58,942	31,473	62,875	24,991
Cash and cash equivalents, end of period		44,252	40,158	44,252	40,158

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

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2017

(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 June 30, 2017 were authorised for issue in accordance with a resolution of the directors on August 11, 2017.

2 Basis of preparation

Statement of compliance

These interim consolidated financial statements of the Corporation are prepared in accordance with International Financial Reporting Standards (“IFRS”) and are consistent with Badger Daylighting Ltd.’s consolidated financial statements as at and for the year ended December 31, 2016, amendments and interpretations effective January 1, 2017 as noted below.

Reclassifications

Cash flow from operating activities and cash flow from financing activities for the comparable three and six month periods ended June 30, 2016 were reclassified in order to separately report an add-back of accrued interest in cash flow from operations and related unrealized foreign exchange, and deduct interest paid as a cash flow from financing activities. For the three and six month periods ended June 30, 2016, these amounts were shown net in cash flow from financing. As a result, \$1,180 and \$2,430 was added to cash flow from operations in the three and six month periods ended June 30, 2016, and deducted from cash flow from financing. Management believes this reclassification provides readers with more detail and a clearer understanding of the cash flow generated from operations.

Basis of measurement

These interim consolidated financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value consideration given in exchange for goods and services.

Functional and presentation currency

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

3 Seasonality of operations

The Company’s operations are often weather dependent, which has a seasonal effect. Construction activity levels are typically highest through summer months. Activity in oil and gas regions are also lower during spring thaw where wet conditions create weight restrictions on roads. Additionally, severe weather conditions, typically severe cold or snowfall can defer industrial development and construction activity. Therefore, interim periods may not be representative of the results expected for the full year of operation due to seasonality. As Badger’s customer base has become less concentrated in the oil and gas sector, seasonality is shifting and the seasonally slower period historically experienced during spring thaw has become less pronounced.

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2017

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

4 Trade and other receivables

	June 30, 2017	December 31, 2016
Trade receivables	100,882	90,204
Holdback receivables	1,706	1,136
Allowance for doubtful accounts	(1,527)	(1,492)
Total trade receivables	101,061	89,847
Accrued revenue and other receivables	8,551	2,620
Trade and other receivables	109,612	92,467

The above presentation of Total trade receivables provides the separate components; trade receivables, holdback receivables, and allowance for doubtful accounts. Previously, Total trade receivables was shown as one combined 'Trade receivables' amount. Accrued revenue and other receivables was previously labelled 'Other sundry receivables'. Accrued revenue represents revenue for services which have been completed and for which an invoice has not yet been rendered. All such recorded amounts are considered collectable.

Holdback receivables are amounts customers withhold paying until the completion of the contract. These amounts are agreed in advance and typically have collection terms beyond general terms.

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

The aging analysis of trade receivables, holdback receivables and the allowance for doubtful accounts is as follows:

	Total	0-30 days	31-60 days	61-90 days	91-120 days	Greater than 120 days
June 30, 2017						
Trade receivables	100,882	60,248	16,967	11,005	4,969	7,693
Holdback receivables	1,706	3	51	76	115	1,461
Allowance for doubtful accounts	(1,527)	-	-	-	(23)	(1,504)
	101,061	60,251	17,018	11,081	5,061	7,650
December 31, 2016						
Trade receivables	90,204	36,485	28,254	11,600	4,875	8,990
Holdback receivables	1,135	-	43	72	118	902
Allowance for doubtful accounts	(1,492)	-	-	-	(72)	(1,420)
	89,847	36,485	28,297	11,672	4,921	8,472

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2017

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

4 Trade and other receivables (continued)

The changes in allowance for doubtful account for the periods ended June 30, 2017 and December 31, 2016 are as follows:

	2016
At December 31, 2015	<u>2,100</u>
Additions to the allowance (bad debt expense)	2,087
Accounts written off (reduces allowance for doubtful accounts)	(2,423)
Amounts recovered that were previously allowed for (reduces bad debt expense)	(259)
Exchange differences	(13)
At December 31, 2016	<u>1,492</u>
Additions to the allowance (bad debt expense)	1,210
Accounts written off (reduces allowance for doubtful accounts)	(1,129)
Amounts recovered that were previously allowed for (reduces bad debt expense)	(32)
Exchange differences	(14)
At June 30, 2017	<u>1,527</u>

5 Long-term debt

	June 30, 2017	December 31, 2016
Senior secured notes	97,328	100,698
Syndicated revolving credit facility	-	-
Long-term debt	<u>97,328</u>	<u>100,698</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 for general liquidity management, general corporate purposes and to finance Badger’s capital expenditure program. 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 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 2017, and as at June 30, 2017, 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, 2016.

As at June 30, 2017, 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 June 30, 2017, the Corporation had available \$121.4 million (December 31, 2016 - \$121.3 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2017

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

5 Long-term debt (continued)

On August 11, 2017, Badger extended its credit facility with a syndicate of three lenders. The credit facility, which is approximately \$145 million in aggregate Canadian dollars, consists of a \$50 million Canadian dollar tranche and a \$75 million US dollar tranche, providing Badger with the administrative flexibility to borrow in both Canada and the United States. Financial covenants and pricing of the credit facility were unchanged. The credit facility, which is a four year term, matures on August 11, 2021. The previous \$125 million credit facility was denominated solely in Canadian dollars and would have expired on July 22, 2018. Badger maintains the flexibility to expand the credit facility with syndicate approval by an additional \$100 million (previously \$50 million).

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. 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.

6 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, 2016	37,100,681	82,724
Shares issued on redemption of deferred share units	-	-
At June 30, 2017	37,100,681	82,724

7 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 will be 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.

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2017

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

7 Share-based payment plans (continued)

The liability of deferred units outstanding as at June 30, 2017 is \$9,099 (December 31, 2016 - \$9,660). The fair value of deferred units exercisable as at June 30, 2016 is \$8,477 (December 31, 2016 - \$8,693). Changes in the number of deferred units under the DSU Plan were as follows:

	Units
At December 31, 2015	357,508
Granted	78,529
Dividends earned	5,684
Redeemed	(103,945)
Forfeited	(10,739)
At December 31, 2016	327,037
Granted	71,958
Dividends earned	2,408
Redeemed	(3,288)
Forfeited	-
At June 30, 2017	398,115
Exercisable at June 30, 2017	318,446

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.

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 June 30, 2017 is \$2,792 (December 31, 2016 - \$2,722). There are no PSUs exercisable as at June 30, 2017 (December 31, 2017 – nil). Changes in the number of PSUs under the PSU plan were as follows:

	Units
At December 31, 2015	56,043
Granted	142,273
Redeemed	-
Forfeited	-
At December 31, 2016	198,316
Granted	62,310
Redeemed	-
Forfeited	-
At June 30, 2017	260,626
Exercisable at June 30, 2017	-

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2017

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

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.

The calculation of basic earnings per share for the six months ended June 30, 2017, was based on the net profit available to common shareholders of \$18,416 (2016 - \$9,619), and a weighted average number of common shares outstanding of 37,100,681 (2016 – 37,100,681).

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 three months ended		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Issued common shares outstanding, beginning of period	37,100,681	37,100,681	37,100,681	37,100,681
Effect of shares issued on exercise of deferred share units	-	-	-	-
Basic and diluted weighted average number of common shares, end of period	37,100,681	37,100,681	37,100,681	37,100,681

9 Statement of cash flow supplemental information

The following table provides supplemental information on the components of changes in non-cash working capital in operating and investing activities:

	For the three months ended		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Operating activities				
Source (use) of cash:				
Accounts and other receivables	(21,791)	(6,548)	(19,295)	(3,413)
Prepays	1,200	1,319	(268)	73
Inventory	(1,296)	256	(2,259)	57
Trade and other payables	3,642	1,299	4,437	(3,053)
Dividends payable	-	111	-	-
Change in non-cash working capital	(18,245)	(3,563)	(17,385)	(6,336)
Investing activities				
Source (use) of cash:				
Trade and other payables ⁽¹⁾	1,754	(421)	3,708	145
Change in non-cash working capital	1,754	(421)	3,708	145

⁽¹⁾ Non-cash working capital changes from trade and other payables are from vendors supplying Badger’s Hydrovac manufacturing are included in Investing activities as these supplies become additions to Property, plant and equipment.

BADGER DAYLIGHTING LTD.

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2017

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

10 Segment reporting

The Corporation operates in two geographic/reportable segments providing non-destructive excavating services in each of these segments. The following is selected information for the periods ended June 30, 2017 and 2016 based on these geographic segments.

For six months ended:	June 30, 2017			June 30, 2016		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	69,310	155,852	225,162	62,387	117,751	180,138
Direct costs	54,106	110,803	164,909	47,905	81,604	129,509
Depreciation of property, plant and equipment	6,859	15,416	22,275	6,870	14,939	21,809
General and administrative	3,786	4,506	8,292	2,796	5,019	7,815
Share-based compensation	(491)	75	(416)	1,106	34	1,140
Profit before tax	2,024	25,158	27,182	944	13,961	14,905

For three months ended:	June 30, 2017			June 30, 2016		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	35,167	88,184	123,351	31,211	60,770	91,981
Direct costs	26,753	59,986	86,739	23,172	41,702	64,874
Depreciation of property, plant and equipment	3,455	7,882	11,337	3,405	7,128	10,533
General and administrative	2,069	2,439	4,508	1,286	2,599	3,885
Share-based compensation	(2,604)	75	(2,529)	1,453	34	1,487
Profit before tax	3,767	17,884	21,651	401	9,377	9,778

	Canada	U.S.	Total
As at June 30, 2017			
Property, plant and equipment	103,880	192,049	295,929
Intangible assets	9,381	-	9,381
Total assets	176,852	292,448	469,300
As at December 31, 2016			
Property, plant and equipment	92,917	191,383	284,300
Intangible assets	9,106	-	9,106
Total assets	173,539	284,808	458,347

11 Purchase commitments

At June 30, 2017, the Corporation has commitments to purchase approximately \$19.8 million (December 31, 2016: \$8.0 million) worth of capital assets and various parts and materials. There are no set terms for remitting payment for these financial obligations.

12 Subsequent events

On August 11, 2017, the Board of Directors approved a 15 percent increase in the dividend from \$0.033 per common share to \$0.038 per common share per month starting with the August 2017 dividend payable in September 2017.