

Badger Daylighting Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited)

For the three month period ended March 31, 2017

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

As at	Notes	March 31, 2017	December 31, 2016
ASSETS			
Current Assets			
Cash and cash equivalents		58,942	62,875
Trade and other receivables		89,682	92,467
Prepaid expenses		4,477	3,013
Inventories		4,571	3,617
Income taxes receivable		1,263	2,969
		158,935	164,941
Non-current Assets			
Property, plant and equipment		289,460	284,300
Goodwill and intangible assets		9,106	9,106
		298,566	293,406
Total Assets		457,501	458,347
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		30,647	28,999
Share-based plan liability	6	14,494	12,381
Income taxes payable		-	1,206
Dividends payable		1,224	1,224
		46,365	43,810
Non-current Liabilities			
Long-term debt	4	99,920	100,698
Deferred income tax		33,108	34,768
		133,028	135,466
Shareholders' Equity			
Shareholders' capital	5	82,724	82,724
Contributed surplus		548	548
Accumulated other comprehensive income		28,949	29,937
Retained earnings		165,887	165,862
		278,108	279,071
Total Liabilities and Shareholders' Equity		457,501	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	March 31, 2017	March 31, 2016	
Revenues	101,811	88,157	
Direct costs	78,171	64,635	
Gross profit	23,640	23,522	
Depreciation of property, plant and equipment	10,938	11,276	
General and administrative	3,784	3,930	
Share-based compensation	2,113	(348)	
Operating profit	6,805	8,664	
(Gain) loss on sale of property, plant and equipment	(34)	2,236	
Finance cost	1,277	1,348	
Foreign exchange loss (gain)	31	(47)	
Profit before tax	5,531	5,127	
Current income tax expense	3,267	3,363	
Deferred income tax (recovery) expense	(1,434)	(1,904)	
Income tax expense	1,833	1,459	
Net profit for the period	3,698	3,668	
Other comprehensive income:			
Exchange differences on translation of foreign operations	(1,766)	(14,458)	
Unrealized foreign exchange gain (loss) on net investment hedge	778	6,576	
Other comprehensive income	(988)	(7,882)	
Total comprehensive income	2,710	(4,214)	
Earnings per share			
Basic and diluted	7	0.10	0.10

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BADGER DAYLIGHTING LTD.**Interim Consolidated Statement of Changes in Equity**

(Unaudited - Expressed in thousands of Canadian Dollars)

For the three months ended	Shareholders' capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
As at January 1, 2016	82,724	548	33,218	151,196	267,686
Net profit for the period	-	-	-	3,668	3,668
Other comprehensive income for the period	-	-	(7,882)	-	(7,882)
Dividends	-	-	-	(3,339)	(3,339)
As at March 31, 2016	82,724	548	25,336	151,525	260,133
As at January 1, 2017	82,724	548	29,937	165,862	279,071
Net profit for the period	-	-	-	3,698	3,698
Other comprehensive income for the period	-	-	(988)	-	(988)
Dividends	-	-	-	(3,673)	(3,673)
As at March 31, 2017	82,724	548	28,949	165,887	278,108

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	March 31, 2017	March 31, 2016
Operating activities		
Net profit for the period	3,698	3,668
Non-cash adjustments to reconcile profit from operations to net cash flows:		
Depreciation of property, plant and equipment	10,938	11,276
Current tax expense	3,267	3,363
Deferred income tax	(1,434)	(1,904)
Loss (gain) on sale of property plant and equipment	(34)	2,236
Finance cost	2	1,251
Share-based compensation expense	2,113	(348)
Unrealized foreign exchange (gain) loss	(10)	(68)
Cash flow from operating activities before changes in working capital	19,697	19,474
Changes in non-cash working capital	860	(2,773)
Current tax paid	(2,807)	(549)
Cash flows from operating activities	17,750	16,152
Investing activities		
Purchase of property, plant and equipment	(17,786)	(4,425)
Proceeds from sale of property, plant and equipment	243	141
Change in non-cash working capital	1,954	567
Cash flows used in investing activities	(15,589)	(3,717)
Financing activities		
Dividends paid to owners	(3,673)	(3,339)
Interest paid	2	(2,563)
Cash flows used in financing activities	(6,055)	(5,902)
Effect of foreign exchange rate changes on cash	(39)	(50)
(Decrease) increase in cash and cash equivalents	(3,933)	6,483
Cash and cash equivalents, beginning of period	62,875	24,991
Cash and cash equivalents, end of period	58,942	31,474

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, 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 March 31, 2017 were authorised for issue in accordance with a resolution of the board of directors on May 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 period ended March 31, 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 period ended March 31, 2016, these amounts were shown net in cash flow from financing. As a result, \$1,193 was added to cash flow from operations in the period ended March 31, 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.

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2017

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

4 Long-term debt

	March 31, 2017	December 31, 2016
Senior secured notes	99,920	100,698
Syndicated revolving credit facility	-	-
	<u>99,920</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 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 2017, and as at March 31, 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 March 31, 2017, the Corporation has issued letters of credit of approximately \$3.7 million. The outstanding letters of credit primarily support the U.S. insurance program and certain performance bonds and reduce the amount available under the syndicated credit facility.

At March 31, 2017, the Corporation had available \$121.3 million (December 31, 2016 - \$121.3 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. 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 Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2017

(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, 2016	37,100,681	82,724
Shares issued on redemption of deferred share units	-	-
At March 31, 2017	37,100,681	82,724

6 Share-based payment plans

A) Deferred Share Unit Plan

The Deferred Share Unit ("DSU") Plan 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 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 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. 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 March 31, 2017 is \$11,506 (December 31, 2016 - \$9,659). The fair value of deferred units exercisable as at March 31, 2017 is \$10,193 (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	947
Redeemed	-
Forfeited	-
At March 31, 2017	399,942
Exercisable at March 31, 2017	291,678

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2017

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

6 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 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 March 31, 2017 is \$2,988 (December 31, 2016: \$2,722). There are no PSUs exercisable as at March 31, 2017. 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 March 31, 2017	260,626
Exercisable at March 31, 2017	-

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.

The calculation of basic earnings per share for the three months ended March 31, 2017 was based on the profit available to common shareholders of \$3,698 (2016 - \$3,668), and a weighted average number of common shares outstanding of 37,100,681 (2016 – 37,100,681).

Weighted average number of common shares:

	For the three months ended	
	March 31, 2017	March 31, 2016
Issued common shares outstanding, beginning of period	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

BADGER DAYLIGHTING LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2017

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

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, 2017 and 2016 based on these geographic segments.

For three months ended:	March 31, 2017			March 31, 2016		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	34,143	67,668	101,811	31,175	56,982	88,157
Direct costs	27,353	50,818	78,171	24,732	39,903	64,635
Depreciation of property, plant and equipment	3,404	7,534	10,938	3,465	7,811	11,276
General and administrative	1,717	2,067	3,784	1,837	2,093	3,930
Share-based compensation	2,113	-	2,113	(348)	-	(348)
Profit before tax	(1,744)	7,275	5,531	543	4,584	5,127

For three months ended:	March 31, 2017			March 31, 2016		
	Canada	U.S.	Total	Canada	U.S.	Total
Additions to non-current assets:						
Property, plant and equipment	10,046	7,740	17,786	1,345	3,080	4,425

	Canada	U.S.	Total
As at March 31, 2017			
Property, plant and equipment	99,448	190,012	289,460
Intangible assets	9,106	-	9,106
Total assets	171,369	286,132	457,501
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

9 Purchase commitments

At March 31, 2017, the Corporation has commitments to purchase approximately \$1.4 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.